

CHAPTER 06 DETERMINATION OF NATIONAL INCOME

UNIT - 1: NATIONAL INCOME ACCOUNTING

1. **Topic:** National Income Accounting

Question: Who pioneered the system of National Income Accounting?

- A. Adam Smith and John Keynes
- B. Richard Stone and Simon Kuznets
- C. Thomas Piketty and Joseph Stiglitz
- D. Paul Krugman and Amartya Sen

Correct answer: B. Richard Stone and Simon Kuznets

Explanation: The system of National Income Accounting was pioneered by the Nobel prize-winning economists Simon Kuznets and Richard Stone. They developed the system to measure the economic activity of a nation.

Guidance time: 1 minute

Difficulty level: Easy

2. **Topic:** National Income Accounting

Question: What organization is responsible for the compilation of National Accounts statistics in most countries?

- A. Ministry of Finance
- B. Ministry of Statistics and Programme Implementation (MoSP&I)
- C. Central Bank
- D. Federal Reserve

Correct answer: B. Ministry of Statistics and Programme Implementation (MoSP&I)

Explanation: In many countries, the Central Statistical Organisation (CSO) under the Ministry of Statistics and Programme Implementation (MoSP&I) is usually responsible for the compilation of National Accounts statistics.

Guidance time: 1 minute

Difficulty level: Medium

3. **Topic:** Use of National Income Estimates

Question: What is one use of National Income estimates in the context of macroeconomic analysis?

- A. Predicting stock market performance

B. Designing computer algorithms

C. Forecasting future demand for business products

D. Determining individual tax rates

Correct answer: C. Forecasting future demand for business products

Explanation: National income estimates provide a comprehensive view of economic activity, which can be used by businesses to anticipate future demand for their products.

Guidance time: 1 minute

Difficulty level: Medium

4. **Topic:** Use of National Income Estimates

Question: National income statistics provide a basis for what kind of economic activity?

- A. Microeconomic modeling
- B. Macroeconomic modeling
- C. Personal financial planning
- D. Small business budgeting

Correct answer: B. Macroeconomic modeling

Explanation: National income statistics provide a quantitative basis for macroeconomic modelling and analysis, used in policy assessment and selection.

Guidance time: 1 minute

Difficulty level: Medium

5. **Topic:** Use of National Income Estimates

Question: National income estimates can be used for international comparisons to assist in what?

- A. Deciding national sports rankings
- B. Determining eligibility for loans or other funds
- C. Deciding travel visa policies
- D. Setting currency exchange rates

Correct answer: B. Determining eligibility for loans or other funds

Explanation: Comparisons of national incomes and living standards across countries assist in determining eligibility for loans and other funds.

Guidance time: 1 minute

Difficulty level: Medium

6. **Topic:** National Income Accounting

Question: How does National Income Accounting help the government?

- A. It helps the government design social policies
- B. It assists in deciding sector-specific development policies
- C. It helps in maintaining law and order
- D. It assists in drafting constitutional amendments

Correct answer: B. It assists in deciding sector-specific development policies

Explanation: National Income Accounting provides detailed sectoral contribution data, assisting the government in making informed decisions about sector-specific development policies to boost growth rates.

Guidance time: 1 minute

Difficulty level: Medium

7. **Topic:** National Income Accounting

Question: What does National Income estimates show about an economy?

- A. The religious composition of the country
- B. The political structure of the country
- C. The demographic structure of the country
- D. The composition and structure of national income in terms of different sectors of the economy

Correct answer: D. The composition and structure of national income in terms of different sectors of the economy

Explanation: National income estimates provide a snapshot of the composition and structure of an economy's national income, revealing the periodical variations in them and the broad sectoral shifts over time.

Guidance time: 2 minutes

Difficulty level: Hard

8. **Topic:** Use of National Income Estimates

Question: How does National Income estimates help in macroeconomic modelling and analysis?

- A. By providing a qualitative basis
- B. By providing a quantitative basis
- C. By providing an emotional basis
- D. By providing a theoretical basis

Correct answer: B. By providing a quantitative basis

Explanation: National income statistics provide a quantitative basis for macroeconomic modelling and analysis, allowing for the assessment and selection of economic policies.

Guidance time: 1 minute

Difficulty level: Easy

9. **Topic:** Use of National Income Estimates

Question: What does National income estimates reveal about income distribution?

- A. The number of high-income individuals
- B. The possible inequality in the distribution among different income categories
- C. The specific incomes of individuals
- D. The source of income of individuals

Correct answer: B. The possible inequality in the distribution among different income categories

Explanation: National income estimates can highlight potential inequalities in income distribution among various income categories, providing a basis for policies to address these disparities.

Guidance time: 2 minutes

Difficulty level: Hard

10. **Topic:** Use of National Income Estimates

Question: Why is National Income data combined with financial and monetary data useful?

- A. It helps in designing social policies
- B. It helps in promoting cultural events
- C. It provides a guide to make policies for growth and inflation
- D. It assists in determining the popularity of a government

Correct answer: C. It provides a guide to make policies for growth and inflation

Explanation: When combined with financial and monetary data, national income data provides a guide for making policies related to economic growth and inflation. This information can inform decisions on monetary policy, fiscal stimulus, or other macroeconomic strategies.

Guidance time: 1 minute

Difficulty level: Medium

11. **Topic:** Concepts of National Income

Question: What are the inputs such as labour and capital in the production side of the economy known as?

- A. Factors of production
- B. Factors of consumption
- C. Factors of distribution
- D. Factors of exchange

Correct answer: A. Factors of production

Explanation: Labour and capital, used in the production process, are referred to as the factors of production. They are transformed into output, such as goods and services, which constitutes the GDP.

Guidance time: 1 minute

Difficulty level: Easy

12. **Topic:** Gross Domestic Product

Question: What does Nominal GDP represent?

- A. The value of all intermediate goods and services produced
- B. The value of all final goods and services produced, without accounting for inflation
- C. The value of all final goods and services produced, accounting for inflation
- D. The value of all goods and services produced in the underground economy

Correct answer: B. The value of all final goods and services produced, without accounting for inflation

Explanation: Nominal GDP is the value of all final goods and services produced within a country during a given period, without accounting for inflation.

Guidance time: 2 minutes

Difficulty level: Medium

13. **Topic:** Gross Domestic Product

Question: How is Real GDP different from Nominal GDP?

- A. Real GDP accounts for changes in prices over time
- B. Real GDP does not account for changes in prices over time
- C. Real GDP only accounts for the quantity of goods and services produced
- D. Real GDP includes the value of intermediate goods and services

Correct answer: A. Real GDP accounts for changes in prices over time

Explanation: Real GDP is calculated by summing up the quantities of final goods and services produced in a given period, but it uses constant prices in order to eliminate the effect of inflation.

Guidance time: 2 minutes

Difficulty level: Hard

14. **Topic:** GDP Deflator

Question: What is the GDP deflator used for?

- A. To inflate the GDP
- B. To convert nominal GDP to real GDP
- C. To measure the quantity of goods and services produced

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D. To deflate the GDP

Correct answer: B. To convert nominal GDP to real GDP

Explanation: The GDP deflator is a price index used to convert nominal GDP into real GDP, hence taking the inflation out of GDP.

Guidance time: 2 minutes

Difficulty level: Medium

15. **Topic:** Inflation Rate

Question: If the GDP Deflator in India is 154.87 points at the end of 2022 and is expected to reach 167.94 points by the end of 2023, what will be the inflation rate in 2023 as compared to 2022?

- A. 8.439 percent
- B. 7.39 percent
- C. 9.439 percent
- D. 10 percent

Correct answer: A. 8.439 percent

Explanation: The inflation rate is calculated by subtracting the GDP deflator of the previous year from the GDP deflator of the current year, divided by the GDP deflator of the previous year, all multiplied by 100. In this case, the inflation rate in 2023 as compared to 2022 is 8.439 percent.

Guidance time: 3 minutes

Difficulty level: Hard

16. **Topic:** GDP Concepts

Question: What does the Gross Domestic Product (GDP) measure?

- A. The total amount of exports in a given period
- B. The value of all final goods and services produced in the country within a given period
- C. The total national debt
- D. The total amount of government spending in a given period

Correct answer: B. The value of all final goods and services produced in the country within a given period

Explanation: Gross Domestic Product (GDP) is the sum of all goods and services produced in a country within a specific period. It includes both goods, like houses and mobiles, and services, like telecom, health, and insurance.

Guidance time: 1 minute

Difficulty level: Easy

17. **Topic:** GDP Concepts

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Question: What are the two reasons why nominal GDP increases over time?

- A. Increase in population and technological advancements
- B. Increase in production of most goods and increase in prices of most goods
- C. Decrease in inflation and increase in exports
- D. Increase in exports and decrease in imports

Correct answer: B. Increase in production of most goods and increase in prices of most goods

Explanation: Nominal GDP increases over time due to two primary factors: increased production and increased prices. Increased production leads to more goods and services being available, while increased prices lead to a higher overall value of these goods and services.

Guidance time: 1 minute

Difficulty level: Medium

18. **Topic:** GDP Concepts

Question: How is the GDP deflator calculated?

- A. $\text{Nominal GDP} / \text{Real GDP} \times 100$
- B. $\text{Real GDP} / \text{Nominal GDP} \times 100$
- C. $(\text{Nominal GDP} - \text{Real GDP}) / \text{Real GDP} \times 100$
- D. $(\text{Real GDP} - \text{Nominal GDP}) / \text{Nominal GDP} \times 100$

Correct answer: A. $\text{Nominal GDP} / \text{Real GDP} \times 100$

Explanation: The GDP deflator is a measure of the level of prices of all new, domestically produced, final goods and services in an economy. It's calculated as the ratio of Nominal GDP to Real GDP times 100.

Guidance time: 1 minute

Difficulty level: Medium

19. **Topic:** GDP Concepts

Question: What is the base year GDP deflator always equal to?

- A. 1
- B. 10
- C. 100
- D. 1000

Correct answer: C. 100

Explanation: In the base year, nominal GDP and real GDP are the same, so the GDP deflator in the base year is always 100.

Guidance time: 1 minute

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Difficulty level: Easy

20. **Topic:** Inflation Rate

Question: Based on the provided data, what would be the inflation rate in 2023 compared to 2022?

- A. 6.439%
- B. 7.439%
- C. 8.439%
- D. 9.439%

Correct answer: C. 8.439%

Explanation: The inflation rate is calculated using the formula $[(\text{GDP deflator in year 2} - \text{GDP deflator in year 1}) / \text{GDP deflator in year 1}] \times 100$. Using the given data, the calculation is $[(167.94 - 154.87) / 154.87] \times 100 = 8.439\%$.

Guidance time: 1 minute

Difficulty level: Hard

21. **Topic:** Concepts of National Income

Question: What are the inputs such as labour and capital in the production of GDP known as?

- A. Factors of production
- B. Elements of production
- C. Components of production
- D. Parts of production

Correct answer: A. Factors of production

Explanation: In economics, the inputs such as labour and capital used in the production of goods or services are known as factors of production.

Guidance time: 1 minute

Difficulty level: Easy

22. **Topic:** Concepts of National Income

Question: What does GDP stand for?

- A. Gross Domestic Pricing
- B. Gross Domestic Product
- C. Gross Domestic Profit
- D. Gross Domestic Process

Correct answer: B. Gross Domestic Product

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Explanation: GDP stands for Gross Domestic Product, which is the value of all final goods and services produced in a country within a given period.

Guidance time: 1 minute

Difficulty level: Easy

23. **Topic:** Concepts of National Income

Question: Why is real GDP constructed using constant prices rather than current prices?

- A. To factor in the effect of increasing production over time
- B. To eliminate the effect of increasing prices on the measure of GDP
- C. To eliminate the effect of decreasing production over time
- D. To factor in the effect of decreasing prices on the measure of GDP

Correct answer: B. To eliminate the effect of increasing prices on the measure of GDP

Explanation: Real GDP is constructed using constant prices to eliminate the effect of increasing prices over time. This helps in measuring the production accurately.

Guidance time: 1 minute

Difficulty level: Medium

24. **Topic:** Concepts of National Income

Question: What does the GDP deflator measure?

- A. The current level of production relative to the level of production in the base year
- B. The current level of prices relative to the level of prices in the base year
- C. The current level of income relative to the level of income in the base year
- D. The current level of employment relative to the level of employment in the base year

Correct answer: B. The current level of prices relative to the level of prices in the base year

Explanation: The GDP deflator measures the current level of prices relative to the level of prices in the base year. It is used to take inflation out of GDP.

Guidance time: 2 minutes

Difficulty level: Hard

25. **Topic:** Concepts of National Income

Question: How is the inflation rate between two consecutive years calculated using the GDP deflator?

- A. $\text{GDP deflator in year 2} / \text{GDP deflator in year 1} * 100$
- B. $\text{GDP deflator in year 2} - \text{GDP deflator in year 1} / \text{GDP deflator in year 1} * 100$
- C. $\text{GDP deflator in year 2} + \text{GDP deflator in year 1} / \text{GDP deflator in year 1} * 100$

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D. $\text{GDP deflator in year 2} * \text{GDP deflator in year 1} / \text{GDP deflator in year 1} * 100$

Correct answer: B. $\text{GDP deflator in year 2} - \text{GDP deflator in year 1} / \text{GDP deflator in year 1} * 100$

Explanation: The inflation rate between two consecutive years can be computed using the GDP deflator as follows: $(\text{GDP deflator in year 2} - \text{GDP deflator in year 1}) / \text{GDP deflator in year 1} * 100$

Guidance time: 2 minutes

Difficulty level: Hard

26. **Topic:** Concepts of National Income

Question: Based on the provided figures, what is the projected inflation rate for 2024 compared to 2023 in India?

- A. 4.63 percent
- B. 6.23 percent
- C. 8.43 percent
- D. 7.64 percent

Correct answer: A. 4.63 percent

Explanation: The inflation rate for 2024 compared to 2023 can be calculated as follows: $(175.67 - 167.94) / 167.94 * 100 = 4.63$ percent.

Guidance time: 2 minutes

Difficulty level: Hard

27. **Topic:** Concepts of National Income

Question: Nominal GDP increases over time for what reasons?

- A. Increase in population and increase in consumer demands
 - B. Increase in production of goods and increase in prices
 - C. Increase in export and decrease in import
 - D. Increase in labour supply and capital availability
- Correct answer:** B. Increase in production of goods and increase in prices

Explanation: Nominal GDP increases over time because of two main reasons: production of most goods increases over time and the prices of most goods also increase over time.

Guidance time: 1 minute

Difficulty level: Medium

28. **Topic:** Concepts of National Income

Question: In the base year, what value does the GDP deflator always have?

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A. 0

B. 1

C. 100

D. 1000

Correct answer: C. 100

Explanation: Since nominal GDP and real GDP must be the same in the base year, the deflator for the base year is always 100.

Guidance time: 1 minute

Difficulty level: Easy

29. **Topic:** Concepts of National Income

Question: What is the formula to convert nominal GDP to real GDP?

- A. $\text{Real GDP} = \text{Nominal GDP} / \text{GDP Deflator} * 100$
- B. $\text{Real GDP} = \text{Nominal GDP} * \text{GDP Deflator} / 100$
- C. $\text{Real GDP} = \text{Nominal GDP} - \text{GDP Deflator} * 100$
- D. $\text{Real GDP} = \text{Nominal GDP} + \text{GDP Deflator} * 100$

Correct answer: A. $\text{Real GDP} = \text{Nominal GDP} / \text{GDP Deflator} * 100$

Explanation: To convert nominal GDP to real GDP, we use the formula: $\text{Real GDP} = \text{Nominal GDP} / \text{GDP Deflator} * 100$.

Guidance time: 1 minute

Difficulty level: Medium

30. **Topic:** Concepts of National Income

Question: What is Gross Domestic Product (GDP) comprised of?

- A. The value of all intermediate goods and services produced in the country within a given period
- B. The value of all final goods and services produced in the country within a given period
- C. The value of all exported goods and services produced in the country within a given period
- D. The value of all imported goods and services produced in the country within a given period

Correct answer: B. The value of all final goods and services produced in the country within a given period

Explanation: Gross Domestic Product (GDP) is the value of all final goods and services produced in the country within a given period. It includes goods such as houses and mobiles, as well as services such as telecom, health, and insurance.

Guidance time: 1 minute

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Difficulty level: Easy

31. **Topic:** Concepts of National Income

Question: If the GDP MP of a country is \$1000 billion, depreciation is \$100 billion, and net factor income from abroad is \$50 billion, what is the NDP MP?

- A. \$850 billion
- B. \$950 billion
- C. \$1050 billion
- D. \$1150 billion

Correct answer: A. \$850 billion

Explanation: $\text{NDP MP} = \text{GDP MP} - \text{Depreciation} = \$1000 \text{ billion} - \$100 \text{ billion} = \900 billion

Guidance time: 1-2 minutes

Difficulty level: Medium

32. **Topic:** Concepts of National Income

Question: If a country's GDP MP is \$2000 billion, and net factor income from abroad is \$300 billion, what is its GNP MP?

- A. \$1700 billion
- B. \$2000 billion
- C. \$2300 billion
- D. \$2600 billion

Correct answer: C. \$2300 billion

Explanation: $\text{GNP MP} = \text{GDP MP} + \text{Net Factor Income from Abroad} = \$2000 \text{ billion} + \$300 \text{ billion} = \2300 billion

Guidance time: 1-2 minutes

Difficulty level: Medium

33. **Topic:** Concepts of National Income

Question: If Net Factor Income from Abroad is positive, then:

- A. GDP MP would be greater than GNP MP
- B. GDP MP would be lesser than GNP MP
- C. GDP MP would be equal to GNP MP
- D. Cannot be determined

Correct answer: B. GDP MP would be lesser than GNP MP

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Explanation: A positive Net Factor Income from Abroad implies that the income earned by domestic residents from abroad is more than the income earned by foreigners in the domestic economy. Hence, GNP (which includes Net Factor Income from Abroad, would be greater than GDP.

Guidance time: 2 minutes

Difficulty level: Medium

34. **Topic:** Concepts of National Income

Question: If a country's GDP MP is \$700 billion, depreciation is \$100 billion, and net factor income from abroad is \$50 billion, what is the country's NNP MP?

- A. \$550 billion
- B. \$600 billion
- C. \$650 billion
- D. \$700 billion

Correct answer: C. \$650 billion

Explanation: $NNP\ MP = GDP\ MP + \text{Net Factor Income from Abroad} - \text{Depreciation} = \$700\ \text{billion} + \$50\ \text{billion} - \$100\ \text{billion} = \$650\ \text{billion}.$

Guidance time: 1-2 minutes

Difficulty level: Medium

35. **Topic:** Concepts of National Income

Question: Which of the following is not included in the calculation of GDP?

- A. The value of volunteer work
- B. The value of all goods produced for use in the home
- C. The value of all final goods produced within the country's borders
- D. The value of all services performed within the country's borders

Correct answer: A. The value of volunteer work

Explanation: GDP includes the value of all final goods and services produced within a country, but it does not account for unpaid work, such as volunteer work.

Guidance time: 1-2 minutes

Difficulty level: Medium

36. **Topic:** Concepts of National Income

Question: If the GDP MP of a country is \$500 billion, Indirect Taxes are \$50 billion and Subsidies are \$20 billion, what is the GDP FC?

A. \$470 billion

B. \$480 billion

C. \$520 billion

D. \$530 billion

Correct answer: A. \$470 billion

Explanation: $GDP\ FC = GDP\ MP - \text{Indirect Taxes} + \text{Subsidies} = \$500\ \text{billion} - \$50\ \text{billion} + \$20\ \text{billion} = \$470\ \text{billion}.$

Guidance time: 1-2 minutes

Difficulty level: Medium

37. **Topic:** Concepts of National Income

Question: If the GDP at factor cost is \$700 billion, Indirect Taxes are \$100 billion and Subsidies are \$50 billion, what is the GDP at market price?

- A. \$550 billion
- B. \$650 billion
- C. \$750 billion
- D. \$850 billion

Correct answer: C. \$750 billion

Explanation: $GDP\ at\ Market\ Price = GDP\ at\ Factor\ Cost + \text{Indirect Taxes} - \text{Subsidies} = \$700\ \text{billion} + \$100\ \text{billion} - \$50\ \text{billion} = \$750\ \text{billion}.$

Guidance time: 1-2 minutes

Difficulty level: Medium

38. **Topic:** Concepts of National Income

Question: Per Capita Income is obtained by dividing the country's _____ by the total population.

- A. Gross National Product
- B. Gross Domestic Product
- C. Net National Product
- D. Net Domestic Product

Correct answer: B. Gross Domestic Product

Explanation: Per Capita Income is usually calculated by dividing the country's Gross Domestic Product by the total population.

Guidance time: 1 minute

Difficulty level: Easy

39. **Topic:** Concepts of National Income

Question: If the Personal Income of individuals in a country is \$400 billion and Personal Income Taxes plus Non-tax payments amount to \$100 billion, what is the Disposable Personal Income?

- A. \$300 billion
- B. \$400 billion
- C. \$500 billion
- D. Cannot be determined

Correct answer: A. \$300 billion

Explanation: $\text{Disposable Personal Income} = \text{Personal Income} - \text{Personal Income Taxes} - \text{Non-tax payments} = \$400\ \text{billion} - \$100\ \text{billion} = \$300\ \text{billion}.$

Guidance time: 1-2 minutes

Difficulty level: Medium

40. **Topic:** Concepts of National Income

Question: If the GDP MP of a country is \$1500 billion, net indirect taxes are \$300 billion, and depreciation is \$200 billion, what is the NDP FC of the country?

- A. \$1000 billion
- B. \$1200 billion
- C. \$1300 billion
- D. \$1500 billion

Correct answer: A. \$1000 billion

Explanation: $NDP\ FC = GDP\ MP - \text{Net Indirect Taxes} - \text{Depreciation} = \$1500\ \text{billion} - \$300\ \text{billion} - \$200\ \text{billion} = \$1000\ \text{billion}.$

Guidance time: 1-2 minutes

Difficulty level: Medium

41. **Topic:** Concepts of National Income

Question: What is the formula for calculating Gross National Product at Market Prices (GNP MP)?

- A. $GNP\ MP = GDP\ MP - \text{Factor income earned by the domestic factors of production employed in the rest of the world} + \text{Factor income earned by the factors of production of the rest of the world employed in the domestic territory}.$
- B. $GNP\ MP = GDP\ MP + \text{Net Factor Income from Abroad}$
- C. $GNP\ MP = GDP\ MP + \text{Depreciation}$
- D. $GNP\ MP = GDP\ MP - \text{Depreciation}$

Correct answer: B. $GNP\ MP = GDP\ MP + \text{Net Factor Income from Abroad}$

Explanation: Gross National Product (GNP) at Market Prices (MP) is calculated by adding the Net Factor Income from Abroad to the GDP at Market Prices (GDP MP). This takes into account the total income earned by a nation's residents (nationals), regardless of where they are in the world.

Guidance time: 2 minutes

Difficulty level: Medium

42. **Topic:** Concepts of National Income

Question: What does Net Domestic Product at Factor Cost (NDPFC) represent?

- A. The total factor incomes earned by the factors of production.
- B. The total amount of indirect taxes.
- C. The total amount of direct taxes.
- D. The total income earned by a nation's permanent residents.

Correct answer: A. The total factor incomes earned by the factors of production.

Explanation: Net Domestic Product at Factor Cost (NDPFC) represents the total factor incomes earned by the factors of production. This measure is obtained by subtracting indirect taxes and adding subsidies to the Net Domestic Product at Market Prices (NDP MP).

Guidance time: 2 minutes

Difficulty level: Medium

43. **Topic:** Concepts of National Income

Question: What is the definition of Per Capita Income?

- A. The total income of a country.
 - B. The total income of a country's residents.
 - C. The total income of a country's residents divided by the total population.
 - D. The total income of a country divided by the total number of households.
- Correct answer:** C. The total income of a country's residents divided by the total population

Explanation: Per Capita Income is a measure of a country's economic output per person. It is calculated by dividing the country's gross domestic product, adjusted by inflation, by the total population.

Guidance time: 1 minute

Difficulty level: Easy

44. **Topic:** Concepts of National Income

Question: How is Personal Income different from National Income?

- A. Personal Income is higher than National Income.

B. Personal Income includes transfer payments, while National Income does not.

C. Personal Income is the same as National Income.

D. Personal Income does not include the income from productive activities.

Correct answer: B. Personal Income includes transfer payments, while National Income does not.

Explanation: While National Income is the income earned by factors of production, Personal Income is the income received by the household sector, including Non-Profit Institutions Serving Households. Personal income includes transfer payments such as social security benefits, unemployment compensation, and welfare payments, which are excluded from national income.

Guidance time: 2 minutes

Difficulty level: Medium

45. **Topic:** Concepts of National Income

Question: If GDP at Factor Cost (GDPFC) is the measure of the money value of output produced within a country's domestic limits in a year, as received by the factors of production, which formula correctly represents GDPFC?

A. GDPFC = GDP MP + Indirect Taxes - Subsidies

B. GDPFC = GDP MP - Indirect Taxes + Subsidies

C. GDPFC = GDP MP - Indirect Taxes - Subsidies

D. GDPFC = GDP MP + Indirect Taxes + Subsidies

Correct answer: B. GDPFC = GDP MP - Indirect Taxes + Subsidies

Explanation: GDP at Factor Cost (GDPFC) is calculated by subtracting indirect taxes and adding subsidies to the GDP at Market Prices (GDP MP). It represents the money value of output produced within a country's domestic limits in a year, as received by the factors of production.

Guidance time: 2 minutes

Difficulty level: Medium

46. **Topic:** Concepts of National Income

Question: If the GDP of a country is \$2000 billion, and the population is 500 million, what is the per capita income of the country?

A. \$2000

B. \$4000

C. \$6000

D. \$8000

Correct answer: B. \$4000

Explanation: Per Capita Income = GDP / Population = \$2000 billion / 500 million = \$4000.

Guidance time: 1-2 minutes

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Difficulty level: Medium

47. **Topic:** Concepts of National Income

Question: If the GDP MP of a country is \$1200 billion, net indirect taxes are \$200 billion, and net factor income from abroad is \$100 billion, what is the GNP FC of the country?

A. \$1000 billion

B. \$1100 billion

C. \$1200 billion

D. \$1300 billion

Correct answer: B. \$1100 billion

Explanation: GNP FC = GDP MP – Net Indirect Taxes + Net Factor Income from Abroad = \$1200 billion - \$200 billion + \$100 billion = \$1100 billion.

Guidance time: 1-2 minutes

Difficulty level: Medium

48. **Topic:** Concepts of National Income

Question: If GDP increases while the population remains stable, what will happen to per capita GDP?

A. It will increase.

B. It will decrease.

C. It will remain the same.

D. It cannot be determined.

Correct answer: A. It will increase.

Explanation: Per capita GDP is calculated as GDP divided by the population. If GDP increases while the population remains stable, per capita GDP will increase.

Guidance time: 1 minute

Difficulty level: Easy

49. **Topic:** Concepts of National Income

Question: If the Gross National Product (GNP) at Market Price is \$800 billion, Depreciation is \$50 billion, Indirect Taxes are \$100 billion, and Subsidies are \$30 billion, what is the Net National Product at Factor Cost (NNP FC)?

A. \$620 billion

B. \$680 billion

C. \$750 billion

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D. \$780 billion

Correct answer: B. \$680 billion

Explanation: NNP FC = GNP MP – Depreciation – Indirect Taxes + Subsidies = \$800 billion - \$50 billion - \$100 billion + \$30 billion = \$680 billion.

Guidance time: 1-2 minutes

Difficulty level: Medium

50. **Topic:** Concepts of National Income

Question: If the GDP MP of a country is \$900 billion, depreciation is \$100 billion, and net factor income from abroad is -\$50 billion, what is the NNP MP of the country?

A. \$750 billion

B. \$800 billion

C. \$850 billion

D. \$900 billion

Correct answer: A. \$750 billion

Explanation: NNP MP = GDP MP + Net Factor Income from Abroad - Depreciation = \$900 billion - \$50 billion - \$100 billion = \$750 billion.

Guidance time: 1-2 minutes

Difficulty level: Medium

51. **Topic:** Concepts of National Income

Question: Which of the following activities are not included in the calculation of GDP?

A. Activities in the informal sector

B. Domestic services of a housewife

C. Exports of goods and services

D. Government expenditures on goods and services

Correct answer: B. Domestic services of a housewife

Explanation: GDP includes the value of all final goods and services produced within a country, but it does not account for unpaid domestic services.

Guidance time: 1-2 minutes

Difficulty level: Medium

52. **Topic:** Concepts of National Income

Question: Which of the following is the best measure of a country's standard of living?

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A. Gross Domestic Product

B. Gross National Product

C. Per Capita Income

D. Disposable Personal Income

Correct answer: C. Per Capita Income

Explanation: Per Capita Income, which is calculated as GDP divided by the total population, gives a better measure of the average income per person, thus providing a better measure of the standard of living.

Guidance time: 1-2 minutes

Difficulty level: Medium

53. **Topic:** Concepts of National Income

Question: If a country's GDP at Market Price is \$3000 billion, Indirect Taxes are \$400 billion, and Subsidies are \$200 billion, what is the GDP at Factor Cost?

A. \$2600 billion

B. \$2800 billion

C. \$3000 billion

D. \$3200 billion

Correct answer: B. \$2800 billion

Explanation: GDP FC = GDP MP – Indirect Taxes + Subsidies = \$3000 billion - \$400 billion + \$200 billion = \$2800 billion.

Guidance time: 1-2 minutes

Difficulty level: Medium

54. **Topic:** Concepts of National Income

Question: The depreciation of assets is subtracted from GDP to obtain:

A. Net Domestic Product

B. Gross National Product

C. Net National Product

D. Personal Income

Correct answer: A. Net Domestic Product

Explanation: Net Domestic Product (NDP) is the value of GDP minus depreciation on a country's capital assets (capital consumption).

Guidance time: 1-2 minutes

Difficulty level: Medium

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55. **Topic:** Concepts of National Income

Question: If the Gross Domestic Product at Market Price of a country is \$1000 billion, the Depreciation is \$200 billion, and the Net Factor Income from Abroad is \$50 billion, what is the Net National Product at Market Price?

- A. \$850 billion
- B. \$900 billion
- C. \$950 billion
- D. \$1000 billion

Correct answer: A. \$850 billion

Explanation: $NNP_{MP} = GDP_{MP} - Depreciation + Net\ Factor\ Income\ from\ Abroad = \$1000\ billion - \$200\ billion + \$50\ billion = \$850\ billion.$

Guidance time: 1-2 minutes

Difficulty level: Medium

56. **Topic:** Measurement of National Income in India

Question: What does the Circular Flow of Income refer to?

- A. The cycle of economic activity involving production, income generation, and expenditure
- B. The flow of money between the government and households
- C. The income tax cycle
- D. The flow of money between firms and households

Correct answer: A. The cycle of economic activity involving production, income generation, and expenditure

Explanation: The Circular Flow of Income refers to the continuous cycle of production, income generation and expenditure involving different sectors of the economy. This includes production by firms, income distribution from firms to households, and expenditure by households and firms which in turn leads to further production.

Guidance time: 1-2 minutes

Difficulty level: Medium

57. **Topic:** Measurement of National Income in India

Question: In the circular flow of income, which phase refers to the flow of factor incomes like rent, wages, interest, and profits from firms to households?

- A. Production Phase
- B. Income or Distribution Phase
- C. Expenditure or Disposition Phase
- D. Consolidation Phase

Correct answer: B. Income or Distribution Phase

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Explanation: In the circular flow of income, the Income or Distribution Phase refers to the flow of factor incomes like rent, wages, interest, and profits from firms to households.

Guidance time: 1-2 minutes

Difficulty level: Medium

58. **Topic:** Measurement of National Income in India

Question: Which of the following methods is not a method of measuring national income?

- A. Value Added Method
- B. Income Method
- C. Expenditure Method
- D. Asset Method

Correct answer: D. Asset Method

Explanation: National income is typically measured using three methods: the Value Added Method (also known as Product Method), the Income Method, and the Expenditure Method. The Asset Method is not a recognized method for measuring national income.

Guidance time: 1-2 minutes

Difficulty level: Medium

59. **Topic:** Measurement of National Income in India

Question: What does the Value Added Method (Product Method) of measuring national income involve?

- A. Counting the total factor incomes generated in the production of goods and services
- B. Summing the expenditures of the three spending units in the economy
- C. Estimating the sum of net values added by all producing enterprises of the country
- D. Calculating the sum of all final goods and services produced in the country

Correct answer: C. Estimating the sum of net values added by all producing enterprises of the country

Explanation: The Value Added Method or Product Method of measuring national income involves estimating the sum of net values added by all producing enterprises of the country. This method measures the contribution of each producing enterprise in the domestic territory of the country in an accounting year.

Guidance time: 2-3 minutes

Difficulty level: Medium

60. **Topic:** Measurement of National Income in India

Question: A firm's Gross Value Added (GVA MP) at market price is \$200 million. If its intermediate consumption is \$50 million, what is the net value added?

- A. \$50 million

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B. \$100 million

C. \$150 million

D. \$200 million

Correct answer: C. \$150 million

Explanation: The Gross Value Added (GVA MP) at market price is calculated as the value of output minus intermediate consumption. So, if the value of output is \$200 million and the intermediate consumption is \$50 million, then the net value added is \$150 million.

Guidance time: 1-2 minutes

Difficulty level: Medium

61. **Topic:** Measurement of National Income in India

Question: If the Gross Value Added at Market Price (GVA MP) of a firm is \$500 million, depreciation is \$50 million, Net Indirect taxes are \$30 million, and Net Factor Income from Abroad (NFIA) is \$20 million, what is the National Income (NNP FC)?

- A. \$440 million
- B. \$470 million
- C. \$500 million
- D. \$540 million

Correct answer: A. \$440 million

Explanation: National Income (NNP FC) is calculated as: $NVA_{MP} - Depreciation - Net\ Indirect\ taxes + NFIA$. So, National Income = \$500 million - \$50 million - \$30 million + \$20 million = \$440 million.

Guidance time: 2-3 minutes

Difficulty level: Medium

61. **Topic:** Measurement of National Income in India

Question: Which of the following is included in the value-added method of national income calculation?

- A. Import of goods and services
- B. Imputed value of production of goods for self-consumption
- C. Income from black market activities
- D. Gifts and transfers from abroad

Correct answer: B. Imputed value of production of goods for self-consumption

Explanation: The value-added method of national income calculation includes the imputed value of production of goods for self-consumption, among other items. Imports, income from black market activities, and gifts from abroad are not included.

Guidance time: 2-3 minutes

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Difficulty level: Medium

62. **Topic:** Measurement of National Income in India

Question: If the Net Domestic Product (NDP FC) of a country is \$1000 billion and the Net Factor Income from Abroad (NFIA) is \$200 billion, what is the National Income (NNP FC)?

- A. \$800 billion
- B. \$1000 billion
- C. \$1200 billion
- D. \$1400 billion

Correct answer: C. \$1200 billion

Explanation: National Income (NNP FC) is calculated as: $NDP_{FC} + NFIA$. So, National Income = \$1000 billion + \$200 billion = \$1200 billion.

Guidance time: 1-2 minutes

Difficulty level: Medium

63. **Topic:** Measurement of National Income in India

Question: In the Value Added Method, how is the Net Value Added at Market Price (NVA MP) of an individual unit calculated?

- A. $GVA_{MP} + Depreciation$
- B. $GVA_{MP} - Depreciation$
- C. $GVA_{MP} + Net\ Indirect\ Taxes$
- D. $GVA_{MP} - Net\ Indirect\ Taxes$

Correct answer: B. $GVA_{MP} - Depreciation$

Explanation: In the Value Added Method, the Net Value Added at Market Price (NVA MP) of an individual unit is calculated by subtracting depreciation from the Gross Value Added at Market Price (GVA MP).

Guidance time: 1-2 minutes

Difficulty level: Medium

64. **Topic:** Measurement of National Income in India

Question: In the Value Added Method, which of the following steps is taken first?

- A. Estimating the gross value added (GVAMP) by each producing enterprise
- B. Identifying the producing enterprises and classifying them into different sectors
- C. Estimation of National income

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D. Subtracting net indirect taxes and adding net factor income from abroad

Correct answer: B. Identifying the producing enterprises and classifying them into different sectors

Explanation: The first step in the Value Added Method is to identify the producing enterprises and classify them into different sectors according to the nature of their activities.

Guidance time: 2-3 minutes

Difficulty level: Medium

65. **Topic:** Measurement of National Income in India

Question: What is measured by the Income Method of calculating National Income?

- A. Contribution of production units
- B. Relative contribution of factor owners
- C. Flow of consumption and investment expenditures
- D. Total value of goods and services produced

Correct answer: B. Relative contribution of factor owners

Explanation: The Income Method of calculating National Income measures the total factor incomes generated in the production of goods and services. This reflects the relative contribution of the owners of these factors of production.

Guidance time: 1-2 minutes

Difficulty level: Medium

66. **Topic:** Measurement of National Income in India

Question: In the Expenditure Method of calculating National Income, which of the following spending units' expenditures is considered?

- A. Government
- B. Consumer households
- C. Producing enterprises
- D. All of the above

Correct answer: D. All of the above

Explanation: The Expenditure Method of calculating National Income considers the sum of expenditures of three spending units in the economy - the government, consumer households, and producing enterprises.

Guidance time: 1-2 minutes

Difficulty level: Medium

67. **Topic:** Measurement of National Income in India

Question: If in a particular economy, government expenditure is \$600 billion, consumer household expenditure is \$1500 billion, and producing enterprises' expenditure is \$900 billion, what is the total expenditure (approx.) using the Expenditure Method?

- A. \$1000 billion
- B. \$2000 billion
- C. \$3000 billion
- D. \$4000 billion

Correct answer: C. \$3000 billion

Explanation: The Expenditure Method of calculating National Income involves the sum of expenditures of the three spending units - government, consumer households, and producing enterprises. Therefore, the total expenditure is \$600 billion + \$1500 billion + \$900 billion = \$3000 billion.

Guidance time: 2-3 minutes

Difficulty level: Medium

68. **Topic:** Measurement of National Income in India

Question: What does NFIA stand for in the context of National Income calculation?

- A. Net Financial Income from Abroad
- B. Net Factor Income from Abroad
- C. Net Fiscal Income from Abroad
- D. Net Foreign Income from Abroad

Correct answer: B. Net Factor Income from Abroad

Explanation: In the context of National Income calculation, NFIA stands for Net Factor Income from Abroad. It represents the difference between the income earned from abroad and income paid to the rest of the world.

Guidance time: 1-2 minutes

Difficulty level: Medium

69. **Topic:** Measurement of National Income in India

Question: Which of the following is NOT considered while calculating National Income by the Income Method?

- A. Wages
- B. Rents
- C. Profits
- D. Borrowings

Correct answer: D. Borrowings

Explanation: While calculating National Income by the Income Method, incomes generated in the form of wages, rents, and profits are considered. Borrowings are not an income, and hence are not included.

Guidance time: 2-3 minutes

Difficulty level: Medium

70. **Topic:** Measurement of National Income in India

Question: If the total factor incomes generated in an economy are as follows: Wages = \$500 billion, Rent = \$200 billion, Interest = \$300 billion, and Profits = \$1000 billion, what is the total income (approx.) using the Income Method?

- A. \$1000 billion
- B. \$2000 billion
- C. \$3000 billion
- D. \$4000 billion

Correct answer: B. \$2000 billion

Explanation: The Income Method of calculating National Income involves summing up the total factor incomes generated in the production of goods and services. Therefore, the total income is \$500 billion + \$200 billion + \$300 billion + \$1000 billion = \$2000 billion.

Guidance time: 2-3 minutes

Difficulty level: Medium

71. **Topic:** Measurement of National Income in India

Question: If a country's Gross Domestic Product (GDP) at factor cost is \$1000 billion, depreciation is \$100 billion and net factor income from abroad (NFIA) is -\$50 billion, what will be the country's Net National Product (NNP) at factor cost?

- A. \$850 billion
- B. \$950 billion
- C. \$1050 billion
- D. \$1150 billion

Correct answer: A. \$850 billion

Explanation: Net National Product (NNP) at factor cost is calculated as GDP at factor cost minus depreciation plus net factor income from abroad (NFIA). Therefore, NNP at factor cost = \$1000 billion - \$100 billion - \$50 billion = \$850 billion.

Guidance time: 2-3 minutes

Difficulty level: Medium

72. **Topic:** Measurement of National Income in India

Question: If the sum of expenditures of government, consumer households, and producing enterprises are \$500 billion, \$1500 billion, and \$1000 billion respectively, what would be the approximate National Income using the Expenditure Method?

- A. \$1000 billion
- B. \$2000 billion
- C. \$3000 billion
- D. \$4000 billion

Correct answer: C. \$3000 billion

Explanation: The Expenditure Method of calculating National Income involves the sum of expenditures of the three spending units - government, consumer households, and producing enterprises. Therefore, the National Income using the Expenditure Method is \$500 billion + \$1500 billion + \$1000 billion = \$3000 billion.

Guidance time: 2-3 minutes

Difficulty level: Medium

73. **Topic:** Measurement of National Income in India

Question: Which method of calculating National Income is based on the sum of all incomes received by factors of production?

- A. Value Added Method
- B. Income Method
- C. Expenditure Method
- D. Fiscal Method

Correct answer: B. Income Method

Explanation: The Income Method of calculating National Income is based on the sum of

all incomes received by factors of production like land, labor, capital and entrepreneurship. These incomes include wages, rent, interest and profits.

Guidance time: 1-2 minutes

Difficulty level: Medium

74. **Topic:** Measurement of National Income in India

Question: Which of the following is not a factor income?

- A. Rent
- B. Wages
- C. Interest
- D. Dividend

Correct answer: D. Dividend

Explanation: Dividends are considered as transfer payments and not factor incomes because they are paid out of profits which is already a factor income.

Guidance time: 2-3 minutes

Difficulty level: Medium

75. **Topic:** Measurement of National Income in India

Question: What does the term "Depreciation" refer to in the context of National Income calculation?

- A. The decrease in the value of physical capital due to natural wear and tear
- B. The decrease in the net profit of a firm
- C. The decrease in the value of a country's currency
- D. The decrease in the national income due to inflation

Correct answer: A. The decrease in the value of physical capital due to natural wear and tear

Explanation: In the context of National Income calculation, "Depreciation" refers to the decrease in the value of physical capital (machinery, buildings, etc.) due to natural wear and tear, obsolescence, or accidents.

Guidance time: 1-2 minutes

Difficulty level: Medium

76. **Topic:** Measurement of National Income in India

Question: If the Gross Domestic Product at Market Price (GDPmp) of a country is \$10,000 billion and the Net Indirect Taxes are \$500 billion, what is the Gross Domestic Product at Factor Cost (GDPfc)?

- A. \$9500 billion
- B. \$10,000 billion
- C. \$10,500 billion
- D. None of the above

Correct answer: A. \$9500 billion

Explanation: GDP at Factor Cost (GDPfc) is derived by subtracting Net Indirect Taxes from the GDP at Market Price (GDPmp). Therefore, $GDPfc = GDPmp - \text{Net Indirect Taxes} = \$10,000 \text{ billion} - \$500 \text{ billion} = \$9500 \text{ billion}$.

Guidance time: 2-3 minutes

Difficulty level: Medium

77. **Topic:** Measurement of National Income in India

Question: What is included in the term "Net Factor Income from Abroad" (NFIA)?

A. The difference between the total income that a country's residents earn from abroad and the total income that foreign residents earn from that country

B. The total income that a country's residents earn from abroad

C. The total income that foreign residents earn from a particular country

D. None of the above

Correct answer: A. The difference between the total income that a country's residents earn from abroad and the total income that foreign residents earn from that country

Explanation: The term "Net Factor Income from Abroad" (NFIA) includes the difference between the total income that a country's residents earn from abroad and the total income that foreign residents earn from that country.

Guidance time: 2-3 minutes

Difficulty level: Medium

78. **Topic:** Measurement of National Income in India

Question: If the Gross National Product (GNP) of a country is \$15,000 billion and depreciation is \$500 billion, what is the Net National Product (NNP)?

- A. \$14,500 billion
- B. \$15,000 billion
- C. \$15,500 billion
- D. None of the above

Correct answer: A. \$14,500 billion

Explanation: Net National Product (NNP) is derived by subtracting depreciation from the Gross National Product (GNP). Therefore, $NNP = GNP - \text{Depreciation} = \$15,000 \text{ billion} - \$500 \text{ billion} = \$14,500 \text{ billion}$.

Guidance time: 2-3 minutes

Difficulty level: Medium

79. **Topic:** Measurement of National Income in India

Question: Which sector does a bank belong to in the context of the Value Added Method of calculating National Income?

- A. Primary sector
- B. Secondary sector
- C. Tertiary sector
- D. None of the above

Correct answer: C. Tertiary sector

Explanation: A bank belongs to the Tertiary or Service sector. The Value Added Method of calculating National Income categorizes all producing enterprises into three main sectors: Primary (agriculture, fishing, etc.), Secondary (manufacturing, construction, etc.), and Tertiary (services like banking, education, healthcare, etc.).

Guidance time: 1-2 minutes

Difficulty level: Medium

80. **Topic:** Measurement of National Income in India

Question: What is the term for the approach that measures National Income by adding up all expenditures made for final goods and services?

- A. Income Method
- B. Expenditure Method
- C. Value Added Method
- D. Indirect Method

Correct answer: B. Expenditure Method

Explanation: The Expenditure Method is an approach to measure National Income by adding up all expenditures made for final goods and services. It includes spending by consumer households, government, and producing enterprises.

Guidance time: 1-2 minutes

Difficulty level: Easy

81. **Topic:** Measurement of National Income in India

Question: If the Personal Income of a country is \$8000 billion and personal taxes are \$2000 billion, what is the Personal Disposable Income?

- A. \$6000 billion
- B. \$8000 billion
- C. \$10,000 billion
- D. None of the above

Correct answer: A. \$6000 billion

Explanation: Personal Disposable Income is derived by subtracting personal taxes from Personal Income. Therefore, $\text{Personal Disposable Income} = \text{Personal Income} - \text{Personal Taxes} = \$8000 \text{ billion} - \$2000 \text{ billion} = \6000 billion .

Guidance time: 2-3 minutes

Difficulty level: Medium

82. **Topic:** Measurement of National Income in India

Question: What is the term used to describe the production for self-consumption, especially in the context of the agricultural sector?

- A. Imputed production

B. In-kind production

C. Direct production

D. Indirect production

Correct answer: A. Imputed production

Explanation: In the context of national income accounting, the term "imputed production" is used to describe production for self-consumption. This is often relevant in the agricultural sector where a farmer might produce goods for their own consumption.

Guidance time: 2-3 minutes

Difficulty level: Medium

83. **Topic:** Measurement of National Income in India

Question: If a country's Net National Product at Factor Cost (NNPfc) is \$13,000 billion and the population of the country is 2 billion, what is the per capita income of the country?

- A. \$5
- B. \$50
- C. \$650
- D. \$6500

Correct answer: C. \$650

Explanation: Per capita income is calculated as Net National Product at Factor Cost (NNPfc) divided by the population of the country. Therefore, $\text{per capita income} = \text{NNPfc} / \text{Population} = \$13,000 \text{ billion} / 2 \text{ billion} = \650 .

Guidance time: 2-3 minutes

Difficulty level: Medium

84. **Topic:** Measurement of National Income in India

Question: Which of the following items is not included in the Value Added Method of National Income calculation?

- A. Own account production of fixed assets by government, enterprises and households
- B. Imputed rent of owner-occupied houses
- C. Profits earned by foreign companies operating in the country
- D. Change in stock (inventory)

Correct answer: C. Profits earned by foreign companies operating in the country

Explanation: In the Value Added Method of National Income calculation, profits earned by foreign companies operating in the country are not included. The Value Added Method includes the own account production of fixed assets by government, enterprises and households, the imputed rent of owner-occupied houses, and the change in stock (inventory).

Guidance time: 2-3 minutes

Difficulty level: Medium

85. **Topic:** Concepts of National Income

Question: The Factor Income Method of calculating National Income includes payments to:

- A. Both residents and non-residents
- B. Only residents
- C. Only non-residents
- D. Neither residents nor non-residents

Correct answer: A. Both residents and non-residents

Explanation: The Factor Income Method, also known as the Distributed Share Method, takes into account all factor incomes paid out by all production units within the domestic territory of a country. This includes factor payments to both residents and non-residents.

Guidance time: 2 minutes

Difficulty level: Medium

86. **Topic:** Concepts of National Income

Question: Which of the following is excluded from National Income as per the Factor Income Method?

- A. Rent
- B. Wages and salaries
- C. Pensions of retired workers
- D. Profits of unincorporated enterprises

Correct answer: C. Pensions of retired workers

Explanation: The Factor Income Method includes wages and salaries, rent, interest, and profit as these are incomes earned by owners of primary factors of production. However, pensions of retired workers are not considered as they do not contribute to the current flow of goods and services.

Guidance time: 2 minutes

Difficulty level: Medium

87. **Topic:** Concepts of National Income

Question: According to the Expenditure Method, which of the following forms a part of Gross Domestic Capital Formation?

- A. Consumption of goods and services
- B. Acquisition of fixed assets
- C. Expenditure on pensions and scholarships

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D. Interest on consumption loans

Correct answer: B. Acquisition of fixed assets

Explanation: Gross Domestic Capital Formation includes expenditure that is added to the nation's fixed tangible assets and stocks, such as the acquisition of fixed assets and the accumulation of stocks.

Guidance time: 2 minutes

Difficulty level: Medium

88. **Topic:** Concepts of National Income

Question: The Expenditure Method of calculating National Income does NOT include:

- A. Final consumption expenditure
- B. Net exports
- C. Transfer incomes
- D. Gross domestic capital formation

Correct answer: C. Transfer incomes

Explanation: Transfer incomes such as pensions, scholarships, and unemployment allowances are not included in the Expenditure Method of National Income calculation. This is because transfer incomes are not a payment for any current services rendered by the factors of production.

Guidance time: 2-3 minutes

Difficulty level: Medium

89. **Topic:** Concepts of National Income

Question: In the Expenditure Method, which of the following is included in Private Final Consumption Expenditure (PFCE)?

- A. Purchase of residential buildings
- B. Expenditure on second-hand goods
- C. Payments for domestic services one household renders to another
- D. Income from sale of financial assets

Correct answer: C. Payments for domestic services one household renders to another

Explanation: PFCE includes the value of final sales of goods and services to consumer households acquired for consumption. It includes payments for domestic services that one household renders to another, but excludes purchase of residential buildings, expenditure on second-hand goods, and income from sale of financial assets.

Guidance time: 2-3 minutes

Difficulty level: Medium

90. **Topic:** Concepts of National Income

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Question: Which of the following is included in Government Final Consumption Expenditure?

- A. Expenditure on scholarships
- B. Money spent on defense services
- C. Government expenditure on pensions
- D. Expenditure on transfer payments

Correct answer: B. Money spent on defense services

Explanation: Government Final Consumption Expenditure includes money spent on production of services such as defense, education, healthcare etc. Transfer payments like pensions, scholarships, unemployment allowance etc. are excluded.

Guidance time: 2-3 minutes

Difficulty level: Medium

91. **Topic:** Concepts of National Income

Question: What is 'Mixed Income of Self-employed'?

- A. Income generated from both labor and capital services
- B. Income generated only from labor services
- C. Income generated only from capital services
- D. Income generated from neither labor nor capital services

Correct answer: A. Income generated from both labor and capital services

Explanation: Mixed Income of Self-employed refers to the income which is difficult to separate into labor and capital services. It is common in cases where individuals provide both labor and capital, such as with self-employed professionals or proprietors.

Guidance time: 2 minutes

Difficulty level: Medium

92. **Topic:** Concepts of National Income

Question: What does Net Exports refer to in the context of the Expenditure Method?

- A. Total exports of a country
- B. Total imports of a country
- C. The difference between the total exports and total imports of a country
- D. The sum of the total exports and total imports of a country

Correct answer: C. The difference between the total exports and total imports of a country

Explanation: Net Exports in the context of the Expenditure Method refers to the difference between the total exports and total imports of a country during the accounting year.

Guidance time: 1-2 minutes

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Difficulty level: Easy

93. **Topic:** Concepts of National Income

Question: According to the Expenditure Method, how can Gross National Product at Market Price (GNPMP) be obtained from Gross Domestic Product at Market Price (GDPMP)?

- A. GDPMP + Net Factor Income from Abroad
- B. GDPMP - Net Factor Income from Abroad
- C. GDPMP + Net Indirect Taxes
- D. GDPMP - Net Indirect Taxes

Correct answer: A. GDPMP + Net Factor Income from Abroad

Explanation: GNPMP can be derived from GDPMP by adding the Net Factor Income from Abroad. This represents the income earned by a country's residents from overseas investments, minus the income earned within the domestic economy by overseas residents.

Guidance time: 2-3 minutes

Difficulty level: Medium

94. **Topic:** Concepts of National Income

Question: Which of the following is not subtracted when calculating Net National Product at Factor Cost (NNPFC) from Gross National Product at Factor Cost (GNPFC)?

- A. Depreciation
- B. Net Indirect Taxes
- C. Interest on consumption loans
- D. Dividends

Correct answer: D. Dividends

Explanation: To calculate NNPFC from GNPFC, Depreciation is subtracted. Dividends are not subtracted as they are part of the Operating Surplus in the factor income method, and are not treated as a separate item in this calculation.

Guidance time: 2-3 minutes

Difficulty level: Medium

95. **Topic:** Concepts of National Income

Question: What term is used to represent the income earned by a country's residents from overseas investments, minus the income earned within the domestic economy by overseas residents?

- A. Net Factor Income from Abroad
- B. Net Indirect Taxes
- C. Operating Surplus

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D. Mixed Income of Self-employed

Correct answer: A. Net Factor Income from Abroad

Explanation: Net Factor Income from Abroad is the term used to represent the income earned by a country's residents from overseas investments, minus the income earned within the domestic economy by overseas residents.

Guidance time: 2 minutes

Difficulty level: Medium

96. **Topic:** Concepts of National Income

Question: Which among the following would be included in the Operating Surplus component of the Factor Income Method?

- A. Rent
- B. Wages and salaries
- C. Bonus
- D. Net Factor Income from Abroad

Correct answer: A. Rent

Explanation: Operating Surplus in the Factor Income Method includes rent, interest, and profit. It does not include wages, salaries, or bonuses, which come under the compensation of employees, or Net Factor Income from Abroad.

Guidance time: 2 minutes

Difficulty level: Medium

97. **Topic:** Concepts of National Income

Question: How is Net Domestic Product at Factor Cost (NDPFC) calculated using the Factor Income Method?

- A. By summing all factor incomes paid out by all production units within a country
- B. By subtracting depreciation from Gross Domestic Product at Market Price
- C. By adding Net Factor Income from Abroad to Gross Domestic Product at Market Price
- D. By subtracting Net Indirect Taxes from Gross National Product at Market Price

Correct answer: A. By summing all factor incomes paid out by all production units within a country

Explanation: NDPFC is calculated by summing up all factor incomes (compensation of employees, operating surplus, mixed income of self-employed, paid out by all production units within the domestic territory of a country.

Guidance time: 2-3 minutes

Difficulty level: Medium

98. **Topic:** Concepts of National Income

Question: Which of the following is excluded from Gross Domestic Capital Formation in the Expenditure Method?

A. Expenditure on construction

B. Accumulation of stocks of raw materials

C. Expenditure on transfer payments

D. Acquisition of fixed assets

Correct answer: C. Expenditure on transfer payments

Explanation: Gross Domestic Capital Formation includes expenditure on the acquisition of fixed assets, construction, and accumulation of stocks of raw materials. It does not include expenditure on transfer payments.

Guidance time: 2 minutes

Difficulty level: Medium

99. **Topic:** Concepts of National Income

Question: What does GDPMP stand for in the context of national income?

- A. Gross Domestic Product at Market Price
- B. Gross Domestic Production at Maximum Potential
- C. Gross Domestic Profit at Market Price
- D. Gross Domestic Production at Minimum Price

Correct answer: A. Gross Domestic Product at Market Price

Explanation: GDPMP stands for Gross Domestic Product at Market Price, which is the value of all final goods and services produced within a country in a given period, evaluated at current market prices.

Guidance time: 1 minute

Difficulty level: Easy

100. **Topic:** Concepts of National Income

Question: Under the expenditure method, which of the following would be classified as Private Final Consumption Expenditure (PFCE)?

- A. Purchase of a factory building by a corporation
- B. Purchase of a tractor by a farmer
- C. Purchase of a government bond by a household
- D. Donation made by a household to a non-profit institution

Correct answer: B. Purchase of a tractor by a farmer

Explanation: PFCE includes the volume of final sales of goods and services to consumer households acquired for consumption (not for use in production). The purchase of a tractor by a farmer would be a part of PFCE as it is a purchase made by a household.

Guidance time: 2-3 minutes

Difficulty level: Medium

101. **Topic:** Concepts of National Income

Question: How is Gross National Product at Market Price (GNPMP) converted into Gross National Product at Factor Cost (GNPFC)?

- A. By adding Net Factor Income from Abroad
- B. By subtracting Net Indirect Taxes
- C. By adding Net Indirect Taxes
- D. By subtracting Depreciation

Correct answer: B. By subtracting Net Indirect Taxes

Explanation: GNPFC is derived from GNPMP by subtracting Net Indirect Taxes. Net Indirect Taxes represent the difference between the value of output at market prices and factor cost.

Guidance time: 2-3 minutes

Difficulty level: Medium

102. **Topic:** Concepts of Regional Accounts in India

Question: What is Net State Domestic Product (NSDP)?

- A. The volume of all goods and services produced in the state within a given period of time without duplication.
- B. The sum of all final goods and services produced in the state, including duplication.
- C. The total income earned by the residents of the state.
- D. The total income earned by the state from domestic and foreign investments.

Correct answer: A. The volume of all goods and services produced in the state within a given period of time without duplication.

Explanation: NSDP is a measure in monetary terms of the volume of all goods and services produced in a state within a given period, accounted without duplication.

Guidance time: 2 minutes

Difficulty level: Easy

103. **Topic:** Concepts of Regional Accounts in India

Question: How is Per Capita State Income calculated?

- A. By dividing the NSDP by the total number of households in the state.
- B. By dividing the NSDP by the total population of the state.
- C. By dividing the NSDP by the midyear projected population of the state.
- D. By dividing the total income earned by the state from domestic and foreign investments by the total population.

Correct answer: C. By dividing the NSDP by the midyear projected population of the state.

Explanation: Per Capita State Income is calculated by dividing the NSDP (State Income) by the midyear projected population of the state.

Guidance time: 2 minutes

Difficulty level: Easy

104. **Topic:** GDP and Welfare

Question: What aspects does GDP fail to capture that affect overall well-being of citizens?

- A. Income distribution and quality improvements in systems due to technological innovation.
- B. Productions hidden from government authorities and nonmarket production.
- C. Disutility of loss of leisure time and economic bads like crime and pollution.
- D. All of the above.

Correct answer: D. All of the above.

Explanation: GDP does not account for many important aspects that affect the overall well-being of citizens, including income distribution, quality improvements in systems due to technological innovation, productions hidden from government authorities, nonmarket production, disutility of loss of leisure time, and economic bads like crime and pollution.

Guidance time: 3 minutes

Difficulty level: Medium

105. **Topic:** Limitations and Challenges of National Income Computation

Question: What are some of the conceptual difficulties related to the measurement of national income?

- A. Absence of an agreed definition of national income and an accurate distinction between final and intermediate goods.
- B. Issue of transfer payments and services of durable goods.
- C. Difficulty incorporating income distribution and valuation of new goods at constant prices.
- D. All of the above.

Correct answer: D. All of the above.

Explanation: There are many conceptual difficulties related to the measurement of national income, including absence of an agreed definition of national income, accurate distinction between final and intermediate goods, issue of transfer payments, services of durable goods, difficulty incorporating income distribution, and valuation of new goods at constant prices.

Guidance time: 3 minutes

Difficulty level: Medium

106. **Topic:** Limitations and Challenges of National Income Computation

Question: What are some challenges related to the computation of national income?

- A. Inadequacy of data and presence of non-monetized sector.
- B. Production for self-consumption and absence of recording of incomes due to illiteracy.
- C. Lack of proper occupational classification and accurate estimation of consumption of fixed capital.
- D. All of the above.

Correct answer: D. All of the above.

Explanation: There are many challenges related to the computation of national income, including inadequacy of data, presence of non-monetized sector, production for self-consumption, absence of recording of incomes due to illiteracy, lack of proper occupational classification, and accurate estimation of consumption of fixed capital.

Guidance time: 3 minutes

Difficulty level: Medium

107. **Topic:** Concepts of Regional Accounts in India

Question: In the preparation of state income estimates in India, what are known as the 'Supra-regional sectors' of the economy?

- A. Activities such as railways, communications, banking, insurance, and central government administration that cut across state boundaries.
- B. Sectors like agriculture, manufacturing, and services that contribute to the state's income.
- C. Activities that are specific to a particular state.
- D. Sectors that contribute to the national income but not to the state income.

Correct answer: A. Activities such as railways, communications, banking, insurance, and central government administration that cut across state boundaries.

Explanation: In the preparation of state income estimates in India, activities such as railways, communications, banking, insurance, and central government administration that cut across state boundaries, and thus their economic contribution cannot be assigned to any one state directly, are known as the 'Supra-regional sectors' of the economy.

Guidance time: 3 minutes

Difficulty level: Medium

108. **Topic:** GDP and Welfare

Question: Which of the following is not measured by GDP but contributes to economic welfare?

- A. Leisure time.
- B. Fairness.
- C. Gender equality.

D. All of the above.

Correct answer: D. All of the above.

Explanation: GDP does not measure many things that contribute to economic welfare such as leisure time, fairness, gender equality, security of community feeling, etc.

Guidance time: 2 minutes

Difficulty level: Easy

109. **Topic:** Concepts of Regional Accounts in India

Question: Who assists the states in the preparation of state income estimates by rendering advice on conceptual and methodological problems in India?

- A. The Central Statistical Organisation.
- B. The State Directorates of Economics and Statistics.
- C. The State Income Units.
- D. The National Statistical Organisation.

Correct answer: A. The Central Statistical Organisation.

Explanation: In India, the Central Statistical Organisation assists the States in the preparation of state income estimates by rendering advice on conceptual and methodological problems.

Guidance time: 2 minutes

Difficulty level: Easy

110. **Topic:** Limitations and Challenges of National Income Computation

Question: What is one of the challenges in the computation of national income related to the data?

- A. Inadequacy of data and lack of reliability of available data.
- B. Overabundance of data and lack of relevant data.
- C. Irregularity of

data and lack of standardized data.

D. All of the above.

Correct answer: A. Inadequacy of data and lack of reliability of available data.

Explanation: One of the challenges in the computation of national income is the inadequacy of data and lack of reliability of available data.

Guidance time: 2 minutes

Difficulty level: Easy

111. **Topic:** GDP and Welfare

Question: What is the impact on a country's GDP if the total hours of work increase?

- A. GDP rises.
- B. GDP decreases.
- C. GDP remains the same.
- D. GDP becomes negative.

Correct answer: A. GDP rises.

Explanation: Other things remaining the same, a country's GDP rises if the total hours of work increase.

Guidance time: 2 minutes

Difficulty level: Easy

112. **Topic:** GDP and Welfare

Question: If there is an increase in crimes leading to more expenditure on police, how is it reflected in GDP?

- A. GDP decreases.
- B. GDP increases.
- C. GDP remains the same.
- D. GDP becomes negative.

Correct answer: B. GDP increases.

Explanation: Increased expenditure on police due to an increase in crimes may increase GDP, but these expenses only prevent us from becoming worse off. However, there's no reflection made in the national income about the negative impacts of higher crime rates.

Guidance time: 2 minutes

Difficulty level: Medium

113. **Topic:** Concepts of Regional Accounts in India

Question: What are the estimates for 'Supra-regional sectors' in India's state income computation based on?

- A. Relevant indicators.
- B. Average income of the states.
- C. Population of the states.
- D. Size of the states.

Correct answer: A. Relevant indicators.

Explanation: The estimates for 'Supra-regional sectors', activities that cut across state boundaries, are compiled for the economy as a whole and allocated to the states based on relevant indicators.

Guidance time: 3 minutes

Difficulty level: Medium

114. **Topic:** GDP and Welfare

Question: Which of these is an economic 'bad' that can make us worse off, despite possibly contributing to GDP?

- A. A rise in income.
- B. More free time.
- C. Technological innovations.
- D. Increase in pollution.

Correct answer: D. Increase in pollution.

Explanation: Economic 'bads' such as crime, pollution, traffic congestion, etc., can make us worse off, even though they might contribute to GDP. For example, pollution might increase GDP due to increased production and cleanup efforts, but it negatively affects people's well-being.

Guidance time: 3 minutes

Difficulty level: Medium

115. **Topic:** Limitations and Challenges of National Income Computation

Question: What is one problem associated with the valuation of government services in national income computation?

- A. They are typically provided for free, making it hard to determine their market value.
- B. They are usually overvalued.
- C. They are typically undervalued.
- D. They are not considered in national income computation.

Correct answer: A. They are typically provided for free, making it hard to determine their market value.

Explanation: A challenge in national income computation is valuing government services as they are typically provided for free, so their market value isn't directly observable.

Guidance time: 3 minutes

Difficulty level: Medium

116. **Topic:** Concepts of Regional Accounts in India

Question: How is NSDP different from Gross State Domestic Product (GSDP)?

- A. NSDP includes the depreciation of capital, while GSDP does not.
- B. NSDP does not include the depreciation of capital, while GSDP does.
- C. NSDP includes net exports, while GSDP does not.

D. NSDP does not include net exports, while GSDP does.

Correct answer: B. NSDP does not include the depreciation of capital, while GSDP does.

Explanation: Gross State Domestic Product (GSDP) includes depreciation of capital (i.e., the consumption of fixed capital), while Net State Domestic Product (NSDP) is GSDP minus depreciation.

Guidance time: 3 minutes

Difficulty level: Medium

117. **Topic:** GDP and Welfare

Question: Which of the following is not included in the GDP but can contribute significantly to the well-being of a society?

- A. The volunteer work and services rendered without remuneration.
- B. The sale of goods and services.
- C. The output from industries.
- D. The value of all final goods and services produced.

Correct answer: A. The volunteer work and services rendered without remuneration.

Explanation: GDP does not account for the volunteer work and services rendered without remuneration undertaken in the economy, even though such work can contribute to social well-being as much as paid work.

Guidance time: 2 minutes

Difficulty level: Easy

118. **Topic:** Concepts of Regional Accounts in India

Question: Which organization assists states in India in the preparation of state income estimates by rendering advice on conceptual and methodological problems?

- A. Reserve Bank of India.
- B. The State Directorates of Economics and Statistics.
- C. The Central Statistical Organisation.
- D. The Ministry of Finance.

Correct answer: C. The Central Statistical Organisation.

Explanation: The Central Statistical Organisation assists the States in the preparation of these estimates by rendering advice on conceptual and methodological problems.

Guidance time: 2 minutes

Difficulty level: Easy

119. **Topic:** GDP and Welfare

Question: According to the passage, which of the following does GDP fail to capture?

A. The quantity of goods and services produced in a year.

B. The disutility of the loss of leisure time.

C. The total income of a nation.

D. The rate of inflation.

Correct answer: B. The disutility of the loss of leisure time.

Explanation: GDP fails to capture the disutility of the loss of leisure time. Other things remaining the same, a country's GDP rises if the total hours of work increase.

Guidance time: 2 minutes

Difficulty level: Medium

120. **Topic:** Limitations and Challenges of National Income Computation

Question: Which of the following represents a challenge in estimating national income in developing countries?

- A. Presence of a non-monetised sector.
- B. Absence of a non-monetised sector.
- C. Presence of a monetised sector.
- D. Absence of a monetised sector.

Correct answer: A. Presence of a non-monetised sector.

Explanation: The presence of a non-monetised sector in underdeveloped and developing countries is one of the many challenges in estimating national income, as this part of the economy may not be accurately reflected in official statistics.

Guidance time: 3 minutes

Difficulty level: Medium

121. **Topic:** GDP and Welfare

Question: Is GDP a perfect measure of welfare according to the passage?

- A. Yes.
- B. No.
- C. It depends on the situation.
- D. The passage does not provide enough information to answer this Question.

Correct answer: B. No.

Explanation: According to the passage, there are many reasons to dispute the validity of GDP as a perfect measure of well-being. It leaves out many important aspects which ensure good quality of life for all.

Guidance time: 2 minutes

Difficulty level: Easy

UNIT - 2: THE KEYNESIAN THEORY OF DETERMINATION OF NATIONAL INCOME

1. **Topic:** Keynesian Economics

Question: Which of the following best describes the term 'equilibrium' as defined by Keynesian economics?

- A. A state where there is constant change.
- B. A state where there is no tendency to change.
- C. A position of continuous movement.
- D. A position of constant fluctuation.

Correct answer: B. A state where there is no tendency to change.

Explanation: In the Keynesian economic framework, 'equilibrium' is defined as a state where there is no tendency to change; or a position of rest.

Guidance time: 2 minutes

Difficulty level: Easy

2. **Topic:** Keynesian Theory of Income Determination

Question: In the context of the Keynesian theory of income determination, what are ex-ante values of different variables primarily concerned with?

- A. Future predictions of economic outcomes.
- B. Past economic outcomes.
- C. Current economic outcomes.
- D. Theoretical economic outcomes.

Correct answer: A. Future predictions of economic outcomes.

Explanation: In the Keynesian theory of income determination, ex-ante refers to planned or intended values of different variables, essentially focusing on future predictions of economic outcomes.

Guidance time: 2 minutes

Difficulty level: Medium

3. **Topic:** Circular Flow of Income

Question: In the circular flow model, what do households provide to businesses?

- A. Goods and services
- B. Factor services
- C. Taxes

D. Capital

Correct answer: B. Factor services

Explanation: In the circular flow model, households own all factors of production and they sell their factor services to businesses, such as labor, land, and capital, to earn income.

Guidance time: 2 minutes

Difficulty level: Easy

4. **Topic:** Keynesian Economics

Question: Who introduced the key building blocks of modern macroeconomics during the Great Depression?

- A. Adam Smith
- B. John Maynard Keynes
- C. David Ricardo
- D. Milton Friedman

Correct answer: B. John Maynard Keynes

Explanation: John Maynard Keynes introduced many of the building blocks of modern macroeconomics in his publication "General Theory of Employment, Interest, and Money" during the Great Depression.

Guidance time: 2 minutes

Difficulty level: Easy

5. **Topic:** Circular Flow of Income

Question: What does 'real flows' refer to in the context of the circular flow model?

- A. The flow of the actual goods or services.
- B. The payments for the services.
- C. The total income produced.
- D. The total receipts of firms.

Correct answer: A. The flow of the actual goods or services.

Explanation: 'Real flows' in the circular flow model refers to the flow of the actual goods or services, while 'money flows' refer to the payments for the services or consumption payments.

Guidance time: 3 minutes

Difficulty level: Medium

6. **Topic:** Macroeconomic Equilibrium

Question: According to Keynesian economics, when can an economy be said to be in equilibrium?

- A. When the production plans of the firms and the expenditure plans of the households do not match.

B. When the production plans of the firms and the expenditure plans of the households match.

C. When the firms produce more than what households can consume.

D. When the households consume more than what firms can produce.

Correct answer: B. When the production plans of the firms and the expenditure plans of the households match.

Explanation: According to Keynesian economics, an economy can be said to be in equilibrium when the production plans of the firms and the expenditure plans of the households match.

Guidance time: 3 minutes

Difficulty level: Medium

7. Topic: Keynesian Theory of Income Determination

Question: How many models does the Keynesian theory of income determination consist of?

A. One

B. Two

C. Three

D. Four

Correct answer: C. Three

Explanation: The Keynesian theory of income determination consists of three models: (i) The two-sector model, (ii) The three-sector model, and (iii) The four-sector model.

Guidance time: 2 minutes

Difficulty level: Easy

8. Topic: Great Depression and Macroeconomics

Question: Which economic crisis led to the revolutionizing of modern macroeconomics?

A. The 2008 Financial Crisis

B. The 1973 Oil Crisis

C. The Great Depression of the 1930s

D. The 1987 Stock Market Crash

Correct answer: C. The Great Depression of the 1930s

Explanation: The Great Depression of the 1930s was a significant economic crisis that led to the revolutionizing of modern macroeconomics, particularly with the introduction of Keynesian economics.

Guidance time: 2 minutes

Difficulty level: Easy

9. Topic: Circular Flow of Income

Question: In the circular flow model, what does the continuous line with arrows represent?

A. The flow of goods and services.

B. The flow of income and expenditure.

C. The flow of production factors.

D. The flow of corporate savings.

Correct answer: B. The flow of income and expenditure.

Explanation: In the circular flow model, the continuous line with arrows represents 'money flows', which are generated by real flows and refer to the payments for services (such as wages) or consumption payments.

Guidance time: 3 minutes

Difficulty level: Medium

10. Topic: Circular Flow of Income

Question: What is another term for the circular flow model due to its depiction of a nation's GDP or national income?

A. The economic cycle model

B. The income cycle model

C. The circular flow of income model

D. The income and expenditure model

Correct answer: C. The circular flow of income model

Explanation: The circular flow model is also referred to as the circular flow of income model, as it demonstrates how money moves within an economy and depicts the components of a nation's GDP or national income.

Guidance time: 2 minutes

Difficulty level: Easy

11. Topic: Circular Flow of Income

Question: In the circular flow model, what is the relationship between Household Income and Total Receipts of Firms?

A. Household Income is always less than Total Receipts of Firms.

B. Household Income is always more than Total Receipts of Firms.

C. Household Income is equal to Total Receipts of Firms.

D. There is no relationship between Household Income and Total Receipts of Firms.

Correct answer: C. Household Income is equal to Total Receipts of Firms.

Explanation: According to the circular flow model, Household Income equals Total Receipts of Firms, which also equals the Value of Output.

Guidance time: 2 minutes

Difficulty level: Medium

12. Topic: Keynesian Theory of Income Determination

Question: In the Keynesian theory, what term is given to the demand for money?

A. The Money Multiplier

B. Liquidity Preference

C. The Money Demand

D. The Cash Balance Approach

Correct answer: B. Liquidity Preference

Explanation: In the Keynesian theory, the term 'Liquidity Preference' is given to the demand for money. It explains how monetary policy can affect interest rates and aggregate demand.

Guidance time: 2 minutes

Difficulty level: Medium

13. Topic: Keynesian Theory of Income Determination

Question: Which sector is not part of the two-sector model in the Keynesian theory of income determination?

A. The household sector

B. The business sector

C. The government sector

D. The foreign sector

Correct answer: C. The government sector

Explanation: The two-sector model in the Keynesian theory of income determination consists of the household and the business sectors. The government and foreign sectors are not included in this model.

Guidance time: 2 minutes

Difficulty level: Easy

14. Topic: Concepts of National Income

Question: What factors of production do households own in the circular flow model?

A. Land and Labor

B. Labor and Capital

C. Land, Labor, and Capital

D. Only Capital

Correct answer: C. Land, Labor, and Capital

Explanation: In the circular flow model, households own all factors of production, which include Land, Labor, and Capital. They sell their factor services to businesses to earn income.

Guidance time: 2 minutes

Difficulty level: Easy

15. Topic: Keynesian Theory of Income Determination

Question: Which of the following is not a building block of modern macroeconomics introduced by Keynes?

A. The relation of consumption to income and the multiplier.

B. Liquidity Preference or the demand for money.

C. The importance of expectations in affecting consumption and investment.

D. The importance of supply and demand in determining prices.

Correct answer: D. The importance of supply and demand in determining prices.

Explanation: Keynes' General Theory did not emphasize the role of supply and demand in determining prices, as it was more focused on aggregate demand and its role in determining output and employment levels. The other three options are all components introduced by Keynes.

Guidance time: 3 minutes

Difficulty level: Medium

16. Topic: Keynesian Theory of Income Determination

Question: According to Keynes, what explains how shocks to aggregate demand can be amplified and lead to larger shifts in output?

A. The relationship of consumption to income

B. The multiplier

C. Liquidity Preference

D. The expectations theory

Correct answer: B. The multiplier

Explanation: According to Keynes, the multiplier explains how shocks to aggregate demand can be amplified and lead to larger shifts in output. This is because an initial increase in spending can lead to increased income and hence increased consumption spending, thereby multiplying the effect of the initial spending increase on aggregate demand.

Guidance time: 3 minutes

Difficulty level: Medium

17. Topic: Keynesian Economics

Question: What was the main policy implication of Keynes's General Theory of Employment, Interest, and Money?

- A. That government should avoid intervention in the economy
- B. That government should reduce spending to combat inflation
- C. That government should increase spending to combat unemployment
- D. That government should increase taxes to reduce the national debt

Correct answer: C. That government should increase spending to combat unemployment

Explanation: One of the main policy implications of Keynes's General Theory was that government spending could be used as a tool to combat unemployment. This was a significant departure from the classical economic theories of the time.

Guidance time: 3 minutes

Difficulty level: Medium

18. Topic: Keynesian Economics

Question: In the context of Keynesian economics, what role do expectations play in consumption and investment?

- A. They do not play any significant role.
- B. They play a minor role.
- C. They play a significant role.
- D. They only affect investment but not consumption.

Correct answer: C. They play a significant role.

Explanation: In Keynesian economics, expectations play a significant role in affecting consumption and investment. Shifts in expectations are seen as a major factor behind shifts to demand and output.

Guidance time: 2 minutes

Difficulty level: Medium

19. Topic: Concepts of National Income

Question: In the circular flow model, what does Factor Payments equal to?

- A. Household Income
- B. Household Expenditure
- C. Total Receipts of Firms
- D. All of the above

Correct answer: D. All of the above

Explanation: According to the circular flow model, Factor Payments equal Household Income, which in turn equals Household Expenditure, Total Receipts of Firms, and Value of Output.

Guidance time: 3 minutes

Difficulty level: Medium

20. Topic: Keynesian Theory of Income Determination

Question: In the three-sector model of the Keynesian theory of income determination, which of the following sectors are included?

- A. Household, Business, and Government sectors
- B. Household, Business, and Foreign sectors
- C. Household, Government, and Foreign sectors
- D. Business, Government, and Foreign sectors

Correct answer: A. Household, Business, and Government sectors

Explanation: The three-sector model in the Keynesian theory of income determination includes the Household, Business, and Government sectors. The foreign sector is not included in this model.

Guidance time: 2 minutes

Difficulty level: Easy

21. Topic: Aggregate Demand Function

Question: In a simple two-sector economy, what components make up the ex-ante aggregate demand (AD)?

- A. Consumer goods (C) and government expenditure (G)
- B. Consumer goods (C) and investment goods (I)
- C. Investment goods (I) and government expenditure (G)
- D. Consumer goods (C), investment goods (I) and government expenditure (G)

Correct answer: B. Consumer goods (C) and investment goods (I)

Explanation: In a simple two-sector economy, the ex-ante aggregate demand (AD) is composed of the aggregate demand for consumer goods (C) and the aggregate demand for investment goods (I).

Guidance time: 2 minutes

Difficulty level: Medium

22. Topic: The Consumption Function

Question: The marginal propensity to consume (MPC) is defined as the change in consumption resulting from a change in _____.

- A. Wealth
- B. Interest rate
- C. Price level

D. Income

Correct answer: D. Income

Explanation: The marginal propensity to consume (MPC) is defined as the change in consumption resulting from a one-unit increase in disposable income.

Guidance time: 2 minutes

Difficulty level: Medium

23. Topic: Relationship Between Income and Consumption

Question: As income increases, the average propensity to consume (APC) _____.

- A. Increases
- B. Decreases
- C. Remains constant
- D. Becomes negative

Correct answer: B. Decreases

Explanation: As income increases, the average propensity to consume (APC) decreases. This means that as people earn more, they tend to save a larger proportion of their income.

Guidance time: 2 minutes

Difficulty level: Medium

24. Topic: The Relationship Between Income, Consumption, and Saving

Question: If the marginal propensity to consume (MPC) is 0.8, what is the marginal propensity to save (MPS)?

- A. 0.2
- B. 0.8
- C. 1.2
- D. 2.0

Correct answer: A. 0.2

Explanation: The marginal propensity to save (MPS) is calculated as $1 - \text{MPC}$. Therefore, if MPC is 0.8, then $\text{MPS} = 1 - 0.8 = 0.2$.

Guidance time: 2 minutes

Difficulty level: Medium

25. Topic: Aggregate Supply

Question: In a two-sector model of the economy, the ex-ante or planned aggregate supply is equal to _____.

- A. Consumption (C) only

B. Saving (S) only

C. The sum of Consumption (C) and Saving (S)

D. The sum of Consumption (C), Saving (S) and Government expenditure (G)

Correct answer: C. The sum of Consumption (C) and Saving (S)

Explanation: In a two-sector model of the economy, the ex-ante or planned aggregate supply is equal to the sum of Consumption (C) and Saving (S), which is also equal to the national income of the economy.

Guidance time: 2 minutes

Difficulty level: Medium

26. Topic: The Consumption Function

Question: According to the Keynesian consumption function ($C = a + bY$), what does 'a' represent?

- A. The slope of the consumption function
- B. The marginal propensity to consume
- C. The consumption at zero level of income
- D. Total disposable income

Correct answer: C. The consumption at zero level of income

Explanation: In the Keynesian consumption function ($C = a + bY$), 'a' is a constant term which denotes the consumption at zero level of disposable income.

Guidance time: 2 minutes

Difficulty level: Medium

27. Topic: Aggregate Demand Function

Question: In the short-run aggregate demand function ($AD = C + I$), what does 'I' represent?

- A. Interest
- B. Income
- C. Investment
- D. Inflation

Correct answer: C. Investment

Explanation: In the short-run aggregate demand function ($AD = C + I$), 'I' represents constant investment.

Guidance time: 2 minutes

Difficulty level: Medium

28. Topic: The Relationship Between Income, Consumption and Saving

Question: The Average Propensity to Save (APS) is calculated as:

- A. Total Saving / Total Income
- B. Total Income / Total Saving
- C. Total Consumption / Total Saving
- D. Total Saving / Total Consumption

Correct answer: A. Total Saving / Total Income

Explanation: The Average Propensity to Save (APS) is calculated as the ratio of total saving to total income. It denotes the proportion of total income that is saved.

Guidance time: 2 minutes

Difficulty level: Medium

29. Topic: The Relationship Between Income, Consumption and Saving

Question: If the marginal propensity to consume (MPC) is 0.75, what is the Average Propensity to Save (APS) when the total income is \$10,000 and the total saving is \$2,500?

- A. 0.25
- B. 0.75
- C. 0.5
- D. 1

Correct answer: A. 0.25

Explanation: The Average Propensity to Save (APS) is calculated as the ratio of total saving to total income. Here, $APS = \text{Total Saving} / \text{Total Income} = \$2,500 / \$10,000 = 0.25$.

Guidance time: 3 minutes

Difficulty level: Medium

30. Topic: Aggregate Supply

Question: If Consumption (C) is \$7000 and Saving (S) is \$3000, what is the Aggregate Supply (AS)?

- A. \$4000
- B. \$10000
- C. \$1000
- D. \$20000

Correct answer: B. \$10000

Explanation: In a two-sector model of the economy, the Aggregate Supply (AS) is equal to the sum of Consumption (C) and Saving (S). Hence, $AS = C + S = \$7000 + \$3000 = \$10000$.

Guidance time: 3 minutes

Difficulty level: Medium

31. Topic: Aggregate Demand Function

Question: If consumer expenditure (C) is \$4000 and investment (I) is \$1000, what is the aggregate demand (AD)?

- A. \$5000
- B. \$3000
- C. \$1000
- D. \$4000

Correct answer: A. \$5000

Explanation: Aggregate demand (AD) in a simple two-sector economy is calculated as the sum of consumer expenditure (C) and investment (I). Hence, $AD = C + I = \$4000 + \$1000 = \$5000$.

Guidance time: 2 minutes

Difficulty level: Medium

32. Topic: The Consumption Function

Question: If the consumption at zero level of income (A) is \$2000 and the marginal propensity to consume (B) is 0.7, what is the aggregate consumption expenditure (C) when total disposable income (Y) is \$5000?

- A. \$5500
- B. \$3500
- C. \$6500
- D. \$7500

Correct answer: A. \$5500

Explanation: According to the Keynesian consumption function ($C = a + bY$), the aggregate consumption expenditure is calculated as the sum of the consumption at zero level of income and the product of the marginal propensity to consume and total disposable income. Hence, $C = a + bY = \$2000 + 0.7 * \$5000 = \$5500$.

Guidance time: 3 minutes

Difficulty level: Medium

33. Topic: Relationship Between Income and Consumption

Question: If the average propensity to consume (APC) is 0.8 when the total income is \$10,000, what is the total consumption?

- A. \$8000
- B. \$2000
- C. \$10,000

D. \$12,000

Correct answer: A. \$8000

Explanation: Total consumption can be calculated by multiplying the average propensity to consume (APC) by total income. Hence, $\text{total consumption} = APC * \text{total income} = 0.8 * \$10,000 = \$8000$.

Guidance time: 3 minutes

Difficulty level: Medium

34. Topic: The Relationship Between Income, Consumption, and Saving

Question: If the marginal propensity to consume (MPC) is 0.9, what is the marginal propensity to save (MPS)?

- A. 0.1
- B. 0.9
- C. 0.2
- D. 0.8

Correct answer: A. 0.1

Explanation: The marginal propensity to save (MPS) is calculated as $1 - MPC$. Therefore, if MPC is 0.9, then $MPS = 1 - 0.9 = 0.1$.

Guidance time: 2 minutes

Difficulty level: Medium

35. Topic: Aggregate Supply

Question: In a two-sector model of the economy, if Consumption (C) is \$5000 and Saving (S) is \$3000, what is the Aggregate Supply (AS)?

- A. \$2000
- B. \$8000
- C. \$15000
- D. \$10000

Correct answer: B. \$8000

Explanation: In a two-sector model of the economy, the ex-ante or planned aggregate supply is equal to the sum of Consumption (C) and Saving (S), which is also equal to the national income of the economy. Hence, $AS = C + S = \$5000 + \$3000 = \$8000$.

Guidance time: 2 minutes

Difficulty level: Medium

36. Topic: The Consumption Function

Question: In the consumption function $C = a + bY$, if $a = 100$ and $b = 0.8$, what is the consumption expenditure when Y (income) is 500?

- A. 500
- B. 400
- C. 600
- D. 900

Correct answer: D. 900

Explanation: According to the consumption function, $C = a + bY$, the consumption expenditure is calculated by plugging in the given values. Hence, $C = 100 + 0.8 * 500 = 100 + 400 = 500$.

Guidance time: 3 minutes

Difficulty level: Medium

37. Topic: The Relationship Between Income, Consumption and Saving

Question: If the marginal propensity to consume (MPC) is 0.7, what is the marginal propensity to save (MPS)?

- A. 0.3
- B. 0.7
- C. 1.0
- D. 0.5

Correct answer: A. 0.3

Explanation: The marginal propensity to save (MPS) is the remaining part of income that is not consumed, calculated as $1 - MPC$. Therefore, if MPC is 0.7, $MPS = 1 - 0.7 = 0.3$.

Guidance time: 2 minutes

Difficulty level: Medium

38. Topic: The Relationship Between Income, Consumption and Saving

Question: If the total saving is \$4000 and the total income is \$20,000, what is the Average Propensity to Save (APS)?

- A. 0.2
- B. 0.1
- C. 0.3
- D. 0.4

Correct answer: A. 0.2

Explanation: The Average Propensity to Save (APS) is calculated as the ratio of total saving to total income. Here, $APS = \text{Total Saving} / \text{Total Income} = \$4000 / \$20,000 = 0.2$.

Guidance time: 3 minutes

Difficulty level: Medium

39. Topic: Aggregate Supply

Question: If Consumption (C) is \$6000 and Saving (S) is \$2000, what is the Aggregate Supply (AS)?

- A. \$8000
- B. \$4000
- C. \$2000
- D. \$10000

Correct answer: A. \$8000

Explanation: In a two-sector model of the economy, the Aggregate Supply (AS) is equal to the sum of Consumption (C) and Saving (S). Hence, $AS = C + S = \$6000 + \$2000 = \$8000$.

Guidance time: 2 minutes

Difficulty level: Medium

40. Topic: The Consumption Function

Question: In the consumption function $C = a + bY$, if $a = \$2000$ and $b = 0.5$, what is the consumption expenditure when Y (income) is \$4000?

- A. \$4000
- B. \$3000
- C. \$6000
- D. \$2000

Correct answer: A. \$4000

Explanation: According to the consumption function, $C = a + bY$, the consumption expenditure is calculated by plugging in the given values. Hence, $C = \$2000 + 0.5 * \$4000 = \$2000 + \$2000 = \$4000$.

Guidance time: 3 minutes

Difficulty level: Medium

41. Topic: Equilibrium in Two-Sector Model

Question: In the two-sector model, the equilibrium condition is reached when:

- A. Aggregate demand is greater than aggregate supply
- B. Aggregate supply is greater than aggregate demand
- C. Aggregate demand is equal to aggregate supply
- D. Aggregate demand and aggregate supply are both zero

Correct answer: C. Aggregate demand is equal to aggregate supply

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Explanation: The equilibrium level of income and output in the Keynesian framework is that level at which aggregate demand ($C + I$) and aggregate supply ($C + S$) or output are equal.

Guidance time: 2 minutes

Difficulty level: Easy

42. Topic: Investment Equals Savings

Question: In a two-sector model of the economy, which of the following conditions holds true at equilibrium?

- A. $I > S$
- B. $I < S$
- C. $I = S$
- D. I and S are independent of each other

Correct answer: C. $I = S$

Explanation: In a two-sector model, the equilibrium condition is that Investment (I) is equal to Savings (S). That is, $I = S$.

Guidance time: 2 minutes

Difficulty level: Easy

43. Topic: Equilibrium with Unemployment or Inflation

Question: Which of the following situations gives rise to a 'deflationary gap' or 'recessionary gap' in the economy?

- A. Aggregate demand exceeds the full employment level of output.
- B. Aggregate demand is less than the full employment level of output.
- C. Aggregate demand is equal to the full employment level of output.
- D. The level of output exceeds aggregate demand.

Correct answer: B. Aggregate demand is less than the full employment level of output.

Explanation: A deflationary gap or recessionary gap occurs when the aggregate demand for an amount of output is less than the full employment level of output. This results in deficient demand.

Guidance time: 2 minutes

Difficulty level: Medium

44. Topic: Equilibrium with Unemployment or Inflation

Question: What is an 'inflationary gap' in the context of a two-sector model of an economy?

- A. A situation where aggregate demand is less than the full employment level of output.
- B. A situation where aggregate demand exceeds the full employment level of output.
- C. A situation where aggregate demand is equal to the full employment level of output.

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D. A situation where aggregate demand and aggregate supply are both zero.

Correct answer: B. A situation where aggregate demand exceeds the full employment level of output.

Explanation: An 'inflationary gap' arises when the actual aggregate demand exceeds the level of aggregate demand required to establish the full employment equilibrium. This usually occurs during a business-cycle expansion and can cause demand-pull inflation.

Guidance time: 3 minutes

Difficulty level: Medium

45. Topic: The 45-Degree Line in a Two-Sector Model

Question: In a two-sector model, what does the 45-degree line represent?

- A. All points where aggregate demand equals aggregate supply.
- B. All points where aggregate supply exceeds aggregate demand.
- C. All points where aggregate demand exceeds aggregate supply.
- D. The line has no significance in the two-sector model.

Correct answer: A. All points where aggregate demand equals aggregate supply.

Explanation: The 45-degree line in a two-sector model illustrates every single point at which planned aggregate expenditure (measured on the Y, or vertical axis) is equal to planned aggregate production (measured on the X, or horizontal axis). Hence, all points on the 45-degree line indicate that aggregate expenditure equals aggregate output.

Guidance time: 3 minutes

Difficulty level: Medium

46. Topic: Leakages and Injections in National Income

Question: In the context of national income, if the leakages are greater than the injections, what is the likely impact on national income?

- A. National income will rise
- B. National income will fall
- C. National income will remain unchanged
- D. The impact on national income cannot be determined

Correct answer: B. National income will fall

Explanation: If the leakages (such as savings) are greater than the injections (like investment), then national income will fall as the overall spending in the economy decreases.

Guidance time: 3 minutes

Difficulty level: Medium

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47. Topic: National Income Accounting

Question: According to national income accounting, if $Y = C + S$ and $Y = C + I$, then which of the following is true?

- A. $S > I$
- B. $I > S$
- C. $S = I$
- D. S and I are independent of each other

Correct answer: C. $S = I$

Explanation: Given the two equations $Y = C + S$ and $Y = C + I$, we can equate the right-hand sides of both equations to get $C + S = C + I$. From this, it follows that Savings (S) must be equal to Investment (I).

Guidance time: 3 minutes

Difficulty level: Medium

48. Topic: Keynesian Theory

Question: According to Keynes, what happens if aggregate demand is insufficient in the economy?

- A. Output will exceed the full employment rate
- B. Output will remain at less than the full employment rate
- C. Wages will decline
- D. Interest rates will decline

Correct answer: B. Output will remain at less than the full employment rate

Explanation: According to Keynes, in the face of insufficient aggregate demand in the economy, neither wages nor interest rates will decline. Therefore, output will remain at less than the full employment rate.

Guidance time: 3 minutes

Difficulty level: Medium

49. Topic: The 45-Degree Line in a Two-Sector Model

Question: In a two-sector model, what do the points above the 45-degree line represent?

- A. Planned aggregate expenditure is greater than GDP.
- B. Planned aggregate expenditure is less than GDP.
- C. Planned aggregate expenditure equals GDP.
- D. The points above the 45-degree line have no significance.

Correct answer: A. Planned aggregate expenditure is greater than GDP.

Explanation: In the two-sector model, for all points above the 45-degree line, planned aggregate expenditure is greater than GDP.

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Guidance time: 2 minutes

Difficulty level: Medium

50. Topic: Keynesian Equilibrium

Question: According to Keynes, at equilibrium:

- A. Expected value is less than realised value.
- B. Expected value is more than realised value.
- C. Expected value equals realised value.
- D. The relationship between expected value and realised value cannot be determined.

Correct answer: C. Expected value equals realised value.

Explanation: According to Keynes, at equilibrium, expected value (aggregate supply) equals realised value (aggregate demand). The households' plan to consume and save must coincide with producers' plan to produce goods and services.

Guidance time: 3 minutes

Difficulty level: Medium

51. Topic: Multiplier Effect

Question: In the context of a two-sector model, the 'multiplier' refers to the:

- A. Ratio of the change in national income to the change in autonomous expenditure.
- B. Ratio of the change in autonomous expenditure to the change in national income.
- C. Ratio of the change in national income to the change in induced expenditure.
- D. Ratio of the change in induced expenditure to the change in national income.

Correct answer: A. Ratio of the change in national income to the change in autonomous expenditure.

Explanation: In economics, the multiplier effect refers to the amplification or magnification of initial spending changes to result in a larger change in national income. It is calculated as the ratio of the change in national income to the change in autonomous expenditure.

Guidance time: 2 minutes

Difficulty level: Medium

52. Topic: Equilibrium and Consumption Function

Question: In a two-sector model, the equilibrium level of income occurs at the point where:

- A. The consumption function intersects the 45-degree line.
- B. The saving function intersects the 45-degree line.
- C. The consumption function intersects the saving function.

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D. The consumption function intersects the investment function.

Correct answer: A. The consumption function intersects the 45-degree line.

Explanation: In a two-sector model, the equilibrium level of income is determined at the point where the consumption function intersects the 45-degree line, indicating where aggregate demand equals aggregate supply.

Guidance time: 2 minutes

Difficulty level: Medium

53. Topic: Autonomous and Induced Expenditure

Question: In a two-sector model, which of the following is considered an 'induced' expenditure?

- A. Investment
- B. Consumption
- C. Government spending
- D. Net exports

Correct answer: B. Consumption

Explanation: In a two-sector model, consumption is considered an 'induced' expenditure because it is influenced by the level of income or production.

Guidance time: 2 minutes

Difficulty level: Easy

54. Topic: Marginal Propensity to Consume and Save

Question: In a two-sector model, if the marginal propensity to consume (MPC) is 0.8, what is the marginal propensity to save (MPS)?

- A. 0.1
- B. 0.2
- C. 0.8
- D. 1.0

Correct answer: B. 0.2

Explanation: In a simple two-sector model, the sum of the marginal propensity to consume (MPC) and the marginal propensity to save (MPS) equals one. Hence, if MPC is 0.8, MPS will be $1 - 0.8 = 0.2$.

Guidance time: 2 minutes

Difficulty level: Easy

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55. Topic: Autonomous and Induced Expenditure

Question: In the context of a two-sector model, which of the following is considered 'autonomous' expenditure?

- A. Consumption
- B. Investment
- C. Saving
- D. Net exports

Correct answer: B. Investment

Explanation: In a two-sector model, investment is considered an 'autonomous' expenditure because it's generally determined by factors other than the current income, such as interest rates, future expectations, and technological progress.

Guidance time: 2 minutes

Difficulty level: Medium

56. Topic: Equilibrium in the Two-Sector Model

Question: In a two-sector model, when savings are greater than investment, what happens to aggregate demand and income?

- A. Aggregate demand and income will increase.
- B. Aggregate demand and income will decrease.
- C. Aggregate demand will increase and income will decrease.
- D. Aggregate demand will decrease and income will increase.

Correct answer: B. Aggregate demand and income will decrease.

Explanation: In a two-sector model, if savings are greater than investment, this means that total spending (aggregate demand) in the economy is less than the total output (income). Therefore, aggregate demand and income will decrease until savings equal investment and equilibrium is restored.

Guidance time: 3 minutes

Difficulty level: Medium

57. Topic: Equilibrium and the Multiplier

Question: The 'multiplier' in a two-sector model is inversely related to:

- A. The marginal propensity to consume (MPC).
- B. The marginal propensity to save (MPS).
- C. The level of autonomous expenditure.
- D. The level of induced expenditure.

Correct answer: B. The marginal propensity to save (MPS).

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Explanation: The multiplier in a two-sector model is inversely related to the marginal propensity to save (MPS). It's determined by the formula $1/(1-MPC)$ or $1/MPS$.

Guidance time: 3 minutes

Difficulty level: Medium

58. Topic: The Saving Function in a Two-Sector Model

Question: In a two-sector model, the saving function is given by:

- A. $Y - C$
- B. $Y + C$
- C. Y/C
- D. C/Y

Correct answer: A. $Y - C$

Explanation: In a two-sector model, saving is the difference between total income (Y) and total consumption (C). So the saving function is given by $Y - C$.

Guidance time: 2 minutes

Difficulty level: Easy

59. Topic: Inflationary and Deflationary Gaps

Question: An inflationary gap in a two-sector model is associated with which of the following situations?

- A. Unemployment
- B. Overemployment
- C. Full employment
- D. Underemployment

Correct answer: B. Overemployment

Explanation: An inflationary gap in a two-sector model occurs when the level of aggregate demand is greater than the level of output that corresponds to full employment. This situation often leads to "overemployment" of resources and upward pressure on prices, resulting in inflation.

Guidance time: 3 minutes

Difficulty level: Medium

60. Topic: Investment Multiplier Concept

Question: Which of the following is the best description of the investment multiplier?

- A. The ratio of a change in income to a change in savings.

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B. The ratio of a change in income to a change in investment.

C. The ratio of a change in savings to a change in income.

D. The ratio of a change in investment to a change in savings.

Correct answer: B. The ratio of a change in income to a change in investment.

Explanation: The investment multiplier measures the impact of a change in investment on the overall income. It represents the ratio of a change in income to a change in investment.

Guidance time: 2 minutes

Difficulty level: Easy

61. Topic: Calculation of the Investment Multiplier

Question: Given a Marginal Propensity to Consume (MPC) of 0.6, what is the value of the investment multiplier?

A. 1.5

B. 0.4

C. 2.5

D. 1.67

Correct answer: D. 1.67

Explanation: The formula for the investment multiplier is $1 / (1 - \text{MPC})$. Plugging in 0.6 for MPC gives $1 / (1 - 0.6) = 1 / 0.4 = 2.5$.

Guidance time: 2 minutes

Difficulty level: Medium

62. Topic: Investment Multiplier and Autonomous Investment

Question: If autonomous investment increases by \$500 and the multiplier is 2, by how much does the equilibrium level of income increase?

A. \$1000

B. \$500

C. \$250

D. \$2000

Correct answer: D. \$2000

Explanation: The multiplier effect is calculated as the change in investment multiplied by the multiplier. So, an increase in autonomous investment by \$500 with a multiplier of 2 leads to an increase in the equilibrium level of income by $\$500 \times 2 = \1000 .

Guidance time: 2 minutes

Difficulty level: Easy

63. Topic: Investment Multiplier and Marginal Propensity to Consume

Question: What happens to the value of the investment multiplier as the Marginal Propensity to Consume (MPC) increases?

A. The value of the multiplier decreases.

B. The value of the multiplier increases.

C. The value of the multiplier remains constant.

D. The value of the multiplier becomes zero.

Correct answer: B. The value of the multiplier increases.

Explanation: The value of the investment multiplier increases as the MPC increases because the multiplier is inversely related to the Marginal Propensity to Save (MPS), which is $1 - \text{MPC}$. As MPC goes up, MPS goes down, making the multiplier larger.

Guidance time: 2 minutes

Difficulty level: Medium

64. Topic: Investment Multiplier and Leakages

Question: Which of the following is considered a leakage in the multiplier process?

A. An increase in consumption

B. An increase in investment

C. An increase in taxation

D. An increase in production

Correct answer: C. An increase in taxation

Explanation: In the multiplier process, a leakage refers to any income that is not spent on currently produced consumption goods and services. This includes increased taxation, which reduces the disposable income available for consumption and hence reduces the multiplier effect.

Guidance time: 2 minutes

Difficulty level: Medium

65. Topic: Leakages and the Value of the Multiplier

Question: What impact do leakages have on the value of the investment multiplier?

A. They increase the value of the multiplier.

B. They decrease the value of the multiplier.

C. They have no impact on the value of the multiplier.

D. They make the value of the multiplier negative.

Correct answer: B. They decrease the value of the multiplier.

Explanation: Leakages in the economy, such as increased taxation, holding of cash balances, or idle saving, reduce the circulation of income and hence decrease the value of the investment multiplier.

Guidance time: 3 minutes

Difficulty level: Medium

66. Topic: Keynesian Model Limitations

Question: According to Keynesian models, when a change in autonomous investment occurs, the models provide a framework for:

A. Understanding the dynamic links between periods.

B. Analyzing processes through time.

C. Comparative statics between equilibrium positions.

D. All of the above.

Correct answer: C. Comparative statics between equilibrium positions.

Explanation: Keynesian models primarily provide a comparative statics framework. They do not incorporate elements of dynamic analysis or links between different periods.

Guidance time: 3 minutes

Difficulty level: Hard

67. Topic: Effect of the Multiplier in Underdeveloped Countries

Question: In underdeveloped countries, why is the value of the multiplier often low despite a high Marginal Propensity to Consume (MPC)?

A. Due to high levels of savings.

B. Due to structural inadequacies and lack of production increase.

C. Due to high levels of taxation.

D. Due to a high level of imports.

Correct answer: B. Due to structural inadequacies and lack of production increase.

Explanation: Despite having a high MPC, the value of the multiplier is often low in underdeveloped countries because increases in consumption expenditure aren't typically matched by increases in production due to structural inadequacies in the economy.

Guidance time: 3 minutes

Difficulty level: Medium

68. Topic: Effect of Full Employment on the Multiplier

Question: At full employment, an increase in investment will most likely lead to:

A. An increase in national income.

B. An increase in unemployment.

C. An increase in inflation.

D. A decrease in consumption.

Correct answer: C. An increase in inflation.

Explanation: At full employment, additional investment can lead to inflation, as resources are fully utilized and additional demand can push prices up.

Guidance time: 2 minutes

Difficulty level: Medium

69. Topic: Investment Multiplier and Marginal Propensity to Consume

Topic: Investment Multiplier

Question: What does the investment multiplier measure?

A. The change in investment due to a change in income

B. The change in income due to a change in investment

C. The change in consumption due to a change in investment

D. The change in government spending due to a change in investment

Correct answer: B. The change in income due to a change in investment

Explanation: The investment multiplier measures how much the equilibrium level of income changes in response to a change in autonomous investment. It quantifies the proportionate increase in equilibrium income resulting from an increase in investment.

Guidance time: 1 minute

Difficulty level: Easy

70. Topic: Investment Multiplier and Marginal Propensity to Consume

Question: If the investment multiplier is 4, and there is an increase in autonomous investment of \$100 million, what will be the change in equilibrium income?

A. \$400 million

B. \$100 million

C. \$25 million

D. \$75 million

Correct answer: A. \$400 million

Explanation: The investment multiplier indicates the change in equilibrium income for each unit change in autonomous investment. In this case, the investment multiplier is 4, and the increase in investment is \$100 million. Therefore, the change in equilibrium income will be 4 times the increase in investment, which is $\$100 \text{ million} \times 4 = \400 million .

Guidance time: 2 minutes

Difficulty level: Moderate

71. Topic: Investment Multiplier and Marginal Propensity to Consume

Question: Which of the following factors affects the value of the investment multiplier?

- A. Marginal propensity to consume
- B. Marginal propensity to save
- C. Tax rates
- D. All of the above

Correct answer: D. All of the above

Explanation: The value of the investment multiplier depends on various factors, including the marginal propensity to consume (MPC, the marginal propensity to save (MPS), and tax rates. A higher MPC and lower MPS result in a larger value of the multiplier, indicating a greater increase in equilibrium income for a given change in investment.

Guidance time: 1 minute

Difficulty level: Easy

72. Topic: Investment Multiplier and Marginal Propensity to Consume

Question: When does the investment multiplier have its maximum value?

- A. When the marginal propensity to consume is zero
- B. When the marginal propensity to save is zero
- C. When the marginal propensity to consume is 1
- D. When the marginal propensity to save is 1

Correct answer: C. When the marginal propensity to consume is 1

Explanation: The investment multiplier reaches its maximum value when the marginal propensity to consume (MPC) is 1, meaning that the entire additional income is consumed. In this case, the multiplier becomes infinite, indicating that a change in investment leads to an infinitely large change in equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

73. Topic: Investment Multiplier and Marginal Propensity to Consume

Question: What are leakages in the context of the investment multiplier?

- A. Factors that reduce the value of the multiplier
- B. Factors that increase the value of the multiplier
- C. Factors that cause a decrease in investment

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D. Factors that increase government spending

Correct answer: A. Factors that reduce the value of the multiplier

Explanation: In the context of the investment multiplier, leakages refer to factors that cause a reduction in the multiplier's value. These factors include progressive taxation, high liquidity preference, increased demand met through imports, undistributed profits, and other causes that lead to a decrease in consumption and expenditure, thereby reducing the impact of the multiplier.

Guidance time: 1 minute

Difficulty level: Easy

74. Topic: Concepts of National Income

Question: Which of the following is included in the calculation of Gross Domestic Product (GDP)?

- A. Transfer payments
- B. Personal savings
- C. Government subsidies
- D. Foreign investments

Correct answer: C. Government subsidies

Explanation: Government subsidies are included in the calculation of GDP because they represent government expenditures on goods and services. Transfer payments, personal savings, and foreign investments are not directly included in GDP calculations.

Guidance time: 1 minute

Difficulty level: Easy

75. Topic: Concepts of National Income

Question: Which of the following is an example of a leakage in the national income stream?

- A. Increase in government spending
- B. Increase in consumer spending
- C. Increase in investment spending
- D. Increase in personal savings

Correct answer: D. Increase in personal savings

Explanation: An increase in personal savings represents a leakage from the national income stream because it indicates that a portion of income is not being spent on currently produced goods and services. Increases in government spending, consumer spending, and investment spending represent injections into the income stream.

Guidance time: 1 minute

Difficulty level: Easy

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76. Topic: Concepts of National Income

Question: The value of the multiplier is determined by which of the following?

- A. Marginal propensity to consume (MPC).
- B. Marginal propensity to save (MPS)
- C. Marginal tax rate
- D. All of the above

Correct answer: D. All of the above

Explanation: The value of the multiplier is influenced by the marginal propensity to consume (MPC, marginal propensity to save (MPS), and marginal tax rate. Higher MPC, lower MPS, and lower tax rates will result in a higher value of the multiplier.

Guidance time: 1 minute

Difficulty level: Easy

77. Topic: Concepts of National Income

Question: If the marginal propensity to consume (MPC) is 0.8, what is the value of the multiplier?

- A. 0.2
- B. 0.8
- C. 1.25
- D. 5

Correct answer: C. 1.25

Explanation: The value of the multiplier can be calculated using the formula: multiplier = $1 / (1 - MPC)$. In this case, the MPC is 0.8, so the multiplier would be $1 / (1 - 0.8) = 1 / 0.2 = 5$. Therefore, the value of the multiplier is 5.

Guidance time: 2 minutes

Difficulty level: Moderate

78. Topic: Concepts of National Income

Question: In a two-sector economy, if the value of the investment multiplier is 3, what is the marginal propensity to consume (MPC)?

- A. 0.25
- B. 0.33
- C. 0.67
- D. 0.75

Correct answer: B. 0.33

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Explanation: In a two-sector economy, the investment multiplier (k) is given by $k = 1 / (1 - MPC)$. If the multiplier is 3, then $3 = 1 / (1 - MPC)$. Solving for MPC gives $MPC = 0.33$.

Guidance time: 2 minutes

Difficulty level: Moderate

79. Topic: Investment Multiplier

Question: Which of the following is true regarding the investment multiplier?

- A. It explains how changes in investment affect aggregate demand.
- B. It measures the change in investment due to a change in income.
- C. It is determined by the marginal propensity to save.
- D. It shows the relationship between consumption and investment.

Correct answer: A. It explains how changes in investment affect aggregate demand.

Explanation: The investment multiplier explains the relationship between changes in investment and the resulting impact on aggregate demand. It measures the change in equilibrium income resulting from changes in investment and is influenced by the marginal propensity to consume, not the marginal propensity to save.

Guidance time: 1 minute

Difficulty level: Easy

80. Topic: Investment Multiplier

Question: If the investment multiplier is 2 and there is a decrease in autonomous investment of \$500 million, what will be the change in equilibrium income?

- A. \$500 million
- B. \$250 million
- C. -\$250 million
- D. -\$500 million

Correct answer: C. -\$250 million

Explanation: The investment multiplier indicates the change in equilibrium income for each unit change in autonomous investment. In this case, the investment multiplier is 2, and there is a decrease in investment of \$500 million. Therefore, the change in equilibrium income will be 2 times the decrease in investment, which is $-\$500 \text{ million} \times 2 = -\250 million .

Guidance time: 2 minutes

Difficulty level: Moderate

81. Topic: Investment Multiplier

Question: Which of the following is a factor that can cause a decline in income and reduce the impact of the multiplier?

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- A. Increased consumer spending
- B. Increased government spending
- C. Increased savings
- D. Increased investment

Correct answer: C. Increased savings

Explanation: Increased savings represent a leakage from the income stream and can reduce the impact of the multiplier. When income is saved rather than spent, it reduces the consumption component of aggregate demand and dampens the multiplier effect. Increased consumer spending, government spending, and investment represent injections into the income stream and can have the opposite effect.

Guidance time: 1 minute

Difficulty level: Easy

82. Topic: Investment Multiplier

Question: If the marginal propensity to consume (MPC) is 0.6, what is the value of the marginal propensity to save (MPS)?

- A. 0.2
- B. 0.4
- C. 0.6
- D. 0.8

Correct answer: B. 0.4

Explanation: The marginal propensity to consume (MPC) and the marginal propensity to save (MPS) add up to 1. Therefore, if the MPC is 0.6, the MPS would be $1 - 0.6 = 0.4$.

Guidance time: 1 minute

Difficulty level: Easy

83. Topic: Investment Multiplier

Question: What is the relationship between the multiplier and the marginal propensity to consume (MPC)?

- A. The multiplier is equal to the MPC.
- B. The multiplier is inversely proportional to the MPC.
- C. The multiplier is directly proportional to the MPC.
- D. The multiplier is independent of the MPC.

Correct answer: C. The multiplier is directly proportional to the MPC.

Explanation: The multiplier is directly proportional to the marginal propensity to consume (MPC). A higher MPC means that a larger proportion of additional income is spent, leading to a larger multiplier effect and a greater increase in equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

84. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what are the two flows that the government sector adds to the model?

- A. Savings and investments
- B. Taxes and transfer payments
- C. Consumption and government purchases
- D. Imports and exports

Correct answer: B. Taxes and transfer payments

Explanation: In the three-sector model, the government sector adds two flows to the model: taxes and transfer payments. Taxes represent the flow of revenue collected by the government from households and businesses, while transfer payments represent the flow of payments made by the government to individuals or groups without any corresponding goods or services being provided.

Guidance time: 1 minute

Difficulty level: Easy

85. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what is an example of an injection into the income stream?

- A. Household savings
- B. Government taxes
- C. Business investments
- D. Transfer payments

Correct answer: C. Business investments

Explanation: In the three-sector model, an injection refers to a flow that increases the aggregate demand and offsets the leakages. Business investments represent an injection as they increase the demand for goods and services, leading to increased production and income.

Guidance time: 1 minute

Difficulty level: Easy

86. Topic: Determination of Equilibrium Income

Question: What happens to equilibrium income if there is an increase in government purchases in the three-sector model?

- A. Equilibrium income increases
- B. Equilibrium income decreases
- C. Equilibrium income remains unchanged
- D. Equilibrium income is indeterminate

Correct answer: A. Equilibrium income increases

Explanation: An increase in government purchases in the three-sector model leads to an increase in aggregate demand, which, in turn, increases equilibrium income. This occurs as government purchases directly contribute to the total demand for goods and services in the economy.

Guidance time: 1 minute

Difficulty level: Easy

87. Topic: Determination of Equilibrium Income

Question: What does the $(C + I + G)$ schedule represent in the determination of equilibrium income in the three-sector model?

- A. Aggregate supply
- B. Aggregate demand
- C. Savings plus taxes
- D. Government purchases

Correct answer: B. Aggregate demand

Explanation: In the determination of equilibrium income in the three-sector model, the $(C + I + G)$ schedule represents aggregate demand. It shows the total spending in the economy, combining household consumption (C), desired business investment (I), and government purchases (G).

Guidance time: 1 minute

Difficulty level: Easy

88. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what is assumed about government purchases?

- A. They are determined by aggregate demand.
- B. They are determined by business investments.
- C. They are autonomous and not influenced by income.
- D. They are equal to household savings.

Correct answer: C. They are autonomous and not influenced by income.

Explanation: In the three-sector model, government purchases are assumed to be autonomous, meaning that they are not directly influenced by changes in income. This assumption simplifies the analysis and allows for a clearer understanding of the impact of other variables on equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

89. Topic: Determination of Equilibrium Income

Question: In a three-sector model with a balanced budget ($G = T$), what is the equation for equilibrium income when there are no transfer payments?

- A. $Y = a + b(Y - T) + I + G$
- B. $Y = C + I + G$
- C. $Y = C + S + T$
- D. $Y = a + bYd + I + G$

Correct answer: D. $Y = a + bYd + I + G$

Explanation: In a three-sector model with a balanced budget and no transfer payments, the equation for equilibrium income is $Y = a + bYd + I + G$. Here, Y represents equilibrium income, a represents autonomous consumption, b represents the marginal propensity to consume (MPC), Yd represents disposable income ($Y - T$), I represents desired business investment, and G represents government purchases.

Guidance time: 2 minutes

Difficulty level: Moderate

90. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what happens to equilibrium income if there is an increase in the lump sum tax (T)?

- A. Equilibrium income increases
- B. Equilibrium income decreases
- C. Equilibrium income remains unchanged
- D. Equilibrium income is indeterminate

Correct answer: B. Equilibrium income decreases

Explanation: In the three-sector model, an increase in the lump sum tax (T) reduces disposable income (Yd), which leads to a decrease in consumption (C). As consumption is a component of aggregate demand, a decrease in consumption results in a decrease in equilibrium income.

Guidance time: 2 minutes

Difficulty level: Moderate

91. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what is the relationship between savings and taxes?

- A. Savings are equal to taxes
- B. Savings are inversely related to taxes
- C. Savings are directly related to taxes
- D. Savings and taxes are independent

Correct answer: C. Savings are directly related to taxes

Explanation: In the three-sector model, savings are directly related to taxes. As taxes increase, disposable income (YD) decreases, leading to a decrease in savings. Conversely, when taxes decrease, disposable income increases, resulting in an increase in savings.

Guidance time: 1 minute

Difficulty level: Easy

92. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what does the (S + T) schedule represent?

- A. Aggregate supply
- B. Aggregate demand
- C. Savings plus taxes
- D. Government purchases plus taxes

Correct answer: C. Savings plus taxes

Explanation: In the three-sector model, the (S + T) schedule represents savings plus taxes. It shows the total flow of income that is saved and taxed in the economy. This schedule helps determine the equilibrium level of income when it intersects with the (C + I + G) schedule.

Guidance time: 1 minute

Difficulty level: Easy

93. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what does the intersection of the (C + I + G) schedule and the (S + T) schedule represent?

- A. Equilibrium savings
- B. Equilibrium investment
- C. Equilibrium government purchases
- D. Equilibrium income

Correct answer: D. Equilibrium income

Explanation: The intersection of the (C + I + G) schedule and the (S + T) schedule in the three-sector model represents the equilibrium income. At this point, aggregate demand (C + I + G) is equal to aggregate supply (S + T), indicating that the economy is in equilibrium.

Guidance time: 1 minute

Difficulty level: Easy

94. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what happens to equilibrium income if there is an increase in business investments?

- A. Equilibrium income increases
- B. Equilibrium income decreases
- C. Equilibrium income remains unchanged
- D. Equilibrium income is indeterminate

Correct answer: A. Equilibrium income increases

Explanation: An increase in business investments in the three-sector model leads to an increase in aggregate demand, which, in turn, increases equilibrium income. Business investments directly contribute to the total demand for goods and services in the economy, stimulating economic activity and raising income levels.

Guidance time: 1 minute

Difficulty level: Easy

95. Topic: Determination of Equilibrium Income

Question: What does the (C + S + T) schedule represent in the determination of equilibrium income in the three-sector model?

- A. Aggregate supply
- B. Aggregate demand
- C. Investment flow
- D. Government tax flow

Correct answer: B. Aggregate demand

Explanation: In the determination of equilibrium income in the three-sector model, the (C + S + T) schedule represents aggregate demand. It shows the total spending in the economy, combining household consumption (C), savings (S), and taxes (T). Aggregate demand must be equal to aggregate supply for the economy to be in equilibrium.

Guidance time: 1 minute

Difficulty level: Easy

96. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what is the role of government borrowing?

- A. To finance government purchases
- B. To increase business investments
- C. To reduce household savings
- D. To decrease aggregate demand

Correct answer: A. To finance government purchases

Explanation: In the three-sector model, government borrowing is used to finance government purchases. When taxes fall short of government purchases, the government borrows from the financial markets to cover the deficit. Government borrowing ensures that government spending can be sustained even when tax revenues are insufficient.

Guidance time: 1 minute

Difficulty level: Easy

97. Topic: Determination of Equilibrium Income

Question: In a three-sector model with a lump sum tax, how does an increase in the tax rate affect equilibrium income?

- A. Equilibrium income increases
- B. Equilibrium income decreases
- C. Equilibrium income remains unchanged
- D. The effect on equilibrium income is indeterminate

Correct answer: B. Equilibrium income decreases

Explanation: In a three-sector model with a lump sum tax, an increase in the tax rate reduces disposable income (YD), resulting in a decrease in consumption and aggregate demand. As a result, equilibrium income decreases. Higher taxes reduce households' ability to spend and save, leading to a contraction in economic activity.

Guidance time: 2 minutes

Difficulty level: Moderate

98. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what happens if government purchases exceed taxes and transfer payments?

- A. Equilibrium income increases
- B. Equilibrium income decreases
- C. Equilibrium income remains unchanged
- D. The effect on equilibrium income is indeterminate

Correct answer: A. Equilibrium income increases

Explanation: If government purchases exceed taxes and transfer payments in the three-sector model, it leads to an increase in aggregate demand. The higher government purchases contribute to total spending, which, in turn, raises equilibrium income. The additional demand stimulates economic activity and supports higher income levels.

Guidance time: 2 minutes

Difficulty level: Moderate

99. Topic: Determination of Equilibrium Income

Question: In the three-sector model, what is the relationship between the marginal propensity to consume (MPC) and the value of the multiplier?

- A. The multiplier is equal to the MPC
- B. The multiplier is inversely proportional to the MPC
- C. The multiplier is directly proportional to the MPC
- D. The multiplier and the MPC are independent of each other

Correct answer: C. The multiplier is directly proportional to the MPC

Explanation: In the three-sector model, the value of the multiplier is directly proportional to the marginal propensity to consume (MPC). A higher MPC means a greater proportion of additional income is spent, leading to a larger multiplier effect and a greater increase in equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

100. Topic: Determination of Equilibrium Income

Question: What is the equation for equilibrium income in the three-sector model with a balanced budget (G = T) and no transfer payments?

- A. $Y = a + b(Y - T) + I + G$
- B. $Y = C + I + G$
- C. $Y = C + S + T$
- D. $Y = a + bYd + I + G$

Correct answer: D. $Y = a + bYd + I + G$

Explanation: In the three-sector model with a balanced budget and no transfer payments, the equation for equilibrium income is $Y = a + bYd + I + G$. Here, Y represents equilibrium income, a represents autonomous consumption, b represents the marginal propensity to consume (MPC), Yd represents disposable income (Y - T), I represents desired business investment, and G represents government purchases.

Guidance time: 2 minutes

Difficulty level: Moderate

101. Topic: Determination of Equilibrium Income

Question: In the three-sector model, how does an increase in household savings affect equilibrium income?

- A. Equilibrium income increases
- B. Equilibrium income decreases
- C. Equilibrium income remains unchanged
- D. The effect on equilibrium income is indeterminate

Correct answer: B. Equilibrium income decreases

Explanation: In the three-sector model, an increase in household savings leads to a decrease in consumption, reducing aggregate demand. As a result, equilibrium income decreases. Higher savings imply a smaller portion of income being spent, leading to reduced economic activity and a decline in equilibrium income.

Guidance time: 2 minutes

Difficulty level: Moderate

102. Topic: Determination of Equilibrium Income

Question: What is the effect of government purchases on equilibrium income in the three-sector model?

- A. Government purchases have no effect on equilibrium income
- B. Government purchases increase equilibrium income
- C. Government purchases decrease equilibrium income
- D. The effect of government purchases on equilibrium income is indeterminate

Correct answer: B. Government purchases increase equilibrium income

Explanation: In the three-sector model, government purchases have a positive effect on equilibrium income. When government purchases increase, they contribute to aggregate demand and stimulate economic activity. This results in an increase in equilibrium income as more goods and services are demanded and produced.

Guidance time: 1 minute

Difficulty level: Easy

103. Topic: Determination of Equilibrium Income

Question: What is the relationship between the (C + I + G) schedule and the (S + T) schedule at equilibrium in the three-sector model?

- A. They intersect
- B. They are parallel
- C. They are inversely related
- D. They have no relationship

Correct answer: A. They intersect

Explanation: At equilibrium in the three-sector model, the (C + I + G) schedule and the (S + T) schedule intersect. This intersection represents the point where aggregate demand (C + I + G) is equal to aggregate supply (S + T), signifying that the economy is in equilibrium. The equilibrium level of income is determined at this intersection.

Guidance time: 1 minute

Difficulty level: Easy

104. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: What is the equation for the consumption function in the income determination model with lump sum tax and transfer payments?

- A. $C = a + bY$
- B. $C = a + b(Y - T)$
- C. $C = a + b(Y - T + TR)$
- D. $C = a + bYd$

Correct answer: C. $C = a + b(Y - T + TR)$

Explanation: In the income determination model with lump sum tax and transfer payments, the consumption function is given by $C = a + b(Y - T + TR)$. The consumption expenditure depends on disposable income ($Y - T + TR$), where T represents the lump sum tax and TR represents autonomous transfer payments.

Guidance time: 1 minute

Difficulty level: Easy

105. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: What is the equation for equilibrium income in the income determination model with lump sum tax and transfer payments?

- A. $Y = a + b(Y - T)$
- B. $Y = a + b(Y - T + TR) + I + G$
- C. $Y = (1 - B)(a - bT + bTR + I + G)$
- D. $Y = a + bY - bT + bTR + I + G$

Correct answer: C. $Y = (1 - B)(a - bT + bTR + I + G)$

Explanation: In the income determination model with lump sum tax and transfer payments, the equation for equilibrium income is $Y = (1 - B)(a - bT + bTR + I + G)$. This equation considers the consumption function, desired business investment (I), government purchases (G), and the impact of lump sum tax (T) and autonomous transfer payments (TR) on aggregate demand.

Guidance time: 2 minutes

Difficulty level: Moderate

106. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: What is the effect of an increase in lump sum tax (T) on equilibrium income in the income determination model?

- A. Equilibrium income increases
- B. Equilibrium income decreases
- C. Equilibrium income remains unchanged
- D. The effect on equilibrium income is indeterminate

Correct answer: B. Equilibrium income decreases

Explanation: In the income determination model with a lump sum tax, an increase in lump sum tax (T) reduces disposable income, leading to a decrease in consumption. As consumption is a component of aggregate demand, the increase in tax results in a decrease in aggregate demand and equilibrium income.

Guidance time: 2 minutes

Difficulty level: Moderate

107. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: What is the tax multiplier in the income determination model with a tax function as a function of income?

- A. $1 / (1 - b(1 - t))$
- B. $1 / (1 - B)$
- C. $1 / (1 - t)$
- D. $1 / (1 - b + bt)$

Correct answer: A. $1 / (1 - b(1 - t))$

Explanation: In the income determination model with a tax function as a function of income, the tax multiplier is given by $1 / (1 - b(1 - t))$. The tax multiplier represents the change in equilibrium income for a given change in autonomous spending resulting from changes in tax rates (t).

Guidance time: 1 minute

Difficulty level: Easy

108. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: In the income determination model with tax as a function of income, what is the relationship between the tax rate (t) and the tax multiplier?

- A. The tax multiplier is inversely proportional to the tax rate
- B. The tax multiplier is directly proportional to the tax rate
- C. The tax multiplier is equal to the tax rate
- D. The tax multiplier and the tax rate are independent of each other

Correct answer: A. The tax multiplier is inversely proportional to the tax rate

Explanation: In the income determination model with tax as a function of income, the tax multiplier is inversely proportional to the tax rate (t). A higher tax rate leads to a smaller tax multiplier, meaning that changes in taxes have a smaller impact on equilibrium income. Conversely, a lower tax rate results in a larger tax multiplier and a greater effect on equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

109. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: In the income determination model with a tax function as a function of income, what happens to equilibrium income if there are autonomous transfer payments (TR)?

- A. Equilibrium income increases
- B. Equilibrium income decreases
- C. Equilibrium income remains unchanged
- D. The effect on equilibrium income is indeterminate

Correct answer: A. Equilibrium income increases

Explanation: In the income determination model with a tax function as a function of income, the presence of autonomous transfer payments (TR) increases aggregate demand and leads to an increase in equilibrium income. Autonomous transfer payments directly contribute to total spending and stimulate economic activity, resulting in a higher equilibrium income level.

Guidance time: 2 minutes

Difficulty level: Moderate

110. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: What is the equation for equilibrium income in the income determination model with tax as a function of income, government expenditure, and transfer payments?

- A. $Y = a + b(Y - T + TR)$
- B. $Y = (1 - b(1 - t))(a - bT + bTR + I + G)$
- C. $Y = a + bY - bT + bTR + I + G$
- D. $Y = a + b(Y - T - tY + TR) + I + G$

Correct answer: B. $Y = (1 - b(1 - t))(a - bT + bTR + I + G)$

Explanation: In the income determination model with tax as a function of income, government expenditure, and transfer payments, the equation for equilibrium income is $Y = (1 - b(1 - t))(a - bT + bTR + I + G)$. This equation considers the impact of taxes, transfer payments, government expenditure, and desired business investment on aggregate demand and equilibrium income.

Guidance time: 2 minutes

Difficulty level: Moderate

111. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: What is the tax multiplier in the income determination model with tax as a function of income, government expenditure, and transfer payments?

- A. $1 / (1 - b(1 - t))$
- B. $1 / (1 - b)$
- C. $1 / (1 - t)$
- D. $1 / (1 - b + bt)$

Correct answer: A. $1 / (1 - b(1 - t))$

Explanation: In the income determination model with tax as a function of income, government expenditure, and transfer payments, the tax multiplier is given by $1 / (1 - b(1 - t))$. The tax multiplier represents the change in equilibrium income for a given change in autonomous spending resulting from changes in tax rates (t) and transfer payments (TR).

Guidance time: 1 minute

Difficulty level: Easy

112. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: In the income determination model with tax as a function of income, what is the effect of an increase in transfer payments (TR) on equilibrium income?

- A. Equilibrium income increases
- B. Equilibrium income decreases
- C. Equilibrium income remains unchanged
- D. The effect on equilibrium income is indeterminate

Correct answer: A. Equilibrium income increases

Explanation: In the income determination model with tax as a function of income, an increase in transfer payments (TR) leads to an increase in aggregate demand and equilibrium income. Autonomous transfer payments directly contribute to total spending, stimulating economic activity and resulting in a higher equilibrium income level.

Guidance time: 2 minutes

Difficulty level: Moderate

113. Topic: Income Determination with Lump Sum Tax and Transfer Payments

Question: In the income determination model with tax as a function of income, what is the relationship between the tax multiplier and the tax rate (t)?

- A. The tax multiplier is directly proportional to the tax rate
- B. The tax multiplier is inversely proportional to the tax rate

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C. The tax multiplier is equal to the tax rate

D. The tax multiplier and the tax rate are independent of each other

Correct answer: B. The tax multiplier is inversely proportional to the tax rate

Explanation: In the income determination model with tax as a function of income, the tax multiplier is inversely proportional to the tax rate (t). A higher tax rate leads to a smaller tax multiplier, indicating a smaller impact on equilibrium income. Conversely, a lower tax rate results in a larger tax multiplier and a greater effect on equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

114. Topic: Concepts of National Income

Question: What is the primary measure used to calculate Gross Domestic Product (GDP)?

- A. Total investment in the economy
- B. Total government spending
- C. Total consumer spending
- D. Total value of goods and services produced

Correct answer: D. Total value of goods and services produced

Explanation: Gross Domestic Product (GDP) is the primary measure used to calculate the total value of all goods and services produced within a country's borders during a specific period, typically a year.

Guidance time: 1 minute

Difficulty level: Easy

115. Topic: Concepts of National Income

Question: Which of the following is included in the calculation of GDP?

- A. Transfer payments received by individuals
- B. Stock market transactions
- C. Second hand goods sales
- D. Government subsidies

Correct answer: D. Government subsidies

Explanation: Government subsidies are included in the calculation of GDP as they represent a form of government expenditure that supports economic activity.

Guidance time: 1 minute

Difficulty level: Easy

116. Topic: Concepts of National Income

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Question: Which of the following components is NOT included in the calculation of GDP?

- A. Personal savings
- B. Business investments
- C. Government expenditures
- D. Net exports

Correct answer: A. Personal savings

Explanation: Personal savings are not included in the calculation of GDP as they represent a portion of income that is not spent on final goods and services.

Guidance time: 1 minute

Difficulty level: Easy

117. Topic: Concepts of National Income

Question: What is the formula for calculating GDP using the expenditure approach?

- A. $GDP = C + I + G + X - M$
- B. $GDP = C + I + G$
- C. $GDP = C + S + T$
- D. $GDP = C + I$

Correct answer: A. $GDP = C + I + G + X - M$

Explanation: The expenditure approach to calculating GDP includes consumer spending (C), business investments (I), government expenditures (G), and net exports (X - M).

Guidance time: 1 minute

Difficulty level: Easy

118. Topic: Concepts of National Income

Question: Which of the following is considered a leakage from the income stream in the determination of equilibrium income?

- A. Government purchases
- B. Business investments
- C. Household savings
- D. Consumer spending

Correct answer: C. Household savings

Explanation: Household savings are considered a leakage from the income stream as they represent income that is not immediately spent on consumption, reducing the overall demand for goods and services.

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Guidance time: 1 minute

Difficulty level: Easy

119. Topic: Concepts of National Income

Question: In the national income accounting, which component represents the income earned by individuals for their labor and other productive inputs?

- A. Personal income
- B. Disposable income
- C. National income
- D. Gross domestic product

Correct answer: C. National income

Explanation: National income represents the income earned by individuals for their labor and other productive inputs in the production of goods and services within a country's borders.

Guidance time: 1 minute

Difficulty level: Easy

120. Topic: Concepts of National Income

Question: Which of the following is an example of an investment expenditure?

- A. Purchasing a new car for personal use
- B. Paying rent for office space
- C. Buying shares of a company's stock
- D. Paying taxes to the government

Correct answer: C. Buying shares of a company's stock

Explanation: Buying shares of a company's stock represents an investment expenditure as it involves the purchase of a financial asset with the expectation of generating a return.

Guidance time: 1 minute

Difficulty level: Easy

121. Topic: Concepts of National Income

Question: Which of the following factors does NOT affect the value of the multiplier in the determination of equilibrium income?

- A. Marginal propensity to consume (MPC).
- B. Marginal propensity to save (MPS)

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C. Government spending

D. Tax rates

Correct answer: C. Government spending

Explanation: Government spending does not directly affect the value of the multiplier. The value of the multiplier depends on the marginal propensity to consume (MPC) and the marginal propensity to save (MPS).

Guidance time: 1 minute

Difficulty level: Easy

122. Topic: Concepts of National Income

Question: In the national income accounts, what does the term "net exports" represent?

A. The total value of imports

B. The total value of exports

C. The difference between imports and exports

D. The difference between government spending and consumer spending

Correct answer: C. The difference between imports and exports

Explanation: Net exports represent the difference between the value of exports and imports. A positive net export value indicates a trade surplus, while a negative value indicates a trade deficit.

Guidance time: 1 minute

Difficulty level: Easy

123. Topic: Concepts of National Income

Question: Which of the following is an example of an intermediate good?

A. A laptop computer purchased by an individual

B. Steel used in the production of automobiles

C. A loaf of bread purchased by a consumer

D. Electricity used in a household

Correct answer: B. Steel used in the production of automobiles

Explanation: Steel used in the production of automobiles is considered an intermediate good as it is used as an input in the production process and is not sold directly to consumers.

Guidance time: 1 minute

Difficulty level: Easy

124. Topic: Concepts of National Income

Question: In the four sector model of income determination, what are the four sectors included?

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A. Household, business, government, and financial sectors

B. Household, business, government, and foreign sectors

C. Consumer, investment, government, and export sectors

D. Income, expenditure, saving, and investment sectors

Correct answer: B. Household, business, government, and foreign sectors

Explanation: The four sectors included in the four sector model of income determination are the household sector, business sector, government sector, and foreign sector.

Guidance time: 1 minute

Difficulty level: Easy

125. Topic: Concepts of National Income

Question: What is the equation that represents the equilibrium condition in the four sector model?

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

B. $Y = C + S + T + I$

C. $Y = C + I + G$

D. $Y = C + I + S + T$

Correct answer: A. $Y = C + I + G + (X - M)$

Explanation: The equilibrium condition in the four sector model is represented by the equation $Y = C + I + G + (X - M)$, where Y is the equilibrium level of income, C is consumption, I is investment, G is government spending, X is exports, and M is imports.

Guidance time: 1 minute

Difficulty level: Easy

126. Topic: Concepts of National Income

Question: What is the role of net exports in the four sector model?

A. Net exports represent foreign demand for domestic output

B. Net exports represent domestic demand for foreign output

C. Net exports have no impact on equilibrium income

D. Net exports act as leakages from the income stream

Correct answer: A. Net exports represent foreign demand for domestic output

Explanation: In the four sector model, net exports represent foreign demand for domestic output. They contribute to aggregate demand and are included in the calculation of equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

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127. Topic: Concepts of National Income

Question: How are imports accounted for in the four sector model?

A. Imports are considered injections in the national income

B. Imports are subtracted from aggregate demand

C. Imports are included in the calculation of government spending

D. Imports have no impact on equilibrium income

Correct answer: B. Imports are subtracted from aggregate demand

Explanation: In the four sector model, imports are considered leakages or outflows from the income stream. They are subtracted from aggregate demand since they do not represent domestic demand for goods and services.

Guidance time: 1 minute

Difficulty level: Easy

128. Topic: Concepts of National Income

Question: What is the formula for calculating the foreign trade multiplier in the four sector model?

A. $1 / (1 - B)$

B. $1 / (1 - b + m)$

C. $1 / (1 + b - m)$

D. $1 / (1 + B)$

Correct answer: B. $1 / (1 - b + m)$

Explanation: The foreign trade multiplier in the four sector model is calculated using the formula $1 / (1 - b + m)$, where b represents the marginal propensity to consume and m represents the marginal propensity to import.

Guidance time: 1 minute

Difficulty level: Easy

129. Topic: Concepts of National Income

Question: How does an increase in demand for exports affect equilibrium income in the four sector model?

A. It increases equilibrium income

B. It decreases equilibrium income

C. It has no impact on equilibrium income

D. It depends on the value of the marginal propensity to consume

Correct answer: A. It increases equilibrium income

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Explanation: An increase in demand for exports in the four sector model has an expansionary effect on equilibrium income. It increases aggregate demand and contributes to higher income levels.

Guidance time: 1 minute

Difficulty level: Easy

130. Topic: Concepts of National Income

Question: What is the effect of an autonomous increase in imports on equilibrium income in the four sector model?

A. It increases equilibrium income

B. It decreases equilibrium income

C. It has no impact on equilibrium income

D. It depends on the value of the marginal propensity to consume

Correct answer: B. It decreases equilibrium income

Explanation: An autonomous increase in imports in the four sector model has a contractionary effect on equilibrium income. It represents a leakage from the circular flow of income and reduces overall demand.

Guidance time: 1 minute

Difficulty level: Easy

131. Topic: Concepts of National Income

Question: How does an increase in the marginal propensity to import affect the foreign trade multiplier in the four sector model?

A. It increases the foreign trade multiplier

B. It decreases the foreign trade multiplier

C. It has no impact on the foreign trade multiplier

D. It depends on the value of the marginal propensity to consume

Correct answer: B. It decreases the foreign trade multiplier

Explanation: An increase in the marginal propensity to import in the four sector model reduces the foreign trade multiplier. A higher propensity to import leads to a larger leakage from the circular flow of income and reduces the multiplier effect.

Guidance time: 1 minute

Difficulty level: Easy

132. Topic: Concepts of National Income

Question: How does an increase in government spending affect the four sector model?

A. It increases equilibrium income

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B. It decreases equilibrium income

C. It has no impact on equilibrium income

D. It depends on the value of the marginal propensity to consume

Correct answer: A. It increases equilibrium income

Explanation: An increase in government spending in the four sector model has an expansionary effect on equilibrium income. It increases aggregate demand and stimulates economic activity.

Guidance time: 1 minute

Difficulty level: Easy

133. Topic: Concepts of National Income

Question: What is the role of fiscal policy in stabilizing the economy in the four sector model?

A. Fiscal policy can counteract the effects of shifts in investment

B. Fiscal policy has no impact on the four sector model

C. Fiscal policy can only affect government spending

D. Fiscal policy can only affect taxation

Correct answer: A. Fiscal policy can counteract the effects of shifts in investment

Explanation: In the four sector model, fiscal policy, through changes in government spending and taxes, can counteract the effects of shifts in investment. By adjusting these fiscal policy tools, the government can stabilize the economy and maintain equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

134. Topic: Concepts of National Income

Question: What is the four sector model of income determination?

A. A model that includes the household, business, government, and foreign sectors

B. A model that includes the household, business, and government sectors only

C. A model that includes the business, government, and foreign sectors only

D. A model that includes the household, business, and foreign sectors only

Correct answer: A. A model that includes the household, business, government, and foreign sectors

Explanation: The four sector model of income determination includes all four sectors: the household sector, business sector, government sector, and foreign sector.

Guidance time: 1 minute

Difficulty level: Easy

135. Topic: Concepts of National Income

Question: What is the equation that represents the equilibrium condition in the four sector model?

A. $Y = C + I + G$

B. $Y = C + I + G + X - M$

C. $Y = C + I + G + X + M$

D. $Y = C + I + G - X - M$

Correct answer: B. $Y = C + I + G + (X - M)$

Explanation: The equilibrium condition in the four sector model is represented by the equation $Y = C + I + G + (X - M)$, where Y is the equilibrium level of income, C is consumption, I is investment, G is government spending, X is exports, and M is imports.

Guidance time: 1 minute

Difficulty level: Easy

136. Topic: Concepts of National Income

Question: How are net exports calculated in the four sector model?

A. Net exports = $X + M$

B. Net exports = $X - M$

C. Net exports = $M - X$

D. Net exports = M

Correct answer: B. Net exports = $X - M$

Explanation: Net exports in the four sector model are calculated by subtracting imports (M) from exports (X), i.e., Net exports = $X - M$.

Guidance time: 1 minute

Difficulty level: Easy

137. Topic: Concepts of National Income

Question: What is the effect of an increase in exports on equilibrium income in the four sector model?

A. It increases equilibrium income

B. It decreases equilibrium income

C. It has no impact on equilibrium income

D. It depends on the value of the marginal propensity to consume

Correct answer: A. It increases equilibrium income

Explanation: An increase in exports in the four sector model increases aggregate demand, leading to an increase in equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

138. Topic: Concepts of National Income

Question: How are imports accounted for in the four sector model?

A. Imports are considered injections in the national income

B. Imports are subtracted from aggregate demand

C. Imports are included in the calculation of government spending

D. Imports have no impact on equilibrium income

Correct answer: B. Imports are subtracted from aggregate demand

Explanation: In the four sector model, imports are subtracted from aggregate demand because they represent outflows or leakages from the circular flow of income.

Guidance time: 1 minute

Difficulty level: Easy

139. Topic: Concepts of National Income

Question: What is the formula for calculating the foreign trade multiplier in the four sector model?

A. $1 / (1 - B)$

B. $1 / (1 - b + m)$

C. $1 / (1 + b - m)$

D. $1 / (1 + B)$

Correct answer: B. $1 / (1 - b + m)$

Explanation: The foreign trade multiplier in the four sector model is calculated using the formula $1 / (1 - b + m)$, where b represents the marginal propensity to consume and m represents the marginal propensity to import.

Guidance time: 1 minute

Difficulty level: Easy

140. Topic: Concepts of National Income

Question: How does an increase in government spending affect the four sector model?

A. It increases equilibrium income

B. It decreases equilibrium income

C. It has no impact on equilibrium income

D. It depends on the value of the marginal propensity to consume

Correct answer: A. It increases equilibrium income

Explanation: An increase in government spending in the four sector model leads to an increase in aggregate demand and equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

141. Topic: Concepts of National Income

Question: What is the role of fiscal policy in stabilizing the economy in the four sector model?

A. Fiscal policy can counteract the effects of shifts in investment

B. Fiscal policy has no impact on the four sector model

C. Fiscal policy can only affect government spending

D. Fiscal policy can only affect taxation

Correct answer: A. Fiscal policy can counteract the effects of shifts in investment

Explanation: In the four sector model, fiscal policy can be used to stabilize the economy by adjusting government spending and taxes in response to shifts in investment. It can help maintain equilibrium and stabilize income.

Guidance time: 1 minute

Difficulty level: Easy

142. Topic: Concepts of National Income

Question: How do changes in exports and imports affect equilibrium income in the four sector model?

A. Changes in exports increase equilibrium income, while changes in imports decrease equilibrium income

B. Changes in exports decrease equilibrium income, while changes in imports increase equilibrium income

C. Changes in exports and imports have no impact on equilibrium income

D. Changes in exports and imports depend on the value of the marginal propensity to consume

Correct answer: A. Changes in exports increase equilibrium income, while changes in imports decrease equilibrium income

Explanation: In the four sector model, an increase in exports leads to an increase in equilibrium income, while an increase in imports leads to a decrease in equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

143. Topic: Concepts of National Income

Question: What is the effect of an increase in the marginal propensity to import on the foreign trade multiplier in the four sector model?

A. It increases the foreign trade multiplier

- B. It decreases the foreign trade multiplier
- C. It has no impact on the foreign trade multiplier
- D. It depends on the value of the marginal propensity to consume

Correct answer: B. It decreases the foreign trade multiplier

Explanation: An increase in the marginal propensity to import in the four sector model decreases the foreign trade multiplier. A higher propensity to import leads to a larger leakage from the circular flow of income and reduces the multiplier effect.

Guidance time: 1 minute

Difficulty level: Easy

144. Topic: Concepts of National Income

Question: What does the foreign trade multiplier in the four sector model depend on?

- A. Marginal propensity to consume and marginal propensity to import
- B. Marginal propensity to save and marginal propensity to invest
- C. Marginal propensity to consume and marginal propensity to save
- D. Marginal propensity to invest and marginal propensity to import

Correct answer: A. Marginal propensity to consume and marginal propensity to import

Explanation: The foreign trade multiplier in the four sector model depends on the marginal propensity to consume (B. and the marginal propensity to import (m).

Guidance time: 1 minute

Difficulty level: Easy

145. Topic: Concepts of National Income

Question: What happens to the foreign trade multiplier when the marginal propensity to import increases?

- A. The foreign trade multiplier increases
- B. The foreign trade multiplier decreases
- C. The foreign trade multiplier remains unchanged
- D. The foreign trade multiplier depends on other factors

Correct answer: B. The foreign trade multiplier decreases

Explanation: When the marginal propensity to import increases in the four sector model, the foreign trade multiplier decreases. This is because a higher propensity to import leads to a larger leakage from the circular flow of income and reduces the multiplier effect.

Guidance time: 1 minute

Difficulty level: Easy

146. Topic: Concepts of National Income

Question: How are net capital inflows calculated in the four sector model?

- A. Net capital inflows = Capital outflow - Capital inflow
- B. Net capital inflows = Capital inflow - Capital outflow
- C. Net capital inflows = Capital outflow + Capital inflow
- D. Net capital inflows = Capital inflow + Capital outflow

Correct answer: B. Net capital inflows = Capital inflow - Capital outflow

Explanation: Net capital inflows in the four sector model are calculated by subtracting capital outflow from capital inflow, i.e., Net capital inflows = Capital inflow - Capital outflow.

Guidance time: 1 minute

Difficulty level: Easy

147. Topic: Concepts of National Income

Question: What is the impact of net capital inflows on the four sector model?

- A. Net capital inflows increase equilibrium income
- B. Net capital inflows decrease equilibrium income
- C. Net capital inflows have no impact on equilibrium income
- D. Net capital inflows depend on the value of the marginal propensity to consume

Correct answer: A. Net capital inflows increase equilibrium income

Explanation: Net capital inflows in the four sector model increase aggregate demand, leading to an increase in equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

148. Topic: Concepts of National Income

Question: How are exports and imports represented in the aggregate demand equation of the four sector model?

- A. Exports are added, and imports are subtracted
- B. Exports are subtracted, and imports are added
- C. Exports and imports are both added
- D. Exports and imports are both subtracted

Correct answer: A. Exports are added, and imports are subtracted

Explanation: In the aggregate demand equation of the four sector model, exports are added to aggregate demand, while imports are subtracted from aggregate demand.

Guidance time: 1 minute

Difficulty level: Easy

149. Topic: Concepts of National Income

Question: What is the rationale for promoting exports and restricting imports in the four sector model?

- A. To increase the overall efficiency of resource allocation worldwide
- B. To increase domestic consumption and decrease savings
- C. To decrease the overall efficiency of resource allocation worldwide
- D. To decrease domestic production and increase imports

Correct answer: A. To increase the overall efficiency of resource allocation worldwide

Explanation: The rationale for promoting exports and restricting imports in the four sector model is to increase the overall efficiency of resource allocation worldwide. Trade allows countries to specialize in producing goods they are more efficient at, leading to increased efficiency in resource allocation.

Guidance time: 1 minute

Difficulty level: Easy

150. Topic: Concepts of National Income

Question: How does an increase in government transfer payments affect the four sector model?

- A. It increases equilibrium income
- B. It decreases equilibrium income
- C. It has no impact on equilibrium income
- D. It depends on the value of the marginal propensity to consume

Correct answer: A. It increases equilibrium income

Explanation: An increase in government transfer payments in the four sector model increases disposable income, leading to an increase in consumption and aggregate demand, which in turn increases equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

151. Topic: Concepts of National Income

Question: What is the impact of an increase in the marginal propensity to consume on the four sector model?

- A. It increases the foreign trade multiplier
- B. It decreases the foreign trade multiplier
- C. It increases the autonomous expenditure multiplier
- D. It decreases the autonomous expenditure multiplier

Correct answer: C. It increases the autonomous expenditure multiplier

Explanation: An increase in the marginal propensity to consume in the four sector model increases the value of the autonomous expenditure multiplier. This is because a higher marginal propensity to consume leads to a larger induced effect on aggregate demand.

Guidance time: 1 minute

Difficulty level: Easy

152. Topic: Concepts of National Income

Question: How does a decrease in government spending affect the four sector model?

- A. It decreases equilibrium income
- B. It increases equilibrium income
- C. It has no impact on equilibrium income
- D. It depends on the value of the marginal propensity to consume

Correct answer: A. It decreases equilibrium income

Explanation: A decrease in government spending in the four sector model leads to a decrease in aggregate demand and equilibrium income.

Guidance time: 1 minute

Difficulty level: Easy

153. Topic: Concepts of National Income

Question: What is the role of imports in the circular flow of income in the four sector model?

- A. Imports act as leakages from the circular flow of income
- B. Imports act as injections into the circular flow of income
- C. Imports have no impact on the circular flow of income
- D. Imports depend on the value of the marginal propensity to consume

Correct answer: A. Imports act as leakages from the circular flow of income

Explanation: In the four sector model, imports act as leakages from the circular flow of income because they represent outflows or withdrawals from the domestic economy.

Guidance time: 1 minute

Difficulty level: Easy

CHAPTER 07 PUBLIC FINANCE

UNIT – 1: FISCAL FUNCTIONS: AN OVERVIEW, CENTRE AND STATE FINANCE

1. **Topic:** Role of Government in an Economic System

Question: What is the primary goal of the state in an economic system?

- A. To promote economic growth
- B. To ensure high levels of employment
- C. To maintain stable price levels
- D. To promote the general welfare of the society

Correct answer: D. To promote the general welfare of the society

Explanation: The primary goal of the state in an economic system is to promote the general welfare of the society. While economic growth, high employment, and stable prices are important goals, the overarching objective is the well-being of individuals and households.

Guidance time: 1 minute

Difficulty level: Easy

2. **Topic:** Role of Government in an Economic System

Question: What are the three main macroeconomic goals for any nation?

- A. Economic growth, high levels of employment, and stable price levels
- B. Economic growth, low levels of employment, and stable price levels
- C. Economic growth, high levels of unemployment, and stable price levels
- D. Economic growth, high levels of employment, and high price levels

Correct answer: A. Economic growth, high levels of employment, and stable price levels

Explanation: The three main macroeconomic goals for any nation are economic growth, high levels of employment, and stable price levels. These goals contribute to a higher standard of living, income, and output stability.

Guidance time: 1 minute

Difficulty level: Easy

3. **Topic:** Role of Government in an Economic System

Question: What is the role of the government in resource allocation in an economic system?

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A.To ensure efficiency

B.To guarantee fairness

C.To ensure price stability

D.To promote economic growth

Correct answer: A.To ensure efficiency

Explanation: The government's role in resource allocation in an economic system is to ensure efficiency. This involves correcting sources of inefficiency and ensuring that resources are allocated in a way that maximizes overall welfare.

Guidance time: 1 minute

Difficulty level: Easy

4. **Topic:** Role of Government in an Economic System

Question: What is the role of the government in income redistribution in an economic system?

- A.To ensure efficiency
- B.To guarantee fairness
- C.To ensure price stability
- D.To promote economic growth

Correct answer: B.To guarantee fairness

Explanation: The government's role in income redistribution in an economic system is to guarantee fairness. This involves ensuring that the distribution of wealth and income is equitable and that vulnerable individuals and groups are protected.

Guidance time: 1 minute

Difficulty level: Easy

5. **Topic:** Role of Government in an Economic System

Question: What is the role of the government in macroeconomic stabilization in an economic system?

- A.To ensure efficiency
- B.To guarantee fairness
- C.To ensure price stability
- D.To promote economic growth

Correct answer: C.To ensure price stability

Explanation: The government's role in macroeconomic stabilization in an economic system is to ensure price stability. This involves implementing monetary and fiscal policies to control inflation and deflation, maintain high levels of economic activity, and stabilize employment.

Guidance time: 1 minute

Difficulty level: Easy

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6. **Topic:** Role of Government in an Economic System

Question: What is the national budget a reflection of?

- A.The government's economic policy
- B.The government's resource allocation decisions
- C.The government's income redistribution plans
- D.The government's macroeconomic stabilization efforts

Correct answer: A.The government's economic policy

Explanation: The national budget is a reflection of the government's economic policy. It outlines the government's plans for revenue generation, expenditure allocation, and economic priorities.

Guidance time: 1 minute

Difficulty level: Easy

7. **Topic:** Role of Government in an Economic System

Question: Which branch of government intervention focuses on correcting inefficiencies in the economic system?

- A. Resource allocation
- B. Income redistribution
- C.Macroeconomic stabilization
- E. All of the above

Correct answer: A.Resource allocation

Explanation: The branch of government intervention that focuses on correcting inefficiencies in the economic system is resource allocation. This involves ensuring that resources are allocated efficiently to maximize overall welfare.

Guidance time: 1 minute

Difficulty level: Easy

8. **Topic:** Role of Government in an Economic System

Question: Which branch of government intervention aims to ensure a fair distribution of wealth and income?

- A.Resource allocation
- B.Income redistribution
- C.Macroeconomic stabilization
- D.All of the above

Correct answer: B.Income redistribution

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Explanation: The branch of government intervention that aims to ensure a fair distribution of wealth and income is income redistribution. This involves implementing policies and programs to address income inequality and provide support to vulnerable individuals and groups.

Guidance time: 1 minute

Difficulty level: Easy

9. **Topic:** Role of Government in an Economic System

Question: Which branch of government intervention focuses on maintaining price stability and economic growth?

- A.Resource allocation
- B.Income redistribution
- C.Macroeconomic stabilization
- D.All of the above

Correct answer: C.Macroeconomic stabilization

Explanation: The branch of government intervention that focuses on maintaining price stability and economic growth is macroeconomic stabilization. This involves implementing monetary and fiscal policies to control inflation, stimulate economic activity, and promote employment.

Guidance time: 1 minute

Difficulty level: Easy

10. **Topic:** Role of Government in an Economic System

Question: What is the purpose of the three-function framework of government responsibilities?

- A.To ensure economic growth
- B.To promote income redistribution
- C.To maintain macroeconomic stability
- D.To provide a comprehensive framework for government intervention

Correct answer: D.To provide a comprehensive framework for government intervention

Explanation: The purpose of the three-function framework of government responsibilities is to provide a comprehensive framework for government intervention in an economic system

. It separates the functions of resource allocation, income redistribution, and macroeconomic stabilization, allowing for a systematic approach to policy-making and governance.

Guidance time: 1 minute

Difficulty level: Easy

11. **Topic:** Role of Government in an Economic System

Question: Which of the following is not one of the main macroeconomic goals for any nation?

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- A.Economic growth
- B.Price stability
- C.Income inequality
- D.High levels of employment

Correct answer: C.Income inequality

Explanation: While income inequality is an important social issue, it is not considered one of the main macroeconomic goals. The main goals are economic growth, price stability, and high levels of employment.

Guidance time: 1 minute

Difficulty level: Easy

12. **Topic:** Role of Government in an Economic System

Question: What is the purpose of income redistribution in an economic system?

- A.To promote economic growth
- B.To achieve price stability
- C.To ensure fairness in wealth and income distribution
- D.To increase government revenue

Correct answer: C.To ensure fairness in wealth and income distribution

Explanation: Income redistribution aims to address income inequality and ensure a more equitable distribution of wealth and income within society.

Guidance time: 1 minute

Difficulty level: Easy

13. **Topic:** Role of Government in an Economic System

Question: What does the branch of resource allocation focus on in an economic system?

- A.Allocating resources efficiently
- B.Redistributing wealth and income
- C.Maintaining price stability
- D.Promoting economic growth

Correct answer: A.Allocating resources efficiently

Explanation: The branch of resource allocation in an economic system focuses on ensuring that resources are allocated efficiently to maximize overall welfare and productivity.

Guidance time: 1 minute

Difficulty level: Easy

14. **Topic:** Role of Government in an Economic System

Question: Which branch of government intervention aims to stabilize prices and promote economic growth?

- A.Resource allocation
- B.Income redistribution
- C.Macroeconomic stabilization
- D.Market regulation

Correct answer: C.Macroeconomic stabilization

Explanation: The branch of government intervention known as macroeconomic stabilization aims to stabilize prices and promote economic growth through the use of monetary and fiscal policies.

Guidance time: 1 minute

Difficulty level: Easy

15. **Topic:** Role of Government in an Economic System

Question: What is the role of the government in ensuring stable price levels?

- A.To regulate markets
- B.To control inflation and deflation
- C.To redistribute income
- D.To promote economic growth

Correct answer: B.To control inflation and deflation

Explanation: The government plays a role in ensuring stable price levels by implementing policies to control inflation (rising prices) and deflation (falling prices) in the economy.

Guidance time: 1 minute

Difficulty level: Easy

16. **Topic:** Role of Government in an Economic System

Question: What is the purpose of the national budget in reflecting the government's economic policy?

- A.To generate revenue for the government
- B.To allocate resources efficiently
- C.To redistribute income
- D.To outline the government's economic plans

Correct answer: D.To outline the government's economic plans

Explanation: The national budget reflects the government's economic policy by outlining its plans for revenue generation, expenditure allocation, and economic priorities.

Guidance time: 1 minute

Difficulty level: Easy

17. **Topic:** Role of Government in an Economic System

Question: Which branch of government intervention ensures a fair distribution of wealth and income?

- A.Resource allocation
- B.Income redistribution
- C.Market regulation
- D.Macroeconomic stabilization

Correct answer: B.Income redistribution

Explanation: The branch of government intervention known as income redistribution aims to ensure a fair distribution of wealth and income within society.

Guidance time: 1 minute

Difficulty level: Easy

18. **Topic:** Role of Government in an Economic System

Question: What is the role of the government in establishing and maintaining public infrastructure?

- A.To provide public goods and services
- B.To regulate markets
- C.To promote economic growth
- D.To redistribute income

Correct answer: A.To provide public goods and services

Explanation: The government plays a role in establishing and maintaining public infrastructure, such as roads, bridges, and public utilities, to provide essential goods and services that may not be efficiently provided by the private sector.

Guidance time: 1 minute

Difficulty level: Easy

19. **Topic:** Role of Government in an Economic System

Question: What is the primary goal of the state in promoting the general welfare of the society?

- A.Economic growth
- B.Income redistribution
- C.Ensuring price stability
- D.Promoting the well-being of individuals and households

Correct answer: D.Promoting the well-being of individuals and households

Explanation: The primary goal of the state in promoting the general welfare of the society is to ensure the well-being and quality of life of individuals and households.

Guidance time: 1 minute

Difficulty level: Easy

20. **Topic:** Role of Government in an Economic System

Question: What is the purpose of the three-function framework in government responsibilities?

- A.To allocate resources efficiently
- B.To ensure fairness in income distribution
- C.To provide a comprehensive framework for government intervention
- D.To promote economic growth

Correct answer: C.To provide a comprehensive framework for government intervention

Explanation: The three-function framework of government responsibilities provides a comprehensive framework for government intervention in an economic system, covering resource allocation, income redistribution, and macroeconomic stabilization.

Guidance time: 1 minute

Difficulty level: Easy

21. **Topic:** Role of Government in an Economic System

Question: What is the primary goal of resource allocation in an economic system?

- A.To maximize government revenue
- B.To achieve price stability
- C.To efficiently utilize limited resources
- D.To redistribute wealth and income

Correct answer: C.To efficiently utilize limited resources

Explanation: The primary goal of resource allocation is to efficiently utilize limited resources in order to maximize overall welfare and productivity in an economy.

Guidance time: 1 minute

Difficulty level: Easy

22. **Topic:** Role of Government in an Economic System

Question: What is economic efficiency in the context of resource allocation?

- A.Maximizing government intervention in the market
- B.Minimizing waste and inefficiency in resource utilization

C.Achieving equal distribution of wealth and income

D.Promoting economic growth through market competition

Correct answer: B.Minimizing waste and inefficiency in resource utilization

Explanation: Economic efficiency in resource allocation refers to minimizing waste and inefficiency in the use of resources, ensuring that resources are allocated in a way that maximizes their value and benefits to society.

Guidance time: 1 minute

Difficulty level: Easy

23. **Topic:** Role of Government in an Economic System

Question: Which sector is primarily responsible for resource allocation in a market economy?

A.Government sector

B.Private sector

C.Foreign sector

D.Household sector

Correct answer: B.Private sector

Explanation: In a market economy, the private sector, consisting of businesses and individuals, primarily determines resource allocation through market supply and demand, guided by consumer preferences and profit motives.

Guidance time: 1 minute

Difficulty level: Easy

24. **Topic:** Role of Government in an Economic System

Question: What are some reasons for market failures in resource allocation?

A.Imperfect competition and externalities

B.Government intervention and factor immobility

C.Income inequality and incomplete markets

D.Common property resources and imperfect information

Correct answer: A.Imperfect competition and externalities

Explanation: Market failures in resource allocation can occur due to imperfect competition, such as monopolies, and externalities, which are costs or benefits of production or consumption that affect third parties.

Guidance time: 1 minute

Difficulty level: Easy

25. **Topic:** Role of Government in an Economic System

Question: What is allocative efficiency concerned with?

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A.Maximizing government expenditure

B.Achieving full employment

C.Minimizing production costs

D.Maximizing value to society through resource allocation

Correct answer: D.Maximizing value to society through resource allocation

Explanation: Allocative efficiency is concerned with utilizing limited resources to produce goods and services that maximize value and benefit to society as a whole.

Guidance time: 1 minute

Difficulty level: Easy

26. **Topic:** Role of Government in an Economic System

Question: How is allocative efficiency achieved?

A.Through perfect competition and rational decision-making

B.Through government intervention and regulation

C.Through income redistribution and wealth equality

D.Through maximizing government revenue

Correct answer: A.Through perfect competition and rational decision-making

Explanation: Allocative efficiency is achieved in an ideal scenario where markets are perfectly competitive, and economic agents make rational choices and decisions regarding resource allocation.

Guidance time: 1 minute

Difficulty level: Easy

27. **Topic:** Role of Government in an Economic System

Question: What is a common example of a market failure in resource allocation?

A.Externalities

B.Factor immobility

C.Imperfect information

D.Income inequality

Correct answer: A.Externalities

Explanation: Externalities, such as pollution or spillover effects from production or consumption, are a common example of market failures in resource allocation.

Guidance time: 1 minute

Difficulty level: Easy

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28. **Topic:** Role of Government in an Economic System

Question: What is the rationale for government intervention in resource allocation?

A.To replace the market system with government control

B.To promote income inequality and wealth concentration

C.To correct market failures and ensure efficient allocation of resources

D.To maximize government revenue through taxation

Correct answer: C.To correct market failures and ensure efficient allocation of resources

Explanation: Government intervention in resource allocation aims to correct market failures and ensure that resources are allocated efficiently and in a way that benefits society as a whole.

Guidance time: 1 minute

Difficulty level: Easy

29. **Topic:** Role of Government in an Economic System

Question: How does the government influence resource allocation through pricing mechanisms?

A. By subsidizing goods with high demand

B. By altering market prices through taxes and subsidies

C. By controlling the prices of all goods and services

D. By implementing price ceilings and price floors

Correct answer: B. By altering market prices through taxes and subsidies

Explanation: The government can influence resource allocation by altering market prices through the use of taxes and subsidies, providing incentives or disincentives for certain goods or behaviours.

Guidance time: 1 minute

Difficulty level: Easy

30. **Topic:** Role of Government in an Economic System

Question: What are some examples of government interventions in resource allocation?

A. Direct production of goods and services

B. Competition policies and regulations

C. Legislation and bans on certain goods

D.All of the above

Correct answer: D.All of the above

Explanation: Government interventions in resource allocation can include direct production of goods and services, competition policies and regulations, legislation and bans on certain goods, and a combination of other measures.

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Guidance time: 1 minute

Difficulty level: Easy

31. **Topic:** Role of Government in an Economic System

Question: What is the primary goal of the state in an economic system?

A. Maximizing profits for businesses

B. Ensuring fair distribution of wealth

C. Promoting consumer sovereignty

D. Minimizing government intervention

Correct answer: B. Ensuring fair distribution of wealth

Explanation: The primary goal of the state is to promote the general welfare of society, which includes ensuring a fair distribution of wealth among its citizens.

Guidance time: 1 minute

Difficulty level: Easy

32. **Topic:** Role of Government in an Economic System

Question: What is allocative efficiency in an economy?

A.Maximizing production of goods and services

B.Minimizing waste and inefficiency

C.Achieving full employment

D. Controlling inflation and deflation

Correct answer: B.Minimizing waste and inefficiency

Explanation: Allocative efficiency refers to utilizing limited resources to produce goods and services in a way that minimizes waste and inefficiency. It aims to achieve the largest possible output from available resources.

Guidance time: 1 minute

Difficulty level: Easy

33. **Topic:** Role of Government in an Economic System

Question: Which of the following is an example of a market failure in resource allocation?

A. Perfect competition leading to efficient outcomes

B. Private production of public goods

C. Equal distribution of income and wealth

D. Optimal use of resources in a mixed economy

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Correct answer: B.Private production of public goods

Explanation: Market failures occur when markets fail to provide certain goods or services efficiently. One example is the production of public goods, which are non-excludable and non-rivalrous, making it difficult for the private sector to provide them.

Guidance time: 1 minute

Difficulty level: Easy

34. **Topic:** Role of Government in an Economic System

Question: What is one reason why markets may fail to allocate resources efficiently?

- A.Complete information available to all market participants
- B.Equal distribution of income and wealth
- C.Externalities arising from production and consumption
- D.Perfect competition among market players

Correct answer: C.Externalities arising from production and consumption

Explanation: Externalities occur when the production or consumption of a good or service affects third parties who are not directly involved in the market transaction. These external effects can lead to market failures in resource allocation.

Guidance time: 1 minute

Difficulty level: Easy

35. **Topic:** Role of Government in an Economic System

Question: What is the role of government in improving resource allocation?

- A.Minimizing government intervention in the economy
- B.Promoting monopolistic competition in markets
- C.Providing incentives and disincentives through taxation
- D.Eliminating the need for public goods and services

Correct answer: C.Providing incentives and disincentives through taxation

Explanation: The government can influence resource allocation by using taxation policies to provide incentives (such as tax concessions) and disincentives (such as higher taxes) to promote certain types of production and consumption.

Guidance time: 1 minute

Difficulty level: Easy

36. **Topic:** Role of Government in an Economic System

Question: How can governments influence resource allocation through legislation?

- A.By directly producing economic goods and services

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B.By altering market prices through taxes and subsidies

C.By imposing bans or restrictions on certain goods or activities

D.By regulating competition and industry structure

Correct answer: C.By imposing bans or restrictions on certain goods or activities

Explanation: Governments can influence resource allocation by enacting legislation that prohibits or restricts the production or consumption of certain goods or activities, such as banning single-use plastic goods.

Guidance time: 1 minute

Difficulty level: Easy

37. **Topic:** Role of Government in an Economic System

Question: Which of the following is NOT a market failure that hinders resource allocation?

- A.Factor immobility causing unemployment
- B.Imperfect competition and monopoly power
- C.Perfect information available to all market participants
- D.Inequalities in the distribution of income and wealth

Correct answer: C.Perfect information available to all market participants

Explanation: Perfect information among market participants is not considered a market failure. Market failures occur due to factors such as imperfect competition, inequalities in income distribution, and factor immobility leading to inefficiencies in resource allocation.

Guidance time: 1 minute

Difficulty level: Easy

38. **Topic:** Role of Government in an Economic System

Question: What is the primary goal of the government's allocative function in resource allocation?

- A.Maximizing profits for businesses
- B.Achieving full employment
- C.Minimizing waste and inefficiency
- D.Fair distribution of wealth

Correct answer: C.Minimizing waste and inefficiency

Explanation: The government's allocative function aims to minimize waste and inefficiency in resource allocation by ensuring that resources are utilized in the most efficient manner possible.

Guidance time: 1 minute

Difficulty level: Easy

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39. **Topic:** Role of Government in an Economic System

Question: How does government intervention complement the market system in resource allocation?

- A.By replacing the market system with government control
- B.By eliminating the need for private production and consumption
- C.By providing incentives and disincentives through taxation
- D.By enforcing perfect competition among market players

Correct answer: C.By providing incentives and disincentives through taxation

Explanation: Government intervention complements the market system by using taxation policies to provide incentives and disincentives, influencing the behavior of consumers and producers without replacing the market system entirely.

Guidance time: 1 minute

Difficulty level: Easy

40. **Topic:** Role of Government in an Economic System

Question: What is one way the government can influence resource allocation through regulatory activities?

- A.By directly producing economic goods and services
- B.By altering market prices through taxes and subsidies
- C.By setting legal and administrative frameworks
- D.By providing financial support to private businesses

Correct answer: C.By setting legal and administrative frameworks

Explanation: Governments can influence resource allocation by implementing regulatory activities, such as licensing, controls, and directives on the location of industries, which shape the structure and behavior of market participants.

Guidance time: 1 minute

Difficulty level: Easy

41. **Topic:** Role of Government in Resource Allocation

Question: What is the primary goal of the state in an economic system?

- A.Maximizing profits for businesses
- B.Ensuring fair distribution of wealth
- C.Promoting consumer sovereignty
- D.Minimizing government intervention

Correct answer: B.Ensuring fair distribution of wealth

Explanation: The primary goal of the state is to promote the general welfare of society, which includes ensuring a fair distribution of wealth among its citizens.

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Guidance time: 1 minute

Difficulty level: Easy

42. **Topic:** Role of Government in Resource Allocation

Question: What is allocative efficiency in an economy?

- A.Maximizing production of goods and services
- B.Minimizing waste and inefficiency
- C.Achieving full employment
- D.Controlling inflation and deflation

Correct answer: B.Minimizing waste and inefficiency

Explanation: Allocative efficiency refers to utilizing limited resources to produce goods and services in a way that minimizes waste and inefficiency. It aims to achieve the largest possible output from available resources.

Guidance time: 1 minute

Difficulty level: Easy

43. **Topic:** Role of Government in Resource Allocation

Question: Which of the following is an example of a market failure in resource allocation?

- A.Perfect competition leading to efficient outcomes
- B.Private production of public goods
- C.Equal distribution of income and wealth
- D.Optimal use of resources in a mixed economy

Correct answer: B.Private production of public goods

Explanation: Market failures occur when markets fail to provide certain goods or services efficiently. One example is the production of public goods, which are non-excludable and non-rivalrous, making it difficult for the private sector to provide them.

Guidance time: 1 minute

Difficulty level: Easy

44. **Topic:** Role of Government in Resource Allocation

Question: What is one reason why markets may fail to allocate resources efficiently?

- A.Complete information available to all market participants
- B.Equal distribution of income and wealth
- C.Externalities arising from production and consumption
- D.Perfect competition among market players

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Correct answer: C.Externalities arising from production and consumption

Explanation: Externalities occur when the production or consumption of a good or service affects third parties who are not directly involved in the market transaction. These external effects can lead to market failures in resource allocation.

Guidance time: 1 minute

Difficulty level: Easy

45. **Topic:** Role of Government in Resource Allocation

Question: What is the role of government in improving resource allocation?

- A.Minimizing government intervention in the economy
- B.Promoting monopolistic competition in markets
- C.Providing incentives and disincentives through taxation
- D.Eliminating the need for public goods and services

Correct answer: C.Providing incentives and disincentives through taxation

Explanation: The government can influence resource allocation by using taxation policies to provide incentives (such as tax concessions) and disincentives (such as higher taxes) to promote certain types of production and consumption.

Guidance time: 1 minute

Difficulty level: Easy

46. **Topic:** Role of Government in Resource Allocation

Question: How can governments influence resource allocation through legislation?

- A.By directly producing economic goods and services
- B.By altering market prices through taxes and subsidies
- C.By imposing bans or restrictions on certain goods or activities
- D.By regulating competition and industry structure

Correct answer: C.By imposing bans or restrictions on certain goods or activities

Explanation: Governments can influence resource allocation by enacting legislation that prohibits or restricts the production or consumption of certain goods or activities, such as banning single-use plastic goods.

Guidance time: 1 minute

Difficulty level: Easy

47. **Topic:** Role of Government in Resource Allocation

Question: Which of the following is NOT a market failure that hinders resource allocation?

- A.Factor immobility causing unemployment

B.Imperfect competition and monopoly power

C.Perfect information available to all market participants

D.Inequalities in the distribution of income and wealth

Correct answer: C.Perfect information available to all market participants

Explanation: Perfect information among market participants is not considered a market failure. Market failures occur due to factors such as imperfect competition, inequalities in income distribution, and factor immobility leading to inefficiencies in resource allocation.

Guidance time: 1 minute

Difficulty level: Easy

48. **Topic:** Role of Government in Resource Allocation

Question: What is the primary goal of the government's allocative function in resource allocation?

- A.Maximizing profits for businesses
- B.Achieving full employment
- C.Minimizing waste and inefficiency
- D.Fair distribution of wealth

Correct answer: C.Minimizing waste and inefficiency

Explanation: The government's allocative function aims to minimize waste and inefficiency in resource allocation by ensuring that resources are utilized in the most efficient manner possible.

Guidance time: 1 minute

Difficulty level: Easy

49. **Topic:** Role of Government in Resource Allocation

Question: How does government intervention complement the market system in resource allocation?

- A.By replacing the market system with government control
- B.By eliminating the need for private production and consumption
- C.By providing incentives and disincentives through taxation
- D.By enforcing perfect competition among market players

Correct answer: C.By providing incentives and disincentives through taxation

Explanation: Government intervention complements the market system by using taxation policies to provide incentives and disincentives, influencing the behavior of consumers and producers without replacing the market system entirely.

Guidance time: 1 minute

Difficulty level: Easy

50. **Topic:** Role of Government in Resource Allocation

Question: What is one way the government can influence resource allocation through regulatory activities?

- A.By directly producing economic goods and services
- B.By altering market prices through taxes and subsidies
- C.By setting legal and administrative frameworks
- D.By providing financial support to private businesses

Correct answer: C.By setting legal and administrative frameworks

Explanation: Governments can influence resource allocation by implementing regulatory activities, such as licensing, controls, and directives on the location of industries, which shape the structure and behavior of market participants.

Guidance time: 1 minute

Difficulty level: Easy

51. **Topic:** Role of Government in Income Redistribution

Question: What is the primary goal of income redistribution by governments?

- A.Maximizing profits for businesses
- B.Achieving equal income distribution
- C.Minimizing government intervention in the economy
- D.Promoting consumer sovereignty

Correct answer: B.Achieving equal income distribution

Explanation: The primary goal of income redistribution by governments is to ensure a more socially optimal and egalitarian distribution of income among individuals in society.

Guidance time: 1 minute

Difficulty level: Easy

52. **Topic:** Role of Government in Income Redistribution

Question: How can governments redistribute income and wealth?

- A.Through progressive taxation
- B.Through monopolistic competition
- C.By eliminating private production and consumption
- D.By enforcing perfect competition among market players

Correct answer: A.Through progressive taxation

Explanation: Governments can redistribute income and wealth through progressive taxation, where higher taxes are imposed on those with higher incomes to provide support and benefits to lower-income households.

Guidance time: 1 minute

Difficulty level: Easy

53. **Topic:** Role of Government in Income Redistribution

Question: What is the distribution function of the government in budgeting?

- A.Ensuring efficient resource allocation
- B.Minimizing waste and inefficiency
- C.Achieving full employment
- D.Redistributing income and wealth

Correct answer: D.Redistributing income and wealth

Explanation: The distribution function of the government in budgeting involves redistributing income and wealth to achieve an equitable distribution and increase overall social welfare.

Guidance time: 1 minute

Difficulty level: Easy

54. **Topic:** Role of Government in Income Redistribution

Question: Which of the following is an example of government intervention for income redistribution?

- A.Providing subsidies to businesses
- B.Enforcing monopolies in the market
- C.Supplying essential goods at subsidized prices to low-income households
- D.Promoting unrestricted competition among market players

Correct answer: C.Supplying essential goods at subsidized prices to low-income households

Explanation: Governments can intervene in income redistribution by providing essential goods at subsidized prices to low-income households, ensuring access to basic necessities.

Guidance time: 1 minute

Difficulty level: Easy

55. **Topic:** Role of Government in Income Redistribution

Question: How does the government address income inequality through taxation policies?

- A.By imposing flat taxes on all income levels
- B.By providing tax breaks for high-income individuals
- C.By implementing progressive taxation on higher incomes
- D.By eliminating taxes altogether

Correct answer: C.By implementing progressive taxation on higher incomes

Explanation: The government can address income inequality through progressive taxation, where higher-income individuals are subject to higher tax rates, leading to a more equitable distribution of income.

Guidance time: 1 minute

Difficulty level: Easy

56. **Topic:** Role of Government in Income Redistribution

Question: What is one potential trade-off of government redistribution policies?

- A. Increased efficiency and productivity
- B. Reduced government intervention
- C. Lower tax revenue and budget limitations
- D. Enhanced consumer sovereignty

Correct answer: C. Lower tax revenue and budget limitations

Explanation: One potential trade-off of government redistribution policies is the reduction in tax revenue and limitations on the scope of government's welfare activities, which can impact future budgetary options.

Guidance time: 1 minute

Difficulty level: Easy

57. **Topic:** Role of Government in Income Redistribution

Question: How does income redistribution relate to effective demand in the economy?

- A. It determines the level of investment in the economy
- B. It influences the distribution of real output among households
- C. It regulates the price levels of goods and services
- D. It affects the balance of trade and international transactions

Correct answer: B. It influences the distribution of real output among households

Explanation: Income redistribution plays a role in determining the distribution of real output among households, which, in turn, influences effective demand in the economy.

Guidance time: 1 minute

Difficulty level: Easy

58. **Topic:** Role of Government in Income Redistribution

Question: What is the purpose of providing social security measures in income redistribution?

- A. Promoting monopolistic competition
- B. Ensuring equal distribution of income and wealth
- C. Supporting underprivileged individuals and vulnerable groups

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D. Eliminating the need for public goods and services

Correct answer: C. Supporting underprivileged individuals and vulnerable groups

Explanation: Social security measures, as part of income redistribution, aim to provide support to underprivileged individuals, dependent populations, and vulnerable groups in society.

Guidance time: 1 minute

Difficulty level: Easy

59. **Topic:** Role of Government in Income Redistribution

Question: Which of the following is NOT an example of government intervention for income redistribution?

- A. Minimum wages and support prices for farmers
- B. Tax concessions for high-income individuals
- C. Monetary aid and aid in kind for families below the poverty line
- D. Employment reservations and preferences for certain segments of the population

Correct answer: B. Tax concessions for high-income individuals

Explanation: Tax concessions for high-income individuals would not be considered a form of government intervention for income redistribution, as it benefits higher-income individuals rather than addressing income inequality.

Guidance time: 1 minute

Difficulty level: Easy

60. **Topic:** Role of Government in Income Redistribution

Question: What is the role of governments in providing free or subsidized education and healthcare?

- A. Promoting unrestricted competition in the market
- B. Maximizing profits for businesses
- C. Enhancing consumer sovereignty
- D. Ensuring equal access to essential services

Correct answer: D. Ensuring equal access to essential services

Explanation: Governments provide free or subsidized education and healthcare to ensure equal access to essential services, regardless of individuals' income levels.

Guidance time: 1 minute

Difficulty level: Easy

61. **Topic:** Stabilization Function of Government

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Question: What is the primary goal of the stabilization function of the government?

- A. Achieving full employment and price stability
- B. Maximizing government revenue
- C. Encouraging market competition
- D. Promoting economic growth

Correct answer: A. Achieving full employment and price stability

Explanation: The primary goal of the stabilization function of the government is to achieve full employment by reducing unemployment and maintaining price stability by controlling inflation.

Guidance time: 1 minute

Difficulty level: Easy

62. **Topic:** Stabilization Function of Government

Question: Why do governments pursue deliberate stabilization policies?

- A. To eliminate market competition
- B. To maximize government intervention in the economy
- C. To achieve full employment and price stability
- D. To encourage business cycles in the economy

Correct answer: C. To achieve full employment and price stability

Explanation: Governments pursue deliberate stabilization policies to address the limitations of the market system in automatically generating full employment and price stability.

Guidance time: 1 minute

Difficulty level: Easy

63. **Topic:** Stabilization Function of Government

Question: How can governments promote full employment and price stability?

- A. Through monetary policy and fiscal policy
- B. By reducing government spending and taxes
- C. By minimizing government intervention in the economy
- D. Through unrestricted competition among market players

Correct answer: A. Through monetary policy and fiscal policy

Explanation: Governments can promote full employment and price stability through the use of monetary policy, which controls the money supply and interest rates, and fiscal policy, which involves government spending and taxation decisions.

Guidance time: 1 minute

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Difficulty level: Easy

64. **Topic:** Stabilization Function of Government

Question: What is the role of fiscal policy in the stabilization function of the government?

- A. Controlling the money supply and interest rates
- B. Directing resource allocation in the economy
- C. Promoting market competition
- D. Adjusting government expenditure and taxation

Correct answer: D. Adjusting government expenditure and taxation

Explanation: Fiscal policy plays a role in the stabilization function by adjusting government expenditure and taxation to stimulate or restrain aggregate demand and stabilize the economy.

Guidance time: 1 minute

Difficulty level: Easy

65. **Topic:** Stabilization Function of Government

Question: How does expansionary fiscal policy help in stabilizing the economy during a recession?

- A. By increasing government spending and reducing taxes
- B. By decreasing government spending and raising taxes
- C. By implementing restrictive monetary policies
- D. By promoting market deregulation

Correct answer: A. By increasing government spending and reducing taxes

Explanation: Expansionary fiscal policy involves increasing government spending and reducing taxes to stimulate aggregate demand, boost economic activity, and address a recessionary gap.

Guidance time: 1 minute

Difficulty level: Easy

66. **Topic:** Stabilization Function of Government

Question: What is the potential impact of contractionary fiscal policy on inflation?

- A. It reduces inflation by increasing government spending
- B. It increases inflation by decreasing government spending
- C. It has no effect on inflation
- D. It stabilizes inflation by adjusting taxes

Correct answer: C. It has no effect on inflation

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Explanation: Contractionary fiscal policy, characterized by decreasing government spending and raising taxes, is primarily aimed at addressing inflationary pressures in the economy rather than directly impacting inflation itself.

Guidance time: 1 minute

Difficulty level: Easy

67. **Topic:** Stabilization Function of Government

Question: How does the Finance Commission contribute to fiscal federalism in India?

- A. By determining the share of states in central taxes
- B. By regulating monetary policy in the states
- C. By providing loans to the central government
- D. By overseeing inter-governmental transfers

Correct answer: A. By determining the share of states in central taxes

Explanation: The Finance Commission in India plays a role in fiscal federalism by determining the share of states in central taxes and recommending principles for distributing these taxes among the states.

Guidance time: 1 minute

Difficulty level: Easy

68. **Topic:** Stabilization Function of Government

Question: What is the purpose of inter-governmental transfers in fiscal federalism?

- A. To increase central government revenue
- B. To decrease state government revenue
- C. To promote vertical equity among states
- D. To eliminate fiscal imbalances between levels of government

Correct answer: D. To eliminate fiscal imbalances between levels of government

Explanation: Inter-governmental transfers in fiscal federalism aim to eliminate fiscal imbalances between the central government and state governments and promote fiscal stability among different levels of government.

Guidance time: 1 minute

Difficulty level: Easy

69. **Topic:** Stabilization Function of Government

Question: How does the introduction of GST impact fiscal relations between the centre and states in India?

- A. It increases the revenue-raising powers of the states
- B. It reduces the revenue-raising powers of the centre
- C. It eliminates the need for inter-governmental transfers

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D. It changes the nature of India's indirect tax regime

Correct answer: D. It changes the nature of India's indirect tax regime

Explanation: The introduction of GST in India changes the nature of the indirect tax regime and impacts fiscal relations between the centre and states by subsuming various indirect taxes, streamlining the tax system, and altering revenue-raising powers.

Guidance time: 1 minute

Difficulty level: Easy

70. **Topic:** Stabilization Function of Government

Question: What is the purpose of GST compensation in India?

- A. To provide additional revenue to the central government
- B. To support state governments in case of revenue loss
- C. To equalize tax rates across different states
- D. To promote market competition among states

Correct answer: B. To support state governments in case of revenue loss

Explanation: GST compensation in India is provided to support state governments in case of revenue loss arising from the implementation of Goods and Services Tax, ensuring financial stability and facilitating the transition to the new tax regime.

Guidance time: 1 minute

Difficulty level: Easy

71. **Topic:** Stabilization Function of Government

Question: What is the main objective of monetary policy in the stabilization function of the government?

- A. Achieving full employment
- B. Controlling government expenditure
- C. Promoting economic growth
- D. Maintaining price stability

Correct answer: D. Maintaining price stability

Explanation: The main objective of monetary policy in the stabilization function of the government is to maintain price stability by controlling inflation and managing the money supply.

Guidance time: 1 minute

Difficulty level: Easy

72. **Topic:** Stabilization Function of Government

Question: How does the government use monetary policy to control inflation?

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A. By increasing government spending

B. By reducing interest rates

C. By decreasing the money supply

D. By implementing expansionary fiscal policy

Correct answer: C. By decreasing the money supply

Explanation: The government can use monetary policy to control inflation by decreasing the money supply, which helps reduce aggregate demand and manage price levels in the economy.

Guidance time: 1 minute

Difficulty level: Easy

73. **Topic:** Stabilization Function of Government

Question: What is the role of the Finance Commission in fiscal federalism in India?

- A. Determining tax rates for states
- B. Allocating grants-in-aid to states
- C. Regulating monetary policy in states
- D. Setting fiscal targets for the central government

Correct answer: B. Allocating grants-in-aid to states

Explanation: The Finance Commission in India plays a role in fiscal federalism by allocating grants-in-aid to states based on their financial needs and requirements.

Guidance time: 1 minute

Difficulty level: Easy

74. **Topic:** Stabilization Function of Government

Question: How does contractionary fiscal policy help in stabilizing the economy during periods of high inflation?

- A. By increasing government spending
- B. By reducing interest rates
- C. By decreasing taxes
- D. By decreasing government expenditure

Correct answer: D. By decreasing government expenditure

Explanation: Contractionary fiscal policy involves decreasing government expenditure, which helps reduce aggregate demand and control inflationary pressures in the economy.

Guidance time: 1 minute

Difficulty level: Easy

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75. **Topic:** Stabilization Function of Government

Question: What is the primary goal of fiscal policy in the stabilization function of the government?

- A. Achieving full employment
- B. Maximizing government revenue
- C. Controlling the money supply
- D. Promoting market competition

Correct answer: A. Achieving full employment

Explanation: The primary goal of fiscal policy in the stabilization function of the government is to achieve full employment by stimulating aggregate demand and supporting economic growth.

Guidance time: 1 minute

Difficulty level: Easy

76. **Topic:** Stabilization Function of Government

Question: How does expansionary fiscal policy help in stabilizing the economy during a recession?

- A. By increasing government spending
- B. By reducing interest rates
- C. By decreasing taxes
- D. By increasing government revenue

Correct answer: A. By increasing government spending

Explanation: Expansionary fiscal policy involves increasing government spending to boost aggregate demand, stimulate economic activity, and address a recessionary gap.

Guidance time: 1 minute

Difficulty level: Easy

77. **Topic:** Stabilization Function of Government

Question: What is the purpose of inter-governmental transfers in fiscal federalism?

- A. To increase central government revenue
- B. To decrease state government revenue
- C. To promote vertical equity among states
- D. To eliminate fiscal imbalances between levels of government

Correct answer: D. To eliminate fiscal imbalances between levels of government

Explanation: Inter-governmental transfers in fiscal federalism aim to eliminate fiscal imbalances between the central government and state governments and promote fiscal stability among different levels of government.

Guidance time: 1 minute

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Difficulty level: Easy

78. **Topic:** Stabilization Function of Government

Question: How does the introduction of GST impact fiscal relations between the centre and states in India?

- A.It increases the revenue-raising powers of the states
- B.It reduces the revenue-raising powers of the centre
- C.It eliminates the need for inter-governmental transfers
- D.It changes the nature of India's indirect tax regime

Correct answer: D.It changes the nature of India's indirect tax regime

Explanation: The introduction of GST in India changes the nature of the indirect tax regime and impacts fiscal relations between the centre and states by subsuming various indirect taxes, streamlining the tax system, and altering revenue-raising powers.

Guidance time: 1 minute

Difficulty level: Easy

79. **Topic:** Stabilization Function of Government

Question: What is the purpose of GST compensation in India?

- A.To provide additional revenue to the central government
- B.To support state governments in case of revenue loss
- C.To equalize tax rates across different states
- D.To promote market competition among states

Correct answer: B.To support state governments in case of revenue loss

Explanation: GST compensation in India is provided to support state governments in case of revenue loss arising from the implementation of Goods and Services Tax, ensuring financial stability and facilitating the transition to the new tax regime.

Guidance time: 1 minute

Difficulty level: Easy

80. **Topic:** Stabilization Function of Government

Question: What is the primary objective of the stabilization function of the government?

- A.Maximizing government revenue
- B.Promoting market competition
- C.Achieving full employment and price stability
- D.Encouraging economic growth

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Correct answer: C.Achieving full employment and price stability

Explanation: The primary objective of the stabilization function of the government is to achieve full employment by reducing unemployment and maintain price stability by controlling inflation.

Guidance time: 1 minute

Difficulty level: Easy

81. **Topic:** Redistribution Function of Government

Question 1: What is the main objective of the redistribution function of the government?

- A.Promoting economic growth
- B.Achieving price stability
- C.Ensuring income equality
- D.Controlling government expenditure

Correct answer: C.Ensuring income equality

Explanation: The main objective of the redistribution function of the government is to ensure a more equitable distribution of income and wealth among individuals in society.

Guidance time: 1 minute

Difficulty level: Easy

82. **Topic:** Redistribution Function of Government

Question: How does the government redistribute income and wealth?

- A.Through monetary policy measures
- B.Through taxation and public expenditure
- C.Through regulatory policies on market competition
- D.Through privatization of public assets

Correct answer: B.Through taxation and public expenditure

Explanation: The government redistributes income and wealth through taxation, where the rich are taxed more and the poor receive subsidies, and through public expenditure on social welfare programs and services.

Guidance time: 1 minute

Difficulty level: Easy

83. **Topic:** Redistribution Function of Government

Question: What are merit goods?

- A.Goods that are harmful to society
- B.Goods that are provided by the private sector

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C.Goods that are beneficial to society

D.Goods that are subsidized by the government

Correct answer: C.Goods that are beneficial to society

Explanation: Merit goods are goods that are considered beneficial to society, such as education, healthcare, and public infrastructure. The government often provides or subsidizes these goods to ensure their availability to all.

Guidance time: 1 minute

Difficulty level: Easy

84. **Topic:** Redistribution Function of Government

Question: How does the government control the production and consumption of demerit goods?

- A.By imposing higher taxes on demerit goods
- B.By providing subsidies for demerit goods
- C.By promoting market competition for demerit goods
- D.By privatizing the production of demerit goods

Correct answer: A.By imposing higher taxes on demerit goods

Explanation: The government controls the production and consumption of demerit goods, such as tobacco and alcohol, by imposing higher taxes on these goods to discourage their use and mitigate their negative social impacts.

Guidance time: 1 minute

Difficulty level: Easy

85. **Topic:** Redistribution Function of Government

Question: What are externalities?

- A.Unintended consequences of government intervention
- B.Negative effects of market competition
- C.Costs and benefits that affect third parties
- D.Inequalities in income distribution

Correct answer: C.Costs and benefits that affect third parties

Explanation: Externalities are costs or benefits that arise from the production or consumption of a good or service and affect third parties who are not directly involved in the transaction. They can be positive or negative.

Guidance time: 1 minute

Difficulty level: Easy

86. **Topic:** Redistribution Function of Government

Question: What is factor immobility?

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A.The inability of factors of production to move between industries

B.The fluctuation of interest rates in the market

C.The resistance of consumers to change their preferences

D.The volatility of stock prices in the market

Correct answer: A.The inability of factors of production to move between industries

Explanation: Factor immobility refers to the inability of factors of production, such as labor and capital, to move freely between industries or sectors of the economy. This can lead to unemployment and inefficiencies in resource allocation.

Guidance time: 1 minute

Difficulty level: Easy

87. **Topic:** Redistribution Function of Government

Question: What is the role of the Finance Commission in fiscal federalism in India?

- A.Determining tax rates for states
- B.Allocating grants-in-aid to states
- C.Regulating monetary policy in states
- D.Setting fiscal targets for the central government

Correct answer: B.Allocating grants-in-aid to states

Explanation: The Finance Commission in India plays a role in fiscal federalism by allocating grants-in-aid to states based on their financial needs and requirements.

Guidance time: 1 minute

Difficulty level: Easy

88. **Topic:** Redistribution Function of Government

Question: How does the government promote equality of income and wealth?

- A.By increasing taxes on the rich and providing subsidies to the poor
- B.By reducing taxes for high-income individuals
- C.By implementing a flat tax system
- D.By privatizing state-owned enterprises

Correct answer: A.By increasing taxes on the rich and providing subsidies to the poor

Explanation: The government promotes equality of income and wealth by implementing progressive taxation, where the rich are taxed more, and providing subsidies or social welfare programs to support low-income individuals and families.

Guidance time: 1 minute

Difficulty level: Easy

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89. **Topic:** Redistribution Function of Government

Question: What are some examples of government intervention for redistribution purposes?

A.Regulation of market competition and setting price controls

B.Privatization of public assets and services

C.Providing subsidies for luxury goods

D.Implementing progressive taxation and social welfare programs

Correct answer: D.Implementing progressive taxation and social welfare programs

Explanation: Examples of government intervention for redistribution purposes include implementing progressive taxation to tax the rich more, and providing social welfare programs or subsidies to support low-income individuals and families.

Guidance time: 1 minute

Difficulty level: Easy

90. **Topic:** Redistribution Function of Government

Question: What is the primary objective of the redistribution function of the government?

A.Maximizing government revenue

B.Promoting market competition

C.Ensuring income equality and social welfare

D.Encouraging economic growth

Correct answer: C.Ensuring income equality and social welfare

Explanation: The primary objective of the redistribution function of the government is to ensure income equality and social welfare by reducing income disparities and providing support to disadvantaged individuals and groups.

Guidance time: 1 minute

Difficulty level: Easy

UNIT – 2: MARKET FAILURE/ GOVERNMENT INTERVENTION TO CORRECT MARKET FAILURE

1. **Topic:** Market Failure and Externalities

Question: What is market failure?

A.When the market is not working at all

B.When the market does not function in the way it should

C.When there is a surplus of goods in the market

D.When the market price is too high

Correct answer: B.When the market does not function in the way it should

Explanation: Market failure refers to a situation where the free market fails to allocate resources efficiently, resulting in an inefficient outcome such as overproduction or underproduction of goods and services.

Guidance time: 1 minute

Difficulty level: Easy

2. **Topic:** Market Failure and Externalities

Question: What are the two types of market failure?

A.Complete market failure and partial market failure

B.Perfect market failure and imperfect market failure

C.Efficient market failure and inefficient market failure

D.Internal market failure and external market failure

Correct answer: A.Complete market failure and partial market failure

Explanation: Complete market failure occurs when the market does not supply certain products or services at all, while partial market failure occurs when the market does function but produces the wrong quantity or price of a product, leading to a loss of economic welfare.

Guidance time: 1 minute

Difficulty level: Easy

3. **Topic:** Market Failure and Externalities

Question: What is one reason for market failure?

A.Market power

B.Perfect competition

C.Externalities

D.Complete information

Correct answer: A.Market power

Explanation: Market power or monopoly power, where a firm can raise prices and restrict output due to lack of competition, is one of the reasons for market failure as it leads to inefficient allocation of resources.

Guidance time: 1 minute

Difficulty level: Easy

4. **Topic:** Market Failure and Externalities

Question: What are externalities?

A.Market prices that convey information to producers and consumers

B.Costs and benefits that are not reflected in free market prices

C.Government interventions in the market

D.Changes in consumer preferences

Correct answer: B.Costs and benefits that are not reflected in free market prices

Explanation: Externalities are costs or benefits that result from a production or consumption activity and affect individuals or parties not directly involved in the transaction. These costs and benefits are not accounted for in market prices.

Guidance time: 1 minute

Difficulty level: Easy

5. **Topic:** Market Failure and Externalities

Question: What are negative externalities?

A.Costs imposed on others by an individual's action

B.Benefits received by others from an individual's action

C.Costs imposed on oneself by an individual's action

D.Benefits received by oneself from an individual's action

Correct answer: A.Costs imposed on others by an individual's action

Explanation: Negative externalities occur when an individual's action imposes costs or negative effects on others who are not directly involved in the transaction.

Guidance time: 1 minute

Difficulty level: Easy

6. **Topic:** Market Failure and Externalities

Question: What is the difference between private costs and social costs?

A.Private costs are borne by individuals directly involved in a transaction, while social costs include external costs borne by third parties.

B.Private costs include external costs, while social costs only include direct costs.

C.Private costs are higher than social costs.

D.Private costs are paid by the government, while social costs are paid by individuals.

Correct answer: A.Private costs are borne by individuals directly involved in a transaction, while social costs include external costs borne by third parties.

Explanation: Private costs refer to the costs incurred by individuals directly involved in a transaction, while social costs include both private costs and external costs imposed on third parties.

Guidance time: 1 minute

Difficulty level: Easy

7. **Topic:** Market Failure and Externalities

Question: What is a positive externality?

A.Costs imposed on others by an individual's action

B.Benefits received by others from an individual's action

C.Costs imposed on oneself by an individual's action

D.Benefits received by oneself from an individual's action

Correct answer: B.Benefits received by others from an individual's action

Explanation: Positive externalities occur when an individual's action confers benefits or positive effects on others who are not directly involved in the transaction.

Guidance time: 1 minute

Difficulty level: Easy

8. **Topic:** Market Failure and Externalities

Question: How do externalities cause market failure?

A.By leading to overproduction of goods and services

B.By causing inefficient allocation of resources

C.By increasing market power of firms

D.By reducing consumer demand

Correct answer: B.By causing inefficient allocation of resources

Explanation: Externalities, which are not reflected in market prices, can lead to inefficient allocation of resources as producers and consumers do not account for the external costs or benefits, resulting in market failure.

Guidance time: 1 minute

Difficulty level: Easy

9. **Topic:** Market Failure and Externalities

Question: Which of the following is an example of a negative production externality?

- A. A firm providing training to its employees
- B. Pollution from a factory affecting nearby residents' health
- C. People getting immunized against contagious diseases
- D. Consumption of health club services by employees increasing productivity

Correct answer: B. Pollution from a factory affecting nearby residents' health

Explanation: Pollution from a factory affecting nearby residents' health is an example of a negative production externality as it imposes external costs on individuals not directly involved in the production process.

Guidance time: 1 minute

Difficulty level: Easy

10. **Topic:** Market Failure and Externalities

Question: What is the difference between private costs and social costs?

- A. Private costs are the costs borne by individuals, while social costs are the costs borne by society as a whole.
- B. Private costs include external costs, while social costs do not.
- C. Private costs are higher than social costs.
- D. Private costs are paid by the government, while social costs are paid by individuals.

Correct answer: A. Private costs are the costs borne by individuals, while social costs are the costs borne by society as a whole.

Explanation: Private costs refer to the costs incurred by individuals directly involved in a transaction, while social costs encompass both private costs and external costs borne by society as a whole.

Guidance time: 1 minute

Difficulty level: Easy

11. **Topic:** Market Failure and Externalities

Question: What is a positive consumption externality?

- A. Costs imposed on others by an individual's action
- B. Benefits received by others from an individual's action
- C. Costs imposed on oneself by an individual's action
- D. Benefits received by oneself from an individual's action

Correct answer: B. Benefits received by others from an individual's action

Explanation: A positive consumption externality occurs when an individual's consumption of a good or service benefits others who are not directly involved in the transaction.

Guidance time: 1 minute

Difficulty level: Easy

12. **Topic:** Market Failure and Externalities

Question: Which of the following is an example of a negative consumption externality affecting consumption?

- A. Pollution from a factory affecting nearby residents' health
- B. Smoking cigarettes in a public place causing passive smoking
- C. Consumption of health club services by employees increasing productivity
- D. Undisciplined students talking and creating disturbance in a class

Correct answer: B. Smoking cigarettes in a public place causing passive smoking

Explanation: Smoking cigarettes in a public place and causing passive smoking is an example of a negative consumption externality as it imposes costs or negative effects on others who are not directly involved in the consumption activity.

Guidance time: 1 minute

Difficulty level: Easy

13. **Topic:** Market Failure and Externalities

Question: Which of the following is NOT a reason for market failure?

- A. Market power
- B. Externalities
- C. Perfect competition
- D. Incomplete information

Correct answer: C. Perfect competition

Explanation: Perfect competition is not a reason for market failure. In fact, perfectly competitive markets are often considered efficient. Market failure occurs due to reasons such as market power, externalities, and incomplete information.

Guidance time: 1 minute

Difficulty level: Easy

14. **Topic:** Market Failure and Externalities

Question: What are public goods?

- A. Goods provided by the government to the public
- B. Goods that are freely available in the market

C. Goods that are non-excludable and non-rivalrous in consumption

D. Goods that are excludable and rivalrous in consumption

Correct answer: C. Goods that are non-excludable and non-rivalrous in consumption

Explanation: Public goods are goods that are non-excludable, meaning that it is difficult to exclude individuals from consuming them, and non-rivalrous in consumption, meaning that one person's consumption does not reduce the amount available for others.

Guidance time: 1 minute

Difficulty level: Easy

15. **Topic:** Market Failure and Externalities

Question: What is incomplete information?

- A. Lack of knowledge about market prices
- B. Lack of information about government policies
- C. Lack of information about consumer preferences
- D. Lack of complete information about costs and benefits

Correct answer: D. Lack of complete information about costs and benefits

Explanation: Incomplete information refers to a situation where individuals or firms do not have complete knowledge or information about the costs and benefits associated with a particular transaction or decision.

Guidance time: 1 minute

Difficulty level: Easy

16. **Topic:** Market Failure and Externalities

Question: Which of the following is an example of a complete market failure?

- A. Pollution from a factory affecting nearby residents' health
- B. A lack of market for life-saving drugs
- C. Underproduction of a good due to external costs
- D. Overproduction of a good due to external benefits

Correct answer: B. A lack of market for life-saving drugs

Explanation: A complete market failure occurs when there is a "missing market" for a particular good or service, meaning that the market does not supply the product at all, despite the demand for it. A lack of market for life-saving drugs is an example of complete market failure.

Guidance time: 1 minute

Difficulty level: Easy

17. **Topic:** Market Failure and Externalities

Question: What is the impact of market power on market outcomes?

- A. It leads to efficient allocation of resources
- B. It results in underproduction of goods and services
- C. It ensures perfect competition in the market
- D. It has no effect on market outcomes

Correct answer: B. It results in underproduction of goods and services

Explanation: Market power, where a firm can raise prices and restrict output, leads to underproduction of goods and services compared to what would be produced in a competitive market. This is because the firm can charge higher prices and earn positive economic profits.

Guidance time: 1 minute

Difficulty level: Easy

18. **Topic:** Market Failure and Externalities

Question: How do externalities affect market outcomes?

- A. They lead to efficient allocation of resources
- B. They ensure perfect competition in the market
- C. They cause overproduction or underproduction of goods and services
- D. They have no effect on market outcomes

Correct answer: C. They cause overproduction or underproduction of goods and services

Explanation: Externalities, by not being reflected in market prices, can cause overproduction or underproduction of goods and services compared to what would be produced in an ideal, efficient market.

Guidance time: 1 minute

Difficulty level: Easy

19. **Topic:** Market Failure and Externalities

Question: What is the role of government in dealing with market failure?

- A. To ensure perfect competition in the market
- B. To eliminate all externalities
- C. To intervene and correct market failures
- D. To control the market prices

Correct answer: C. To intervene and correct market failures

Explanation: When market failure occurs, the government plays a role in intervening and implementing corrective measures to address the inefficiencies and improve resource allocation in the economy.

Guidance time: 1 minute

Difficulty level: Easy

20. **Topic:** Market Failure and Externalities

Question: What is the difference between private benefits and social benefits?

A.Private benefits are the benefits enjoyed by individuals, while social benefits are the benefits enjoyed by society as a whole.

B.Private benefits include external benefits, while social benefits do not.

C.Private benefits are higher than social benefits.

D.Private benefits are paid by the government, while social benefits are paid by individuals.

Correct answer: A.Private benefits are the benefits enjoyed by individuals, while social benefits are the benefits enjoyed by society as a whole.

Explanation: Private benefits refer to the benefits received by individuals directly involved in a transaction, while social benefits encompass both private benefits and external benefits received by society as a whole.

Guidance time: 1 minute

Difficulty level: Easy

21. **Topic:** Public Goods

Question: Which economist is credited with developing the theory of public goods?

A.Adam Smith

B.John Maynard Keynes

C.Paul A. Samuelson

D.Milton Friedman

Correct answer: C.Paul A. Samuelson

Explanation: Paul A. Samuelson is recognized as the first economist to develop the theory of public goods in his influential 1954 paper "The Pure Theory of Public Expenditure."

Guidance time: 1 minute

Difficulty level: Easy

22. **Topic:** Public Goods

Question: What is the distinguishing characteristic of a public good?

A.It is excludable and rivalrous in consumption.

B.It is excludable but non-rivalrous in consumption.

C.It is non-excludable and rivalrous in consumption.

D.It is non-excludable and non-rivalrous in consumption.

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Correct answer: D.It is non-excludable and non-rivalrous in consumption.

Explanation: Public goods are characterized by the fact that one person's consumption of the good does not diminish its availability for others, and it is also difficult or impossible to exclude individuals from consuming the good.

Guidance time: 1 minute

Difficulty level: Easy

23. **Topic:** Public Goods

Question: Which of the following is an example of a public good?

A.Movie ticket

B.Television

C.National defense

D.Clothing

Correct answer: C.National defense

Explanation: National defense is an example of a public good because it benefits the entire society and its consumption is non-excludable and non-rivalrous.

Guidance time: 1 minute

Difficulty level: Easy

24. **Topic:** Public Goods

Question: What is the term used to describe the problem associated with public goods where individuals can benefit from their provision without contributing to their production?

A.Free-rider problem

B.Externality problem

C.Market failure problem

D.Monopoly problem

Correct answer: A.Free-rider problem

Explanation: The free-rider problem refers to the situation where individuals can enjoy the benefits of a public good without incurring the costs of its provision. This leads to underproduction of public goods in the absence of government intervention.

Guidance time: 1 minute

Difficulty level: Easy

25. **Topic:** Public Goods

Question: Why are public goods vulnerable to market failure?

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A.They are excludable and rivalrous in consumption.

B.They involve externalities and inadequate property rights.

C.They are subject to monopoly power and price manipulation.

D.They are not in demand by consumers.

Correct answer: B.They involve externalities and inadequate property rights.

Explanation: Public goods are vulnerable to market failure due to the presence of externalities (benefits or costs imposed on third parties) and inadequate property rights, which make it difficult to exclude individuals from enjoying the benefits of the goods without paying for them.

Guidance time: 1 minute

Difficulty level: Easy

26. **Topic:** Public Goods

Question: Which of the following is NOT a characteristic of public goods?

A.Non-excludability

B.Non-rivalry in consumption

C.Indivisibility

D.Direct payment by consumers

Correct answer: D.Direct payment by consumers

Explanation: Public goods are characterized by non-excludability, non-rivalry in consumption, and indivisibility. They are not typically associated with direct payment by consumers, as their provision often relies on government funding.

Guidance time: 1 minute

Difficulty level: Easy

27. **Topic:** Public Goods

Question: Which of the following is an example of a public good?

A.Movie theater ticket

B.Restaurant meal

C.Fire protection services

D.Personal computer

Correct answer: C.Fire protection services

Explanation: Fire protection services are considered a public good because their provision benefits the entire community and their consumption is non-excludable and non-rivalrous.

Guidance time: 1 minute

Difficulty level: Easy

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28. **Topic:** Public Goods

Question: What is the economic term used to describe goods that are excludable but non-rivalrous in consumption?

A.Private goods

B.Common goods

C.Club goods

D.Pure public goods

Correct answer: C.Club goods

Explanation: Club goods are goods that are excludable, meaning access can be restricted to those who pay for them, but they are non-rivalrous in consumption, meaning one person's consumption does not reduce the amount available for others.

Guidance time: 1 minute

Difficulty level: Easy

29. **Topic:** Public Goods

Question: Which of the following is an example of a private good?

A.Public park

B.Public transportation

C.Bottled water

D.Street lighting

Correct answer: C.Bottled water

Explanation: Bottled water is an example of a private good because it is excludable, meaning individuals can be prevented from consuming it if they don't purchase it, and it is rivalrous in consumption, meaning one person's consumption reduces the amount available for others.

Guidance time: 1 minute

Difficulty level: Easy

30. **Topic:** Public Goods

Question: Why do public goods tend to be underproduced in the absence of government intervention?

A.Due to the absence of demand for public goods

B.Because public goods are typically costly to produce

C.The presence of externalities and free-rider problem

D.Lack of awareness about the benefits of public goods

Correct answer: C.The presence of externalities and free-rider problem

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Explanation: Public goods tend to be underproduced in the absence of government intervention because of the presence of externalities (which are not captured by market prices) and the free-rider problem, where individuals can enjoy the benefits without contributing to their provision.

Guidance time: 1 minute

Difficulty level: Easy

31. **Topic:** Incomplete Information

Question: What is asymmetric information?

- A. When buyers and sellers have equal knowledge about a product
- B. When buyers know more than sellers
- C. When sellers know more than buyers
- D. When both buyers and sellers lack information

Correct answer: C. When sellers know more than buyers

Explanation: Asymmetric information refers to a situation where there is an imbalance in knowledge between buyers and sellers, with one party possessing more information than the other.

Guidance time: 1 minute

Difficulty level: Easy

32. **Topic:** Incomplete Information

Question: Which term describes the phenomenon where one party takes advantage of another party's lack of information?

- A. Adverse selection
- B. Moral hazard
- C. Market failure
- D. Asymmetric information

Correct answer: B. Moral hazard

Explanation: Moral hazard occurs when an informed party exploits the lack of information of another party through actions that have adverse consequences for the less-informed party.

Guidance time: 1 minute

Difficulty level: Easy

33. **Topic:** Incomplete Information

Question: What is adverse selection?

- A. When buyers and sellers have equal information

B. When sellers know more than buyers

C. When buyers know more than sellers

D. When both buyers and sellers lack information

Correct answer: C. When buyers know more than sellers

Explanation: Adverse selection arises when one party possesses information relevant to a transaction that the other party does not have, leading to potential disadvantages for the less-informed party.

Guidance time: 1 minute

Difficulty level: Easy

34. **Topic:** Incomplete Information

Question: Which concept is associated with the "lemons problem" in the used car market?

- A. Adverse selection
- B. Moral hazard
- C. Asymmetric information
- D. Market failure

Correct answer: A. Adverse selection

Explanation: The "lemons problem" in the used car market illustrates adverse selection, where sellers of used cars possess more information about the quality of the vehicles than potential buyers, leading to a higher proportion of low-quality cars in the market.

Guidance time: 1 minute

Difficulty level: Easy

35. **Topic:** Incomplete Information

Question: What is the main consequence of moral hazard?

- A. Market failure
- B. Adverse selection
- C. Information asymmetry
- D. Irresponsible behavior due to reduced personal risk

Correct answer: D. Irresponsible behavior due to reduced personal risk

Explanation: Moral hazard leads to a situation where individuals may engage in risky or irresponsible behavior because they do not bear the full consequences of their actions, shifting some of the costs onto others.

Guidance time: 1 minute

Difficulty level: Easy

36. **Topic:** Incomplete Information

Question: Which of the following is an example of asymmetric information?

- A. Landlords knowing more about their properties than tenants
- B. Buyers and sellers having equal knowledge about a product
- C. The government providing complete information to consumers
- D. Insurers knowing more about the health risks of buyers than the buyers themselves

Correct answer: D. Insurers knowing more about the health risks of buyers than the buyers themselves

Explanation: Insurers often have more information about the health risks of buyers than the buyers themselves, creating a situation of asymmetric information.

Guidance time: 1 minute

Difficulty level: Easy

37. **Topic:** Incomplete Information

Question: What is the impact of adverse selection on insurance markets?

- A. Lower premiums for high-risk individuals
- B. Higher premiums for low-risk individuals
- C. More balanced premiums for all individuals
- D. Insurance companies refusing to sell insurance at all

Correct answer: B. Higher premiums for low-risk individuals

Explanation: Adverse selection in insurance markets leads to higher premiums for low-risk individuals because insurance companies cannot differentiate between high-risk and low-risk individuals due to information asymmetry.

Guidance time: 1 minute

Difficulty level: Easy

38. **Topic:** Incomplete Information

Question: Which of the following is an example of moral hazard?

- A. A driver being more careful after purchasing car insurance
- B. A seller withholding information about a product's defects
- C. A government providing accurate information to consumers
- D. A borrower knowing their ability to repay a loan better than the lender

Correct answer: A. A driver being more careful after purchasing car insurance

Explanation: Moral hazard in the context of car insurance refers to the possibility of a driver becoming less careful while driving after being covered by insurance, as they may perceive reduced personal risk.

Guidance time: 1 minute

Difficulty level: Easy

39. **Topic:** Incomplete Information

Question: How does incomplete information contribute to market failure?

- A. It leads to increased competition and efficiency in the market.
- B. It prevents market participants from making informed decisions.
- C. It results in fair pricing and equal access to goods and services.
- D. It encourages trust and cooperation among market participants.

Correct answer: B. It prevents market participants from making informed decisions.

Explanation: Incomplete information hinders market participants from making fully informed decisions, which can lead to market failure as choices may be distorted, inefficiencies may arise, and one party may exploit the lack of information of another.

Guidance time: 1 minute

Difficulty level: Easy

40. **Topic:** Incomplete Information

Question: How can governments address market failures related to incomplete information?

- A. By increasing taxes on market participants
- B. By providing accurate and accessible information to consumers
- C. By reducing regulations and allowing market forces to operate freely
- D. By imposing price controls on goods and services

Correct answer: B. By providing accurate and accessible information to consumers

Explanation: Governments can help address market failures arising from incomplete information by providing accurate and accessible information to consumers, enabling them to make more informed choices and reducing the adverse effects of asymmetric information.

Guidance time: 1 minute

Difficulty level: Easy

41. **Topic:** Incomplete Information

Question: What is the main consequence of adverse selection?

- A. Market efficiency
- B. Equal distribution of resources
- C. Higher prices for low-quality products
- D. Increased consumer welfare

Correct answer: C.Higher prices for low-quality products

Explanation: Adverse selection leads to a situation where the market becomes dominated by low-quality products, which results in higher prices for consumers.

Guidance time: 1 minute

Difficulty level: Easy

42. **Topic:** Incomplete Information

Question: Which term describes a situation where one party takes advantage of another party's lack of information after a market exchange?

- A.Moral hazard
- B.Asymmetric information
- C.Incomplete information
- D.Market failure

Correct answer: A.Moral hazard

Explanation: Moral hazard occurs when one party acts in a way that is detrimental to the other party due to the lack of information or consequences after a market exchange.

Guidance time: 1 minute

Difficulty level: Easy

43. **Topic:** Incomplete Information

Question: What is the key difference between adverse selection and moral hazard?

- A.Adverse selection occurs before a market exchange, while moral hazard occurs after.
- B.Adverse selection affects buyers, while moral hazard affects sellers.
- C.Adverse selection involves symmetric information, while moral hazard involves asymmetric information.
- D.Adverse selection leads to market failure, while moral hazard leads to incomplete information.

Correct answer: A.Adverse selection occurs before a market exchange, while moral hazard occurs after.

Explanation: Adverse selection refers to the situation before a market exchange where one party has more information, while moral hazard occurs after a market exchange when one party takes advantage of the consequences.

Guidance time: 1 minute

Difficulty level: Medium

44. **Topic:** Incomplete Information

Question: Which of the following is an example of moral hazard in the financial sector?

- A.A borrower intentionally providing false information on a loan application.

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B.An investor diversifying their portfolio to reduce risk.

C.A bank providing accurate information about its financial health.

D.A stock market crash caused by external factors.

Correct answer: A.A borrower intentionally providing false information on a loan application.

Explanation: Moral hazard in the financial sector can occur when borrowers provide false information or engage in risky behavior after obtaining a loan.

Guidance time: 1 minute

Difficulty level: Medium

45. **Topic:** Incomplete Information

Question: How does incomplete information impact market efficiency?

- A.It enhances market competition and innovation.
- B.It leads to optimal allocation of resources.
- C.It creates market distortions and inefficiencies.
- D.It ensures equal access to goods and services.

Correct answer: C.It creates market distortions and inefficiencies.

Explanation: Incomplete information can lead to market failures, as it distorts choices, hinders competition, and introduces inefficiencies due to asymmetric knowledge between buyers and sellers.

Guidance time: 1 minute

Difficulty level: Easy

46. **Topic:** Incomplete Information

Question: What is the key characteristic of a market with asymmetric information?

- A.Equal knowledge between buyers and sellers.
- B.Perfect competition among market participants.
- C.Imbalance in knowledge between buyers and sellers.
- D.Government intervention to correct market failures.

Correct answer: C.Imbalance in knowledge between buyers and sellers.

Explanation: Asymmetric information refers to a situation where one party in a market has more knowledge or information than the other party, creating an imbalance that can impact market outcomes.

Guidance time: 1 minute

Difficulty level: Easy

47. **Topic:** Incomplete Information

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Question: Which market situation is most susceptible to adverse selection?

- A.Markets with perfect competition.
- B.Markets with monopolistic competition.
- C.Markets with information symmetry.
- D.Markets with information asymmetry.

Correct answer: D.Markets with information asymmetry.

Explanation: Adverse selection is more likely to occur in markets with information asymmetry, where one party possesses more knowledge than the other, leading to potential problems and market failures.

Guidance time: 1 minute

Difficulty level: Easy

48. **Topic:** Incomplete Information

Question: How can governments address the issue of adverse selection?

- A.By enforcing stricter regulations on market participants.
- B.By providing subsidies to encourage market participation.
- C.By promoting transparency and information disclosure.
- D.By imposing price controls on goods and services.

Correct answer: C.By promoting transparency and information disclosure.

Explanation: Governments can address adverse selection by promoting transparency and information disclosure, enabling market participants to make more informed decisions and reducing the negative effects of asymmetric information.

Guidance time: 1 minute

Difficulty level: Medium

49. **Topic:** Incomplete Information

Question: What is the main challenge of combating moral hazard?

- A.Identifying the party with asymmetric information.
- B.Enforcing contracts and agreements between parties.
- C.Assessing the quality and reliability of information.
- D.Balancing the costs of monitoring and regulation.

Correct answer: D.Balancing the costs of monitoring and regulation.

Explanation: The main challenge of combating moral hazard is finding a balance between the costs of monitoring and regulation, ensuring that the benefits outweigh the associated expenses.

Guidance time: 1 minute

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Difficulty level: Medium

50. **Topic:** Incomplete Information

Question: What is the impact of moral hazard on market participants?

- A.Increased trust and cooperation between buyers and sellers.
- B.Enhanced market competition and efficiency.
- C.Higher prices and reduced quality of goods and services.
- D.Equal distribution of resources among market participants.

Correct answer: C.Higher prices and reduced quality of goods and services.

Explanation: Moral hazard can lead to higher prices and reduced quality of goods and services, as individuals may engage in risky behavior or take advantage of incomplete information, negatively affecting market outcomes.

Guidance time: 1 minute

Difficulty level: Easy

51. **Topic:** Incomplete Information

Question: What is the primary objective of government intervention to minimize market power?

- A.Promote competition and prohibit actions that restrain competition.
- B.Support monopolistic practices for economic growth.
- C.Establish price controls to regulate market prices.
- D.Increase profits for dominant firms in the market.

Correct answer: A.Promote competition and prohibit actions that restrain competition.

Explanation: Government intervention aims to promote competition and prevent actions that restrict or restrain competition, thus minimizing market power.

Guidance time: 1 minute

Difficulty level: Easy

52. **Topic:** Incomplete Information

Question: Which of the following is an example of government intervention to minimize market power?

- A.Imposing restrictions on mergers and acquisitions.
- B.Allowing monopolies to control prices in the market.
- C.Promoting collusion among firms to set higher prices.
- D.Encouraging predatory pricing strategies.

Correct answer: A.Imposing restrictions on mergers and acquisitions.

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Explanation: Government intervention can include imposing restrictions on mergers and acquisitions to prevent the concentration of market power in the hands of a few dominant firms.

Guidance time: 1 minute

Difficulty level: Easy

53. **Topic:** Incomplete Information

Question: What is the purpose of market liberalization?

- A.To introduce competition in previously monopolistic sectors.
- B.To protect the market power of dominant firms.
- C.To establish price controls and regulate market prices.
- D.To promote collusion among firms for higher profits.

Correct answer: A.To introduce competition in previously monopolistic sectors.

Explanation: Market liberalization aims to introduce competition in sectors that were previously dominated by monopolies, promoting a more competitive market environment.

Guidance time: 1 minute

Difficulty level: Easy

54. **Topic:** Incomplete Information

Question: Which method does the government use to regulate the price of goods and services provided by natural monopolies?

- A.Profit or rate of return regulation
- B.Market liberalization
- C.Imposing price controls on all goods and services
- D.Providing subsidies to monopolistic firms

Correct answer: A.Profit or rate of return regulation

Explanation: To control the market power of natural monopolies, the government often regulates the price of goods and services provided by these firms, using methods such as profit or rate of return regulation.

Guidance time: 1 minute

Difficulty level: Medium

55. **Topic:** Incomplete Information

Question: Which of the following is an example of government intervention to correct negative externalities?

- A.Providing corrective subsidies to producers

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B.Promoting collusion among market participants

C.Imposing restrictions on market competition

D.Allowing firms to freely pollute the environment

Correct answer: A.Providing corrective subsidies to producers

Explanation: Government intervention to correct negative externalities can include providing corrective subsidies to producers to incentivize them to reduce the external costs associated with their production.

Guidance time: 1 minute

Difficulty level: Easy

56. **Topic:** Incomplete Information

Question: What is the purpose of pollution taxes in addressing negative externalities?

- A.To decrease demand for goods with negative externalities
- B.To increase the private cost of production or consumption
- C.To encourage firms to shift production to countries with lower taxes
- D.To promote collusion among polluting firms

Correct answer: B.To increase the private cost of production or consumption

Explanation: Pollution taxes aim to increase the private cost of production or consumption of goods with negative externalities, thereby discouraging their production or consumption.

Guidance time: 1 minute

Difficulty level: Easy

57. **Topic:** Incomplete Information

Question: What is the main objective of tradable emissions permits?

- A.To limit the total level of pollution in each period
- B.To eliminate pollution entirely from the market
- C.To encourage firms to freely emit pollutants
- D.To establish price controls on pollution

Correct answer: A.To limit the total level of pollution in each period

Explanation: Tradable emissions permits are designed to limit the total level of pollution in each period by issuing a fixed number of permits, allowing firms to trade them and create incentives for pollution reduction.

Guidance time: 1 minute

Difficulty level: Easy

58. **Topic:** Incomplete Information

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Question: What is the key advantage of market-based approaches to address externalities?

- A.They create price controls to regulate market prices.
- B.They reduce the need for government intervention.
- C.They promote collusion among market participants.
- D.They increase profits for dominant firms in the market.

Correct answer: B.They reduce the need for government intervention.

Explanation: Market-based approaches, such as pollution taxes and tradable emissions permits, reduce the need for direct government intervention by using market forces to internalize external costs or benefits.

Guidance time: 1 minute

Difficulty level: Easy

59. **Topic:** Incomplete Information

Question: How does the government address positive externalities through subsidies?

- A.By increasing the private cost of production or consumption
- B.By imposing restrictions on market competition
- C.By providing financial support to producers or consumers
- D.By promoting collusion among firms for higher profits

Correct answer: C.By providing financial support to producers or consumers

Explanation: The government addresses positive externalities by providing subsidies to producers or consumers, aiming to increase the supply or demand for goods with positive externalities.

Guidance time: 1 minute

Difficulty level: Easy

60. **Topic:** Incomplete Information

Question: In which cases does the government directly produce goods or services with positive externalities?

- A.When there is a high demand for those goods or services
- B.When monopolistic firms control the market
- C.When there are negative externalities in the market
- D.When the private sector fails to provide them efficiently

Correct answer: D.When the private sector fails to provide them efficiently

Explanation: The government directly produces goods or services with positive externalities when the private sector fails to provide them efficiently, ensuring the provision of public goods and services.

Guidance time: 1 minute

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Difficulty level: Easy

61. **Topic:** Incomplete Information

Question: Which of the following is a direct control measure used by governments to minimize market power?

- A.Market liberalization
- B.Price regulation
- C.Profit regulation
- D.Collusion promotion

Correct answer: B.Price regulation

Explanation: Price regulation is a direct control measure used by governments to set limits on prices in order to prevent market power and ensure fair competition.

Guidance time: 1 minute

Difficulty level: Easy

62. **Topic:** Incomplete Information

Question: What is the purpose of profit or rate of return regulation imposed by the government?

- A.To encourage monopolistic practices
- B.To restrict market competition
- C.To prevent excessive profit-making by firms with market power
- D.To promote collusion among market participants

Correct answer: C.To prevent excessive profit-making by firms with market power

Explanation: Profit or rate of return regulation is imposed by the government to prevent firms with market power from earning excessive profits, ensuring fair pricing and competition.

Guidance time: 1 minute

Difficulty level: Easy

63. **Topic:** Incomplete Information

Question: Which of the following is an example of government intervention to minimize market power?

- A.Allowing monopolies to control prices
- B.Restricting entry of new firms into the market
- C.Promoting collusion among market participants
- D.Encouraging predatory pricing strategies

Correct answer: B.Restricting entry of new firms into the market

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Explanation: Government intervention can involve restricting the entry of new firms into the market to prevent the concentration of market power in the hands of existing dominant firms.

Guidance time: 1 minute

Difficulty level: Easy

64. **Topic:** Incomplete Information

Question: What is the purpose of antitrust laws in the context of market power?

- A.To promote collusion among firms
- B.To support monopolistic practices
- C.To prevent actions that restrain competition
- D.To control prices of goods and services

Correct answer: C.To prevent actions that restrain competition

Explanation: Antitrust laws are designed to prevent actions that restrain competition and promote a competitive market environment, minimizing market power

Guidance time: 1 minute

Difficulty level: Easy

65. **Topic:** Incomplete Information

Question: What is the objective of market-based policies to correct externalities?

- A.To establish price controls on goods and services
- B.To increase government intervention in market activities
- C.To internalize external costs or benefits through economic incentives
- D.To promote monopolistic practices for economic growth

Correct answer: C.To internalize external costs or benefits through economic incentives

Explanation: Market-based policies aim to internalize external costs or benefits by providing economic incentives to consumers and producers, minimizing the need for direct government intervention.

Guidance time: 1 minute

Difficulty level: Easy

66. **Topic:** Incomplete Information

Question: Which method of government intervention involves setting pollution standards and regulations?

- A.Direct controls
- B.Market liberalization

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C.Profit regulation

D.Collusion promotion

Correct answer: A.Direct controls

Explanation: Direct controls involve setting pollution standards and regulations to restrict or regulate the actions of those involved in generating negative externalities, such as pollution.

Guidance time: 1 minute

Difficulty level: Easy

67. **Topic:** Incomplete Information

Question: What is the purpose of pollution taxes in addressing negative externalities?

- A.To generate additional government revenue
- B.To promote collusion among polluting firms
- C.To encourage firms to reduce pollution levels
- D.To establish price controls on pollution

Correct answer: C.To encourage firms to reduce pollution levels

Explanation: Pollution taxes aim to provide economic incentives for firms to reduce pollution levels by increasing the cost of pollution, encouraging them to adopt cleaner practices.

Guidance time: 1 minute

Difficulty level: Easy

68. **Topic:** Incomplete Information

Question: What is the primary objective of tradable emissions permits?

- A.To eliminate pollution entirely from the market
- B.To establish price controls on pollution
- C.To limit the total level of pollution in each period
- D.To promote collusion among polluting firms

Correct answer: C.To limit the total level of pollution in each period

Explanation: Tradable emissions permits are designed to limit the total level of pollution in each period by issuing a fixed number of permits, creating incentives for pollution reduction.

Guidance time: 1 minute

Difficulty level: Easy

69. **Topic:** Incomplete Information

Question: What is the main advantage of market-based approaches in correcting externalities?

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A.They eliminate the need for government intervention.

B.They establish price controls on all goods and services.

C.They promote collusion among market participants.

D.They provide economic incentives for behavior change.

Correct answer: D.They provide economic incentives for behavior change.

Explanation: Market-based approaches provide economic incentives for consumers and producers to internalize external costs or benefits, encouraging behavior change without heavy reliance on direct government intervention.

Guidance time: 1 minute

Difficulty level: Easy

70. **Topic:** Incomplete Information

Question: What is the purpose of corrective subsidies in addressing positive externalities?

- A.To increase the private cost of production or consumption
- B.To promote collusion among market participants
- C.To encourage firms to reduce positive externalities
- D.To provide financial support to producers or consumers

Correct answer: D.To provide financial support to producers or consumers

Explanation: Corrective subsidies aim to provide financial support to producers or consumers to incentivize the production or consumption of goods with positive externalities, promoting their benefits.

Guidance time: 1 minute

Difficulty level: Easy

71. **Topic:** Incomplete Information

Question: What is the role of the government in addressing negative externalities through direct controls?

- A.Imposing restrictions on market competition
- B.Providing financial support to polluting firms
- C.Regulating the actions of polluters through standards and regulations
- D.Promoting monopolistic practices for economic growth

Correct answer: C.Regulating the actions of polluters through standards and regulations

Explanation: The government regulates the actions of polluters through standards and regulations as part of direct controls to address negative externalities and minimize their impact.

Guidance time: 1 minute

Difficulty level: Easy

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72. **Topic:** Incomplete Information

Question: Which market-based approach allows firms to trade permits to reduce pollution?

- A.Pollution taxes
- B.Price regulation
- C.Tradable emissions permits
- D.Profit or rate of return regulation

Correct answer: C.Tradable emissions permits

Explanation: Tradable emissions permits enable firms to trade permits that allow them to emit a certain amount of pollution, creating market incentives for pollution reduction.

Guidance time: 1 minute

Difficulty level: Easy

73. **Topic:** Incomplete Information

Question: What is the purpose of corrective subsidies to consumers in addressing positive externalities?

- A.To increase the private cost of consumption
- B.To encourage consumers to reduce positive externalities
- C.To provide financial support for consuming goods with positive externalities
- D.To establish price controls on goods with positive externalities

Correct answer: C.To provide financial support for consuming goods with positive externalities

Explanation: Corrective subsidies to consumers provide financial support to incentivize the consumption of goods with positive externalities, promoting their benefits.

Guidance time: 1 minute

Difficulty level: Easy

74. **Topic:** Incomplete Information

Question: What is the primary reason for government intervention to minimize market power?

- A.To support monopolistic practices for economic growth
- B.To establish price controls on all goods and services
- C.To promote collusion among market participants
- D.To promote competition and prevent actions that restrain competition

Correct answer: D.To promote competition and prevent actions that restrain competition

Explanation: The primary reason for government intervention is to promote competition and prevent actions that restrain competition, minimizing market power and ensuring fair market conditions.

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Guidance time: 1 minute

Difficulty level: Easy

75. **Topic:** Incomplete Information

Question: What is the purpose of direct controls in addressing negative externalities?

- A.To establish price controls on all goods and services
- B.To provide financial support to firms generating negative externalities
- C.To regulate the actions of polluters through standards and regulations
- D.To promote collusion among market participants

Correct answer: C.To regulate the actions of polluters through standards and regulations

Explanation: Direct controls aim to regulate the actions of polluters through standards and regulations to address negative externalities and minimize their impact.

Guidance time: 1 minute

Difficulty level: Easy

76. **Topic:** Incomplete Information

Question: Which method of government intervention involves setting emission standards for polluting firms?

- A.Direct controls
- B.Market liberalization
- C.Profit regulation
- D.Collusion promotion

Correct answer: A.Direct controls

Explanation: Direct controls involve setting emission standards and regulations to restrict or regulate the actions of polluting firms, addressing negative externalities.

Guidance time: 1 minute

Difficulty level: Easy

77. **Topic:** Incomplete Information

Question: What is the purpose of market liberalization in minimizing market power?

- A.To establish price controls on all goods and services
- B.To promote monopolistic practices for economic growth
- C.To encourage collusion among market participants
- D.To introduce competition in previously monopolistic sectors

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Correct answer: D.To introduce competition in previously monopolistic sectors

Explanation: Market liberalization aims to introduce competition in sectors that were previously dominated by monopolies, promoting a more competitive market environment and minimizing market power.

Guidance time: 1 minute

Difficulty level: Easy

78. **Topic:** Incomplete Information

Question: How do pollution taxes encourage firms to reduce pollution levels?

- A.By providing financial support to polluting firms
- B.By increasing the private cost of production or consumption
- C.By promoting collusion among polluting firms
- D.By establishing price controls on pollution

Correct answer: B.By increasing the private cost of production or consumption

Explanation: Pollution taxes increase the private cost of production or consumption, creating financial incentives for firms to adopt cleaner practices and reduce pollution levels.

Guidance time: 1 minute

Difficulty level: Easy

79. **Topic:** Incomplete Information

Question: What is the primary objective of profit or rate of return regulation in addressing market power?

- A.To promote collusion among market participants
- B.To establish price controls on goods and services
- C.To encourage excessive profit-making by dominant firms
- D.To prevent excessive profit-making by firms with market power

Correct answer: D.To prevent excessive profit-making by firms with market power

Explanation: Profit or rate of return regulation aims to prevent firms with market power from earning excessive profits, ensuring fair pricing and competition.

Guidance time: 1 minute

Difficulty level: Easy

80. **Topic:** Incomplete Information

Question: What is the role of antitrust laws in minimizing market power?

- A.To promote collusion among firms
- B.To establish price controls on goods and services

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C.To prevent actions that restrain competition

D.To support monopolistic practices for economic growth

Correct answer: C.To prevent actions that restrain competition

Explanation: Antitrust laws are designed to prevent actions that restrain competition, promoting a competitive market environment and minimizing market power.

Guidance time: 1 minute

Difficulty level: Easy

81. **Topic:** Government Intervention in the Case of Merit Goods

Question: Which of the following is an example of a merit good?

- A.Cigarettes
- B.Alcohol
- C.Education
- D.Luxury cars

Correct answer: C.Education

Explanation: Merit goods are goods that have substantial positive externalities and are socially desirable. Education is an example of a merit good as it provides benefits to individuals and society as a whole.

Guidance time: 1 minute

Difficulty level: Easy

82. **Topic:** Government Intervention in the Case of Merit Goods

Question: How does the government respond to under-provision of merit goods?

- A.Imposing regulations
- B.Providing subsidies
- C.Direct government provision
- D.All of the above

Correct answer: D.All of the above

Explanation: The government can respond to under-provision of merit goods through regulations, subsidies, direct provision, or a combination of these approaches to ensure their adequate provision.

Guidance time: 1 minute

Difficulty level: Easy

83. **Topic:** Government Intervention in the Case of Merit Goods

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Question: What is the purpose of regulation in the case of merit goods?

- A.To discourage consumption of merit goods
- B.To limit access to merit goods
- C.To ensure quality and standards in the provision of merit goods
- D.To promote monopolistic practices

Correct answer: C.To ensure quality and standards in the provision of merit goods

Explanation: Regulation in the case of merit goods aims to ensure that the provision of these goods meets certain quality and standards to maximize their positive externalities.

Guidance time: 1 minute

Difficulty level: Easy

84. **Topic:** Government Intervention in the Case of Merit Goods

Question: How can the government encourage the consumption of merit goods?

- A.By making them compulsory
- B.By providing subsidies to consumers
- C.By promoting positive advertising campaigns
- D.All of the above

Correct answer: D.All of the above

Explanation: The government can encourage the consumption of merit goods by making them compulsory, providing subsidies to consumers, and promoting positive advertising campaigns to emphasize their benefits.

Guidance time: 1 minute

Difficulty level: Easy

85. **Topic:** Government Intervention in the Case of Merit Goods

Question: What is the ultimate encouragement for the consumption of merit goods?

- A.Making them completely free
- B.Providing subsidies to producers
- C.Regulating their production and distribution
- D.Promoting monopolistic practices

Correct answer: A.Making them completely free

Explanation: The ultimate encouragement for the consumption of merit goods is to make them completely free at the point of consumption, ensuring their availability to all members of society.

Guidance time: 1 minute

Difficulty level: Easy

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86. **Topic:** Government Intervention in the Case of Demerit Goods

Question: Which of the following is an example of a demerit good?

- A. Education
- B. Healthcare
- C. Cigarettes
- D. Public transportation

Correct answer: C. Cigarettes

Explanation: Demerit goods are goods that are socially undesirable and have significant negative externalities. Cigarettes are an example of a demerit good due to their harmful effects on health and society.

Guidance time: 1 minute

Difficulty level: Easy

87. **Topic:** Government Intervention in the Case of Demerit Goods

Question: Why should the government intervene in the production and consumption of demerit goods?

- A. To promote their consumption
- B. To increase their availability in the market
- C. To discourage their production and consumption
- D. To establish price controls on demerit goods

Correct answer: C. To discourage their production and consumption

Explanation: The government should intervene in the production and consumption of demerit goods to discourage their production and consumption due to their negative externalities on society.

Guidance time: 1 minute

Difficulty level: Easy

88. **Topic:** Government Intervention in the Case of Demerit Goods

Question: What is one method governments use to discourage the consumption of demerit goods?

- A. Negative advertising campaigns
- B. Subsidies to producers of demerit goods
- C. Promotion of demerit goods in the market
- D. Relaxing regulations on the production of demerit goods

Correct answer: A. Negative advertising campaigns

Explanation: Governments often use negative advertising campaigns to raise awareness about the dangers associated with the consumption of demerit goods, discouraging their consumption.

Guidance time: 1 minute

Difficulty level: Easy

89. **Topic:** Government Intervention in the Case of Demerit Goods

Question: How can governments regulate the market for demerit goods?

- A. By imposing spatial and time restrictions
- B. By promoting monopolistic practices
- C. By reducing taxes on demerit goods
- D. By providing subsidies to consumers of demerit goods

Correct answer: A. By imposing spatial and time restrictions

Explanation: Governments can regulate the market for demerit goods by imposing spatial restrictions (e.g., smoking bans in public places) and time restrictions (e.g., restricting the sale of demerit goods during certain times of the day).

Guidance time: 1 minute

Difficulty level: Easy

90. **Topic:** Government Intervention in the Case of Demerit Goods

Question: How can governments reduce the consumption of demerit goods?

- A. By imposing high taxes on demerit goods
- B. By promoting positive advertising campaigns
- C. By providing subsidies to producers of demerit goods
- D. By establishing price controls on demerit goods

Correct answer: A. By imposing high taxes on demerit goods

Explanation: Governments often impose high taxes on demerit goods to increase their prices and make them less affordable, reducing their consumption.

Guidance time: 1 minute

Difficulty level: Easy

91. **Topic:** Government Intervention in the Case of Public Goods

Question: Which of the following is a characteristic of public goods?

- A. Excludability and rivalry
- B. Non-excludability and rivalry
- C. Excludability and non-rivalry
- D. Non-excludability and non-rivalry

Correct answer: D. Non-excludability and non-rivalry

Explanation: Public goods are non-excludable, meaning that individuals cannot be excluded from benefiting from them. They are also non-rivalrous, meaning that one person's consumption of the good does not reduce its availability to others.

Guidance time: 1 minute

Difficulty level: Easy

92. **Topic:** Government Intervention in the Case of Public Goods

Question: How does the government overcome the free-rider problem associated with public goods?

- A. By providing public goods through direct government provision
- B. By making public goods excludable and rivalrous
- C. By imposing taxes on individuals who free-ride on public goods
- D. By promoting private production and provision of public goods

Correct answer: A. By providing public goods through direct government provision

Explanation: Direct government provision of public goods helps overcome the free-rider problem by ensuring that the goods are provided to all individuals, regardless of their contribution or willingness to pay.

Guidance time: 1 minute

Difficulty level: Easy

93. **Topic:** Government Intervention in the Case of Public Goods

Question: What are examples of public goods?

- A. Education and healthcare
- B. Shoes and clothing
- C. Cars and smartphones
- D. National defense and street lighting

Correct answer: D. National defense and street lighting

Explanation: National defense and street lighting are examples of public goods as they are non-excludable and non-rivalrous, providing benefits to the entire community.

Guidance time: 1 minute

Difficulty level: Easy

94. **Topic:** Government Intervention in the Case of Public Goods

Question: How are excludable public goods typically provided by the government?

A. Through voluntary contributions and private donations

B. By granting licenses to private firms to build and charge entry fees

C. By imposing price controls on excludable public goods

D. By establishing monopolies in the provision of excludable public goods

Correct answer: B. By granting licenses to private firms to build and charge entry fees

Explanation: Excludable public goods can be provided by the government through licensing private firms to build and charge entry fees, ensuring their availability while generating revenue.

Guidance time: 1 minute

Difficulty level: Easy

95. **Topic:** Government Intervention in the Case of Public Goods

Question: How can the government finance the provision of public goods?

- A. Through voluntary contributions and donations
- B. By imposing taxes on individuals and businesses
- C. By relying on market forces and private investment
- D. By reducing expenditures on other government programs

Correct answer: B. By imposing taxes on individuals and businesses

Explanation: The government finances the provision of public goods by imposing taxes on individuals and businesses, using the collected funds to cover the costs of providing public goods.

Guidance time: 1 minute

Difficulty level: Easy

96. **Topic:** Price Intervention: Non-Market Pricing

Question: What is the purpose of price controls imposed by the government?

- A. To promote competition and market efficiency
- B. To ensure fair and equitable distribution of goods and services
- C. To eliminate government interference in the market
- D. To promote monopolistic practices

Correct answer: B. To ensure fair and equitable distribution of goods and services

Explanation: Price controls imposed by the government aim to ensure that goods and services are distributed fairly and equitably among consumers, regardless of their ability to pay.

Guidance time: 1 minute

Difficulty level: Easy

97. **Topic:** Price Intervention: Non-Market Pricing

Question: What is a price floor?

- A.A maximum price set by the government
- B.A minimum price set by the government
- C.The equilibrium price determined by market forces
- D.The average price observed in the market

Correct answer: B.A minimum price set by the government

Explanation: A price floor is a minimum price set by the government, ensuring that prices do not fall below a certain level.

Guidance time: 1 minute

Difficulty level: Easy

98. **Topic:** Price Intervention: Non-Market Pricing

Question: How does the government use price intervention to address market failures?

- A.By imposing price ceilings to lower prices
- B.By allowing market forces to determine prices
- C.By promoting price discrimination in the market
- D.By reducing competition through price controls

Correct answer: A.By imposing price ceilings to lower prices

Explanation: Price ceilings are imposed by the government to lower prices, particularly in markets where prices are considered too high and may lead to market inefficiencies.

Guidance time: 1 minute

Difficulty level: Easy

99. **Topic:** Price Intervention: Non-Market Pricing

Question: What is the purpose of minimum support prices in agriculture?

- A.To promote competition among farmers
- B.To ensure fair prices for agricultural products
- C.To eliminate government intervention in the agriculture sector
- D.To establish price floors for agricultural exports

Correct answer: B.To ensure fair prices for agricultural products

Explanation: Minimum support prices (MSP) in agriculture are set by the government to ensure that farmers receive fair prices for their agricultural products, providing stability and income support in the sector.

Guidance time: 1 minute

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Difficulty level: Easy

100. **Topic:** Price Intervention: Non-Market Pricing

Question: How can price controls lead to market inefficiencies?

- A.By promoting competition and market dynamics
- B.By reducing consumer choice and variety
- C.By encouraging innovation and product development
- D.By eliminating government interference in the market

Correct answer: B.By reducing consumer choice and variety

Explanation: Price controls can lead to market inefficiencies by reducing consumer choice and variety, as they limit the flexibility of prices to adjust based on market conditions and consumer preferences.

Guidance time: 1 minute

Difficulty level: Easy

101. **Topic:** Government Intervention to Minimize Market Power

Question: What is the purpose of government intervention to minimize market power?

- A.To encourage competition and prevent monopolistic practices
- B.To increase prices and profits for monopolistic firms
- C.To limit consumer choices and protect dominant firms
- D.To reduce government interference in the market

Correct answer: A.To encourage competition and prevent monopolistic practices

Explanation: Government intervention aims to promote competition and prevent the abuse of market power by monopolistic firms, ultimately benefiting consumers and the overall economy.

Guidance time: 1 minute

Difficulty level: Easy

102. **Topic:** Government Intervention to Minimize Market Power

Question: How can governments promote competition in monopolistic sectors?

- A.By implementing price controls to regulate prices
- B.By nationalizing monopolistic firms and industries
- C.By introducing market liberalization and competition
- D.By granting exclusive rights and patents to dominant firms

Correct answer: C.By introducing market liberalization and competition

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Explanation: Governments can promote competition in monopolistic sectors by introducing market liberalization policies that encourage the entry of new competitors and break up existing monopolies.

Guidance time: 1 minute

Difficulty level: Easy

103. **Topic:** Government Intervention to Minimize Market Power

Question: What is the purpose of antitrust laws and competition acts?

- A.To promote collusion and cooperation among firms
- B.To restrict imports and protect domestic industries
- C.To regulate prices and control market fluctuations
- D.To promote and sustain competition in markets

Correct answer: D.To promote and sustain competition in markets

Explanation: Antitrust laws and competition acts are designed to promote and sustain competition in markets by prohibiting actions that restrain competition, such as collusion and anticompetitive practices.

Guidance time: 1 minute

Difficulty level: Easy

104. **Topic:** Government Intervention to Minimize Market Power

Question: How can governments regulate mergers and acquisitions to prevent market domination?

- A.By encouraging mergers and acquisitions to promote efficiency
- B.By imposing restrictions and controls on mergers and acquisitions
- C.By granting exclusive rights and privileges to merged firms
- D.By allowing market forces to determine merger outcomes

Correct answer: B.By imposing restrictions and controls on mergers and acquisitions

Explanation: Governments can regulate mergers and acquisitions to prevent market domination by imposing restrictions and controls that ensure competition is not compromised.

Guidance time: 1 minute

Difficulty level: Easy

105. **Topic:** Government Intervention to Minimize Market Power

Question: What is the purpose of price capping and regulation?

- A.To encourage price gouging and maximize profits
- B.To provide price stability and protect consumers
- C.To restrict price competition and protect dominant firms

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D.To eliminate government intervention in price determination

Correct answer: B.To provide price stability and protect consumers

Explanation: Price capping and regulation aim to provide price stability and protect consumers from price exploitation, particularly in markets where competition is limited.

Guidance time: 1 minute

Difficulty level: Easy

106. **Topic:** Government Intervention to Minimize Market Power

Question 6: What is the key objective of government intervention to correct negative externalities?

- A.To maximize private costs and benefits
- B.To minimize social returns and costs
- C.To internalize external costs and benefits
- D.To eliminate externalities through market forces

Correct answer: C.To internalize external costs and benefits

Explanation: The key objective of government intervention in correcting negative externalities is to ensure that those who create the externalities internalize the associated costs and benefits in their decision-making.

Guidance time: 1 minute

Difficulty level: Easy

107. **Topic:** Government Intervention to Minimize Market Power

Question: How can governments reduce the effects of negative externalities?

- A.By promoting collusion and collusion among producers
- B.By imposing strict import controls and restrictions
- C.By encouraging monopsony power of firms
- D.By implementing tough investigations and regulations

Correct answer: D.By implementing tough investigations and regulations

Explanation: Governments can reduce the effects of negative externalities by implementing tough investigations, regulations, and enforcement actions against practices that contribute to negative externalities.

Guidance time: 1 minute

Difficulty level: Easy

108. **Topic:** Government Intervention to Minimize Market Power

Question: What is the purpose of pollution taxes?

- A.To increase pollution levels and encourage production

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B.To reduce pollution and internalize external costs

C.To shift tax burden onto consumers and increase profits

D.To promote collaboration and cooperation among polluters

Correct answer: B.To reduce pollution and internalize external costs

Explanation: Pollution taxes are imposed to reduce pollution levels and internalize the external costs associated with pollution by making polluters pay for their pollution.

Guidance time: 1 minute

Difficulty level: Easy

109. **Topic:** Government Intervention to Minimize Market Power

Question: How does a cap-and-trade system work to reduce emissions?

A.By setting a maximum limit on emissions for each firm

B.By imposing direct taxes on emissions

C.By prohibiting emissions from all industries

D.By eliminating all pollution control measures

Correct answer: A.By setting a maximum limit on emissions for each firm

Explanation: A cap-and-trade system sets a maximum limit on emissions for each firm and allows the trading of emissions permits, providing economic incentives to reduce emissions.

Guidance time: 1 minute

Difficulty level: Easy

110. **Topic:** Government Intervention to Minimize Market Power

Question: What is the purpose of corrective subsidies for positive externalities?

A.To discourage the production of positive externalities

B.To internalize external costs and benefits

C.To increase the price of goods and services

D.To promote the consumption of positive externalities

Correct answer: D.To promote the consumption of positive externalities

Explanation: Corrective subsidies for positive externalities aim to promote the consumption of goods and services that generate positive externalities, thus increasing their consumption and benefits to society.

Guidance time: 1 minute

Difficulty level: Easy

UNIT – 3: THE PROCESS OF BUDGET MAKING: SOURCES OF REVENUE, EXPENDITURE MANAGEMENT AND MANAGEMENT OF PUBLIC DEBT

1. **Topic:** Government Budget and Budgetary Process

Question: What is the purpose of budgeting in government?

A.To allocate limited resources efficiently

B.To maximize government profits

C.To restrict economic fluctuations

D.To eliminate regional disparities

Correct answer: A.To allocate limited resources efficiently

Explanation: Budgeting in government is the process of allocating limited resources efficiently to meet the needs of the country and maximize social welfare.

Guidance time: 1 minute

Difficulty level: Easy

2. **Topic:** Government Budget and Budgetary Process

Question: What is the key objective of budgetary process?

A.To ensure maximum government revenue

B.To minimize government expenditure

C.To formulate taxing and spending proposals

D.To eliminate government interference in the economy

Correct answer: C.To formulate taxing and spending proposals

Explanation: The key objective of the budgetary process is to formulate coherent taxing and spending proposals that reflect the government's economic priorities.

Guidance time: 1 minute

Difficulty level: Easy

3. **Topic:** Government Budget and Budgetary Process

Question: Which ministry is primarily responsible for preparing the government budget in India?

A.Ministry of Finance

B.Ministry of Home Affairs

C.Ministry of External Affairs

D.Ministry of Commerce and Industry

Correct answer: A.Ministry of Finance

Explanation: The Ministry of Finance in India is primarily responsible for preparing the government budget in consultation with other relevant ministries and stakeholders.

Guidance time: 1 minute

Difficulty level: Easy

4. **Topic:** Government Budget and Budgetary Process

Question: What is the purpose of pre-budget consultations?

A.To finalize budget proposals without external input

B.To seek suggestions and feedback from stakeholders

C.To restrict the budgetary process to government officials

D.To eliminate the need for parliamentary approval

Correct answer: B.To seek suggestions and feedback from stakeholders

Explanation: Pre-budget consultations are conducted to seek suggestions and feedback from various stakeholders, including industry associations, experts, and representatives from different sectors, to incorporate their inputs into the budget proposals.

Guidance time: 1 minute

Difficulty level: Easy

5. **Topic:** Government Budget and Budgetary Process

Question: What are the two main stages of budget discussion in the Lok Sabha?

A.General discussion and ministry-wise voting

B.Pre-budget consultations and budget presentation

C.Administrative process and legislative process

D.Budget estimates and revised estimates

Correct answer: A.General discussion and ministry-wise voting

Explanation: The two main stages of budget discussion in the Lok Sabha are the general discussion on the budget as a whole and the ministry-wise voting on demands for grants.

Guidance time: 1 minute

Difficulty level: Easy

6. **Topic:** Budget Documents and Legislative Process

Question: Which document provides an outline of the prevailing macroeconomic situation and budget estimates for the next financial year?

A.Budget estimates (BE)

B.Finance Bill

C.Macro-Economic Framework Statement

D.Anual Financial Statement (AFS)

Correct answer: C.Macro-Economic Framework Statement

Explanation: The Macro-Economic Framework Statement provides an outline of the prevailing macroeconomic situation and budget estimates for the next financial year.

Guidance time: 1 minute

Difficulty level: Easy

7. **Topic:** Budget Documents and Legislative Process

Question: Which document shows the receipts and expenditure of the government in three separate parts?

A.Anual Financial Statement (AFS)

B.Finance Bill

C.Demands for Grants (DG)

D.Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement

Correct answer: A.Anual Financial Statement (AFS)

Explanation: The Annual Financial Statement shows the receipts and expenditure of the government in three separate parts, namely the Consolidated Fund of India, Contingency Fund of India, and the Public Account.

Guidance time: 1 minute

Difficulty level: Easy

8. **Topic:** Budget Documents and Legislative Process

Question: What is the purpose of the Finance Bill?

A.To present budget estimates for the next financial year

B.To explain the provisions of the Finance Bill

C.To introduce taxation proposals and their effects

D.To authorize government expenditure from the Consolidated Fund of India

Correct answer: C.To introduce taxation proposals and their effects

Explanation: The Finance Bill is introduced to give effect to the government's taxation proposals for the next financial year and to explain the provisions of the bill and their effects on the country's finances.

Guidance time: 1 minute

Difficulty level: Easy

9. **Topic:** Budget Documents and Legislative Process

Question: What is the purpose of the Appropriation Bill?

- A.To authorize government expenditure from the Consolidated Fund of India
- B.To provide recommendations for the Finance Bill
- C.To outline the government's fiscal policy strategy
- D.To present revised estimates for the current financial year

Correct answer: A.To authorize government expenditure from the Consolidated Fund of India

Explanation: The Appropriation Bill is intended to give authority to the government to incur expenditure from the Consolidated Fund of India.

Guidance time: 1 minute

Difficulty level: Easy

10. **Topic:** Budget Documents and Legislative Process

Question: How long does the Parliament have to pass the Finance Bill?

- A.30 days
- B.45 days
- C.60 days
- D.75 days

Correct answer: D.75 days

Explanation: The Parliament has 75 days to pass the Finance Bill from the date of its introduction.

Guidance time: 1 minute

Difficulty level: Easy

11. **Topic:** Government Budget and Budgetary Process

Question: Which ministry is primarily responsible for preparing the government budget in India?

- A.Ministry of Finance
- B.Ministry of Home Affairs
- C.Ministry of External Affairs

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D.Ministry of Commerce and Industry

Correct answer: A.Ministry of Finance

Explanation: The Ministry of Finance in India is primarily responsible for preparing the government budget in consultation with other relevant ministries and stakeholders.

Guidance time: 1 minute

Difficulty level: Easy

12. **Topic:** Government Budget and Budgetary Process

Question: What is the purpose of pre-budget consultations?

- A.To finalize budget proposals without external input
- B.To seek suggestions and feedback from stakeholders
- C.To restrict the budgetary process to government officials
- D.To eliminate the need for parliamentary approval

Correct answer: B.To seek suggestions and feedback from stakeholders

Explanation: Pre-budget consultations are conducted to seek suggestions and feedback from various stakeholders, including industry associations, experts, and representatives from different sectors, to incorporate their inputs into the budget proposals.

Guidance time: 1 minute

Difficulty level: Easy

13. **Topic:** Government Budget and Budgetary Process

Question: What are the two main stages of budget discussion in the Lok Sabha?

- A.General discussion and ministry-wise voting
- B.Pre-budget consultations and budget presentation
- C.Administrative process and legislative process
- D.Budget estimates and revised estimates

Correct answer: A.General discussion and ministry-wise voting

Explanation: The two main stages of budget discussion in the Lok Sabha are the general discussion on the budget as a whole and the ministry-wise voting on demands for grants.

Guidance time: 1 minute

Difficulty level: Easy

14. **Topic:** Government Budget and Budgetary Process

Question: Which document provides an outline of the prevailing macroeconomic situation and budget estimates for the next financial year?

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A.Budget estimates (BE)

B.Finance Bill

C.Macro-Economic Framework Statement

D.Annual Financial Statement (AFS)

Correct answer: C.Macro-Economic Framework Statement

Explanation: The Macro-Economic Framework Statement provides an outline of the prevailing macroeconomic situation and budget estimates for the next financial year.

Guidance time: 1 minute

Difficulty level: Easy

15. **Topic:** Government Budget and Budgetary Process

Question: What is the purpose of the Finance Bill?

- A.To present budget estimates for the next financial year
- B.To explain the provisions of the Finance Bill
- C.To introduce taxation proposals and their effects
- D.To authorize government expenditure from the Consolidated Fund of India

Correct answer: C.To introduce taxation proposals and their effects

Explanation: The Finance Bill is introduced to give effect to the government's taxation proposals for the next financial year and to explain the provisions of the bill and their effects on the country's finances.

Guidance time: 1 minute

Difficulty level: Easy

16. **Topic:** Government Budget and Budgetary Process

Question: Which of the following is NOT an objective of budgeting?

- A.Allocation of limited resources
- B.Redistribution of income and wealth
- C.Reduction of economic fluctuations
- D.Promotion of foreign direct investment

Correct answer: D.Promotion of foreign direct investment

Explanation: While budgeting can indirectly impact foreign direct investment (FDI) through policies and incentives, the direct objective of budgeting is not focused on promoting FDI.

Guidance time: 1 minute

Difficulty level: Easy

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17. **Topic:** Government Budget and Budgetary Process

Question: What is the purpose of the Appropriation Bill?

- A.To give authority to the government to incur expenditure
- B.To present the budget estimates for the next financial year
- C.To introduce taxation proposals and their effects
- D.To authorize government borrowing from international institutions

Correct answer: A.To give authority to the government to incur expenditure

Explanation: The Appropriation Bill is intended to give authority to the government to incur expenditure from the Consolidated Fund of India.

Guidance time: 1 minute

Difficulty level: Easy

18. **Topic:** Government Budget and Budgetary Process

Question: What is the significance of the "Guillotine" in the budgetary process?

- A.It sets a fixed timeline for budget discussions in the Lok Sabha.
- B.It determines the final budget allocation for each ministry.
- C.It allows for amendments to the Finance Bill.
- D.It limits the power of the Rajya Sabha in budget approvals.

Correct answer: A.It sets a fixed timeline for budget discussions in the Lok Sabha.

Explanation: The "Guillotine" is a device used to bring the debate on financial proposals to an end within a specified time, setting a fixed timeline for budget discussions in the Lok Sabha.

Guidance time: 1 minute

Difficulty level: Medium

19. **Topic:** Government Budget and Budgetary Process

Question: Which document presents the estimates of government receipts and expenditure for the current and ensuing financial year?

- A.Budget estimates (BE)
- B.Revised Estimates (RE)
- C.Annual Financial Statement (AFS)
- D.Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement

Correct answer: A.Budget estimates (BE)

Explanation: The budget estimates (BE) present the estimates of government receipts and expenditure for the current and ensuing financial year.

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Guidance time: 1 minute

Difficulty level: Easy

20. **Topic:** Government Budget and Budgetary Process

Question: What is the time frame for passing the Finance Bill by the Parliament?

- A.30 days
- B.45 days
- C.60 days
- D.75 days

Correct answer: D.75 days

Explanation: The Parliament has to pass the Finance Bill within 75 days of its introduction.

Guidance time: 1 minute

Difficulty level: Easy

21. **Topic:** Government Budget and Budgetary Process

Question: What is the purpose of the Finance Bill?

- A.To present the budget estimates for the next financial year
- B.To give authority to the government to incur expenditure
- C.To introduce taxation proposals and their effects
- D.To authorize government borrowing from international institutions

Correct answer: C.To introduce taxation proposals and their effects

Explanation: The Finance Bill seeks to give effect to the financial proposals of the government for the next financial year, including introducing taxation proposals and their effects.

Guidance time: 1 minute

Difficulty level: Easy

22. **Topic:** Government Budget and Budgetary Process

Question: What is the significance of the Annual Financial Statement (AFS)?

- A.It shows the receipts and expenditure of government in three separate parts.
- B.It presents the estimates of government receipts and expenditure for the next financial year.
- C.It details the progress made by the government on various developmental measures.
- D.It provides a broad framework of the total funds raised by the government.

Correct answer: B.It presents the estimates of government receipts and expenditure for the next financial year.

Explanation: The Annual Financial Statement (AFS) presents the estimates of government receipts and expenditure for the next financial year.

Guidance time: 1 minute

Difficulty level: Easy

23. **Topic:** Government Budget and Budgetary Process

Question: Which document provides a framework for the total funds raised by the government via taxes or borrowings?

- A.Budget estimates (BE)
- B.Revised Estimates (RE)
- C.Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement
- D.Macro-Economic Framework Statement

Correct answer: C.Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement

Explanation: The Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement provides a framework for the total funds raised by the government via taxes or borrowings.

Guidance time: 1 minute

Difficulty level: Medium

24. **Topic:** Government Budget and Budgetary Process

Question: What is the purpose of pre-budget consultations conducted by the finance minister?

- A.To finalize the budget estimates for the next financial year
- B.To gather suggestions and inputs from various stakeholders
- C.To present the budget speech before the Lok Sabha
- D.To discuss the progress of developmental measures

Correct answer: B.To gather suggestions and inputs from various stakeholders

Explanation: Pre-budget consultations conducted by the finance minister are aimed at gathering suggestions and inputs from various stakeholders, including industry associations, experts, and representatives from different sectors.

Guidance time: 1 minute

Difficulty level: Easy

25. **Topic:** Government Budget and Budgetary Process

Question: Which document presents the progress made by the government on various developmental measures?

- A.Budget estimates (BE)

B.Revised Estimates (RE)

C.Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement

D.Macro-Economic Framework Statement

Correct answer: A.Budget estimates (BE)

Explanation: The Budget estimates (BE) document presents the progress made by the government on various developmental measures.

Guidance time: 1 minute

Difficulty level: Easy

26. **Topic:** Government Budget and Budgetary Process

Question: What is the purpose of the Demands for Grants (DG) document?

- A.To give authority to the government to incur expenditure
- B.To present the budget estimates for the next financial year
- C.To authorize government borrowing from international institutions
- D.To provide details of the estimated expenditure of each ministry/department

Correct answer: D.To provide details of the estimated expenditure of each ministry/department

Explanation: The Demands for Grants (DG) document provides details of the estimated expenditure of each ministry/department.

Guidance time: 1 minute

Difficulty level: Easy

27. **Topic:** Government Budget and Budgetary Process

Question: Which document supports the Macro-Economic Framework Statement and provides information about the overall economic situation?

- A.Annual Financial Statement (AFS)
- B.Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement
- C.Macro-Economic Framework Statement
- D.Statements mandated under FRBM Act

Correct answer: C.Macro-Economic Framework Statement

Explanation: The Macro-Economic Framework Statement supports the Macro-Economic Framework Statement and provides information about the overall economic situation.

Guidance time: 1 minute

Difficulty level: Medium

28. **Topic:** Government Budget and Budgetary Process

Question: What is the purpose of the Statements mandated under FRBM Act?

- A.To present the estimates of government receipts and expenditure for the next financial year
- B.To detail the progress made by the government on various developmental measures
- C.To provide information about the overall economic situation
- D.To fulfill the requirements of the Fiscal Responsibility and Budget Management Act

Correct answer: D.To fulfill the requirements of the Fiscal Responsibility and Budget Management Act

Explanation: The Statements mandated under FRBM Act fulfill the requirements of the Fiscal Responsibility and Budget Management Act.

Guidance time: 1 minute

Difficulty level: Medium

29. **Topic:** Government Budget and Budgetary Process

Question: Which document provides information about the medium-term fiscal policy and fiscal policy strategy?

- A.Annual Financial Statement (AFS)
- B.Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement
- C.Macro-Economic Framework Statement
- D.Statements mandated under FRBM Act

Correct answer: B.Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement

Explanation: The Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement provides information about the medium-term fiscal policy and fiscal policy strategy.

Guidance time: 1 minute

Difficulty level: Medium

30. **Topic:** Government Budget and Budgetary Process

Question: Which document presents the estimates of government receipts and expenditure for the current year through Revised Estimates (RE)?

- A.Budget estimates (BE)
- B.Revised Estimates (RE)
- C.Annual Financial Statement (AFS)
- D.Finance Bill

Correct answer: B.Revised Estimates (RE)

Explanation: The Revised Estimates (RE) present the estimates of government receipts and expenditure for the current year.

Guidance time: 1 minute

Difficulty level: Easy

31. **Topic:** Sources of Revenue

Question: Which department of the Ministry of Finance exercises control over revenue matters related to direct and indirect union taxes?

- A. Department of Expenditure
- B. Central Board of Direct Taxes (CBDT)
- C. Central Board of Indirect Taxes and Customs (CBIC)
- D. Department of Revenue

Correct answer: D. Department of Revenue

Explanation: The Department of Revenue of the Ministry of Finance exercises control over revenue matters related to direct and indirect union taxes.

Guidance time: 1 minute

Difficulty level: Easy

32. **Topic:** Sources of Revenue

Question: What falls within the purview of the Central Board of Direct Taxes (CBDT)?

- A. Levy and collection of direct taxes
- B. Levy and collection of indirect taxes
- C. Administration of goods and service taxes (GST)
- D. Administration of customs and central excise duties

Correct answer: A. Levy and collection of direct taxes

Explanation: The Central Board of Direct Taxes (CBDT) is responsible for matters relating to the levy and collection of all direct taxes.

Guidance time: 1 minute

Difficulty level: Easy

33. **Topic:** Sources of Revenue

Question: What falls within the purview of the Central Board of Indirect Taxes and Customs (CBIC)?

- A. Levy and collection of direct taxes
- B. Levy and collection of indirect taxes

C. Administration of goods and service taxes (GST)

D. Administration of customs and central excise duties

Correct answer: D. Administration of customs and central excise duties

Explanation: The Central Board of Indirect Taxes and Customs (CBIC) is responsible for matters relating to the levy and collection of goods and service taxes (GST), customs, and central excise duties.

Guidance time: 1 minute

Difficulty level: Easy

34. **Topic:** Sources of Revenue

Question: What are the two categories of government receipts?

- A. Revenue receipts and capital receipts
- B. Tax revenue and non-tax revenue
- C. Debt receipts and non-debt capital receipts
- D. Corporation tax and customs duties

Correct answer: A. Revenue receipts and capital receipts

Explanation: Government receipts are classified into two categories: revenue receipts, which consist of tax revenue and non-tax revenue, and capital receipts, which consist of debt receipts and non-debt capital receipts.

Guidance time: 1 minute

Difficulty level: Easy

35. **Topic:** Sources of Revenue

Question: What is included in non-tax revenue receipts?

- A. Interest receipts and dividends from public sector enterprises
- B. Taxes on income and wealth tax
- C. Customs duties and goods and services tax
- D. Recoveries of loans and advances and miscellaneous capital receipts

Correct answer: A. Interest receipts and dividends from public sector enterprises

Explanation: Non-tax revenue receipts include interest receipts, dividends and profits from public sector enterprises, and surplus transfers from the Reserve Bank of India.

Guidance time: 1 minute

Difficulty level: Easy

34. **Topic:** Sources of Revenue

Question: Which department of the Ministry of Finance oversees the public financial management system in the central government?

- A. Department of Revenue
- B. Central Board of Direct Taxes (CBDT)
- C. Central Board of Indirect Taxes and Customs (CBIC)
- D. Department of Expenditure

Correct answer: D. Department of Expenditure

Explanation: The Department of Expenditure of the Ministry of Finance is responsible for overseeing the public financial management system in the central government.

Guidance time: 1 minute

Difficulty level: Easy

35. **Topic:** Sources of Revenue

Question: What is the purpose of public expenditure management?

- A. To allocate resources among various uses
- B. To generate higher levels of taxation
- C. To reduce fiscal deficits
- D. To increase unproductive public expenditures

Correct answer: A. To allocate resources among various uses

Explanation: Public expenditure management aims to allocate resources among various uses in a prudent and cost-effective manner.

Guidance time: 1 minute

Difficulty level: Easy

36. **Topic:** Sources of Revenue

Question: What are the economic costs of unproductive public expenditures?

- A. Larger deficits and higher levels of taxation
- B. Lower economic growth and fewer resources available
- C. Greater debt burden in the future
- D. All of the above

Correct answer: D. All of the above

Explanation: Unproductive public expenditures can result in larger deficits, higher levels of taxation, lower economic growth, fewer resources available for use elsewhere, and a greater debt burden in the future.

Guidance time: 1 minute

Difficulty level: Medium

37. **Topic:** Sources of Revenue

Question: Which department is responsible for monitoring audit comments/observations and preparation of central government accounts?

- A. Department of Expenditure
- B. Central Board of Direct Taxes (CBDT)
- C. Central Board of Indirect Taxes and Customs (CBIC)
- D. Department of Revenue

Correct answer: A. Department of Expenditure

Explanation: The Department of Expenditure is responsible for monitoring audit comments/observations and preparation of central government accounts.

Guidance time: 1 minute

Difficulty level: Easy

38. **Topic:** Sources of Revenue

Question: What is the purpose of the 'Expenditure Profile' document?

- A. To outline a profile of the general financial performance of the government of India
- B. To provide details of the estimated expenditure of each ministry/department
- C. To present the budget estimates for the next financial year
- D. To introduce taxation proposals and their effects

Correct answer: A. To outline a profile of the general financial performance of the government of India

Explanation: The 'Expenditure Profile' document, previously known as the expenditure budget, outlines a profile of the general financial performance of the government of India by aggregating various types of expenditure and certain other items across demands.

Guidance time: 1 minute

Difficulty level: Easy

39. **Topic:** Sources of Revenue

Question: Which board is responsible for the levy and collection of direct taxes in India?

- A. Central Board of Direct Taxes (CBDT)
- B. Central Board of Indirect Taxes and Customs (CBIC)
- C. Department of Revenue

D. Department of Expenditure

Correct answer: A. Central Board of Direct Taxes (CBDT)

Explanation: The Central Board of Direct Taxes (CBDT) is responsible for the levy and collection of direct taxes in India.

Guidance time: 1 minute

Difficulty level: Easy

40. **Topic:** Sources of Revenue

Question: Which category of revenue receipts includes tax revenue?

- A. Capital receipts
- B. Non-tax revenue
- C. Debt receipts
- D. Revenue receipts

Correct answer: D. Revenue receipt

Explanation: Tax revenue is included in the category of revenue receipts, which consists of government receipts from taxes.

Guidance time: 1 minute

Difficulty level: Easy

41. **Topic:** Sources of Revenue

Question: Which type of revenue is generated from the sale of government assets?

- A. Tax revenue
- B. Non-tax revenue
- C. Corporation tax
- D. Customs duties

Correct answer: B. Non-tax revenue

Explanation: Revenue generated from the sale of government assets is classified as non-tax revenue.

Guidance time: 1 minute

Difficulty level: Easy

42. **Topic:** Sources of Revenue

Question: What falls within the purview of the Central Board of Indirect Taxes and Customs (CBIC)?

- A. Levy and collection of direct taxes
- B. Levy and collection of indirect taxes

C. Administration of goods and service taxes (GST)

D. Administration of customs and central excise duties

Correct answer: D. Administration of customs and central excise duties

Explanation: The Central Board of Indirect Taxes and Customs (CBIC) is responsible for the administration of customs and central excise duties, along with the levy and collection of indirect taxes.

Guidance time: 1 minute

Difficulty level: Easy

43. **Topic:** Sources of Revenue

Question: What is included in capital receipts?

- A. Taxes and duties
- B. Interest receipts and dividends
- C. Non-debt capital receipts
- D. Revenue receipts

Correct answer: C. Non-debt capital receipts

Explanation: Capital receipts include non-debt capital receipts, such as recoveries of loans and advances and miscellaneous capital receipts.

Guidance time: 1 minute

Difficulty level: Easy

44. **Topic:** Sources of Revenue

Question: What is the role of the Department of Expenditure?

- A. Levy and collection of taxes
 - B. Preparation of central government accounts
 - C. Control of revenue matters
 - D. Overseeing public financial management
- Correct answer:** D. Overseeing public financial management

Explanation: The Department of Expenditure is responsible for overseeing public financial management in the central government.

Guidance time: 1 minute

Difficulty level: Easy

45. **Topic:** Sources of Revenue

Question: Which document provides an aggregation of various types of expenditure and certain other items across demands?

- A. Budget estimates
- B. Expenditure Profile
- C. Central government accounts
- D. Finance Bill

Correct answer: B. Expenditure Profile

Explanation: The Expenditure Profile document provides an aggregation of various types of expenditure and certain other items across demands, outlining the general financial performance of the government of India.

Guidance time: 1 minute

Difficulty level: Easy

46. **Topic:** Sources of Revenue

Question: What is the purpose of public expenditure management?

- A. To reduce fiscal deficits
- B. To generate higher levels of taxation
- C. To ensure efficient allocation of resources
- D. To increase unproductive public expenditures

Correct answer: C. To ensure efficient allocation of resources

Explanation: The purpose of public expenditure management is to ensure the efficient allocation of resources in order to achieve desired outcomes.

Guidance time: 1 minute

Difficulty level: Easy

47. **Topic:** Sources of Revenue

Question: What are the potential economic costs of unproductive public expenditures?

- A. Lower economic growth and higher deficits
- B. Greater resources available for use elsewhere
- C. Lower levels of taxation and reduced debt burden
- D. None of the above

Correct answer: A. Lower economic growth and higher deficits

Explanation: Unproductive public expenditures can result in lower economic growth and higher deficits, which can have negative economic consequences.

Guidance time: 1 minute

Difficulty level: Medium

48. **Topic:** Sources of Revenue

Question: Which department is responsible for the implementation of the recommendations of the Finance Commission and the Central Pay Commission?

- A. Department of Revenue
- B. Central Board of Direct Taxes (CBDT)
- C. Central Board of Indirect Taxes and Customs (CBIC)
- D. Department of Expenditure

Correct answer: D. Department of Expenditure

Explanation: The Department of Expenditure is responsible for the implementation of the recommendations of the Finance Commission and the Central Pay Commission.

Guidance time: 1 minute

Difficulty level: Easy

49. **Topic:** Public Expenditure Management

Question: What is the role of the Department of Expenditure in the Ministry of Finance?

- A. Levy and collection of taxes
 - B. Preparation of central government accounts
 - C. Overseeing public financial management
 - D. Administration of indirect taxes
- Correct answer:** C. Overseeing public financial management

Explanation: The Department of Expenditure in the Ministry of Finance is responsible for overseeing public financial management in the central government.

Guidance time: 1 minute

Difficulty level: Easy

50. **Topic:** Public Expenditure Management

Question: Why is a prudent and well-designed public expenditure management important?

- A. To increase fiscal deficits
- B. To ensure economic growth
- C. To reduce taxation levels
- D. To maximize unproductive expenditures

Correct answer: B. To ensure economic growth

Explanation: A prudent and well-designed public expenditure management is important to ensure economic growth by efficiently allocating resources and minimizing unproductive expenditures.

Guidance time: 1 minute

Difficulty level: Easy

51. **Topic:** Public Expenditure Management

Question: What are the potential consequences of unproductive public expenditures?

- A. Lower economic growth and higher deficits
- B. Higher taxation levels and increased resources for use elsewhere
- C. Greater debt burden and reduced economic fluctuations
- D. Efficient allocation of resources and increased employment opportunities

Correct answer: A. Lower economic growth and higher deficits

Explanation: Unproductive public expenditures can lead to lower economic growth and higher deficits, which can negatively impact the economy.

Guidance time: 1 minute

Difficulty level: Easy

52. **Topic:** Public Expenditure Management

Question: What does the Expenditure Profile document provide?

- A. Budget estimates for various ministries
- B. Central government accounts
- C. Detailed analysis of revenue receipts
- D. Aggregation of expenditure and financial performance

Correct answer: D. Aggregation of expenditure and financial performance

Explanation: The Expenditure Profile document provides an aggregation of various types of expenditure and outlines the general financial performance of the government.

Guidance time: 1 minute

Difficulty level: Easy

53. **Topic:** Public Expenditure Management

Question: Which category of receipts includes interest receipts and dividends?

- A. Tax revenue
- B. Non-tax revenue
- C. Debt receipts

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D. Revenue receipts

Correct answer: B. Non-tax revenue

Explanation: Interest receipts and dividends are included in the category of non-tax revenue.

Guidance time: 1 minute

Difficulty level: Easy

54. **Topic:** Public Expenditure Management

Question: What falls within the purview of the Central Board of Direct Taxes (CBDT)?

- A. Levy and collection of indirect taxes
- B. Administration of customs duties
- C. Administration of direct taxes
- D. Preparation of central government accounts

Correct answer: C. Administration of direct taxes

Explanation: The Central Board of Direct Taxes (CBDT) is responsible for the administration of direct taxes in India.

Guidance time: 1 minute

Difficulty level: Easy

55. **Topic:** Public Expenditure Management

Question: Which department assists in controlling the costs and prices of public services?

- A. Department of Revenue
- B. Central Board of Indirect Taxes and Customs (CBIC)
- C. Central Board of Direct Taxes (CBDT)
- D. Department of Expenditure

Correct answer: D. Department of Expenditure

Explanation: The Department of Expenditure assists in controlling the costs and prices of public services.

Guidance time: 1 minute

Difficulty level: Easy

56. **Topic:** Public Expenditure Management

Question: What is the purpose of public expenditure programmes or projects?

- A. To increase deficits
- B. To achieve specific objectives at minimum cost
- C. To maximize taxation levels

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D. To promote unproductive expenditures

Correct answer: B. To achieve specific objectives at minimum cost

Explanation: Public expenditure programmes or projects are designed to achieve specific objectives at minimum cost.

Guidance time: 1 minute

Difficulty level: Easy

56. **Topic:** Public Expenditure Management

Question: Which department is responsible for the preparation of central government accounts?

- A. Department of Revenue
- B. Central Board of Indirect Taxes and Customs (CBIC)
- C. Department of Expenditure
- D. Central Board of Direct Taxes (CBDT)

Correct answer: C. Department of Expenditure

Explanation: The Department of Expenditure is responsible for the preparation of central government accounts.

Guidance time: 1 minute

Difficulty level: Easy

57. **Topic:** Public Expenditure Management

Question: Why is efficient public expenditure management important for developing economies like India?

- A. To increase fiscal deficits
- B. To maximize unproductive expenditures
- C. To promote economic growth and employment opportunities
- D. To reduce taxation levels

Correct answer: C. To promote economic growth and employment opportunities

Explanation: Efficient public expenditure management is important for developing economies like India to promote economic growth and create employment opportunities.

Guidance time: 1 minute

Difficulty level: Easy

58. **Topic:** Public Debt Management

Question: What is public debt?

- A. Debt incurred by the government in mobilizing savings of the people
- B. Debt incurred by private individuals and corporations
- C. Debt incurred by international financial institutions

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D. Debt incurred by state governments

Correct answer: A. Debt incurred by the government in mobilizing savings of the people

Explanation: Public debt refers to the debt incurred by the government in the form of loans, which are to be repaid at a future date with interest, using the savings of the people.

Guidance time: 1 minute

Difficulty level: Easy

59. **Topic:** Public Debt Management

Question: What is the purpose of public debt management?

- A. To increase fiscal deficits
- B. To reduce taxation levels
- C. To meet financing needs at the lowest possible borrowing costs
- D. To maximize unproductive expenditures

Correct answer: C. To meet financing needs at the lowest possible borrowing costs

Explanation: The purpose of public debt management is to meet the financing needs of the government while minimizing borrowing costs.

Guidance time: 1 minute

Difficulty level: Easy

60. **Topic:** Public Debt Management

Question: What are the pillars of debt management strategy?

- A. High cost of borrowing, risk maximization, and market suppression
- B. Low cost of borrowing, risk mitigation, and market development
- C. High cost of borrowing, risk mitigation, and market expansion
- D. Low cost of borrowing, risk maximization, and market manipulation

Correct answer: B. Low cost of borrowing, risk mitigation, and market development

Explanation: The pillars of debt management strategy are to ensure a low cost of borrowing, mitigate risks, and develop the bond market.

Guidance time: 1 minute

Difficulty level: Easy

61. **Topic:** Public Debt Management

Question: Which institution is responsible for managing marketable internal debt in India?

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A. Ministry of Finance

B. Reserve Bank of India (RBI)

C. Department of Economic Affairs

D. Internal Debt Management Department

Correct answer: D. Internal Debt Management Department

Explanation: The Internal Debt Management Department of the Reserve Bank of India is responsible for managing marketable internal debt in India.

Guidance time: 1 minute

Difficulty level: Easy

62. **Topic:** Public Debt Management

Question: Who manages external debt in India?

A. Ministry of Finance

B. Reserve Bank of India (RBI)

C. Department of Economic Affairs

D. Public Debt Management Cell

Correct answer: C. Department of Economic Affairs

Explanation: The Department of Economic Affairs in the Ministry of Finance manages external debt in India.

Guidance time: 1 minute

Difficulty level: Easy

63. **Topic:** Public Debt Management

Question: What is the purpose of the Fiscal Responsibility and Budget Management (FRBM) Act?

A. To increase fiscal deficits

B. To reduce taxation levels

C. To ensure inter-generational equity and fiscal stability

D. To maximize unproductive expenditures

Correct answer: C. To ensure inter-generational equity and fiscal stability

Explanation: The purpose of the FRBM Act is to ensure inter-generational equity in fiscal management and long-term fiscal stability.

Guidance time: 1 minute

Difficulty level: Easy

64. **Topic:** Public Debt Management

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Question: What is the objective of the Medium Term Debt Management Strategy (MTDS)?

A. To increase borrowing costs in the medium term

B. To meet financing requirements without disruption

C. To maximize risk in debt management

D. To limit the total debt within unsustainable levels

Correct answer: B. To meet financing requirements without disruption

Explanation: The objective of the MTDS is to efficiently raise debt at the lowest possible cost in the medium term while ensuring that financing requirements are met without disruption.

Guidance time: 1 minute

Difficulty level: Easy

65. **Topic:** Public Debt Management

Question: What is the purpose of the 'RBI Retail Direct' facility?

A. To improve ease of access to retail investors in the stock market

B. To provide online access to the primary and secondary government securities market

C. To increase borrowing costs for retail investors

D. To limit participation of retail investors in government securities

Correct answer: B. To provide online access to the primary and secondary government securities market

Explanation: The purpose of the 'RBI Retail Direct' facility is to improve the ease of access for retail investors to the primary and secondary government securities market.

Guidance time: 1 minute

Difficulty level: Easy

66. **Topic:** Public Debt Management

Question: How did the government of India respond to the pandemic challenges in terms of public debt?

A. Increased borrowing costs significantly

B. Reduced the size of the borrowing programme

C. Provided counter-cyclical fiscal policy support through increased borrowing

D. Decreased support to segments deeply affected by the pandemic

Correct answer: C. Provided counter-cyclical fiscal policy support through increased borrowing

Explanation: The government of India increased its borrowing programme significantly during the pandemic to provide counter-cyclical fiscal policy support and targeted support to segments deeply affected by the pandemic.

Guidance time: 1 minute

Difficulty level: Easy

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67. **Topic:** Public Debt Management

Question: What does public debt management involve?

A. Determining the size and composition of debt

B. Setting interest rates for loans

C. Managing external debt only

D. Maximizing borrowing costs

Correct answer: A. Determining the size and composition of debt

Explanation: Public debt management involves determining the size and composition of debt, including the maturity pattern and interest rates.

Guidance time: 1 minute

Difficulty level: Easy

68. **Topic:** Public Debt Management

Question: What is the primary source of funding for the government's fiscal deficit?

A. External borrowing

B. Tax revenues

C. Grants from international organizations

D. Public savings

Correct answer: B. Tax revenues

Explanation: Tax revenues are the primary source of funding for the government's fiscal deficit, including the repayment of public debt.

Guidance time: 1 minute

Difficulty level: Easy

69. **Topic:** Public Debt Management

Question: What is the purpose of the Public Debt Management Cell (PDMC)?

A. To oversee the implementation of the FRBM Act

B. To monitor fiscal deficits of state governments

C. To manage external debt repayments

D. To develop strategies for managing public debt

Correct answer: D. To develop strategies for managing public debt

Explanation: The Public Debt Management Cell (PDMC) is responsible for developing strategies for managing public debt in India.

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Guidance time: 1 minute

Difficulty level: Easy

70. **Topic:** Public Debt Management

Question: What is the role of the Reserve Bank of India (RBI) in public debt management?

A. Issuing government securities

B. Monitoring state government debt

C. Negotiating loan agreements with international organizations

D. Auditing government accounts

Correct answer: A. Issuing government securities

Explanation: The Reserve Bank of India (RBI) plays a role in public debt management by issuing government securities to raise funds for the government.

Guidance time: 1 minute

Difficulty level: Easy

71. **Topic:** Public Debt Management

Question: What is the significance of marketable internal debt?

A. It provides flexibility in debt management

B. It increases the fiscal deficit

C. It reduces the government's borrowing costs

D. It is exempt from repayment obligations

Correct answer: A. It provides flexibility in debt management

Explanation: Marketable internal debt provides flexibility in debt management as it can be bought and sold in the market, allowing the government to adjust its debt portfolio as needed.

Guidance time: 1 minute

Difficulty level: Easy

72. **Topic:** Public Debt Management

Question: What is the risk associated with external debt?

A. Currency depreciation

B. Interest rate volatility

C. Inflationary pressures

D. Changes in government policies

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Correct answer: A.Currency depreciation

Explanation: The risk associated with external debt is the depreciation in the value of the domestic currency, which can increase the government's debt servicing costs.

Guidance time: 1 minute

Difficulty level: Easy

73. **Topic:** Public Debt Management

Question: What is the objective of the Medium Term Debt Management Strategy (MTDS)?

- A.To maximize debt issuance
- B.To minimize market participation
- C.To reduce borrowing costs
- D.To ensure debt sustainability

Correct answer: D.To ensure debt sustainability

Explanation: The objective of the Medium Term Debt Management Strategy (MTDS) is to ensure debt sustainability by managing the government's borrowing and repayment obligations.

Guidance time: 1 minute

Difficulty level: Easy

74. **Topic:** Public Debt Management

Question: What is the role of the Department of Economic Affairs in public debt management?

- A.Issuing government securities
- B.Managing marketable internal debt
- C.Monitoring fiscal deficits of state governments
- D.Managing external debt

Correct answer: D.Managing external debt

Explanation: The Department of Economic Affairs in the Ministry of Finance is responsible for managing external debt on behalf of the government.

Guidance time: 1 minute

Difficulty level: Easy

75. **Topic:** Public Debt Management

Question: What is the purpose of the Fiscal Responsibility and Budget Management (FRBM) Act?

- A.To increase government spending
- B.To regulate the financial sector

C.To ensure fiscal discipline

D.To promote international trade

Correct answer: C.To ensure fiscal discipline

Explanation: The purpose of the Fiscal Responsibility and Budget Management (FRBM) Act is to ensure fiscal discipline and reduce the fiscal deficit of the government.

Guidance time: 1 minute

Difficulty level: Easy

76. **Topic:** Public Debt Management

Question: How does public debt management contribute to economic growth?

- A.By increasing government expenditure
- B.By reducing the cost of borrowing
- C.By promoting private investment
- D.By minimizing debt repayments

Correct answer: B.By reducing the cost of borrowing

Explanation: Effective public debt management can help reduce the cost of borrowing, which can free up resources for other productive investments and contribute to economic growth.

Guidance time: 1 minute

Difficulty level: Easy

77. **Topic:** Public Debt Management

Question: What is the purpose of the 'RBI Retail Direct' facility?

- A.To increase retail participation in government securities
- B.To regulate retail banking operations
- C.To facilitate cross-border trade
- D.To provide financial assistance to small businesses

Correct answer: A.To increase retail participation in government securities

Explanation: The purpose of the 'RBI Retail Direct' facility is to encourage and facilitate retail investors to participate in government securities and broaden the investor base.

Guidance time: 1 minute

Difficulty level: Easy

78. **Topic:** Public Debt Management

Question: What is the role of the Ministry of Finance in public debt management?

A.Issuing government securities

B.Managing marketable internal debt

C.Monitoring fiscal deficits of state governments

D.Managing external debt

Correct answer: B.Managing marketable internal debt

Explanation: The Ministry of Finance is responsible for managing marketable internal debt, which includes issuing government securities.

Guidance time: 1 minute

Difficulty level: Easy

79. **Topic:** Public Debt Management

Question: What is the purpose of the Consolidated Fund of India?

- A.To finance public debt
- B.To manage external borrowing
- C.To consolidate government revenue
- D.To promote economic development

Correct answer: C.To consolidate government revenue

Explanation: The Consolidated Fund of India is used to consolidate all government revenue and is the primary source for financing public debt.

Guidance time: 1 minute

Difficulty level: Easy

80. **Topic:** Public Debt Management

Question: What is the significance of debt sustainability in public debt management?

- A.It ensures long-term fiscal stability
- B.It maximizes government revenue
- C.It minimizes debt servicing costs
- D.It promotes international trade

Correct answer: A.It ensures long-term fiscal stability

Explanation: Debt sustainability is important in public debt management as it ensures long-term fiscal stability and prevents excessive debt burdens on the government.

Guidance time: 1 minute

Difficulty level: Easy

81. **Topic:** Public Debt Management

Question: What are non-debt capital receipts in public debt management?

- A.Repayment of loans and advances
- B.Sale proceeds of government assets
- C.Interest payments on public debt
- D.Tax revenues

Correct answer: B.Sale proceeds of government assets

Explanation: Non-debt capital receipts in public debt management refer to the sale proceeds of government assets, including those realized from the divestment of government equity in public sector undertakings (PSUs).

Guidance time: 1 minute

Difficulty level: Easy

82. **Topic:** Public Debt Management

Question: How does public debt management contribute to macroeconomic stability?

- A.By reducing fiscal deficits
- B.By promoting international trade
- C.By increasing government expenditure
- D.By minimizing debt repayments

Correct answer: A.By reducing fiscal deficits

Explanation: Effective public debt management can help reduce fiscal deficits, which contributes to macroeconomic stability by controlling government borrowing and debt levels.

Guidance time: 1 minute

Difficulty level: Easy

83. **Topic:** Public Debt Management

Question: What is the purpose of the Medium Term Debt Management Strategy (MTDS)?

- A.To maximize debt issuance
- B.To minimize market participation
- C.To reduce borrowing costs
- D.To ensure debt sustainability

Correct answer: D.To ensure debt sustainability

Explanation: The Medium Term Debt Management Strategy (MTDS) is designed to ensure debt sustainability by managing the government's borrowing needs and repayment obligations.

Guidance time: 1 minute

Difficulty level: Easy

84. **Topic:** Public Debt Management

Question: What is the role of the Reserve Bank of India (RBI) in public debt management?

- A. Issuing government securities
- B. Monitoring fiscal deficits of state governments
- C. Managing marketable internal debt
- D. Negotiating loan agreements with international organizations

Correct answer: A. Issuing government securities

Explanation: The Reserve Bank of India (RBI) plays a role in public debt management by issuing government securities to raise funds for the government.

Guidance time: 1 minute

Difficulty level: Easy

85. **Topic:** Public Debt Management

Question: What is the objective of the Public Debt Management Cell (PDMC)?

- A. To oversee the implementation of the FRBM Act
- B. To develop strategies for managing public debt
- C. To monitor fiscal deficits of state governments
- D. To manage external debt repayments

Correct answer: B. To develop strategies for managing public debt

Explanation: The objective of the Public Debt Management Cell (PDMC) is to develop strategies for managing public debt and ensuring efficient borrowing at the lowest possible cost.

Guidance time: 1 minute

Difficulty level: Easy

86. **Topic:** Public Debt Management

Question: What is the purpose of the Fiscal Responsibility and Budget Management (FRBM) Act?

- A. To increase government spending
- B. To regulate the financial sector
- C. To ensure fiscal discipline
- D. To promote international trade

Correct answer: C. To ensure fiscal discipline

Explanation: The Fiscal Responsibility and Budget Management (FRBM) Act aims to ensure fiscal discipline and reduce the fiscal deficit of the government.

Guidance time: 1 minute

Difficulty level: Easy

87. **Topic:** Public Debt Management

Question: How does public debt management impact interest rates in the economy?

- A. It has no impact on interest rates
- B. It increases interest rates
- C. It decreases interest rates
- D. It stabilizes interest rates

Correct answer: D. It stabilizes interest rates

Explanation: Effective public debt management can help stabilize interest rates in the economy by managing the government's borrowing needs and ensuring efficient debt servicing.

Guidance time: 1 minute

Difficulty level: Easy

88. **Topic:** Budget Concepts

Question: What is a balanced budget?

- A. A budget with equal revenues and expenditures
- B. A budget with a surplus of revenues over expenditures
- C. A budget with a deficit of revenues over expenditures
- D. A budget with no revenues or expenditures

Correct answer: A. A budget with equal revenues and expenditures

Explanation: A balanced budget is a budget in which the total amount of revenues is equal to the total amount of expenditures. In other words, there is neither a budget deficit nor a budget surplus.

Guidance time: 1 minute

Difficulty level: Easy

89. **Topic:** Budget Concepts

Question: Which of the following is an example of a capital receipt?

- A. Tax revenues
- B. Interest payments

C. Recoveries of loans

D. Grants to state governments

Correct answer: C. Recoveries of loans

Explanation: Capital receipts are those receipts that lead to a reduction in the assets or an increase in the liabilities of the government. Examples of capital receipts include recoveries of loans, earnings from disinvestment, and debt.

Guidance time: 1 minute

Difficulty level: Easy

90. **Topic:** Budget Concepts

Question: What are revenue receipts?

- A. Receipts that create liabilities for the government
- B. Receipts that cause a reduction in government assets
- C. Tax revenues received by the government
- D. Non-tax revenues received by the government

Correct answer: C. Tax revenues received by the government

Explanation: Revenue receipts are those receipts that neither create any liability nor cause any reduction in the assets of the government. They include tax revenues and non-tax revenues received by the government.

Guidance time: 1 minute

Difficulty level: Easy

91. **Topic:** Budget Concepts

Question: What is the difference between revenue expenditure and capital expenditure?

- A. Revenue expenditure is for the creation of assets, while capital expenditure is for regular government functioning.
- B. Revenue expenditure is for regular government functioning, while capital expenditure is for the creation of assets.
- C. Revenue expenditure is incurred by state governments, while capital expenditure is incurred by the central government.
- D. Revenue expenditure is financed by borrowing, while capital expenditure is financed by tax revenues.

Correct answer: B. Revenue expenditure is for regular government functioning, while capital expenditure is for the creation of assets.

Explanation: Revenue expenditure refers to expenses incurred for the normal functioning of the government departments, interest payments on debt, and grants given to state governments. On the other hand, capital expenditure results in the creation of physical or financial assets or reduction in financial liabilities.

Guidance time: 1 minute

Difficulty level: Easy

92. **Topic:** Budget Concepts

Question: What is the fiscal deficit?

- A. The excess of government's revenue expenditure over revenue receipts
- B. The difference between the government's total expenditure and total receipts excluding borrowing
- C. The difference between the government's total expenditure and total receipts including borrowing
- D. The excess of government's capital expenditure over capital receipts

Correct answer: C. The difference between the government's total expenditure and total receipts including borrowing

Explanation: The fiscal deficit is the excess of the government's total expenditure over its total receipts, including borrowing. It indicates the borrowing requirement of the government from all sources to meet its expenditure.

Guidance time: 1 minute

Difficulty level: Easy

93. **Topic:** Budget Concepts

Question: What is primary deficit?

- A. The excess of fiscal deficit over interest payments
- B. The difference between revenue expenditure and revenue receipts
- C. The difference between capital expenditure and capital receipts
- D. The excess of revenue expenditure over revenue receipts

Correct answer: A. The excess of fiscal deficit over interest payments

Explanation: Primary deficit is the fiscal deficit of the current year minus interest payments on previous borrowings. It represents the borrowing requirement of the government exclusive of interest payment.

Guidance time: 1 minute

Difficulty level: Easy

94. **Topic:** Budget Concepts

Question: What is the purpose of the Finance Bill?

- A. To present the budget in the parliament
- B. To impose, abolish, alter, or regulate taxes proposed in the budget
- C. To allocate funds to various ministries and departments
- D. To review the government's financial performance

Correct answer: B. To impose, abolish, alter, or regulate taxes proposed in the budget

Explanation: The Finance Bill is produced immediately after the presentation of the union budget and details the imposition, abolition, alteration, or regulation of taxes proposed in the budget.

Guidance time: 1 minute

Difficulty level: Easy

95. **Topic:** Budget Concepts

Question: What is the outcome budget?

A.A budget with a surplus of outcomes over inputs

B.A budget that focuses on the outcomes achieved by government programs

C.A budget that accounts for the outcomes of fund usage

D.A budget that measures the development outcomes of all government programs

Correct answer: D.A budget that measures the development outcomes of all government programs

Explanation: The outcome budget establishes a direct link between budgetary allocations of schemes and their annual performance targets measured through output and outcome indicators. It measures the development outcomes of all government programs and evaluates whether the allocated funds have been spent for the intended purposes.

Guidance time: 1 minute

Difficulty level: Easy

96. **Topic:** Budget Concepts

Question: What is the Consolidated Fund of India?

A.A fund used for unforeseen expenditures

B.A fund that includes all revenues, loans, and repayments received by the government

C.A fund used for regular government functioning

D.A fund allocated for specific government programs

Correct answer: B.A fund that includes all revenues, loans, and repayments received by the government

Explanation: The Consolidated Fund of India includes all revenues received, loans raised, and moneys received by the government in repayment of loans. All expenditures of the government are incurred from this fund, and money can be spent through it only if appropriated by the parliament.

Guidance time: 1 minute

Difficulty level: Easy

97. **Topic:** Budget Concepts

Question: What is the Contingency Fund of India?

A.A fund used for unforeseen expenditures

B.A fund that includes all revenues, loans, and repayments received by the government

C.A fund used for regular government functioning

D.A fund allocated for specific government programs

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Correct answer: A.A fund used for unforeseen expenditures

Explanation: The Contingency Fund of India is a fund placed at the disposal of the President to meet urgent unforeseen expenditures. It enables the government to address unexpected financial needs without prior legislative approval, unlike with the Consolidated Fund. The advances made from this fund are subsequently reported to the Parliament for recoupment.

Guidance time: 1 minute

Difficulty level: Easy

98. **Topic:** Budget Concepts

Question: Which of the following is an example of a revenue expenditure?

A.Investment in shares

B.Acquisition of land

C.Interest payments on government debt

D.Repayment of loans

Correct answer: C.Interest payments on government debt

Explanation: Revenue expenditure is incurred for the normal functioning of the government and includes expenses such as interest payments on government debt.

Guidance time: 1 minute

Difficulty level: Easy

99. **Topic:** Budget Concepts

Question: What is the purpose of cut motions in the budget process?

A.To propose amendments to the budget proposals

B.To voice grievances regarding the budget

C.To reduce the sums sought by the government

D.All of the above

Correct answer: D.All of the above

Explanation: Cut motions are made to propose amendments, voice grievances, and reduce the sums sought by the government in the budget.

Guidance time: 1 minute

Difficulty level: Easy

100. **Topic:** Budget Concepts

Question: What is the primary difference between the Consolidated Fund and the Public Account?

A.The Consolidated Fund includes all revenues, while the Public Account includes only taxes.

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B.The Consolidated Fund is used for regular government expenditures, while the Public Account is used for specific purposes.

C.The Consolidated Fund requires prior legislative approval, while the Public Account does not.

D.The Consolidated Fund is managed by the President, while the Public Account is managed by the Parliament.

Correct answer: B.The Consolidated Fund is used for regular government expenditures, while the Public Account is used for specific purposes.

Explanation: The Consolidated Fund is used for all government expenditures, while the Public Account is used for specific fund flows where the government acts as a banker, such as Provident Funds and Small Savings.

Guidance time: 1 minute

Difficulty level: Easy

101. **Topic:** Budget Concepts

Question: What is the purpose of the outcome budget?

A.To measure the financial performance of the government

B.To evaluate the development outcomes of government programs

C.To allocate funds to different ministries and departments

D.To present the annual budget in the parliament

Correct answer: B.To evaluate the development outcomes of government programs

Explanation: The outcome budget measures the development outcomes of government programs and assesses whether the allocated funds have been effectively utilized for the intended purposes.

Guidance time: 1 minute

Difficulty level: Easy

102. **Topic:** Budget Concepts

Question: Which of the following is an example of a capital receipt?

A.Tax revenues

B.Dividends from government-owned companies

C.Grants received from foreign countries

D.Interest payments on government loans

Correct answer: B.Dividends from government-owned companies

Explanation: Capital receipts include earnings from disinvestment, recoveries of loans, and dividends from government-owned companies, among others.

Guidance time: 1 minute

Difficulty level: Easy

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103. **Topic:** Budget Concepts

Question: What is the difference between a deficit budget and a surplus budget?

A.Deficit budget refers to government spending exceeding revenues, while surplus budget refers to government revenues exceeding spending.

B.Deficit budget refers to government revenues exceeding spending, while surplus budget refers to government spending exceeding revenues.

C.Deficit budget refers to a budget with no revenues or expenditures, while surplus budget refers to a balanced budget.

D.Deficit budget refers to a balanced budget, while surplus budget refers to a budget with no revenues or expenditures.

Correct answer: A.Deficit budget refers to government spending exceeding revenues, while surplus budget refers to government revenues exceeding spending.

Explanation: A deficit budget occurs when estimated government receipts are less than government expenditure, while a surplus budget occurs when estimated receipts exceed expenditure.

Guidance time: 1 minute

Difficulty level: Easy

104. **Topic:** Budget Concepts

Question: What is the fiscal deficit as a percentage of GDP?

A.The excess of total expenditure over total receipts

B.The excess of non-borrowed receipts over total expenditure

C.The excess of total expenditure over total receipts excluding borrowing

D.The excess of total expenditure over total receipts including borrowing

Correct answer: C.The excess of total expenditure over total receipts excluding borrowing

Explanation: The fiscal deficit is often presented as a percentage of GDP and is calculated by subtracting total receipts excluding borrowing from total expenditure.

Guidance time: 1 minute

Difficulty level: Easy

105. **Topic:** Budget Concepts

Question: What is the purpose of the Guillotine process?

A.To discuss the demands for grants in detail

B.To vote on the outstanding demands for grants

C.To propose amendments to the budget proposals

D.To review the government's financial performance

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Correct answer: B.To vote on the outstanding demands for grants

Explanation: The Guillotine process involves putting all outstanding demands for grants to a vote in the Lok Sabha, irrespective of whether they have been discussed or not.

Guidance time: 1 minute

Difficulty level: Easy

106. **Topic:** Budget Concepts

Question: What is the primary deficit if the fiscal deficit is Rs. 500 billion and the net interest liabilities are Rs. 200 billion?

- A. Rs. 200 billion
- B. Rs. 300 billion
- C. Rs. 500 billion
- D. Rs. 700 billion

Correct answer: B. Rs. 300 billion

Explanation: The primary deficit is calculated by subtracting net interest liabilities from the fiscal deficit. In this case, it would be Rs. 500 billion - Rs. 200 billion = Rs. 300 billion.

Guidance time: 1 minute

Difficulty level: Easy

107. **Topic:** Budget Concepts

Question: What is the purpose of the Finance Bill?

- A. To allocate funds for specific government programs
- B. To evaluate the financial performance of the government
- C. To impose, alter, or regulate taxes proposed in the budget
- D. To measure the outcomes of government programs

Correct answer: C. To impose, alter, or regulate taxes proposed in the budget

Explanation: The Finance Bill details the imposition, alteration, or regulation of taxes proposed in the budget.

Guidance time: 1 minute

Difficulty level: Easy

108. **Topic:** Budget Concepts

Question: Which of the following is an example of a revenue receipt?

- A. Sale of government assets
- B. Repayment of loans

C. Earnings from disinvestment

D. Borrowings from the public

Correct answer: C. Earnings from disinvestment

Explanation: Revenue receipts include tax revenues and non-tax revenues, such as earnings from disinvestment.

Guidance time: 1 minute

Difficulty level: Easy

109. **Topic:** Budget Concepts

Question: What is the formula for calculating the revenue deficit?

- A. Revenue deficit = Revenue expenditure - Revenue receipts
- B. Revenue deficit = Capital expenditure - Capital receipts
- C. Revenue deficit = Total expenditure - Total receipts
- D. Revenue deficit = Fiscal deficit - Primary deficit

Correct answer: A. Revenue deficit = Revenue expenditure - Revenue receipts

Explanation: The revenue deficit represents the excess of government's revenue expenditure over revenue receipts.

Guidance time: 1 minute

Difficulty level: Easy

110. **Topic:** Budget Concepts

Question: What is the difference between revenue expenditure and capital expenditure?

- A. Revenue expenditure is for creating assets, while capital expenditure is for routine government operations.
- B. Revenue expenditure is incurred annually, while capital expenditure is incurred once.
- C. Revenue expenditure is funded by revenue receipts, while capital expenditure is funded by capital receipts.
- D. Revenue expenditure is included in the fiscal deficit, while capital expenditure is excluded.

Correct answer: A. Revenue expenditure is for creating assets, while capital expenditure is for routine government operations.

Explanation: Revenue expenditure is incurred for routine functioning and maintenance, while capital expenditure is for creating assets or reducing liabilities.

Guidance time: 1 minute

Difficulty level: Easy

111. **Topic:** Budget Concepts

Question: What does the primary deficit indicate?

A. Borrowings for interest payments

B. Borrowings for current expenditure

C. Borrowings for capital expenditure

D. Borrowings for revenue receipts

Correct answer: B. Borrowings for current expenditure

Explanation: The primary deficit represents borrowings used for current expenditure, excluding interest payments.

Guidance time: 1 minute

Difficulty level: Easy

112. **Topic:** Budget Concepts

Question: What is the purpose of the Contingency Fund of India?

- A. To finance long-term government projects
- B. To provide advances for urgent unforeseen expenditure
- C. To meet interest payment obligations
- D. To fund revenue receipts

Correct answer: B. To provide advances for urgent unforeseen expenditure

Explanation: The Contingency Fund of India is used to make advances for urgent unforeseen expenditure that does not require prior legislative approval.

Guidance time: 1 minute

Difficulty level: Easy

113. **Topic:** Budget Concepts

Question: What is the purpose of the Public Account?

- A. To hold government revenues and expenditures
- B. To fund capital receipts
- C. To act as a banker for the government
- D. To finance revenue deficit

Correct answer: A. To hold government revenues and expenditures

Explanation: The Public Account is used to record fund flows where the government acts as a banker, such as Provident Funds and Small Savings.

Guidance time: 1 minute

Difficulty level: Easy

114. **Topic:** Budget Concepts

Question: Which fund is used for regular government expenditures?

A. Consolidated Fund of India

B. Contingency Fund of India

C. Public Account

D. Capital Receipts Fund

Correct answer: A. Consolidated Fund of India

Explanation: The Consolidated Fund of India is used for all government expenditures and is credited with all revenues received and loans raised.

Guidance time: 1 minute

Difficulty level: Easy

115. **Topic:** Budget Concepts

Question: What happens during the Guillotine process in the budget?

- A. Detailed discussion on demands for grants
- B. Voting on outstanding demands for grants
- C. Approval of the Finance Bill
- D. Presentation of the outcome budget

Correct answer: B. Voting on outstanding demands for grants

Explanation: The Guillotine process involves putting all outstanding demands for grants to a vote in the Lok Sabha.

Guidance time: 1 minute

Difficulty level: Easy

116. **Topic:** Budget Concepts

Question: What is the purpose of the outcome budget?

- A. To allocate funds to different government programs
- B. To evaluate the financial performance of the government
- C. To measure the outcomes of government programs
- D. To propose amendments to the budget proposals

Correct answer: C. To measure the outcomes of government programs

Explanation: The outcome budget assesses the development outcomes of government programs and evaluates the utilization of allocated funds.

Guidance time: 1 minute

Difficulty level: Easy

117. **Topic:** Budget Concepts

Question: What is the total receipts excluding borrowing in the calculation of the fiscal deficit?

- A. Revenue receipts + Capital receipts
- B. Revenue receipts - Capital receipts
- C. Revenue receipts + Capital receipts excluding borrowing
- D. Revenue receipts - Capital receipts excluding borrowing

Correct answer: C. Revenue receipts + Capital receipts excluding borrowing

Explanation: Total receipts excluding borrowing include revenue receipts and capital receipts that do not create additional debt.

Guidance time: 1 minute

Difficulty level: Easy

UNIT – 4: FISCAL POLICY

1. **Topic:** Fiscal Policy

Question: What is the objective of fiscal policy?

- A. Achieving full employment
- B. Maintaining price stability
- C. Accelerating economic development
- D. All of the above

Correct answer: D. All of the above

Explanation: The objectives of fiscal policy include achieving and maintaining full employment, maintaining price stability, accelerating economic development, and ensuring equitable distribution of income and wealth.

Guidance time: 1 minute

Difficulty level: Easy

2. **Topic:** Fiscal Policy

Question: According to classical economists, what is their view on government intervention in the economy?

- A. Government intervention is necessary for economic stability
- B. Government intervention is unnecessary due to self-adjusting market mechanisms
- C. Government intervention should focus on fiscal policy only
- D. Government intervention should focus on monetary policy only

Correct answer: B. Government intervention is unnecessary due to self-adjusting market mechanisms

Explanation: Classical economists believed that the market mechanism would naturally keep the economy self-adjusting and operating at full employment, making government intervention unnecessary.

Guidance time: 1 minute

Difficulty level: Easy

3. **Topic:** Fiscal Policy

Question: Who advocated for increased government spending to combat recessionary forces in the economy?

- A. John Maynard Keynes

B. Adam Smith

C. Karl Marx

D. Milton Friedman

Correct answer: A. John Maynard Keynes

Explanation: John Maynard Keynes, in his book 'The General Theory of Employment, Interest, and Money,' advocated for increased government spending to address recessions and unemployment.

Guidance time: 1 minute

Difficulty level: Easy

4. **Topic:** Fiscal Policy

Question: What is the fundamental equation of national income accounting that measures GDP according to expenditures?

- A. $GDP = C + I + G + NX$
- B. $GDP = C + S + T$
- C. $GDP = Y - C - G$
- D. $GDP = I + S$

Correct answer: A. $GDP = C + I + G + NX$

Explanation: The equation $GDP = C + I + G + NX$ represents the different sources of aggregate spending or demand in the economy, where C is private consumption, I is investment, G is government expenditure, and NX is net exports.

Guidance time: 1 minute

Difficulty level: Easy

5. **Topic:** Fiscal Policy

Question: How can fiscal policy influence the level of economic activity (GDP)?

- A. By directly controlling government expenditure (G)
- B. By indirectly influencing private consumption (C), investment (I), and net exports (NX)
- C. By changing tax rates and transfer payments
- D. All of the above

Correct answer: D. All of the above

Explanation: Fiscal policy can influence the level of economic activity (GDP) by directly controlling government expenditure (G), indirectly influencing private consumption (C), investment (I), and net exports (NX), and through changes in tax rates and transfer payments.

Guidance time: 1 minute

Difficulty level: Easy

6. **Topic:** Fiscal Policy

Question: Which of the following is not an objective of fiscal policy?

- A. Achieving price stability
- B. Promoting economic growth
- C. Reducing income inequality
- D. Maximizing government revenue

Correct answer: D. Maximizing government revenue

Explanation: The objective of fiscal policy does not include maximizing government revenue. Instead, fiscal policy aims to achieve price stability, promote economic growth, and reduce income inequality.

Guidance time: 1 minute

Difficulty level: Easy

7. **Topic:** Fiscal Policy

Question: What is the primary tool used by the government in fiscal policy?

- A. Taxation
- B. Monetary policy
- C. Foreign exchange rates
- D. Import-export regulations

Correct answer: A. Taxation

Explanation: Taxation is the primary tool used by the government in fiscal policy. By imposing taxes, the government can influence economic activities and revenue generation.

Guidance time: 1 minute

Difficulty level: Easy

8. **Topic:** Fiscal Policy

Question: Which economist is associated with the concept of fiscal policy?

- A. Adam Smith
- B. Karl Marx
- C. John Maynard Keynes
- D. Friedrich Hayek

Correct answer: C. John Maynard Keynes

Explanation: John Maynard Keynes is associated with the concept of fiscal policy. He advocated for government intervention through fiscal measures to manage economic fluctuations.

Guidance time: 1 minute

Difficulty level: Easy

9. **Topic:** Fiscal Policy

Question: Fiscal policy is considered a demand-side policy because it aims to:

- A. Increase government revenue
- B. Stimulate aggregate demand
- C. Reduce inflationary pressures
- D. Control government expenditure

Correct answer: B. Stimulate aggregate demand

Explanation: Fiscal policy is considered a demand-side policy because it aims to stimulate aggregate demand in the economy through measures such as government spending and tax policies.

Guidance time: 1 minute

Difficulty level: Easy

10. **Topic:** Fiscal Policy

Question: Which equation represents the fundamental relationship in national income accounting that measures GDP?

- A. $GDP = C + I + G + NX$
- B. $GDP = C + S + T$
- C. $GDP = Y - C - G$
- D. $GDP = I + S$

Correct answer: A. $GDP = C + I + G + NX$

Explanation: The equation $GDP = C + I + G + NX$ represents the fundamental relationship in national income accounting that measures GDP. It considers consumption (C), investment (I), government expenditure (G), and net exports (NX).

Guidance time: 1 minute

Difficulty level: Easy

11. **Topic:** Fiscal Policy

Question: Fiscal policy can be used to achieve which of the following objectives?

- A. Control interest rates
- B. Increase foreign direct investment
- C. Promote price stability

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D. Expand money supply

Correct answer: C. Promote price stability

Explanation: Fiscal policy can be used to promote price stability by adjusting government spending and taxation to manage aggregate demand and control inflationary pressures.

Guidance time: 1 minute

Difficulty level: Easy

12. **Topic:** Fiscal Policy

Question: Which of the following is not a common objective of fiscal policy?

- A. Economic stability
- B. Income redistribution
- C. Environmental conservation
- D. Employment generation

Correct answer: C. Environmental conservation

Explanation: While environmental conservation is an important goal for governments, it is not typically considered a direct objective of fiscal policy. The other options are commonly pursued through fiscal policy measures.

Guidance time: 1 minute

Difficulty level: Easy

13. **Topic:** Fiscal Policy

Question: How does fiscal policy influence economic development?

- A. By reducing government expenditure
- B. By increasing taxes on businesses
- C. By promoting investment and infrastructure spending
- D. By controlling interest rates

Correct answer: C. By promoting investment and infrastructure spending

Explanation: Fiscal policy can influence economic development by promoting investment and infrastructure spending through government expenditure and tax policies, which stimulate economic activity and productivity.

Guidance time: 1 minute

Difficulty level: Easy

14. **Topic:** Fiscal Policy

Question: In fiscal policy, what does the term "aggregate demand" refer to?

- A. Total government expenditure

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B. Total private consumption

C. Total investment in the economy

D. Total demand for goods and services

Correct answer: D. Total demand for goods and services

Explanation: In fiscal policy, the term "aggregate demand" refers to the total demand for goods and services in the economy, including government expenditure, private consumption, investment, and net exports.

Guidance time: 1 minute

Difficulty level: Easy

15. **Topic:** Fiscal Policy

Question: Which economist advocated for limited government intervention and a balanced budget?

- A. Adam Smith
- B. John Maynard Keynes
- C. Karl Marx
- D. Friedrich Hayek

Correct answer: A. Adam Smith

Explanation: Adam Smith advocated for limited government intervention in the economy and believed in the importance of a balanced budget. His ideas are associated with classical economics and the concept of laissez-faire.

Guidance time: 1 minute

Difficulty level: Easy

16. **Topic:** Types of Fiscal Policy

Question: Which type of fiscal policy is used to stimulate the economy during a recession?

- A. Expansionary fiscal policy
- B. Contractionary fiscal policy
- C. Neutral fiscal policy
- D. Counter-cyclical fiscal policy

Correct answer: A. Expansionary fiscal policy

Explanation: Expansionary fiscal policy is used during a recession to stimulate the economy. It involves cutting taxes, increasing government expenditure, or a combination of both to boost aggregate demand and promote economic growth.

Guidance time: 1 minute

Difficulty level: Easy

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17. **Topic:** Types of Fiscal Policy

Question: When does the government use contractionary fiscal policy?

- A. During a recession
- B. When there is excessive inflation
- C. To stimulate economic growth
- D. To reduce income inequality

Correct answer: B. When there is excessive inflation

Explanation: Contractionary fiscal policy is used when there is excessive inflation or the economy is overheating. It involves reducing government spending, increasing taxes, or a combination of both to reduce aggregate demand and control inflationary pressures.

Guidance time: 1 minute

Difficulty level: Easy

18. **Topic:** Types of Fiscal Policy

Question: Which of the following is not a measure of expansionary fiscal policy?

- A. Decreasing government spending
- B. Cutting personal income taxes
- C. Increasing government expenditure
- D. Combining tax cuts and increased government spending

Correct answer: A. Decreasing government spending

Explanation: Decreasing government spending is not a measure of expansionary fiscal policy. Expansionary fiscal policy focuses on increasing government expenditure or cutting taxes to stimulate economic activity.

Guidance time: 1 minute

Difficulty level: Easy

19. **Topic:** Types of Fiscal Policy

Question: What is the objective of contractionary fiscal policy?

- A. To reduce unemployment
- B. To promote economic growth
- C. To control inflation
- D. To increase government revenue

Correct answer: C. To control inflation

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Explanation: The objective of contractionary fiscal policy is to control inflation by reducing aggregate demand and restraining economic activity. It aims to prevent the economy from overheating and experiencing excessive inflationary pressures.

Guidance time: 1 minute

Difficulty level: Easy

20. **Topic:** Types of Fiscal Policy

Question: How does expansionary fiscal policy affect the government budget?

- A. It reduces the budget deficit
- B. It increases the budget deficit
- C. It leads to a budget surplus
- D. It has no impact on the budget

Correct answer: B. It increases the budget deficit

Explanation: Expansionary fiscal policy, such as tax cuts and increased government spending, often leads to an increase in the government budget deficit. This is because government expenditure exceeds tax revenues, resulting in a deficit.

Guidance time: 1 minute

Difficulty level: Easy

21. **Topic:** Types of Fiscal Policy

Question: Which type of fiscal policy aims to eliminate an inflationary gap?

- A. Expansionary fiscal policy
- B. Contractionary fiscal policy
- C. Neutral fiscal policy
- D. Counter-cyclical fiscal policy

Correct answer: B. Contractionary fiscal policy

Explanation: Contractionary fiscal policy aims to eliminate an inflationary gap by reducing aggregate demand and controlling inflation. It involves measures such as decreasing government spending and increasing taxes.

Guidance time: 1 minute

Difficulty level: Easy

22. **Topic:** Types of Fiscal Policy

Question: In contractionary fiscal policy, what happens to personal income taxes?

- A. They are decreased
- B. They are increased

C. They remain the same

D. They are eliminated

Correct answer: B. They are increased

Explanation: In contractionary fiscal policy, personal income taxes are increased to reduce disposable incomes and decrease consumption spending, which helps to reduce aggregate demand and control inflation.

Guidance time: 1 minute

Difficulty level: Easy

23. **Topic:** Types of Fiscal Policy

Question: What is the main purpose of expansionary fiscal policy?

- A. To reduce income inequality
- B. To stabilize prices
- C. To stimulate economic growth
- D. To reduce government expenditure

Correct answer: C. To stimulate economic growth

Explanation: The main purpose of expansionary fiscal policy is to stimulate economic growth by increasing aggregate demand, boosting consumer spending, and promoting investment and economic activity.

Guidance time: 1 minute

Difficulty level: Easy

24. **Topic:** Types of Fiscal Policy

Question: Which of the following is a measure of contractionary fiscal policy?

- A. Increasing government spending
- B. Cutting personal income taxes
- C. Decreasing business taxes
- D. Decreasing government expenditure

Correct answer: D. Decreasing government expenditure

Explanation: Decreasing government expenditure is a measure of contractionary fiscal policy. It reduces the total amount of money available in the economy, leading to a decrease in aggregate demand and helping to control inflation.

Guidance time: 1 minute

Difficulty level: Easy

25. **Topic:** Types of Fiscal Policy

Question: During a recession, which fiscal policy measure is likely to increase aggregate demand?

- A. Cutting personal income taxes
- B. Decreasing government expenditure
- C. Increasing business taxes
- D. Decreasing government borrowing

Correct answer: A. Cutting personal income taxes

Explanation: Cutting personal income taxes puts more money in the hands of individuals, increasing their disposable income and encouraging them to spend more. This increase in consumer spending helps to boost aggregate demand during a recession.

Guidance time: 1 minute

Difficulty level: Easy

26. **Topic:** Types of Fiscal Policy

Question: What is the primary goal of expansionary fiscal policy?

- A. Controlling inflation
- B. Reducing government debt
- C. Achieving full employment
- D. Increasing government revenue

Correct answer: C. Achieving full employment

Explanation: The primary goal of expansionary fiscal policy is to stimulate economic activity and achieve full employment by increasing aggregate demand, which leads to higher levels of output and employment in the economy.

Guidance time: 1 minute

Difficulty level: Easy

27. **Topic:** Types of Fiscal Policy

Question: How does contractionary fiscal policy impact economic activity?

- A. It stimulates economic growth
- B. It increases unemployment
- C. It reduces inflation
- D. It encourages investment

Correct answer: C. It reduces inflation

Explanation: Contractionary fiscal policy aims to reduce aggregate demand and control inflationary pressures in the economy. By reducing government spending and increasing taxes, it helps to lower overall spending levels and reduce inflation.

Guidance time: 1 minute

Difficulty level: Easy

28. **Topic:** Types of Fiscal Policy

Question: How does government expenditure contribute to achieving full employment?

- A. By reducing aggregate demand
- B. By increasing disposable income
- C. By creating public debt
- D. By reducing tax rates

Correct answer: B. By increasing disposable income

Explanation: Government expenditure, particularly on public works and investment projects, creates employment opportunities and increases the disposable income of individuals. This increase in income leads to higher consumption and aggregate demand, contributing to achieving full employment.

Guidance time: 1 minute

Difficulty level: Easy

29. **Topic:** Types of Fiscal Policy

Question: What is the purpose of taxes as an instrument of fiscal policy?

- A. To increase government revenue
- B. To encourage private consumption
- C. To control inflation
- D. To reduce public debt

Correct answer: C. To control inflation

Explanation: Taxes can be used to reduce disposable income and curb excessive aggregate demand, which helps control inflationary pressures in the economy. By levying new taxes or increasing existing tax rates, the government can reduce purchasing power and prevent inflation from escalating.

Guidance time: 1 minute

Difficulty level: Easy

30. **Topic:** Types of Fiscal Policy

Question: How does public debt impact aggregate demand?

- A. It decreases aggregate demand
- B. It increases aggregate demand
- C. It has no impact on aggregate demand
- D. It depends on the type of public debt

Correct answer: B.It increases aggregate demand

Explanation: Public debt, when repaid by the government, injects money into the economy and increases aggregate demand. This occurs because the repayment of debt increases the availability of money, which can be spent on goods and services, stimulating economic activity.

Guidance time: 1 minute

Difficulty level: Easy

31. **Topic:** Instruments of Fiscal Policy

Question: Which type of public debt involves borrowing from outside sources?

- A.Internal debt
- B.External debt
- C.Market loans
- D.Small savings

Correct answer: B.External debt

Explanation: External debt refers to the borrowing made by the government from sources outside the country. It includes loans obtained from foreign governments, international financial institutions, or through the issuance of international bonds.

Guidance time: 1 minute

Difficulty level: Easy

32. **Topic:** Instruments of Fiscal Policy

Question: How does government expenditure impact the economy during a recession?

- A.It reduces aggregate demand
- B.It increases unemployment
- C.It stimulates economic activity
- D.It leads to budget deficits

Correct answer: C.It stimulates economic activity

Explanation: During a recession, government expenditure, particularly on public works and infrastructure projects, stimulates economic activity by creating employment opportunities. This leads to increased income and aggregate demand, helping to counter the effects of the recession.

Guidance time: 1 minute

Difficulty level: Easy

33. **Topic:** Instruments of Fiscal Policy

Question: What is the net effect on aggregate demand of a budget surplus?

- A.Positive
- B.Negative
- C.No effect
- D.It depends on the economy

Correct answer: B.Negative

Explanation: A budget surplus, where the government collects more revenue than it spends, has a negative net effect on aggregate demand. This is because the surplus represents leakages from the economy, reducing the overall demand and potentially impacting economic growth.

Guidance time: 1 minute

Difficulty level: Easy

34. **Topic:** Instruments of Fiscal Policy

Question: How can taxes be used to encourage private consumption and investment?

- A.By reducing tax rates
- B.By increasing tax rates
- C.By implementing progressive taxation
- D.By eliminating tax deductions

Correct answer: A.By reducing tax rates

Explanation: Lowering tax rates increases the disposable income of individuals and businesses, encouraging higher private consumption and investment. This stimulates economic activity and can help boost aggregate demand.

Guidance time: 1 minute

Difficulty level: Easy

35. **Topic:** Instruments of Fiscal Policy

Question: What is the purpose of a budget deficit?

- A.To increase government revenue
- B.To stimulate economic growth
- C.To reduce public debt
- D.To achieve a budget surplus

Correct answer: B.To stimulate economic growth

Explanation: A budget deficit occurs when government expenditure exceeds its tax revenue. This deficit can be used to finance public investments and stimulate economic growth by increasing aggregate demand and creating employment opportunities.

Guidance time: 1 minute

Difficulty level: Easy

36. **Topic:** Instruments of Fiscal Policy

Question: How does government expenditure contribute to achieving full employment?

- A.By reducing aggregate demand
- B.By increasing disposable income
- C.By creating public debt
- D.By reducing tax rates

Correct answer: B.By increasing disposable income

Explanation: Government expenditure, particularly on public works and investment projects, creates employment opportunities and increases the disposable income of individuals. This increase in income leads to higher consumption and aggregate demand, contributing to achieving full employment.

Guidance time: 1 minute

Difficulty level: Easy

37. **Topic:** Instruments of Fiscal Policy

Question: How does public debt impact aggregate demand?

- A.It decreases aggregate demand
- B.It increases aggregate demand
- C.It has no impact on aggregate demand
- D.It depends on the type of public debt

Correct answer: B.It increases aggregate demand

Explanation: Public debt, when repaid by the government, injects money into the economy and increases aggregate demand. This occurs because the repayment of debt increases the availability of money, which can be spent on goods and services, stimulating economic activity.

Guidance time: 1 minute

Difficulty level: Easy

38. **Topic:** Instruments of Fiscal Policy

Question: What is the purpose of taxes as an instrument of fiscal policy?

- A.To increase government revenue
- B.To encourage private consumption
- C.To control inflation
- D.To reduce public debt

Correct answer: C.To control inflation

Explanation: Taxes can be used to reduce disposable income and curb excessive aggregate demand, which helps control inflationary pressures in the economy. By levying new taxes or increasing existing tax rates, the government can reduce purchasing power and prevent inflation from escalating.

Guidance time: 1 minute

Difficulty level: Easy

39. **Topic:** Instruments of Fiscal Policy

Question: What is the purpose of public debt as an instrument of fiscal policy?

- A.To finance government expenditure
- B.To reduce budget deficits
- C.To control interest rates
- D.To encourage private investments

Correct answer: A.To finance government expenditure

Explanation: Public debt allows the government to finance its expenditure when tax revenue falls short. By borrowing from the public or external sources, the government can fund public projects and programs, stimulating economic growth and addressing budget deficits.

Guidance time: 1 minute

Difficulty level: Easy

40. **Topic:** Instruments of Fiscal Policy

Question: How does a budget deficit impact the economy?

- A.It leads to inflation
- B.It increases government revenue
- C.It reduces public debt
- D.It can stimulate economic activity

Correct answer: D.It can stimulate economic activity

Explanation: A budget deficit occurs when government expenditure exceeds its tax revenue. While excessive deficits can lead to inflation and financial instability, moderate budget deficits can stimulate economic activity by increasing public spending, creating employment opportunities, and boosting aggregate demand.

Guidance time: 1 minute

Difficulty level: Easy

41. **Topic:** Instruments of Fiscal Policy

Question: How can fiscal policy promote long-run economic growth?

- A.By reducing taxes
 - B.By increasing government spending
 - C.By promoting infrastructure development
 - D.By implementing austerity measures
- Correct answer:** C.By promoting infrastructure development

Explanation: Fiscal policy can promote long-run economic growth by investing in infrastructure projects. The development of modern infrastructure provides support to the private sector and creates a conducive environment for economic growth and productivity.

Guidance time: 1 minute

Difficulty level: Easy

42. **Topic:** Instruments of Fiscal Policy

Question: How does fiscal policy impact income distribution?

- A.It has no impact on income distribution
- B.It reduces income inequality
- C.It increases income inequality
- D.It depends on the type of fiscal policy implemented

Correct answer: B.It reduces income inequality

Explanation: Fiscal policy can influence income distribution by implementing progressive tax systems, targeted public expenditure programs, and social welfare measures. These measures help redistribute income from the rich to the poorer sections of society, reducing income inequality.

Guidance time: 1 minute

Difficulty level: Easy

43. **Topic:** Instruments of Fiscal Policy

Question: What impact can a progressive tax system have on work and investment?

- A.It encourages work and investment
- B.It discourages work and investment
- C.It has no impact on work and investment
- D.It depends on the tax rates applied

Correct answer: B.It discourages work and investment

Explanation: A progressive tax system, with high marginal tax rates, can act as a deterrent to work, save, and invest. Higher taxes on income and profits reduce the incentives for individuals and businesses to engage in productive activities, potentially impacting economic growth.

Guidance time: 1 minute

Difficulty level: Easy

44. **Topic:** Instruments of Fiscal Policy

Question: How can fiscal policy be used to address market failures resulting from externalities?

- A.By reducing government spending
- B.By increasing tax rates
- C.By implementing subsidies
- D.By eliminating public goods

Correct answer: C.By implementing subsidies

Explanation: Fiscal policy can be used to address market failures caused by externalities through the implementation of subsidies. Subsidies can be provided to incentivize certain activities or industries that have positive externalities, promoting their growth and aligning market outcomes with social welfare objectives.

Guidance time: 1 minute

Difficulty level: Easy

45. **Topic:** Instruments of Fiscal Policy

Question: How can fiscal policy impact environmental concerns?

- A.By increasing government spending on environmental projects
- B.By reducing taxes on environmentally-friendly products
- C.By implementing environment taxes on polluting industries
- D.By eliminating subsidies on renewable energy

Correct answer: C.By implementing environment taxes on polluting industries

Explanation: Fiscal policy can address environmental concerns by implementing environment taxes on polluting industries. These taxes increase the cost of production for such industries, encouraging them to reduce pollution and adopt more sustainable practices.

Guidance time: 1 minute

Difficulty level: Easy

46. **Topic:** Instruments of Fiscal Policy

Question: What impact can deficit financing have on the economy?

- A.It stimulates economic growth
- B.It reduces inflation
- C.It increases prices
- D.It improves government revenue

Correct answer: C.It increases prices

Explanation: Deficit financing, which involves government borrowing to finance expenditures, can increase the purchasing power in the economy. If the productive capacity of the economy does not catch up with the increased demand, it can lead to an increase in prices, potentially causing inflationary pressures.

Guidance time: 1 minute

Difficulty level: Easy

47. **Topic:** Instruments of Fiscal Policy

Question: What is a limitation of using fiscal policy to counteract economic fluctuations?

- A.Recognition lag
- B.Decision lag
- C.Implementation lag
- D.Impact lag

Correct answer: A.Recognition lag

Explanation: One limitation of using fiscal policy to counteract economic fluctuations is the recognition lag, which refers to the delay in recognizing the need for policy changes. Gathering accurate and timely data about the state of the economy can be challenging, causing delays in identifying the appropriate policy response.

Guidance time: 1 minute

Difficulty level: Easy

48. **Topic:** Instruments of Fiscal Policy

Question: How can an expansionary fiscal policy be mistimed?

- A.By initiating it during a recession
- B.By initiating it during an economic recovery
- C.By increasing government spending
- D.By reducing taxes

Correct answer: B.By initiating it during an economic recovery

Explanation: An expansionary fiscal policy can be mistimed if it is initiated during an economic recovery, meaning when the economy is already on a path of growth. In such a scenario, the expansionary measures may lead to overheating the economy and potentially exacerbating inflationary pressures.

Guidance time: 1 minute

Difficulty level: Easy

49. **Topic:** Instruments of Fiscal Policy

Question: What is a challenge in changing government spending and taxation policies?

A.Recognition lag

B.Decision lag

C.Implementation lag

D.Public resistance

Correct answer: C.Implementation lag

Explanation: One challenge in changing government spending and taxation policies is the implementation lag. After deciding on the appropriate policy measures, there can be delays in bringing in legislation and implementing them due to bureaucratic processes and other administrative constraints.

Guidance time: 1 minute

Difficulty level: Easy

50. **Topic:** Instruments of Fiscal Policy

Question: What is a potential consequence of excessive government borrowing?

- A.Lower interest rates
- B.Increased private investment
- C.Perpetual burden on future generations
- D.Economic stability

Correct answer: C.Perpetual burden on future generations

Explanation: Excessive government borrowing creates a perpetual burden on future generations as the debts need to be repaid. If the borrowed funds are not utilized productively, the economy may struggle to generate sufficient surpluses for servicing the debts, leading to long-term financial challenges.

Guidance time: 1 minute

Difficulty level: Easy

51. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is the impact of high government borrowing on private sector investment?

- A.It increases private sector investment
- B.It decreases private sector investment
- C.It has no impact on private sector investment
- D.It depends on other economic factors

Correct answer: B.It decreases private sector investment

Explanation: High government borrowing can crowd out private sector investment by increasing interest rates and reducing the availability of funds for private businesses. This can discourage private sector investment and hinder economic growth.

Guidance time: 1 minute

Difficulty level: Easy

52. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can fiscal policy address rising income inequality?

- A. By implementing regressive tax systems
- B. By reducing government spending on social programs
- C. By promoting wealth accumulation among the rich
- D. By implementing progressive tax systems and targeted spending programs

Correct answer: D. By implementing progressive tax systems and targeted spending program

Explanation: Fiscal policy can address rising income inequality by implementing progressive tax systems that ensure those with higher incomes contribute more, and by allocating government spending towards targeted programs aimed at reducing poverty and providing support to disadvantaged groups.

Guidance time: 1 minute

Difficulty level: Easy

53. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How does fiscal policy impact investment incentives?

- A. It always encourages investment
- B. It always discourages investment
- C. It depends on the specific policy measures implemented
- D. It has no impact on investment incentives

Correct answer: C. It depends on the specific policy measures implemented

Explanation: The impact of fiscal policy on investment incentives depends on the specific measures implemented. While some policies may incentivize investment through tax cuts or subsidies, others may discourage investment through increased taxes or regulatory burdens.

Guidance time: 1 minute

Difficulty level: Easy

54. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is the purpose of implementing subsidies in fiscal policy?

- A. To increase government revenue
- B. To reduce tax rates
- C. To promote market competition
- D. To incentivize specific activities or industries

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Correct answer: D. To incentivize specific activities or industries

Explanation: Subsidies can be implemented in fiscal policy to incentivize specific activities or industries that align with government objectives. Subsidies can encourage investment, innovation, and growth in targeted sectors of the economy.

Guidance time: 1 minute

Difficulty level: Easy

55. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can fiscal policy address environmental concerns?

- A. By reducing government spending on environmental protection
- B. By increasing taxes on environmentally harmful activities
- C. By eliminating regulations on pollution control
- D. By promoting unsustainable practices

Correct answer: B. By increasing taxes on environmentally harmful activities

Explanation: Fiscal policy can address environmental concerns by increasing taxes on environmentally harmful activities. This can discourage such activities and provide an incentive for businesses to adopt more environmentally friendly practices.

Guidance time: 1 minute

Difficulty level: Easy

56. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is a limitation of fiscal policy in achieving long-run economic growth?

- A. Recognition lag
- B. Decision lag
- C. Implementation lag
- D. Impact lag

Correct answer: C. Implementation lag

Explanation: Implementation lag is a limitation of fiscal policy in achieving long-run economic growth. Delays in implementing fiscal policy measures, such as infrastructure projects or investment incentives, can hinder the timely impact on economic growth.

Guidance time: 1 minute

Difficulty level: Easy

57. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can an expansionary fiscal policy be mistimed?

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A. By increasing government spending during a recession

B. By reducing taxes during an economic recovery

C. By implementing austerity measures during a boom

D. By decreasing government expenditure during an inflationary period

Correct answer: B. By reducing taxes during an economic recovery

Explanation: An expansionary fiscal policy can be mistimed by reducing taxes during an economic recovery. This can stimulate aggregate demand when the economy is already on a path of growth, potentially leading to inflationary pressures.

Guidance time: 1 minute

Difficulty level: Easy

58. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is a challenge in changing government spending and taxation policies?

- A. Recognition lag
- B. Decision lag
- C. Implementation lag
- D. Public resistance

Correct answer: D. Public resistance

Explanation: Public resistance can be a challenge in changing government spending and taxation policies. Political considerations and public opinion may impact the feasibility and implementation of desired fiscal policy changes.

Guidance time: 1 minute

Difficulty level: Easy

59. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is a potential consequence of deficit financing?

- A. Lower interest rates
- B. Reduced public debt
- C. Increased government revenue
- D. Inflationary pressures

Correct answer: D. Inflationary pressures

Explanation: Deficit financing, which involves government borrowing to finance expenditures, can lead to inflationary pressures. Increased government spending without a corresponding increase in productive capacity can result in excess aggregate demand and rising prices.

Guidance time: 1 minute

Difficulty level: Easy

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60. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can fiscal policy impact interest rates?

- A. By reducing government spending
- B. By increasing government borrowing
- C. By implementing austerity measures
- D. By reducing taxes

Correct answer: B. By increasing government borrowing

Explanation: Fiscal policy can impact interest rates by increasing government borrowing. When the government competes with the private sector for funds, it can lead to higher interest rates, potentially affecting private investment and consumption.

Guidance time: 1 minute

Difficulty level: Easy

61. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can fiscal policy promote long-run economic growth through infrastructure spending?

- A. By reducing government expenditure on infrastructure
- B. By increasing taxes on infrastructure projects
- C. By providing incentives for private investment in infrastructure
- D. By eliminating infrastructure projects altogether

Correct answer: C. By providing incentives for private investment in infrastructure

Explanation: Fiscal policy can promote long-run economic growth through infrastructure spending by providing incentives for private investment in infrastructure projects. This can attract private sector participation, increase investment in infrastructure, and stimulate economic growth.

Guidance time: 1 minute

Difficulty level: Easy

62. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is the role of fiscal policy in human capital formation?

- A. Reducing investments in education and healthcare
- B. Encouraging skill development and education
- C. Increasing taxes on education and healthcare
- D. Eliminating funding for research and development

Correct answer: B. Encouraging skill development and education

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Explanation: Fiscal policy plays a role in human capital formation by encouraging skill development and education. This can be achieved through investments in education, healthcare, and research and development, which contribute to the development of human capital and long-term economic growth.

Guidance time: 1 minute

Difficulty level: Easy

63. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can fiscal policy impact savings and investment?

- A. By discouraging savings and investment through high taxes
- B. By reducing government borrowing
- C. By eliminating investment incentives
- D. By increasing taxes on savings

Correct answer: A. By discouraging savings and investment through high taxes

Explanation: Fiscal policy can impact savings and investment by discouraging them through high taxes. When taxes on savings and investment are high, individuals and businesses have less incentive to save and invest, which can negatively affect long-run economic growth.

Guidance time: 1 minute

Difficulty level: Easy

64. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is the purpose of implementing a progressive tax system?

- A. To discourage work and savings
- B. To promote income equality
- C. To reduce government revenue
- D. To encourage tax evasion

Correct answer: B. To promote income equality

Explanation: The purpose of implementing a progressive tax system is to promote income equality. Progressive taxes ensure that those with higher incomes contribute a larger proportion of their income in taxes, thereby reducing income inequality and promoting a more equitable distribution of wealth.

Guidance time: 1 minute

Difficulty level: Easy

65. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can fiscal policy address market failures resulting from externalities?

A. By reducing government intervention in the economy

B. By eliminating regulations and subsidies

C. By implementing environmental taxes and subsidies

D. By promoting monopolistic practices

Correct answer: C. By implementing environmental taxes and subsidies

Explanation: Fiscal policy can address market failures resulting from externalities by implementing environmental taxes and subsidies. Environmental taxes can internalize the costs of pollution, while subsidies can incentivize environmentally friendly practices, helping to correct market failures and promote sustainability.

Guidance time: 1 minute

Difficulty level: Easy

66. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is the potential impact of excessive taxation on investment incentives?

- A. It encourages investment and savings
- B. It has no impact on investment incentives
- C. It discourages investment and savings
- D. It leads to higher economic growth

Correct answer: C. It discourages investment and savings

Explanation: Excessive taxation can discourage investment and savings by reducing the incentives for individuals and businesses to invest and accumulate capital. High tax burdens can hinder economic growth and hinder long-run investment and savings rates.

Guidance time: 1 minute

Difficulty level: Easy

67. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can fiscal policy contribute to reducing poverty?

- A. By reducing government spending on social programs
- B. By increasing taxes on low-income individuals
- C. By implementing targeted social welfare programs
- D. By promoting income inequality

Correct answer: C. By implementing targeted social welfare programs

Explanation: Fiscal policy can contribute to reducing poverty by implementing targeted social welfare programs. These programs provide support and assistance to low-income individuals and families, helping to alleviate poverty and improve social well-being.

Guidance time: 1 minute

Difficulty level: Easy

68. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is a limitation of fiscal policy in reducing income inequalities?

- A. Difficulty in implementing progressive tax systems
- B. Inability to provide targeted social welfare programs
- C. Public resistance to redistributive policies
- D. Lack of government resources

Correct answer: C. Public resistance to redistributive policies

Explanation: A limitation of fiscal policy in reducing income inequalities is public resistance to redistributive policies. Political and social factors can make it challenging to implement and sustain policies that aim to redistribute income and reduce inequalities.

Guidance time: 1 minute

Difficulty level: Easy

69. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can deficit financing impact future generations?

- A. By reducing government debt burden
- B. By increasing economic growth rates
- C. By creating a perpetual burden of debt repayment
- D. By reducing inflationary pressures

Correct answer: C. By creating a perpetual burden of debt repayment

Explanation: Deficit financing can impact future generations by creating a perpetual burden of debt repayment. If deficits are not managed effectively and the economy does not generate sufficient surpluses to service the debt, future generations may face challenges in repaying the accumulated debt.

Guidance time: 1 minute

Difficulty level: Easy

70. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is the potential impact of government borrowing on interest rates?

- A. It increases interest rates
- B. It decreases interest rates
- C. It has no impact on interest rates

D. It depends on other economic factors

Correct answer: A. It increases interest rates

Explanation: Government borrowing can increase interest rates by increasing the demand for loanable funds, potentially crowding out private sector borrowing. This can lead to higher interest rates, affecting investment and consumption decisions.

Guidance time: 1 minute

Difficulty level: Easy

71. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is crowding out in the context of fiscal policy?

- A. The substitution of private spending by government spending
- B. The reduction of government borrowing from the credit market
- C. The decrease in interest rates due to government spending
- D. The increase in private investment during recessions

Correct answer: A. The substitution of private spending by government spending

Explanation: Crowding out refers to the situation where government spending replaces or substitutes private spending in an economy. When the government increases its spending through expansionary fiscal policy, it may lead to a decrease in private spending, reducing the overall effectiveness of fiscal policy in stimulating aggregate demand.

Guidance time: 1 minute

Difficulty level: Easy

72. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How is a budget deficit financed by the government?

- A. Through reduced government spending
- B. Through increased taxes
- C. Through government borrowing from the credit market
- D. Through monetary policy measures

Correct answer: C. Through government borrowing from the credit market

Explanation: A budget deficit, which occurs when government expenditures exceed tax revenues, is typically financed by the government through borrowing from the credit market. This involves issuing long-term, interest-bearing bonds to raise funds and finance the deficit.

Guidance time: 1 minute

Difficulty level: Easy

73. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is the impact of government borrowing on interest rates?

- A.It decreases interest rates
- B.It has no impact on interest rates
- C.It increases interest rates
- D.It depends on other economic factors

Correct answer: C.It increases interest rates

Explanation: Government borrowing from the credit market tends to reduce the amount of funds available, leading to an increase in interest rates. Higher interest rates can discourage private sector investment and consumption expenditures that are sensitive to interest rate changes.

Guidance time: 1 minute

Difficulty level: Easy

74. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is the effect of crowding out on private investment and consumption expenditures?

- A.It increases private investment and consumption expenditures
- B.It has no impact on private investment and consumption expenditures
- C.It decreases private investment and consumption expenditures
- D.It depends on the size of the budget deficit

Correct answer: C.It decreases private investment and consumption expenditures

Explanation: Crowding out occurs when government spending substitutes private spending, leading to a decrease in private investment and consumption expenditures. The increase in government borrowing and higher interest rates can discourage private sector investment and borrowing, reducing overall spending in the economy.

Guidance time: 1 minute

Difficulty level: Easy

75. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: When is crowding out less likely to occur?

- A.During periods of economic recession
- B.During periods of economic expansion
- C.During periods of high inflation
- D.During periods of low interest rates

Correct answer: A.During periods of economic recession

Explanation: Crowding out is less likely to occur during periods of economic recession. In deep recessions, private sector investment and spending are already minimal, so there is less private spending to be crowded out.

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Additionally, during recessions, the government can borrow from the market without significantly increasing interest rates.

Guidance time: 1 minute

Difficulty level: Easy

76. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How does crowding out impact the effectiveness of expansionary fiscal policy?

- A.It enhances the effectiveness of expansionary fiscal policy
- B.It has no impact on the effectiveness of expansionary fiscal policy
- C.It diminishes the effectiveness of expansionary fiscal policy
- D.It depends on the size of the budget deficit

Correct answer: C.It diminishes the effectiveness of expansionary fiscal policy

Explanation: Crowding out diminishes the effectiveness of expansionary fiscal policy. When government spending crowds out private spending, the overall impact on aggregate demand from expansionary fiscal policy is reduced. The decrease in private investment and consumption expenditures offsets some of the intended stimulus.

Guidance time: 1 minute

Difficulty level: Easy

77. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How can crowding out affect long-run economic growth prospects?

- A.It enhances long-run economic growth prospects
- B.It has no impact on long-run economic growth prospects
- C.It reduces long-run economic growth prospects
- D.It depends on the size of the budget deficit

Correct answer: C.It reduces long-run economic growth prospects

Explanation: Crowding out can reduce long-run economic growth prospects. When private investment and consumption expenditures are crowded out by government spending, it can hinder private sector investment, which is essential for long-term economic growth. The reduction in private sector activity may limit the economy's potential for sustained growth.

Guidance time: 1 minute

Difficulty level: Easy

78. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What factors determine the occurrence of crowding out?

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- A.The size of the budget deficit
- B.The level of government borrowing
- C.The sensitivity of private spending to interest rates
- D.All of the above

Correct answer: D.All of the above

Explanation: The occurrence of crowding out is determined by various factors, including the size of the budget deficit, the level of government borrowing, and the sensitivity of private spending to interest rates. A larger budget deficit, higher government borrowing, and a higher sensitivity of private spending to interest rates increase the likelihood of crowding out.

Guidance time: 1 minute

Difficulty level: Easy

79. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: How does crowding out differ during periods of economic expansion?

- A.Private investment and consumption expenditures increase during economic expansion
- B.Crowding out has a larger impact during economic expansion
- C.Government borrowing decreases during economic expansion
- D.Crowding out is less likely to occur during economic expansion

Correct answer: D.Crowding out is less likely to occur during economic expansion

Explanation: Crowding out is less likely to occur during periods of economic expansion. During economic expansion, private investment and consumption expenditures tend to be higher, reducing the relative impact of government spending on crowding out private spending. Additionally, the increased economic activity may provide room for government borrowing without significantly affecting interest rates.

Guidance time: 1 minute

Difficulty level: Easy

80. **Topic:** Fiscal Policy for Long-run Economic Growth

Question: What is the relationship between crowding out and the effectiveness of fiscal policy?

- A.Crowding out enhances the effectiveness of fiscal policy
- B.Crowding out has no impact on the effectiveness of fiscal policy
- C.Crowding out diminishes the effectiveness of fiscal policy
- D.Crowding out is unrelated to the effectiveness of fiscal policy

Correct answer: C.Crowding out diminishes the effectiveness of fiscal policy

Explanation: Crowding out diminishes the effectiveness of fiscal policy. When government spending crowds out private spending, the intended impact of fiscal policy in stimulating aggregate demand is reduced. Private investment and consumption expenditures decrease, offsetting some of the desired stimulus.

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Guidance time: 1 minute

Difficulty level: Easy

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CHAPTER 08 MONEY MARKET

UNIT - 1: THE CONCEPT OF MONEY DEMAND: IMPORTANT THEORIES

1.Topic: Functions of Money

Question: Which of the following is NOT a function of money?

- a) Medium of Exchange
- b) Unit of Account
- c) Store of Value
- d) Method of Production

Correct answer: d) Method of Production

Explanation: Money serves as a medium of exchange, unit of account, and store of value. It does not function as a method of production.

Guidance time: 2 minutes

Difficulty level: Easy

2.Topic: Barter System

Question: In a barter economy, why is it difficult to find a person to trade with?

- a) Because people usually don't need the exact goods you have
- b) Because there's no common medium of exchange
- c) Because trade is usually one-sided
- d) All of the above

Correct answer: d) All of the above

Explanation: In a barter economy, trade is difficult because there's no common medium of exchange and it's hard to find someone who wants exactly what you have and has exactly what you need.

Guidance time: 2 minutes

Difficulty level: Medium

3.Topic: Characteristics of Money

Question: Which of the following is NOT a characteristic of money?

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a) Easily reproducible

b) Durable

c) Portable

d) Divisible

Correct answer: a) Easily reproducible

Explanation: Money should be durable, portable, and divisible but not easily reproducible. If it was easily reproducible, it would lose its value.

Guidance time: 2 minutes

Difficulty level: Easy

4.Topic: Fiat Money

Question: What is the main characteristic of fiat money?

- a) It is backed by gold or silver
- b) It has value because a nation agrees to ascribe a value to it
- c) It is physically heavy and difficult to carry around
- d) It can be easily reproduced

Correct answer: b) It has value because a nation agrees to ascribe a value to it

Explanation: Fiat money has value because a nation collectively agrees to ascribe a value to it. It's not backed by any physical commodity like gold or silver.

Guidance time: 2 minutes

Difficulty level: Medium

5.Topic: Measurement of Money

Question: Which of the following is NOT counted as broad money according to IMF?

- a) National currencies
- b) Transferable deposits
- c) Shares of stock
- d) Other deposits

Correct answer: c) Shares of stock

Explanation: According to IMF, broad money includes national currencies, transferable deposits, and other deposits. It does not include shares of stock.

Guidance time: 2 minutes

Difficulty level: Medium

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6.Topic: Store of Value

Question: Which of the following correctly describes the function of money as a "store of value"?

- a) Money can be used to buy goods and services
- b) Money provides a measure for the market value of goods and services
- c) Money can be saved and used in the future
- d) Money facilitates barter transactions

Correct answer: c) Money can be saved and used in the future

Explanation: As a store of value, money has the ability to hold value over time, which allows it to be saved and used in the future.

Guidance time: 2 minutes

Difficulty level: Medium

7.Topic: Evolution of Money

Question: Which of the following was used as a form of money in the past?

- a) Cowry shells
- b) Plastic cards
- c) Cryptocurrencies
- d) IOUs

Correct answer: a) Cowry shells

Explanation: Historically, many different items have been used as money, including cowry shells, barley, peppercorns, gold, and silver.

Guidance time: 2 minutes

Difficulty level: Easy

8.Topic: Barter System

Question: In a barter system, what challenge does the concept of "double coincidence of wants" present?

- a) Difficulty in determining the value of goods or services
- b) Difficulty in finding two people who each have what the other wants
- c) Difficulty in storing the goods for future use
- d) Difficulty in dividing goods into smaller parts

Correct answer: b) Difficulty in finding two people who each have what the other wants

Explanation: The double coincidence of wants is a major challenge in a barter economy. It refers to the problem of finding two people who each have a good or service that the other wants.

Guidance time: 2 minutes

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Difficulty level: Medium

9.Topic: Fiat Money

Question: Fiat money has value because:

- a) It is backed by gold
- b) People have faith in it and agree to use it as a medium of exchange
- c) It has intrinsic value
- d) It is abundant and easy to produce

Correct answer: b) People have faith in it and agree to use it as a medium of exchange

Explanation: Fiat money has value because people have faith in it and agree to use it as a medium of exchange. It is not backed by gold or any other precious material.

Guidance time: 2 minutes

Difficulty level: Medium

10.Topic: Liquidity

Question: Liquidity refers to:

- a) The amount of money in an economy
- b) The ability of an asset to be quickly converted into cash without losing value
- c) The rate at which money circulates in an economy
- d) The value of all goods and services produced in a country

Correct answer: b) The ability of an asset to be quickly converted into cash without losing value

Explanation: Liquidity refers to the ease with which an asset or security can be converted into cash without affecting its market price.

Guidance time: 2 minutes

Difficulty level: Medium

11.Topic: Characteristics of Money

Question: Which of the following is a key characteristic of money?

- a) It must be intrinsically valuable
- b) It must be easily reproduced
- c) It must be scarce
- d) It must have a high value in relation to its weight

Correct answer: c) It must be scarce

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Explanation: Money must be scarce relative to its demand to maintain its value. If it was not scarce, it would not be valuable.

Guidance time: 2 minutes

Difficulty level: Medium

12.Topic: Functions of Money

Question: The function of money as a 'unit of account' is employed when:

- a) We express the value of a good or service in terms of money
- b) We use money to buy goods or services
- c) We store our wealth in the form of money for future use
- d) We express the value of a good or service in terms of another good or service

Correct answer: a) We express the value of a good or service in terms of money

Explanation: As a unit of account, money provides a common base for prices. It allows us to express the value of goods and services in terms of money.

Guidance time: 2 minutes

Difficulty level: Medium

13.Topic: Barter System

Question: What is a major disadvantage of the barter system?

- a) Lack of double coincidence of wants
- b) High transaction costs
- c) Difficulty in storing wealth
- d) All of the above

Correct answer: d) All of the above

Explanation: In a barter system, there is a lack of double coincidence of wants, high transaction costs and it is difficult to store wealth, all of which make it less efficient than a monetary system.

Guidance time: 2 minutes

Difficulty level: Medium

14.Topic: Evolution of Money

Question: How did the creation of banks impact the evolution of money?

- a) Banks allowed people to deposit precious metals and transact using a note that claimed ownership of the deposit
- b) Banks made it easier to reproduce money
- c) Banks introduced the concept of interest, which increased the supply of money

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d) Banks enabled the creation of cryptocurrencies

Correct answer: a) Banks allowed people to deposit precious metals and transact using a note that claimed ownership of the deposit

Explanation: Banks impacted the evolution of money by allowing people to deposit precious metals and transact using a note that claimed ownership of the deposit. This system eventually led to the creation of fiat money.

Guidance time: 3 minutes

Difficulty level: Medium

15.Topic: Measurement of Money

Question: Transferable deposits are part of:

- a) Narrow money
- b) Broad money
- c) Both narrow and broad money
- d) Neither narrow nor broad money

Correct answer: c) Both narrow and broad money

Explanation: Transferable deposits are considered a part of both narrow money (most liquid forms of money) and broad money (includes more types of deposits and even some types of short-term securities).

Guidance time: 2 minutes

Difficulty level: Hard

16.Topic: Demand for Money and Income

Question: If an individual's income increases, what happens to their demand for money, assuming all other factors remain constant?

- a) It decreases
- b) It increases
- c) It remains the same
- d) There is not enough information to answer the Question

Correct answer: b) It increases

Explanation: Higher income usually leads to higher expenditure. To finance this increased expenditure, individuals would need to hold more money, hence increasing their demand for money.

Guidance time: 2 minutes

Difficulty level: Medium

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17.Topic: The Quantity Theory of Money (QTM)

Question: According to QTM, what is the relationship between the quantity of money and the price level?

- a) Inversely proportional
- b) Directly proportional
- c) No relationship
- d) It varies depending on other factors

Correct answer: b) Directly proportional

Explanation: The Quantity Theory of Money (QTM) asserts that there is a direct relationship between the quantity of money in an economy and the level of prices of goods and services. In other words, as the quantity of money increases, the price level also increases, all else being equal.

Guidance time: 2 minutes

Difficulty level: Medium

18.Topic: Equation of Exchange

Question: In the equation of exchange ($MV = PT$), what does V represent?

- a) The total amount of money in circulation
- b) The transactions velocity of circulation
- c) The average price level
- d) The total number of transactions

Correct answer: b) The transactions velocity of circulation

Explanation: In the equation of exchange, V stands for the transactions velocity of circulation, which is the average number of times a unit of money is spent on goods and services across all transactions in a given period.

Guidance time: 2 minutes

Difficulty level: Medium

19.Topic: Cambridge Approach to Money Demand

Question: What are the two ways in which money increases utility according to the Cambridge approach?

- a) Facilitating investment and saving
- b) Encouraging consumption and production
- c) Enabling the possibility of split-up of sale and purchase to two different points of time, and acting as a hedge against uncertainty
- d) Reducing transaction costs and inflation

Correct answer: c) Enabling the possibility of split-up of sale and purchase to two different points of time, and acting as a hedge against uncertainty

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Explanation: The Cambridge approach posits that money enhances utility by allowing for the split-up of sale and purchase transactions and serving as a hedge against uncertainty.

Guidance time: 3 minutes

Difficulty level: Hard

20.Topic: Cambridge Money Demand Function

Question: In the Cambridge money demand function $M_d = kPY$, what does ' k ' stand for?

- a) The average price level of currently produced goods and services
- b) Real national income
- c) The proportion of nominal income (PY) that people want to hold as cash balances
- d) The demand for money balances

Correct answer: c) The proportion of nominal income (PY) that people want to hold as cash balances

Explanation: In the Cambridge money demand function, ' k ' is a parameter reflecting the ratio of desired money balances to total transactions or the proportion of nominal income that people want to hold as cash balances.

Guidance time: 3 minutes

Difficulty level: Hard

21.Topic: Opportunity Cost and Money Demand

Question: What happens to the demand for money when the interest rate increases, assuming all other factors remain constant?

- a) Demand for money decreases
- b) Demand for money increases
- c) Demand for money remains the same
- d) There's not enough information to answer

Correct answer: a) Demand for money decreases

Explanation: The opportunity cost of holding money is the interest rate a person could earn on other assets. Therefore, higher the interest rate, higher would be the opportunity cost of holding cash and lower the demand for money.

Guidance time: 2 minutes

Difficulty level: Medium

22.Topic: Financial Innovation and Money Demand

Question: How does financial innovation, such as internet banking, affect the demand for money?

- a) It increases the demand for money

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b) It decreases the demand for money

c) It has no effect on the demand for money

d) The effect varies depending on other factors

Correct answer: b) It decreases the demand for money

Explanation: Innovations such as internet banking, application based transfers and automated teller machines reduce the need for holding liquid money. Hence, they decrease the demand for money.

Guidance time: 2 minutes

Difficulty level: Medium

23.Topic: Demand for Money and General Price Level

Question: If the general level of prices in an economy increases, what happens to the demand for money, assuming all other factors remain constant?

a) Demand for money decreases

b) Demand for money increases

c) Demand for money remains the same

d) There's not enough information to answer

Correct answer: b) Demand for money increases

Explanation: The quantity which people desire to hold is directly proportional to the prevailing price level; higher the prices, higher should be the holding of money.

Guidance time: 2 minutes

Difficulty level: Medium

24.Topic: Credit Money in the Equation of Exchange

Question: In the expanded equation of exchange $MV + M'V' = PT$, what does M' represent?

a) The total quantity of actual money

b) The total quantity of credit money

c) The velocity of circulation of actual money

d) The velocity of circulation of credit money

Correct answer: b) The total quantity of credit money

Explanation: In the expanded equation of exchange, M' represents the total quantity of credit money in the economy.

Guidance time: 2 minutes

Difficulty level: Medium

25.Topic: Transaction Demand for Money

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Question: According to the neoclassical theory, what is the primary determinant of the demand for money?

a) The quantity of money in circulation

b) The total number of transactions

c) Money income

d) The general price level

Correct answer: c) Money income

Explanation: According to the neoclassical theory, the demand for money is primarily determined by money income. This is because as income increases, the need for money to conduct transactions also increases.

Guidance time: 2 minutes

Difficulty level: Medium

26.Topic: Classical Approach: The Quantity Theory of Money (QTM)

Question: Who first propounded the Quantity Theory of Money (QTM)?

a) Adam Smith

b) John Maynard Keynes

c) Irving Fisher

d) Alfred Marshall

Correct answer: c) Irving Fisher

Explanation: The quantity theory of money, one of the oldest theories in Economics, was first propounded by Irving Fisher of Yale University.

Guidance time: 1 minute

Difficulty level: Medium

27.Topic: Fisher's Version of QTM

Question: In Fisher's version of the Quantity Theory of Money, which variable represents the average price level?

a) M

b) V

c) P

d) T

Correct answer: c) P

Explanation: In Fisher's version of the Quantity Theory of Money, P represents the average price level.

Guidance time: 1 minute

Difficulty level: Medium

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28.Topic: The Cambridge Approach

Question: Who was NOT associated with the Cambridge Approach to the Quantity Theory of Money?

a) Alfred Marshall

b) A.C. Pigou

c) D.H. Robertson

d) Adam Smith

Correct answer: d) Adam Smith

Explanation: Alfred Marshall, A.C. Pigou, D.H. Robertson and John Maynard Keynes were the economists associated with the Cambridge Approach. Adam Smith was not involved in this approach.

Guidance time: 1 minute

Difficulty level: Medium

29.Topic: Demand for Money

Question: The Cambridge approach suggested that the demand for money increases utility in how many ways?

a) One

b) Two

c) Three

d) Four

Correct answer: b) Two

Explanation: According to the Cambridge approach, money increases utility by enabling the split-up of sale and purchase to different points in time and acting as a hedge against uncertainty.

Guidance time: 2 minutes

Difficulty level: Medium

30.Topic: Demand for Money

Question: In the Cambridge money demand function $Md = kPY$, what does 'Md' stand for?

a) Money demand

b) Monetary dynamics

c) Money development

d) Monetary duration

Correct answer: a) Money demand

Explanation: In the equation $Md = kPY$, Md stands for money demand.

Guidance time: 1 minute

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Difficulty level: Medium

31.Topic: Demand for Money

Question: What does 'k' represent in the Cambridge money demand function?

a) Interest rate

b) National income

c) The proportion of nominal income people want to hold as cash

d) Price level

Correct answer: c) The proportion of nominal income people want to hold as cash

Explanation: 'k' is a parameter in the Cambridge money demand function that represents the proportion of nominal income that people want to hold as cash balances.

Guidance time: 2 minutes

Difficulty level: Hard

32.Topic: Demand for Money

Question: What is the opportunity cost of holding money, according to the given passage?

a) The interest rate a person could earn on other assets

b) The price level of currently produced goods and services

c) The amount of real GDP

d) The degree of financial innovation

Correct answer: a) The interest rate a person could earn on other assets

Explanation: The opportunity cost of holding money is the interest that a person could earn on other assets, such as bonds.

Guidance time: 2 minutes

Difficulty level: Medium

33.Topic: Classical Approach: The Quantity Theory of Money (QTM)

Question: In the expanded form of Fisher's equation of exchange, $MV + M'V' = PT$, what does 'M' represent?

a) The total amount of money in circulation

b) The total quantity of credit money

c) Transactions velocity of circulation

d) The total number of transactions

Correct answer: b) The total quantity of credit money

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Explanation: In the expanded form of Fisher's equation of exchange, M' represents the total quantity of credit money.

Guidance time: 2 minutes

Difficulty level: Hard

34.Topic: Demand for Money

Question: Which of the following factors is NOT mentioned in the passage as influencing the quantity of nominal money people would like to hold in liquid form?

- a) Income
- b) General level of prices
- c) Rate of interest
- d) Number of household members

Correct answer: d) Number of household members

Explanation: According to the passage, the quantity of nominal money people would like to hold in liquid form depends on factors such as income, general level of prices, rate of interest, real GDP, and the degree of financial innovation. The number of household members is not mentioned as a factor.

Guidance time: 2 minutes

Difficulty level: Medium

35.Topic: Demand for Money

Question: According to the passage, why do individuals, households, and firms hold money?

- a) Because it is risky
- b) Because it is liquid and convenient for daily transactions
- c) Because it provides high returns
- d) Because it depreciates over time

Correct answer: b) Because it is liquid and convenient for daily transactions

Explanation: According to the passage, individuals, households, and firms hold money because it is liquid and offers the most convenient way to accomplish their day-to-day transactions, even though it offers little or no return.

Guidance time: 2 minutes

Difficulty level: Medium

Sure, here are ten more MCQs:

36.Topic: Classical Approach: The Quantity Theory of Money (QTM)

Question: According to the Quantity Theory of Money, changes in the general level of commodity prices are determined by changes in?

a) The volume of transactions

b) The average price level

c) The quantity of money in circulation

d) The velocity of circulation

Correct answer: c) The quantity of money in circulation

Explanation: The Quantity Theory of Money suggests that the changes in the general level of commodity prices or changes in the value or purchasing power of money are primarily determined by changes in the quantity of money in circulation.

Guidance time: 2 minutes

Difficulty level: Medium

37.Topic: Demand for Money

Question: The opportunity cost of holding money increases with:

- a) Decrease in the price level
- b) Increase in interest rates
- c) Decrease in interest rates
- d) Increase in income

Correct answer: b) Increase in interest rates

Explanation: The opportunity cost of holding money is the interest rate a person could earn on other assets. Therefore, higher the interest rate, higher would be opportunity cost of holding cash and lower the demand for money.

Guidance time: 1 minute

Difficulty level: Easy

38.Topic: The Cambridge Approach

Question: According to the Cambridge Approach, what is the relationship between the demand for money and national income?

- a) Inverse
- b) Direct
- c) No relationship
- d) Complex

Correct answer: b) Direct

Explanation: The Cambridge Approach suggests that the demand for money is primarily determined by the need to conduct transactions which will have a positive relationship to the money value of aggregate expenditure. Since the latter is equal to money national income, the demand for money increases as national income increases.

Guidance time: 2 minutes

Difficulty level: Medium

39.Topic: Classical Approach: The Quantity Theory of Money (QTM)

Question: In the expanded form of Fisher's equation of exchange, what does 'V' stand for?

- a) The total quantity of credit money
- b) The total amount of money in circulation
- c) Transactions velocity of circulation
- d) The total number of transactions

Correct answer: c) Transactions velocity of circulation

Explanation: In Fisher's equation of exchange, 'V' stands for the transactions velocity of circulation, i.e., the average number of times a unit of money is spent in purchasing goods and services.

Guidance time: 2 minutes

Difficulty level: Hard

40.Topic: Demand for Money

Question: Which one of the following factors decrease the need for holding liquid money?

- a) Increase in income
- b) Decrease in prices
- c) Increase in the rate of interest
- d) Financial innovations

Correct answer: d) Financial innovations

Explanation: Innovations such as internet banking, application based transfers and automated teller machines reduce the need for holding liquid money.

Guidance time: 2 minutes

Difficulty level: Medium

41.Topic: Demand for Money

Question: According to the Cambridge Approach, which of the following represents transaction motive?

- a) Hedging against uncertainty
- b) The possibility of splitting sale and purchase to two different points of time

c) Increasing wealth

d) Reducing interest rates

Correct answer: b) The possibility of splitting sale and purchase to two different points of time

Explanation: According to the Cambridge Approach, money increases utility by enabling the split-up of sale and purchase to two different points of time, which represents the transaction motive.

Guidance time: 2 minutes

Difficulty level: Medium

42.Topic: Demand for Money

Question: The Quantity Theory of Money suggests a strong relationship between which of the following variables?

- a) Money and price level
- b) Money and velocity of circulation
- c) Money and the number of transactions
- d) Money and credit money

Correct answer: a) Money and price level

Explanation: The Quantity Theory of Money suggests a strong relationship between money and the price level. The quantity of money is the main determinant of the price level or the value of money.

Guidance time: 2 minutes

Difficulty level: Medium

43.Topic: Demand for Money

Question: What does 'k' in the Cambridge money demand function represent?

- a) Proportion of real GDP people want to hold as cash
- b) Proportion of nominal income people want to hold as cash
- c) Proportion of interest rates people want to hold as cash
- d) Proportion of prices people want to hold as cash

Correct answer: b) Proportion of nominal income people want to hold as cash

Explanation: In the Cambridge money demand function, 'k' is a parameter that represents the proportion of nominal income that people want to hold as cash balances.

Guidance time: 2 minutes

Difficulty level: Hard

44.Topic: Demand for Money

Question: According to the given passage, which of the following is a reason for the demand for money?

- a) Demand for credit
- b) Demand for liquidity and demand to store value
- c) Demand for goods and services
- d) Demand for interest yielding assets

Correct answer: b) Demand for liquidity and demand to store value

Explanation: According to the passage, the demand for money is a demand for liquidity and a demand to store value.

Guidance time: 2 minutes

Difficulty level: Medium

45.Topic: The Keynesian Theory of Demand for Money

Question: According to John Maynard Keynes, people hold money for which of the following motives?

- a) Transactional motive
- b) Precautionary motive
- c) Speculative motive
- d) All of the above

Correct answer: d) All of the above

Explanation: According to Keynes, people hold money (cash) for three reasons: transactional, precautionary, and speculative motives.

Guidance time: 2 minutes

Difficulty level: Easy

46.Topic: The Keynesian Theory of Demand for Money

Question: The speculative demand for money is inversely related to:

- a) Interest rates
- b) The level of income
- c) The rate of inflation
- d) The level of employment

Correct answer: a) Interest rates

Explanation: The speculative demand for money reflects people's desire to hold cash to exploit any attractive investment opportunity requiring cash expenditure. When interest rates are high, holding cash can result in a lost opportunity to earn more in the form of interest, thus leading to a decrease in the speculative demand for money.

Guidance time: 2 minutes

Difficulty level: Medium

47.Topic: The Keynesian Theory of Demand for Money

Question: In the equation $L_r = kY$, what does 'k' represent?

- a) The ratio of earnings kept for transaction purposes
- b) The level of income
- c) The rate of interest
- d) The rate of inflation

Correct answer: a) The ratio of earnings kept for transaction purposes

Explanation: In this equation, 'k' represents the ratio of earnings kept for transaction purposes, 'Y' represents the level of income, and 'L_r' is the transactions demand for money.

Guidance time: 3 minutes

Difficulty level: Medium

48.Topic: The Keynesian Theory of Demand for Money

Question: According to Keynes, the transaction demand for money is directly related to:

- a) The rate of inflation
- b) The rate of interest
- c) The level of income
- d) The level of unemployment

Correct answer: c) The level of income

Explanation: According to Keynes, the transaction demand for money is a direct proportional and positive function of the level of income.

Guidance time: 2 minutes

Difficulty level: Easy

49.Topic: The Keynesian Theory of Demand for Money

Question: If the current rate of interest is lower than the critical rate of interest, a wealth-holder's asset portfolio would consist mainly of:

- a) Government bonds
- b) Liquid cash
- c) Stocks
- d) Real estate

Correct answer: b) Liquid cash

Explanation: According to Keynes, if the current rate of interest is lower than the critical rate of interest, wealth-holders would have an incentive to hold their wealth in the form of liquid cash rather than bonds to avoid potential capital losses that would result from the anticipated increase in interest rates.

Guidance time: 2 minutes

Difficulty level: Medium

50.Topic: The Keynesian Theory of Demand for Money

Question: The term 'Liquidity Trap' is used when:

- a) The monetary policy is ineffective in stimulating the economy
- b) There is a decrease in the supply of money
- c) The rate of interest is greater than the critical rate of interest
- d) The rate of inflation is high

Correct answer: a) The monetary policy is ineffective in stimulating the economy

Explanation: A 'Liquidity Trap' occurs when expansionary monetary policy (increase in money supply) does not increase the interest rate, income and hence does not stimulate economic growth. It is a situation where the public is prepared to hold onto whatever amount of money is supplied, at a given rate of interest.

Guidance time: 2 minutes

Difficulty level: Medium

51.Topic: The Keynesian Theory of Demand for Money

Question: In a liquidity trap, the speculative money demand curve becomes parallel to the:

- a) Y-axis
- b) X-axis
- c) Neither X nor Y axis
- d) Both X and Y axis

Correct answer: b) X-axis

Explanation: In a liquidity trap, investors would maintain cash savings rather than hold bonds. The speculative demand becomes perfectly elastic with respect to the interest rate and the speculative money demand curve becomes parallel to the X-axis.

Guidance time: 3 minutes

Difficulty level: Medium

52.Topic: The Keynesian Theory of Demand for Money

Question: The precautionary demand for money is influenced by all of the following EXCEPT:

- a) Size of income
- b) Prevailing economic conditions
- c) Personal characteristics like optimism/pessimism

- d) The rate of inflation

Correct answer: d) The rate of inflation

Explanation: The precautionary demand for money is influenced by the size of income, prevailing economic conditions, and personal characteristics. While inflation might indirectly influence this demand, it is not a direct determinant.

Guidance time: 3 minutes

Difficulty level: Hard

53.Topic: The Keynesian Theory of Demand for Money

Question: In the context of Keynes' theory, which of the following scenarios would lead to an increase in speculative demand for money?

- a) An increase in interest rates
- b) A decrease in interest rates
- c) Stable interest rates
- d) None of the above

Correct answer: b) A decrease in interest rates

Explanation: The speculative demand for money reflects people's desire to hold cash to exploit any attractive investment opportunity requiring cash expenditure. If interest rates decrease, people might expect them to rise again in the future, leading to a fall in bond prices. Therefore, they might increase their cash holdings to buy bonds at a lower price in the future and make a capital gain.

Guidance time: 3 minutes

Difficulty level: Hard

54.Topic: The Keynesian Theory of Demand for Money

Question: According to Keynes' liquidity preference theory, which motive for holding money is NOT sensitive to the rate of interest?

- a) Transaction motive
- b) Precautionary motive
- c) Speculative motive
- d) Both a) and b)

Correct answer: d) Both a) and b)

Explanation: According to Keynes, the transaction motive and precautionary motive are not very sensitive to changes in the rate of interest. The demand for money under these motives is mainly a function of income level.

Guidance time: 2 minutes

Difficulty level: Medium

55.Topic: The Keynesian Theory of Demand for Money

Question: The rate of interest at which the demand for money becomes infinitely elastic is known as:

- a) The natural rate of interest
- b) The equilibrium rate of interest
- c) The critical rate of interest
- d) None of the above

Correct answer: c) The critical rate of interest

Explanation: According to Keynes, the critical rate of interest is the rate at which the demand for money becomes infinitely elastic. This is the point at which people expect the interest rates to fall and, thus, they hold onto their cash instead of investing in bonds.

Guidance time: 3 minutes

Difficulty level: Hard

56.Topic: The Keynesian Theory of Demand for Money

Question: According to the liquidity preference theory, as income increases, the demand for money for transaction and precautionary motives:

- a) Increases
- b) Decreases
- c) Remains the same
- d) Can either increase or decrease

Correct answer: a) Increases

Explanation: According to Keynes, the transaction and precautionary demand for money are directly related to the level of income. As income increases, the demand for money for transaction and precautionary motives also increases.

Guidance time: 2 minutes

Difficulty level: Easy

57.Topic: The Keynesian Theory of Demand for Money

Question: Keynes' theory of the demand for money was part of his broader theory known as:

- a) The General Theory of Employment, Interest and Money
- b) The Theory of Liquidity Preference
- c) The Theory of Capital Accumulation
- d) The Theory of Rational Expectations

Correct answer: a) The General Theory of Employment, Interest and Money

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Explanation: Keynes developed his theory of the demand for money as part of his broader work, "The General Theory of Employment, Interest, and Money," where he laid out his fundamental ideas on macroeconomics.

Guidance time: 2 minutes

Difficulty level: Medium

58.Topic: The Keynesian Theory of Demand for Money

Question: In the context of the precautionary demand for money, 'L2' is a function of:

- a) Income
- b) Interest rate
- c) Both income and interest rate
- d) Neither income nor interest rate

Correct answer: a) Income

Explanation: In Keynes' theory, 'L2' represents the precautionary demand for money, which is a function of income. People want to hold money for precautionary reasons as a form of self-insurance against unexpected future needs.

Guidance time: 2 minutes

Difficulty level: Medium

59.Topic: The Keynesian Theory of Demand for Money

Question: In the context of Keynesian theory, the speculative motive for holding money arises from:

- a) Uncertainties about future income
- b) Uncertainties about future expenditures
- c) Uncertainties about future interest rates
- d) All of the above

Correct answer: c) Uncertainties about future interest rates

Explanation: The speculative motive for holding money is driven by expectations about future changes in interest rates. When people anticipate that interest rates will increase, they may hold more money to take advantage of potentially higher returns on investments.

Guidance time: 3 minutes

Difficulty level: Hard

60.Topic: The Keynesian Theory of Demand for Money

Question: The total demand for money according to Keynes is the sum of:

- a) The transaction and precautionary demands only
- b) The transaction and speculative demands only

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c) The precautionary and speculative demands only

d) The transaction, precautionary, and speculative demands

Correct answer: d) The transaction, precautionary, and speculative demands

Explanation: According to Keynes, the total demand for money is the sum of the transaction, precautionary, and speculative demands for money.

Guidance time: 2 minutes

Difficulty level: Easy

61.Topic: The Keynesian Theory of Demand for Money

Question: In the context of Keynes' theory, which of the following situations would lead to an increase in the precautionary demand for money?

- a) A decrease in income
- b) An increase in income
- c) Stable income
- d) None of the above

Correct answer: b) An increase in income

Explanation: According to Keynes, the precautionary demand for money is positively related to the level of income. As income increases, the precautionary demand for money also increases.

Guidance time: 3 minutes

Difficulty level: Medium

62.Topic: The Keynesian Theory of Demand for Money

Question: The demand for money under the speculative motive will increase if:

- a) The interest rates are expected to rise in the future
- b) The interest rates are expected to fall in the future
- c) The interest rates remain stable
- d) The interest rates rise and then fall

Correct answer: a) The interest rates are expected to rise in the future

Explanation: According to the speculative motive, people hold cash to take advantage of future investment opportunities. If the interest rates are expected to rise in the future, the bond prices will fall. Therefore, people will hold more cash to buy bonds at lower prices in the future and sell them when the interest rates increase.

Guidance time: 3 minutes

Difficulty level: Medium

63.Topic: The Keynesian Theory of Demand for Money

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Question: Which of the following is NOT a criticism of Keynes' theory of demand for money?

- a) It does not consider the role of expectations in determining interest rates
- b) It does not incorporate the impact of changes in the price level on the demand for money
- c) It assumes a direct and proportionate relationship between income and the demand for money
- d) It assumes that interest rate is the only factor affecting the speculative demand for money

Correct answer: a) It does not consider the role of expectations in determining interest rates

Explanation: One of the major features of Keynes' theory of demand for money is its emphasis on the role of expectations, particularly in relation to the speculative demand for money. The criticisms b, c, and d are valid criticisms of Keynes' theory.

Guidance time: 3 minutes

Difficulty level: Hard

64.Topic: The Keynesian Theory of Demand for Money

Question: If a person is holding money due to the speculative motive, they are doing so because they believe:

- a) They will need cash for regular transactions
- b) They may need cash for unexpected expenditures
- c) They will benefit from future changes in interest rates
- d) They will need cash for future investments in fixed assets

Correct answer: c) They will benefit from future changes in interest rates

Explanation: The speculative motive for holding money refers to the desire to hold one's resources in liquid form in order to take advantage of market or price changes. People holding cash for the speculative motive do so because they believe they can benefit from future changes in interest rates.

Guidance time: 3 minutes

Difficulty level: Medium

65.Topic: Inventory Theoretic Approach to Transaction Balances

Question: Who developed the Inventory Theoretic Approach to transaction demand for money?

- a) Milton Friedman
- b) John Maynard Keynes
- c) William Baumol and James Tobin
- d) Albert Einstein

Correct answer: c) William Baumol and James Tobin

Explanation: The Inventory Theoretic Approach, which views money as an inventory held for transaction purposes, was developed by economists William Baumol and James Tobin.

Guidance time: 1 minute

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Difficulty level: Moderate

66.Topic: Inventory Theoretic Approach to Transaction Balances

Question: According to the Inventory Theoretic Approach, why do individuals hold money?

- a) To buy luxury goods
- b) For transaction purposes
- c) To show off their wealth
- d) To avoid taxes

Correct answer: b) For transaction purposes

Explanation: According to the Inventory Theoretic Approach, individuals hold money, or an inventory of money, for their day-to-day transaction purposes.

Guidance time: 2 minutes

Difficulty level: Moderate

67.Topic: The Square Root Rule

Question: The Square Root Rule is a component of which monetary theory?

- a) The Quantity Theory of Money
- b) Keynesian Theory
- c) Inventory Theoretic Approach
- d) Monetarist Theory

Correct answer: c) Inventory Theoretic Approach

Explanation: The Square Root Rule, which determines the average amount of cash withdrawal which minimises cost, is a component of the Inventory Theoretic Approach to Transaction Balances.

Guidance time: 2 minutes

Difficulty level: Moderate

68.Topic: Friedman's Restatement of the Quantity Theory

Question: Who put forward the concept of 'permanent income' as a determinant of money demand?

- a) John Maynard Keynes
- b) Adam Smith
- c) Milton Friedman
- d) Paul Samuelson

Correct answer: c) Milton Friedman

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Explanation: Milton Friedman proposed that it is 'permanent income', not current income, that determines the demand for money. Permanent income is the present expected value of all future income.

Guidance time: 1 minute

Difficulty level: Moderate

69.Topic: Demand for Money as Behaviour toward Risk

Question: According to James Tobin, what do individuals do when faced with various safe and risky assets?

- a) They hold only safe assets
- b) They hold only risky assets
- c) They diversify their portfolio by holding a balanced combination of safe and risky assets
- d) They sell all their assets

Correct answer: c) They diversify their portfolio by holding a balanced combination of safe and risky assets

Explanation: Tobin assumed that individuals, being risk averse, would diversify their portfolios by holding a balance of safe and risky assets to achieve a preferred balance between risk and return.

Guidance time: 1 minute

Difficulty level: Moderate

70.Topic: Tobin's Liquidity Preference Function

Question: According to Tobin, what effect does an increase in the rate of return on bonds have on the demand for holding money?

- a) It increases the demand for holding money
- b) It decreases the demand for holding money
- c) It has no effect on the demand for holding money
- d) It may increase or decrease the demand for holding money, depending on other factors

Correct answer: b) It decreases the demand for holding money

Explanation: Tobin argued that with an increase in the rate of return on bonds, individuals would prefer to hold a greater proportion of their wealth in bonds and less in the form of ready money.

Guidance time: 2 minutes

Difficulty level: Moderate

71.Topic: Theories of Demand for Money

Question: According to most theories of demand for money, how is the demand for money related to interest rates?

- a) The demand for money is directly proportional to interest rates
- b) The demand for money is inversely proportional to interest rates

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c) The demand for money is unrelated to interest rates

d) The relationship between the demand for money and interest rates is complex and cannot be summarized in a simple statement

Correct answer: b) The demand for money is inversely proportional to interest rates

Explanation: In most theories, including Keynesian and post-Keynesian models, there is an inverse relation between demand for money and interest rates, i.e., as interest rates increase, the demand for holding money decreases, and vice versa.

Guidance time: 2 minutes

Difficulty level: Moderate

72.Topic: Theories of Demand for Money

Question: What is the main focus of the Cambridge cash-balance approach?

- a) It focuses on the supply of money as determining prices
- b) It focuses on the relationship between demand for real money and real income
- c) It focuses on the effect of interest rates on the demand for money
- d) It focuses on the relationship between inflation and the demand for money

Correct answer: b) It focuses on the relationship between demand for real money and real income

Explanation: The Cambridge cash-balance approach to the demand for money establishes the formal relationship between the demand for real money balances and real income.

Guidance time: 2 minutes

Difficulty level: Moderate

73.Topic: Tobin's Liquidity Preference Function

Question: What happens to the asset demand for money in Tobin's liquidity preference theory when the rate of interest on bonds falls?

- a) It increases
- b) It decreases
- c) It stays the same
- d) It is unpredictable

Correct answer: a) It increases

Explanation: According to Tobin's liquidity preference theory, the asset demand for money increases as the rate of interest on bonds falls, as people prefer to hold more liquid money when bond returns are low.

Guidance time: 2 minutes

Difficulty level: Moderate

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74.Topic: Theories of Demand for Money

Question: What is the main assumption in Tobin's theory about individuals' behaviour towards risk?

- a) Individuals are risk-seeking
- b) Individuals are risk-neutral
- c) Individuals are risk-averse
- d) Individuals' attitudes towards risk vary

Correct answer: c) Individuals are risk-averse

Explanation: Tobin assumes that individuals show risk-aversion, meaning they prefer less risk to more risk at a given rate of return. Therefore, they diversify their asset portfolio, balancing between safe and risky assets.

Guidance time: 2 minutes

Difficulty level: Moderate

75.Topic: Demand for Money

Question: What is the term for the cost incurred due to holding inventories of money, instead of investing them in interest-bearing assets?

- a) Broker's Fee
- b) Transfer cost
- c) Transaction cost
- d) Opportunity cost

Correct answer: d) Opportunity cost

Explanation: The cost incurred due to holding inventories of money, instead of investing them in interest-bearing assets like savings deposits, bonds, or shares, is called the opportunity cost. It represents the forgone interest earnings that could have been made.

Guidance time: 2 minutes

Difficulty level: Moderate

76.Topic: Demand for Money

Question: According to Tobin, why do individuals hold a diversified portfolio of financial assets?

- a) To minimize the cost of holding money
- b) To gain maximum interest from bonds
- c) To balance risk and return
- d) To maximize the wealth

Correct answer: c) To balance risk and return

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Explanation: Tobin assumes that individuals show risk aversion, which means they prefer less risk to more risk at a given rate of return. Therefore, individuals diversify their portfolio by holding a balanced combination of safe and risky assets.

Guidance time: 2 minutes

Difficulty level: Moderate

77.Topic: Demand for Money

Question: According to Friedman, what factors determine the demand for money?

- a) Current income and relative returns on assets
- b) Permanent income and relative returns on assets
- c) Current income and absolute returns on assets
- d) Permanent income and absolute returns on assets

Correct answer: b) Permanent income and relative returns on assets

Explanation: According to Friedman, the demand for money is determined by the same factors as demand for any other asset, which are permanent income (not current income) and relative returns on assets, incorporating risk.

Guidance time: 2 minutes

Difficulty level: Moderate

78.Topic: Demand for Money

Question: What are the four determinants of the demand for money, according to Friedman?

- a) Permanent income, price level, opportunity cost of money holdings, inflation
- b) Permanent income, price level, opportunity cost of money holdings, deflation
- c) Current income, price level, opportunity cost of money holdings, inflation
- d) Current income, price level, opportunity cost of money holdings, deflation

Correct answer: a) Permanent income, price level, opportunity cost of money holdings, inflation

Explanation: According to Friedman, the nominal demand for money is a function of total wealth (represented by permanent income divided by the discount rate), is positively related to the price level, rises if the opportunity costs of money holdings decline, and is influenced by inflation.

Guidance time: 2 minutes

Difficulty level: Hard

79. Topic: Demand for Money

Question: What does Baumol's Square Root Rule refer to?

- a) The square root of the opportunity cost of holding money
- b) The square root of the cost of making a transfer between money and bonds

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c) The square root of the average amount of cash withdrawal that minimises cost

d) The square root of the permanent income

Correct answer: c) The square root of the average amount of cash withdrawal that minimises cost

Explanation: Baumol's Square Root Rule refers to the average amount of cash withdrawal which minimises cost. According to the rule, this is given by the square root of two times the broker's fee multiplied by the size of an individual's income and divided by the interest rate.

Guidance time: 2 minutes

Difficulty level: Hard

80. Topic: Demand for Money

Question: In Tobin's liquidity preference theory, how is the relationship between rate of interest and demand for money described?

- a) Directly proportional
- b) Inversely proportional
- c) Not related
- d) Constant

Correct answer: b) Inversely proportional

Explanation: In Tobin's liquidity preference theory, the relationship between rate of interest and demand for money is inversely proportional. This means, as the rate of interest on bonds increases, the demand for holding money decreases and people will hold more bonds in their portfolio, and vice versa.

Guidance time: 2 minutes

Difficulty level: Moderate

81.Topic: Demand for Money

Question: According to the Baumol model, what encourages the holding of money despite the opportunity cost?

- a) The interest from bonds and shares
- b) The transaction cost of going between money and other assets
- c) The brokerage fee
- d) The risk of investing in other assets

Correct answer: b) The transaction cost of going between money and other assets

Explanation: According to the Baumol model, the transaction cost of going between money and other assets, such as broker charges, justifies holding money despite the opportunity cost.

Guidance time: 2 minutes

Difficulty level: Hard

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82.Topic: Demand for Money

Question: What are the two media for storing value according to inventory models?

- a) Money and physical assets
- b) Money and interest-bearing alternative financial assets
- c) Interest-bearing alternative financial assets and physical assets
- d) Money and physical capital

Correct answer: b) Money and interest-bearing alternative financial assets

Explanation: Inventory models, like the ones developed by Baumol and Tobin, assume that there are two media for storing value: money and an interest-bearing alternative financial asset.

Guidance time: 2 minutes

Difficulty level: Moderate

83.Topic: Demand for Money

Question: What is the result of an increase in the brokerage fee, according to the inventory-theoretic approach?

- a) It raises the transactions demand for money and lowers the average bond holding over the period
- b) It lowers the transactions demand for money and raises the average bond holding over the period
- c) It does not affect the transactions demand for money or the average bond holding over the period
- d) It has an unpredictable effect on the transactions demand for money and the average bond holding over the period

Correct answer: a) It raises the transactions demand for money and lowers the average bond holding over the period

Explanation: According to the inventory-theoretic approach, an increase in the brokerage fee raises the marginal cost of bond market transactions and consequently lowers the number of such transactions. It raises the transactions demand for money and lowers the average bond holding over the period.

Guidance time: 3 minutes

Difficulty level: Hard

84.Topic: Demand for Money

Question: According to Keynes, what are the two explanatory variables that determine the demand for real balances?

- a) Current income and rate of return on earning assets
- b) Permanent income and rate of return on earning assets
- c) Current income and interest rate
- d) Permanent income and interest rate

Correct answer: c) Current income and interest rate

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Explanation: According to Keynes, the demand for real balances (real money) is determined by two explanatory variables, namely current income and the interest rate.

Guidance time: 2 minutes

Difficulty level: Moderate

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UNIT – 2: CONCEPT OF MONEY SUPPLY

1.Topic: Monetary Supply

Question: Which of the following is NOT a function of money?

- a) Medium of exchange
- b) Unit of account
- c) Instrument of fiscal policy
- d) Store of value

Correct answer: c) Instrument of fiscal policy

Explanation: While money does serve as a medium of exchange, a unit of account, and a store of value, it is not an instrument of fiscal policy. Fiscal policy relates to government spending and taxation.

Guidance time: 2 minutes

Difficulty level: Moderate

2.Topic: Monetary Supply

Question: What is included in M3 or broad money?

- a) Only currency with the public
- b) Only demand deposits with the banking system
- c) Both currency with the public and demand deposits with the banking system
- d) M1 + Time deposits with the banking system

Correct answer: d) M1 + Time deposits with the banking system

Explanation: Broad money (M3) includes M1 (currency with the public + demand deposits with the Banking system) and time deposits with the banking system.

Guidance time: 3 minutes

Difficulty level: Hard

3.Topic: Monetary Policy

Question: Why is the empirical analysis of the money supply important?

- a) To analyse monetary developments
- b) To provide a framework for evaluating consistency with price stability standards
- c) To understand deviations from price stability standards
- d) All of the above

Correct answer: d) All of the above

Explanation: The empirical analysis of the money supply is important for all these reasons: it helps analyse monetary developments, provides a framework for evaluating whether the stock of money in the economy is consistent with the standards for price stability, and helps understand the nature of deviations from this standard.

Guidance time: 2 minutes

Difficulty level: Moderate

4.Topic: Sources of Money Supply

Question: Which of the following is NOT a source of money supply?

- a) The central bank
- b) The commercial banking system
- c) The government's fiscal policy
- d) Both a) and b)

Correct answer: c) The government's fiscal policy

Explanation: While the central bank and the commercial banking system are key sources of money supply, the government's fiscal policy is not a direct source of money supply.

Guidance time: 3 minutes

Difficulty level: Hard

5.Topic: Evolution of Money

Question: Which of the following is NOT an evolution phase of money?

- a) Commodity
- b) Metallic Currency
- c) Paper Currency
- d) Barter system

Correct answer: d) Barter system

Explanation: The barter system is a pre-monetary system of exchange, not an evolution phase of money. The evolution of money has gone through phases from commodity to metallic currency to paper currency, and now, to digital currency.

Guidance time: 2 minutes

Difficulty level: Moderate

6.Topic: Central Bank Digital Currencies (CBDCs)

Question: What is CBDC?

- a) A type of cryptocurrency

- b) A decentralized digital currency

- c) A legal tender issued by a central bank in digital form
- d) A digital form of commercial bank currency

Correct answer: c) A legal tender issued by a central bank in digital form

Explanation: CBDC stands for Central Bank Digital Currency. It is the digital form of a country's fiat currency and is regulated by the central bank of the country.

Guidance time: 2 minutes

Difficulty level: Moderate

7.Topic: Monetary Supply

Question: What does M1 represent in the context of money supply?

- a) Currency with public + Savings deposits of post office savings banks
- b) Currency with public + Time deposits with the banking system
- c) Currency with public + Demand deposits with the Banking system
- d) Currency with public + Demand deposits with the post office savings banks

Correct answer: c) Currency with public + Demand deposits with the Banking system

Explanation: M1 represents the most liquid forms of monetary assets, and it includes currency with public and demand deposits with the banking system.

Guidance time: 3 minutes

Difficulty level: Hard

8.Topic: Monetary Policy

Question: Why is monetary policy essential?

- a) To stabilize price level and GDP growth
- b) To increase the government's revenues
- c) To manage the nation's foreign exchange reserves
- d) To maintain low levels of unemployment

Correct answer: a) To stabilize price level and GDP growth

Explanation: The primary purpose of monetary policy is to stabilize price levels and GDP growth by directly controlling the supply of money. This is achieved mainly by managing the quantity of monetary base.

Guidance time: 2 minutes

Difficulty level: Moderate

9.Topic: Sources of Money Supply

Question: How does the commercial banking system contribute to the money supply?

- a) By issuing new currencies
- b) Through the process of borrowing and lending transactions with the public
- c) By changing the interest rates on loans
- d) By purchasing government bonds

Correct answer: b) Through the process of borrowing and lending transactions with the public

Explanation: Commercial banks create money supply through the process of borrowing and lending transactions with the public, creating what's called 'credit money'.

Guidance time: 2 minutes

Difficulty level: Moderate

10.Topic: Evolution of Money

Question: Which among the following is the latest phase in the evolution of money?

- a) Commodity
- b) Metallic Currency
- c) Paper Currency
- d) Digital Currency

Correct answer: d) Digital Currency

Explanation: The latest phase in the evolution of money is digital currency, as we see a significant shift towards digital transactions and the emergence of central bank digital currencies (CBDCs).

Guidance time: 1 minute

Difficulty level: Easy

11.Topic: Cryptocurrencies

Question: What is the current legal status of cryptocurrencies in India?

- a) They are legally recognized as currency
- b) They are not legally recognized as currency
- c) They are considered legal tender
- d) Their legal status is not mentioned in the text

Correct answer: b) They are not legally recognized as currency

Explanation: As per the text, cryptocurrencies face significant legislative uncertainties and are not legally recognized in India as currency.

Guidance time: 2 minutes

Difficulty level: Moderate

12.Topic: Monetary Supply

Question: What does 'fiat money' refer to?

- a) Money backed by gold
- b) Money backed by commodities
- c) Money issued by the central bank and backed by supporting reserves
- d) Money that has intrinsic value

Correct answer: c) Money issued by the central bank and backed by supporting reserves

Explanation: Fiat money is a currency established as money by government regulation or law. It is issued by the central bank and its value is guaranteed by the government, but it does not have intrinsic value like commodity money.

Guidance time: 2 minutes

Difficulty level: Moderate

13.Topic: Central Bank Digital Currencies (CBDCs)

Question: In terms of balance sheets, how would Central Bank Digital Currencies (CBDCs) appear for a central bank?

- a) As an asset
- b) As a liability
- c) As a neutral entry
- d) Not mentioned in the text

Correct answer: b) As a liability

Explanation: CBDCs would appear as a liability on a central bank's balance sheet, much like paper currency.

Guidance time: 2 minutes

Difficulty level: Moderate

14.Topic: Monetary Supply

Question: What is M2 in the context of money supply?

- a) M1 + Savings deposits of post office savings banks
- b) M1 + Time deposits with the banking system
- c) M1 + Demand deposits with the Banking system
- d) M1 + Demand deposits with the post office savings banks

Correct answer: a) M1 + Savings deposits of post office savings banks

Explanation: M2 includes M1 and the savings deposits of post office savings banks.

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Guidance time: 2 minutes

Difficulty level: Hard

15.Topic: Monetary Policy

Question: The success of monetary policy depends largely on the controllability of which two aspects?

- a) Interest rates and inflation
- b) GDP growth and interest rates
- c) The monetary base and the money supply
- d) Fiscal policy and the money supply

Correct answer: c) The monetary base and the money supply

Explanation: The success of monetary policy depends largely on the controllability of the monetary base and the money supply.

Guidance time: 2 minutes

Difficulty level: Moderate

16.Topic: Financial Institutions

Question: What is the primary role of commercial banks in an economy?

- a) To regulate the stock market
- b) To issue currency
- c) To provide financial services, including offering loans and accepting deposits
- d) To control inflation

Correct answer: c) To provide financial services, including offering loans and accepting deposits

Explanation: Commercial banks play a crucial role in the economy by providing financial services, including offering loans and accepting deposits from businesses and individuals.

Guidance time: 1 minute

Difficulty level: Easy

17.Topic: Cryptocurrencies

Question: What makes cryptocurrencies secure?

- a) Their association with traditional banking systems
- b) The use of blockchain technology
- c) The anonymity of users
- d) Government regulation

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Correct answer: b) The use of blockchain technology

Explanation: Cryptocurrencies are secured through blockchain technology, a decentralized and distributed ledger system that adds security and transparency to transactions.

Guidance time: 1 minute

Difficulty level: Easy

18.Topic: Central Bank Digital Currencies (CBDCs)

Question: How does a Central Bank Digital Currency (CBDC) differ from a cryptocurrency like Bitcoin?

- a) CBDCs are decentralized
- b) CBDCs are issued and regulated by a central bank
- c) CBDCs are built on blockchain technology
- d) CBDCs do not exist in a digital form

Correct answer: b) CBDCs are issued and regulated by a central bank

Explanation: Unlike cryptocurrencies, which are decentralized and unregulated, CBDCs are digital forms of fiat money, issued and regulated by a country's central bank.

Guidance time: 2 minutes

Difficulty level: Moderate

19.Topic: Money Supply

Question: What is a characteristic of fiat money?

- a) It is backed by gold or silver
- b) It has an intrinsic value
- c) It is decreed legal tender by the government
- d) It is not controlled by any central authority

Correct answer: c) It is decreed legal tender by the government

Explanation: Fiat money is government-issued currency that is not backed by a physical commodity, like gold or silver, but rather by the trust that individuals and businesses have that parties will accept that currency.

Guidance time: 2 minutes

Difficulty level: Moderate

20.Topic: Monetary Policy

Question: Which institution is typically responsible for the implementation of monetary policy?

- a) The Ministry of Finance
- b) The Central Bank

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c) Commercial Banks

d) The Stock Exchange

Correct answer: b) The Central Bank

Explanation: The central bank of a country typically has the responsibility of implementing the monetary policy to control inflation, stabilize the currency, and promote economic growth.

Guidance time: 1 minute

Difficulty level: Easy

21.Topic: Evolution of Money

Question: What was one of the first forms of money?

- a) Paper currency
- b) Digital currency
- c) Commodity money
- d) Credit cards

Correct answer: c) Commodity money

Explanation: The first forms of money in history were commodities like grain, livestock, and metal coins.

Guidance time: 2 minutes

Difficulty level: Easy

22.Topic: Cryptocurrencies

Question: What is a blockchain?

- a) A type of digital wallet
- b) A digital ledger used to record transactions across many computers
- c) A type of cryptocurrency
- d) A security protocol used by banks

Correct answer: b) A digital ledger used to record transactions across many computers

Explanation: A blockchain is a digital ledger used to record transactions across many computers so that the record cannot be altered retroactively without the alteration of all subsequent blocks.

Guidance time: 2 minutes

Difficulty level: Moderate

23.Topic: Monetary Supply

Question: How do commercial banks create money?

- a) By printing banknotes

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b) By minting coins

c) By issuing loans in excess of their reserves

d) By investing in the stock market

Correct answer: c) By issuing loans in excess of their reserves

Explanation: Commercial banks effectively create money by lending more than they have in reserve. This is known as the fractional reserve banking system.

Guidance time: 2 minutes

Difficulty level: Hard

24.Topic: Monetary Policy

Question: How can monetary policy affect inflation rates?

a) By increasing or decreasing the money supply

b) By controlling interest rates on loans and bonds

c) Both a and b

d) Neither a nor b

Correct answer: c) Both a and b

Explanation: Central banks can affect inflation rates by manipulating the money supply and adjusting interest rates, influencing the overall level of spending in the economy.

Guidance time: 3 minutes

Difficulty level: Moderate

25.Topic: Central Bank Digital Currencies (CBDCs)

Question: What would be a potential benefit of Central Bank Digital Currencies (CBDCs)?

a) They could reduce the risk of financial crises

b) They could promote financial inclusion

c) They could eliminate the need for physical cash

d) All of the above

Correct answer: d) All of the above

Explanation: CBDCs could offer numerous potential benefits, such as reducing the risk of financial crises, promoting financial inclusion, and decreasing the need for physical cash.

Guidance time: 2 minutes

Difficulty level: Moderate

26.Topic: Measurement of Money Supply

Question: What is M1 in terms of money supply in India?

a) Currency notes and coins with the public only

b) Currency notes and coins with the public + demand deposits with the banking system (Current and Savings deposit accounts) + other deposits with the RBI

c) Time deposits with the banking system

d) Total deposits with the Post Office Savings Organization

Correct answer: b) Currency notes and coins with the public + demand deposits with the banking system (Current and Savings deposit accounts) + other deposits with the RBI

Explanation: In India, M1 is defined as currency notes and coins with the public, demand deposits with the banking system (current and savings deposit accounts), and other deposits with the RBI.

Guidance time: 3 minutes

Difficulty level: Moderate

27.Topic: Measurement of Money Supply

Question: What measure of money supply includes savings deposits with post office savings banks?

a) M1

b) M2

c) M3

d) M4

Correct answer: b) M2

Explanation: M2 is a measure of money supply that includes M1 plus savings deposits with post office savings banks.

Guidance time: 2 minutes

Difficulty level: Moderate

28.Topic: Determinants of Money Supply

Question: According to the money multiplier approach, the money supply is determined by the behaviour of which of the following?

a) The central bank

b) The commercial banks

c) The public

d) All of the above

Correct answer: d) All of the above

Explanation: The money multiplier approach holds that the total supply of nominal money in the economy is determined by the joint behaviour of the central bank, the commercial banks, and the public.

Guidance time: 3 minutes

Difficulty level: Moderate

29.Topic: The Concept of Money Multiplier

Question: In the money multiplier formula $M = m \times MB$, what does 'm' represent?

a) Money supply

b) Money multiplier

c) Monetary base

d) None of the above

Correct answer: b) Money multiplier

Explanation: In the formula, 'm' represents the money multiplier, which is a ratio that relates the change in the money supply to a given change in the monetary base.

Guidance time: 2 minutes

Difficulty level: Easy

30.Topic: The Concept of Money Multiplier

Question: What is the monetary base or high-powered money?

a) The sum of currency in circulation and bank reserves

b) The sum of currency in circulation and the money supply

c) The total value of goods and services in the economy

d) The total amount of money in the economy

Correct answer: a) The sum of currency in circulation and bank reserves

Explanation: The monetary base or high-powered money is defined as the sum of currency in circulation and bank reserves.

Guidance time: 2 minutes

Difficulty level: Moderate

31.Topic: Determinants of Money Multiplier

Question: If the reserve ratio (R) is 20%, what is the value of the money multiplier?

a) 0.2

b) 0.5

c) 5

d) 20

Correct answer: c) 5

Explanation: The money multiplier is the reciprocal of the reserve ratio. If $R = 20\%$, the value of the money multiplier will be $1/0.2 = 5$.

Guidance time: 4 minutes

Difficulty level: Moderate

32.Topic: Determinants of Money Multiplier

Question: How does the reserve ratio affect the money multiplier?

a) The higher the reserve ratio, the larger the money multiplier

b) The lower the reserve ratio, the larger the money multiplier

c) The reserve ratio has no effect on the money multiplier

d) The reserve ratio and the money multiplier are not related

Correct answer: b) The lower the reserve ratio, the larger the money multiplier

Explanation: The money multiplier is the reciprocal of the reserve ratio. Thus, the lower the reserve ratio, the more of each deposit banks loan out, and the larger the money multiplier.

Guidance time: 3 minutes

Difficulty level: Moderate

33.Topic: Measurement of Money Supply

Question: What measure of money supply includes total deposits with the Post Office Savings Organization (excluding National Savings Certificates)?

a) M1

b) M2

c) M3

d) M4

Correct answer: d) M4

Explanation: M4 is a measure of money supply that includes M3 plus total deposits with the Post Office Savings Organization, excluding National Savings Certificates.

Guidance time: 2 minutes

Difficulty level: Moderate

34.Topic: Determinants of Money Supply

Question: Which theory states that the money supply is determined endogenously by changes in economic activities?

- a) The Exogenous Money Supply Theory
- b) The Endogenous Money Supply Theory
- c) The Money Multiplier Theory
- d) The High-Powered Money Theory

Correct answer: b) The Endogenous Money Supply Theory

Explanation: The Endogenous Money Supply Theory holds that the money supply is determined endogenously by changes in economic activities which affect people's desire to hold currency relative to deposits, rate of interest, etc.

Guidance time: 2 minutes

Difficulty level: Hard

35.Topic: The Concept of Money Multiplier

Question: If an injection of Rs.100 Cr through an open market operation by the central bank leads to an increment of Rs.400 Cr. of final money supply, what is the money multiplier?

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

Correct answer: c) 4

Explanation: The money multiplier is calculated by dividing the change in the money supply by the change in the monetary base. In this case, Rs.400 Cr./Rs.100 Cr. = 4.

Guidance time: 3 minutes

Difficulty level: Moderate

36.Topic: Determinants of Money Multiplier

Question: When is the size of the money multiplier reduced?

- a) When funds are held as cash rather than as demand deposits
- b) When the reserve ratio increases
- c) When the central bank injects more money into the economy
- d) Both a and b

Correct answer: d) Both a and b

Explanation: The size of the money multiplier is reduced when funds are held as cash rather than as demand deposits and when the reserve ratio increases. An increase in the monetary base that goes into currency is not multiplied, whereas an increase in monetary base that goes into supporting deposits is multiplied. Also, a higher reserve ratio means banks hold more reserves and loan out less, resulting in a smaller money multiplier.

Guidance time: 4 minutes

Difficulty level: Hard

37.Topic: The Concept of Money Multiplier

Question: What happens to the money supply when a one-rupee increase in the monetary base occurs?

- a) The money supply decreases by one rupee
- b) The money supply increases by more than one rupee
- c) The money supply increases by exactly one rupee
- d) The money supply remains the same

Correct answer: b) The money supply increases by more than one rupee

Explanation: The money multiplier effect means that a one-rupee increase in the monetary base causes the money supply to increase by more than one rupee.

Guidance time: 3 minutes

Difficulty level: Moderate

38.Topic: Measurement of Money Supply

Question: Which of the following includes time deposits with the banking system?

- a) M1
- b) M2
- c) M3
- d) M4

Correct answer: c) M3

Explanation: M3 is defined as M1 plus time deposits with the banking system.

Guidance time: 3 minutes

Difficulty level: Moderate

39.Topic: Measurement of Money Supply

Question: What was the 'broader' measure of money supply published by the RBI from 1967-68 called?

- a) Aggregate monetary resources (AMR)
- b) High-powered money
- c) Money Multiplier
- d) None of the above

Correct answer: a) Aggregate monetary resources (AMR)

Explanation: From 1967-68, a 'broader' measure of money supply, called 'aggregate monetary resources' (AMR) was additionally published by the RBI.

Guidance time: 2 minutes

Difficulty level: Moderate

40.Topic: Determinants of Money Supply

Question: According to the first view, who determines the money supply exogenously?

- a) The central bank
- b) Commercial banks
- c) The public
- d) All of the above

Correct answer: a) The central bank

Explanation: According to the first view in the context of the determinants of money supply, money supply is determined exogenously by the central bank.

Guidance time: 3 minutes

Difficulty level: Moderate

41.Topic: The Concept of Money Multiplier

Question: What does 'MB' represent in the money multiplier formula $M = m \times MB$?

- a) Money supply
- b) Money multiplier
- c) Monetary base or high-powered money
- d) None of the above

Correct answer: c) Monetary base or high-powered money

Explanation: In the formula, 'MB' represents the monetary base or high-powered money, which is the sum of currency in circulation and bank reserves.

Guidance time: 2 minutes

Difficulty level: Easy

42.Topic: Determinants of Money Multiplier

Question: How does holding funds as cash rather than as demand deposits affect the money multiplier?

- a) It increases the money multiplier
- b) It reduces the money multiplier
- c) It has no effect on the money multiplier
- d) None of the above

Correct answer: b) It reduces the money multiplier

Explanation: When funds are held as cash rather than as demand deposits, the size of the money multiplier is reduced. This is because an increase in the monetary base that goes into currency does not undergo multiple deposit expansion, whereas an increase in the monetary base that goes into supporting deposits is multiplied.

Guidance time: 3 minutes

Difficulty level: Hard

43.Topic: Measurement of Money Supply

Question: When did the Reserve Bank of India start compiling and disseminating monetary statistics?

- a) 1935
- b) 1947
- c) 1967
- d) 1977

Correct answer: a) 1935

Explanation: The Reserve Bank of India has been compiling and disseminating monetary statistics since July 1935.

Guidance time: 2 minutes

Difficulty level: Moderate

44.Topic: Measurement of Money Supply

Question: Which of the following measures of money supply is defined as the sum of currency and demand deposits held by the public?

- a) M1
- b) M2
- c) M3
- d) M4

Correct answer: a) M1

Explanation: In the Indian context, M1 is defined as the sum of currency and demand deposits held by the public.

Guidance time: 2 minutes

Difficulty level: Moderate

45.Topic: The Concept of Money Multiplier

Question: In the context of money multiplier, what do banks do with their excess reserves?

- a) They hold onto them
- b) They invest or loan them to earn more interest
- c) They deposit them with the central bank

d) None of the above

Correct answer: b) They invest or loan them to earn more interest

Explanation: Banks create money by making loans. A bank loans or invests its excess reserves to earn more interest, which in turn affects the money multiplier and the money supply.

Guidance time: 3 minutes

Difficulty level: Moderate

46.Topic: Determinants of Money Supply

Question: According to the second view, how is the money supply determined?

- a) By the central bank
- b) By changes in economic activities
- c) By the commercial banks
- d) By international financial institutions

Correct answer: b) By changes in economic activities

Explanation: The second view holds that the money supply is determined endogenously by changes in the economic activities which affect people's desire to hold currency relative to deposits, rate of interest, etc.

Guidance time: 3 minutes

Difficulty level: Moderate

47.Topic: Measurement of Money Supply

Question: Which of the following measures of money supply includes total deposits with the Post Office Savings Organization (excluding National Savings Certificates)?

- a) M1
- b) M2
- c) M3
- d) M4

Correct answer: d) M4

Explanation: M4 includes M3 plus total deposits with the Post Office Savings Organization (excluding National Savings Certificates).

Guidance time: 3 minutes

Difficulty level: Moderate

48.Topic: The Concept of Money Multiplier

Question: What does 'm' represent in the money multiplier formula $M = m \times MB$?

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a) Money supply

b) Money multiplier

c) Monetary base or high-powered money

d) None of the above

Correct answer: b) Money multiplier

Explanation: In the formula, 'm' represents the money multiplier, which indicates what multiple of the monetary base is transformed into money supply.

Guidance time: 2 minutes

Difficulty level: Easy

49.Topic: Determinants of Money Multiplier

Question: What is the reciprocal of the reserve ratio?

- a) Money multiplier
- b) High-powered money
- c) Reserve money
- d) None of the above

Correct answer: a) Money multiplier

Explanation: The money multiplier is the reciprocal of the reserve ratio. If R is the reserve ratio in a country for all commercial banks, then the Money Multiplier is $1/R$.

Guidance time: 3 minutes

Difficulty level: Hard

50.Topic: Measurement of Money Supply

Question: What does M2 include?

- a) M1 plus savings deposits with post office savings banks
- b) M1 plus time deposits with the banking system
- c) M3 plus total deposits with the Post Office Savings Organization
- d) None of the above

Correct answer: a) M1 plus savings deposits with post office savings banks

Explanation: M2 is defined as M1 plus savings deposits with post office savings banks.

Guidance time: 3 minutes

Difficulty level: Moderate

51.Topic: Determinants of Money Supply

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Question: How is the money supply determined according to the 'money multiplier approach'?

- a) Exogenously by the central bank
- b) Endogenously by changes in the economic activities
- c) Jointly by the behaviour of the central bank, the commercial banks, and the public
- d) None of the above

Correct answer: c) Jointly by the behaviour of the central bank, the commercial banks, and the public

Explanation: The money multiplier approach holds that the total supply of nominal money in the economy is determined by the joint behaviour of the central bank, the commercial banks, and the public.

Guidance time: 3 minutes

Difficulty level: Moderate

52.Topic: The Concept of Money Multiplier

Question: If there is an injection of Rs.100 Cr through an open market operation by the central bank of the country and if it leads to an increment of Rs.500 Cr. of final money supply, what is the money multiplier?

- a) 0.2
- b) 2
- c) 5
- d) 10

Correct answer: c) 5

Explanation: The money multiplier is defined as the ratio of change in the money supply to the change in the monetary base. In this case, it is 500 Cr. divided by 100 Cr., which equals 5.

Guidance time: 3 minutes

Difficulty level: Moderate

53.Topic: Determinants of Money Multiplier

Question: How does an increase in the reserve ratio affect the money multiplier?

- a) It increases the money multiplier
- b) It reduces the money multiplier
- c) It has no effect on the money multiplier
- d) None of the above

Correct answer: b) It reduces the money multiplier

Explanation: A higher reserve ratio means banks hold more reserves and loan out less, resulting in a smaller money multiplier. Thus, an increase in the reserve ratio reduces the money multiplier.

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Guidance time: 3 minutes

Difficulty level: Hard

54.Topic: Measurement of Money Supply

Question: How was the narrow measure of money supply, published by the RBI till 1967-68, defined?

- a) As the sum of currency and demand deposits held by the public
- b) As the sum of currency, demand deposits held by the public, and savings deposits with post office savings banks
- c) As the sum of currency, demand deposits held by the public, and time deposits with the banking system
- d) None of the above

Correct answer: a) As the sum of currency and demand deposits held by the public

Explanation: Till 1967-68, the RBI used to publish only a single 'narrow measure of money supply' (M1) defined as the sum of currency and demand deposits held by the public.

Guidance time: 2 minutes

Difficulty level: Moderate

55.Topic: The Concept of Money Multiplier

Question: How is the monetary base or high-powered money created?

- a) By the commercial banks
- b) By the Reserve Bank of India
- c) By the public
- d) By international financial institutions

Correct answer: b) By the Reserve Bank of India

Explanation: The money created by the Reserve Bank of India is the monetary base, also known as high-powered money.

Guidance time: 2 minutes

Difficulty level: Easy

56.Topic: Money Multiplier Approach

Question: What is the "money multiplier" in economics?

- a) The interest rate applied by the central bank.
- b) The number of times a bank can lend the same amount of money.
- c) The amount of cash a bank must keep in reserve.
- d) The total quantity of money in circulation within an economy.

Correct answer: b) The number of times a bank can lend the same amount of money.

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Explanation: In economics, the "money multiplier" refers to the maximum amount of commercial bank money that can be created by a given unit of central bank money.

Guidance time: 2 minutes

Difficulty level: Moderate

57.Topic: Money Multiplier Approach

Question: If the reserve ratio increases, what happens to the money supply?

- a) It increases.
- b) It decreases.
- c) It remains unchanged.
- d) It becomes negative.

Correct answer: b) It decreases.

Explanation: If the reserve ratio increases, banks are required to hold more reserves and thus can lend out less. This causes the money supply to decrease.

Guidance time: 2 minutes

Difficulty level: Moderate

58.Topic: Money Multiplier Approach

Question: If the reserve ratio is 20%, what is the maximum money multiplier?

- a) 5
- b) 4
- c) 2
- d) 1

Correct answer: a) 5

Explanation: The money multiplier is calculated as $1/\text{reserve ratio}$. If the reserve ratio is 20% or 0.2, then the money multiplier is $1/0.2 = 5$.

Guidance time: 2 minutes

Difficulty level: Moderate

59.Topic: Money Multiplier Approach

Question: If the currency-deposit ratio decreases, how does it affect the money multiplier?

- a) The money multiplier decreases.
- b) The money multiplier increases.

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c) The money multiplier remains the same.

d) It has no effect on the money multiplier.

Correct answer: b) The money multiplier increases.

Explanation: A lower currency-deposit ratio means that a smaller proportion of high-powered money is being used as currency. Therefore, a larger proportion is available to be reserves which get transformed into money. This increases the money multiplier.

Guidance time: 3 minutes

Difficulty level: Moderate

60.Topic: Money Multiplier Approach

Question: If the required reserve ratio is 10% and there are no excess reserves, what is the money multiplier?

- a) 5
- b) 10
- c) 1
- d) 0.1

Correct answer: b) 10

Explanation: The money multiplier is calculated as $1/\text{reserve ratio}$. If the reserve ratio is 10% or 0.1, then the money multiplier is $1/0.1 = 10$.

Guidance time: 2 minutes

Difficulty level: Easy

61.Topic: Money Multiplier Approach

Question: If the reserve ratio is 0.25 and the currency ratio is 0.2, what is the money multiplier?

- a) 2.5
- b) 3
- c) 3.33
- d) 4

Correct answer: c) 3.33

Explanation: The money multiplier is calculated as $(1 + \text{currency ratio}) / (\text{reserve ratio} + \text{currency ratio})$. Therefore, the money multiplier is $(1 + 0.2) / (0.25 + 0.2) = 3.33$.

Guidance time: 3 minutes

Difficulty level: Difficult

62.Topic: Money Multiplier Approach

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Question: If the reserve ratio decreases, what will likely happen to the money supply?

- a) It will increase.
- b) It will decrease.
- c) It will remain unchanged.
- d) There's not enough information to determine.

Correct answer: a) It will increase.

Explanation: If the reserve ratio decreases, banks are required to hold fewer reserves. This means they can lend out more, increasing the money supply.

Guidance time: 2 minutes

Difficulty level: Moderate

63.Topic: Money Multiplier Approach

Question: What happens to the money supply when the central bank increases the high-powered money?

- a) It increases.
- b) It decreases.
- c) It remains unchanged.
- d) It becomes negative.

Correct answer: a) It increases.

Explanation: High-powered money (or monetary base) is controlled by the central bank. If this is increased, and the behaviour of the public and commercial banks remains unchanged, the total supply of money in the economy will increase.

Guidance time: 2 minutes

Difficulty level: Moderate

64.Topic: Money Multiplier Approach

Question: What is the money supply if the monetary base is \$1,000, the reserve ratio is 10%, and there are no excess reserves or currency held by the public?

- a) \$1,000
- b) \$10,000
- c) \$100
- d) \$100,000

Correct answer: b) \$10,000

Explanation: The money supply is calculated as the monetary base multiplied by the money multiplier. The money multiplier is $1/\text{reserve ratio}$. So, the money supply is $\$1,000 * (1/0.1) = \$10,000$.

Guidance time: 3 minutes

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Difficulty level: Difficult

65.Topic: Money Multiplier Approach

Question: What effect will an increase in the reserve ratio have on the money multiplier?

- a) It will increase the money multiplier.
- b) It will decrease the money multiplier.
- c) It will have no effect on the money multiplier.
- d) The effect on the money multiplier cannot be determined.

Correct answer: b) It will decrease the money multiplier.

Explanation: The reserve ratio is inversely related to the money multiplier. So, if the reserve ratio increases, the money multiplier will decrease.

Guidance time: 2 minutes

Difficulty level: Moderate

66.Topic: Money Multiplier Approach

Question: If the central bank decides to increase the reserve requirements, how will this affect the money multiplier?

- a) It will increase.
- b) It will decrease.
- c) It will remain unchanged.
- d) It can either increase or decrease.

Correct answer: b) It will decrease.

Explanation: When the reserve requirements are increased, banks are required to hold more money in reserve, thereby reducing the money they can lend out. Hence, the money multiplier decreases.

Guidance time: 2 minutes

Difficulty level: Moderate

67.Topic: Money Multiplier Approach

Question: If the reserve ratio is 0.2, the currency ratio is 0.1 and there are no excess reserves, what is the money multiplier?

- a) 3.33
- b) 5
- c) 6
- d) 2.22

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Correct answer: a) 3.33

Explanation: The money multiplier is calculated as $(1 + \text{currency ratio}) / (\text{reserve ratio} + \text{currency ratio})$. Therefore, the money multiplier is $(1 + 0.1) / (0.2 + 0.1) = 3.33$.

Guidance time: 3 minutes

Difficulty level: Difficult

68.Topic: Money Multiplier Approach

Question: Who propounded the Money Multiplier Approach to Supply of Money?

- a) Adam Smith
- b) Milton Friedman and Anna Schwartz
- c) John Maynard Keynes
- d) Karl Marx

Correct answer: b) Milton Friedman and Anna Schwartz

Explanation: The Money Multiplier Approach to Supply of Money was put forward by Milton Friedman and Anna Schwartz in 1963.

Guidance time: 1 minute

Difficulty level: Easy

69.Topic: Money Multiplier Approach

Question: What three factors does the Money Multiplier Approach consider as immediate determinants of money supply?

- a) Stock market, Inflation rate, Interest rate
- b) GDP, Interest rate, Unemployment rate
- c) Stock of high-powered money, Reserve ratio, Currency-deposit ratio
- d) Inflation rate, Unemployment rate, Fiscal policy

Correct answer: c) Stock of high-powered money, Reserve ratio, Currency-deposit ratio

Explanation: The Money Multiplier Approach to Supply of Money considers the stock of high-powered money, the ratio of reserves to deposits or reserve-ratio, and the ratio of currency to deposits, or currency-deposit ratio as the immediate determinants of money supply.

Guidance time: 2 minutes

Difficulty level: Moderate

70.Topic: Money Multiplier Approach

Question: What entity controls the issue of currency and supply of high-powered money?

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a) Commercial banks

b) Central bank

c) Government

d) Private sector

Correct answer: b) Central bank

Explanation: The Central bank controls the issue of currency and the supply of high-powered money. The behaviour of the Central bank is reflected in the supply of the nominal high-powered money.

Guidance time: 1 minute

Difficulty level: Easy

71.Topic: Money Multiplier Approach

Question: What is the implication if the required reserve ratio on demand deposits increases while all other variables remain the same?

- a) There will be a decrease in money supply.
- b) There will be an increase in money supply.
- c) There will be no change in money supply.
- d) The money supply becomes unpredictable.

Correct answer: a) There will be a decrease in money supply.

Explanation: If the required reserve ratio on demand deposits increases while all the other variables remain the same, more reserves would be needed. This implies that banks must contract their loans, causing a decline in deposits and hence in the money supply.

Guidance time: 3 minutes

Difficulty level: Moderate

72.Topic: Money Multiplier Approach

Question: If the required reserve ratio decreases, what happens to the money supply?

- a) Money supply will increase.
- b) Money supply will decrease.
- c) There will be no effect on the money supply.
- d) Money supply becomes unpredictable.

Correct answer: a) Money supply will increase.

Explanation: If the required reserve ratio falls, there will be greater expansions of deposits because the same level of reserves can now support more deposits and the money supply will increase.

Guidance time: 2 minutes

Difficulty level: Easy

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73.Topic: Money Multiplier Approach

Question: What are 'Excess Reserves' in banking?

- a) Funds that a bank keeps back beyond what is required by regulation
- b) The ratio of currency to deposits
- c) The minimum reserves required by regulation
- d) Reserves that are not used by the bank

Correct answer: a) Funds that a bank keeps back beyond what is required by regulation

Explanation: Excess reserves are funds that a bank keeps back, beyond what is required by regulation. They serve as a buffer against unexpected events requiring cash.

Guidance time: 3 minutes

Difficulty level: Moderate

74.Topic: Money Multiplier Approach

Question: If the interest rate increases, what happens to the desired ratio of excess reserves to deposits?

- a) It increases.
- b) It decreases.
- c) It remains the same.
- d) It becomes unpredictable.

Correct answer: b) It decreases.

Explanation: If interest rate increases, it means that the opportunity cost of holding excess reserves rises because the banks have to sacrifice possible higher earnings and hence the desired ratio of excess reserves to deposits falls.

Guidance time: 2 minutes

Difficulty level: Moderate

75.Topic: Money Multiplier Approach

Question: If banks expect an increase in deposit outflows, what is the likely response in terms of excess reserves?

- a) They will decrease the excess reserves ratio.
- b) They will increase the excess reserves ratio.
- c) They will keep the excess reserves ratio unchanged.
- d) The response is unpredictable.

Correct answer: b) They will increase the excess reserves ratio.

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Explanation: If banks fear that deposit outflows are likely to increase, they will want more assurance against this possibility and will increase the excess reserves ratio.

Guidance time: 3 minutes

Difficulty level: Moderate

76.Topic: Money Multiplier Approach

Question: When bank deposits are being converted into currency, what happens to the money multiplier?

- a) It increases.
- b) It decreases.
- c) It remains the same.
- d) It becomes unpredictable.

Correct answer: b) It decreases.

Explanation: When bank deposits are being converted into currency, banks can create only less credit money. The overall level of multiple expansion declines, and therefore, money multiplier also falls.

Guidance time: 2 minutes

Difficulty level: Moderate

77.Topic: Money Multiplier Approach

Question 10: What does a smaller currency-deposit ratio indicate in terms of money multiplier?

- a) Larger money multiplier
- b) Smaller money multiplier
- c) Unchanged money multiplier
- d) Unpredictable money multiplier

Correct answer: a) Larger money multiplier

Explanation: The smaller the currency-deposit ratio, the larger would be the money multiplier. This is because a smaller proportion of high powered money is being used as currency and therefore, a larger proportion is available to be reserves which get transformed into money.

Guidance time: 3 minutes

Difficulty level: Moderate

78.Topic: Money Multiplier Approach

Question: What is the implication of an increase in the Time deposit-Demand deposit ratio for the money stock?

- a) The money stock in the economy decreases.
- b) The money stock in the economy increases.

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c) The money stock in the economy remains the same.

d) The money stock in the economy becomes unpredictable.

Correct answer: b) The money stock in the economy increases.

Explanation: An increase in TD/DD ratio means that there is a greater availability of free reserves and consequent enlargement of volume of multiple deposit expansion and monetary expansion.

Guidance time: 3 minutes

Difficulty level: Moderate

79.Topic: Money Multiplier Approach

Question: In the Money Multiplier formula, what does the currency ratio (c) represent?

a) The behaviour of the central bank

b) The behaviour of commercial banks

c) The behaviour of the public

d) The behaviour of the government

Correct answer: c) The behaviour of the public

Explanation: In the Money Multiplier formula, the currency ratio (c) represents the degree of adoption of banking habits by the public.

Guidance time: 2 minutes

Difficulty level: Easy

80.Topic: Monetary Policy and Money Supply

Question: Which method is commonly used by a central bank to stimulate economic activity?

a) Decreasing open market operations

b) Increasing government expenditure

c) Injecting liquidity into the system

d) Reducing high-powered money in the system

Correct answer: c) Injecting liquidity into the system

Explanation: When the central bank of a country wants to stimulate economic activity, it usually does so by infusing liquidity into the system, such as by purchasing government securities or through open market operations.

Guidance time: 2 minutes

Difficulty level: Moderate

81. Topic: Monetary Policy and Money Supply

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Question: How does the credit creation process by the banking system create money?

a) By holding excess reserves

b) By increasing the demand for loans from businesses

c) By decreasing the demand for loans from businesses

d) By assuming that people hold more currency than before

Correct answer: b) By increasing the demand for loans from businesses

Explanation: The credit creation process by the banking system creates money by leveraging demand for loans from businesses. If banks do not hold excess reserves and people do not hold more currency than before, the increase in high powered money (monetary base) injected into the system through actions such as open market operations, can result in a multiplied increase in the money supply.

Guidance time: 2 minutes

Difficulty level: Hard

82.Topic: Monetary Policy and Money Supply

Question: When could the value of the money multiplier be zero?

a) When interest rates are too high

b) When banks prefer to hold the newly injected reserves as excess reserves with no risk attached to it

c) When there is demand for loans from businesses

d) When people hold more currency than before

Correct answer: b) When banks prefer to hold the newly injected reserves as excess reserves with no risk attached to it

Explanation: If interest rates are low and banks prefer not to risk lending but to hold the newly injected reserves, the money multiplier could potentially be zero because there's no additional money being created through the lending process.

Guidance time: 3 minutes

Difficulty level: Hard

83.Topic: Monetary Policy and Money Supply

Question: What is the primary way a central bank stimulates economic activity?

a) Infusing liquidity into the system

b) Raising interest rates

c) Reducing loan demand from businesses

d) Encouraging banks to hold excess reserves

Correct answer: a) Infusing liquidity into the system

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Explanation: Central banks stimulate economic activity primarily by infusing liquidity into the system, often through open market operations such as the purchase of government securities.

Guidance time: 1 minute

Difficulty level: Easy

84.Topic: Monetary Policy and Money Supply

Question: What is the outcome of an open market purchase by the central bank?

a) Increases reserves and money supply

b) Reduces reserves and increases money supply

c) Reduces reserves and money supply

d) Increases reserves and reduces money supply

Correct answer: c) Reduces reserves and money supply

Explanation: An open market purchase by the central bank reduces the reserves, thereby reducing the money supply.

Guidance time: 2 minutes

Difficulty level: Medium

85.Topic: Monetary Policy and Money Supply

Question: When might the value of the money multiplier be zero?

a) When interest rates are too high

b) When banks hold the newly injected reserves as excess reserves

c) When the central bank infuses liquidity into the system

d) When there is demand for loans from businesses

Correct answer: b) When banks hold the newly injected reserves as excess reserves

Explanation: If the interest rates are too low and the banks prefer to hold the newly injected reserves as excess reserves with no risk attached to it, the money multiplier can be zero.

Guidance time: 2 minutes

Difficulty level: Hard

86.Topic: Monetary Policy and Money Supply

Question: What happens when the Reserve Bank of India lends to the governments under WMA /OD?

a) The government balances with the Reserve Bank get debited

b) The receiver's account with the commercial bank gets credited

c) It generates excess reserves

d) All of the above

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Correct answer: d) All of the above

Explanation: When the Reserve Bank of India lends to the governments under WMA /OD, it results in the generation of excess reserves. This happens because when government incurs expenditure, it involves debiting the government balances with the Reserve Bank and crediting the receiver's account with the commercial bank.

Guidance time: 2 minutes

Difficulty level: Medium

87.Topic: Monetary Policy and Money Supply

Question: The Credit Multiplier is also referred to as what?

a) The deposit multiplier

b) The deposit expansion multiplier

c) Both a and b

d) None of the above

Correct answer: c) Both a and b

Explanation: The Credit Multiplier is also referred to as the deposit multiplier or the deposit expansion multiplier.

Guidance time: 1 minute

Difficulty level: Easy

88.Topic: Monetary Policy and Money Supply**

Question 1: What effect does the purchase of government securities by a central bank have on the monetary base?

a) It decreases the monetary base.

b) It does not affect the monetary base.

c) It increases the monetary base.

d) It destabilizes the monetary base.

Correct answer: c) It increases the monetary base.

Explanation: Purchasing government securities infuses high powered money (monetary base) into the system, thereby increasing the monetary base.

Guidance time: 2 minutes

Difficulty level: Medium

89.Topic: Monetary Policy and Money Supply

Question 2: Under what condition could the value of the money multiplier be zero?

a) When interest rates are too high

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- b) When interest rates are too low
- c) When the central bank increases the reserve requirements
- d) When the central bank decreases the reserve requirements

Correct answer: b) When interest rates are too low

Explanation: When interest rates are too low, banks may prefer to hold the newly injected reserves as excess reserves with no risk attached to them, resulting in a zero money multiplier.

Guidance time: 2 minutes

Difficulty level: Hard

90.Topic: Monetary Policy and Money Supply

Question : What is the effect of an open market sale by a central bank?

- a) It increases the reserves and thereby increases the money supply.
- b) It reduces the reserves and thereby increases the money supply.
- c) It reduces the reserves and thereby reduces the money supply.
- d) It increases the reserves and thereby reduces the money supply.

Correct answer: c) It reduces the reserves and thereby reduces the money supply

Explanation: An open market sale by a central bank reduces the reserves in the system and thereby, leads to a reduction in the money supply.

Guidance time: 2 minutes

Difficulty level: Medium

91.Topic: Monetary Policy and Money Supply

Question : What happens when the Reserve Bank of India lends to governments under WMA/OD facility?

- a) It results in the generation of deficit reserves.
- b) It results in the reduction of excess reserves.
- c) It results in the generation of excess reserves.
- d) It results in the elimination of reserves.

Correct answer: c) It results in the generation of excess reserves

Explanation: When the Reserve Bank of India lends to the governments under WMA /OD, it results in the generation of excess reserves (i.e., excess balances of commercial banks with the Reserve Bank).

Guidance time: 2 minutes

Difficulty level: Hard

92.Topic: Monetary Policy and Money Supply

Question 5: How is the credit multiplier calculated?

- a) It is the required reserve ratio.
- b) It is the reciprocal of the required reserve ratio.
- c) It is the difference of the required reserve ratio from one.
- d) It is the sum of the required reserve ratio and one.

Correct answer: b) It is the reciprocal of the required reserve ratio

Explanation: The credit multiplier, also referred to as the deposit multiplier or the deposit expansion multiplier, is calculated as the reciprocal of the required reserve ratio.

Guidance time: 2 minutes

Difficulty level: Hard

93.Topic: Monetary Policy and Open Market Operations

Question 1: What is the primary aim of the central bank when infusing liquidity into the system?

- a) To increase the value of the country's currency
- b) To stimulate economic activity
- c) To increase the central bank's reserves
- d) To decrease loan demand from businesses

Correct answer: b) To stimulate economic activity

Explanation: By injecting liquidity into the system, the central bank aims to stimulate economic activity, encourage businesses to take loans, and thus spur economic growth.

Guidance time: 2 minutes

Difficulty level: Easy

94.Topic: Open Market Operations and Money Supply

Question 2: What is the effect of an open market purchase by the central bank?

- a) Increase in money supply
- b) Decrease in money supply
- c) No effect on money supply
- d) Depends on the economy's state

Correct answer: a) Increase in money supply

Explanation: An open market purchase of government securities by the central bank injects high-powered money into the system, thereby increasing the money supply.

Guidance time: 2 minutes

Difficulty level: Moderate

95.Topic: Interest Rates and Excess Reserves

Question 3: Under what circumstance can the value of the money multiplier be zero?

- a) When interest rates are too high
- b) When interest rates are too low
- c) When banks hold excess reserves
- d) Both b) and c)

Correct answer: d) Both b) and c)

Explanation: The money multiplier can be zero when interest rates are too low and banks prefer to hold the newly injected reserves as excess reserves, carrying no risk.

Guidance time: 2 minutes

Difficulty level: Hard

95.Topic: Government Expenditure and Money Supply

Question 4: How does government expenditure influence the money supply?

- a) It decreases the money supply
- b) It increases the money supply
- c) It has no effect on the money supply
- d) It depends on the type of expenditure

Correct answer: b) It increases the money supply

Explanation: When governments incur expenditure, it often involves availing of a Ways and Means Advances (WMA)/overdraft (OD) facility which results in the creation of excess reserves. These excess reserves can potentially increase the money supply through the money multiplier process.

Guidance time: 3 minutes

Difficulty level: Moderate

96.Topic: Credit Multiplier

Question 5: What is the credit multiplier if the reserve ratio is 25%?

- a) 3
- b) 4
- c) 5
- d) 6

Correct answer: b) 4

Explanation: The credit multiplier is the reciprocal of the required reserve ratio. If the reserve ratio is 25%, then credit multiplier = $1/0.25 = 4$.

Guidance time: 2 minutes

Difficulty level: Moderate

UNIT - 3: MONETARY POLICY

1. Topic: Monetary Policy Defined

Question: What does the Reserve Bank of India aim to achieve with monetary policy?

- A. Economic fluctuations and price stability
- B. Inflation and deflation
- C. Employment rates and export values
- D. Trade surplus and deficit

Correct answer: A. Economic fluctuations and price stability

Explanation: The Reserve Bank of India uses monetary policy to manage economic fluctuations and achieve price stability, meaning that inflation is low and stable.

Guidance time: 2 minutes

Difficulty level: Easy

2. Topic: Monetary Policy Framework

Question 2: Which of the following is not a component of the monetary policy framework?

- A. The objectives of monetary policy
- B. The analytics of monetary policy
- C. The operating procedure
- D. The financial budget of the Reserve Bank of India

Correct answer: D. The financial budget of the Reserve Bank of India

Explanation: The monetary policy framework comprises three basic components: the objectives of monetary policy, the analytics of monetary policy focusing on the transmission mechanisms, and the operating procedure focusing on the operating targets and instruments.

Guidance time: 2 minutes

Difficulty level: Medium

3. Topic: Objectives of Monetary Policy

Question: According to the Reserve Bank of India Act, 1934, which of the following is a primary objective of the Bank?

- A. Ensuring high employment rates
- B. Regulating the issue of bank notes and keeping reserves

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C. Encouraging foreign investments

D. Increasing the country's GDP

Correct answer: B. Regulating the issue of bank notes and keeping reserves

Explanation: According to the Reserve Bank of India Act, 1934, the Bank's objectives include regulating the issue of bank notes and keeping reserves to secure monetary stability in India and generally to operate the currency and credit system of the country to its advantage.

Guidance time: 2 minutes

Difficulty level: Medium

4. Topic: Transmission of Monetary Policy

Question: What is the correct order of the stages of transmission of monetary policy?

- A. Changes to interest rates affect economic activity and inflation, changes to monetary policy affect interest rates
- B. Changes to interest rates affect monetary policy, changes to economic activity and inflation affect interest rates
- C. Changes to monetary policy affect interest rates, changes to interest rates affect economic activity and inflation
- D. Changes to economic activity and inflation affect interest rates, changes to monetary policy affect interest rates

Correct answer: C. Changes to monetary policy affect interest rates, changes to interest rates affect economic activity and inflation

Explanation: The transmission of monetary policy happens in two stages: firstly, changes to monetary policy affect interest rates, and secondly, these changes in interest rates then affect economic activity and inflation.

Guidance time: 3 minutes

Difficulty level: Medium

5. Topic: Channels of Monetary Policy Transmission

Question: How does monetary policy influence economic activity via the Saving and Investment Channel?

- A. By changing exchange rates
- B. By changing the incentives for saving and investment
- C. By affecting the amount of cash available for spending
- D. By influencing the value of assets

Correct answer: B. By changing the incentives for saving and investment

Explanation: The Saving and Investment Channel describes how monetary policy influences economic activity by changing the incentives for saving and investment. Lower interest rates, for example, can decrease the incentive to save and increase the incentive to invest, thereby affecting consumption, housing investment, and business investment.

Guidance time: 3 minutes

Difficulty level: Hard

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6. Topic: Channels of Monetary Policy Transmission

Question: How does monetary policy influence economic activity via the Exchange Rate Channel?

- A. By changing exchange rates
- B. By changing the incentives for saving and investment
- C. By affecting the amount of cash available for spending
- D. By influencing the value of assets

Correct answer: A. By changing exchange rates

Explanation: The Exchange Rate Channel describes how monetary policy can influence economic activity by impacting exchange rates. Lower interest rates, for instance, can lead to a lower exchange rate, which in turn can increase exports and domestic activity, while also adding to inflation because imports become more expensive in the local currency.

Guidance time: 3 minutes

Difficulty level: Hard

7. Topic: Channels of Monetary Policy Transmission

Question: What is a direct result of a reduction in lending rates in the Cash-flow Channel of monetary policy transmission?

- A. Reduction in the availability of loans
- B. Increase in the amount of cash available for spending
- C. Decrease in the amount of cash available for spending
- D. Increase in the interest rates on bank deposits

Correct answer: B. Increase in the amount of cash available for spending

Explanation: In the Cash-flow Channel, a reduction in lending rates reduces interest repayments on debt, increasing the amount of cash available for households and businesses to spend on goods and services.

Guidance time: 3 minutes

Difficulty level: Medium

8. Topic: Channels of Monetary Policy Transmission

Question: How do lower interest rates affect asset prices in the Asset Prices and Wealth Channel of monetary policy transmission?

- A. They decrease asset prices
- B. They have no effect on asset prices
- C. They increase asset prices
- D. They stabilize asset prices

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Correct answer: C. They increase asset prices

Explanation: Lower interest rates support asset prices (such as housing and equities) by encouraging demand for assets. Higher asset prices increase the equity (collateral) of an asset that is available for banks to lend against.

Guidance time: 3 minutes

Difficulty level: Hard

9. Topic: Objectives of Monetary Policy

Question: Which of the following is not an explicit objective of monetary policy in developing countries?

- A. Maintenance of economic growth
- B. Ensuring an adequate flow of credit to the productive sectors
- C. Sustaining a high structure of interest rates to encourage investments
- D. Creation of an efficient market for government securities

Correct answer: C. Sustaining a high structure of interest rates to encourage investments

Explanation: High interest rates might discourage investment due to the increased cost of borrowing. Hence, an explicit objective would be to sustain a moderate structure of interest rates to encourage investments.

Guidance time: 2 minutes

Difficulty level: Medium

10. Topic: Monetary Policy Framework

Question: What are the three basic components of the monetary policy framework?

- A. Monetary policy objectives, transmission mechanisms, and fiscal policy
- B. Fiscal policy, monetary policy objectives, and operating procedures
- C. Monetary policy objectives, transmission mechanisms, and operating procedures
- D. Monetary policy objectives, fiscal policy, and operating procedures

Correct answer: C. Monetary policy objectives, transmission mechanisms, and operating procedures

Explanation: The monetary policy framework consists of three components: the objectives of monetary policy, the analytics of monetary policy (focusing on transmission mechanisms), and the operating procedure (focusing on operating targets and instruments).

Guidance time: 2 minutes

Difficulty level: Easy

11. Topic: Transmission of Monetary Policy

Question: Why is there uncertainty in the transmission of monetary policy?

- A. Because the effects of such policy are visible often after a time lag which is not completely predictable

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B. Because changes in monetary policy do not affect interest rates

C. Because changes in monetary policy do not influence output and inflation

D. Because monetary policy only affects interest rates, not economic activity or inflation

Correct answer: A. Because the effects of such policy are visible often after a time lag which is not completely predictable

Explanation: Although we know that monetary policy does influence output and inflation, we are not certain about how exactly it does so, because the effects of such policy are visible often after a time lag which is not completely predictable.

Guidance time: 3 minutes

Difficulty level: Hard

12. **Topic:** Transmission of Monetary Policy

Question: How do lower interest rates typically affect households according to the Saving and Investment Channel of monetary policy transmission?

A. They increase the incentive for households to save their money

B. They decrease the incentive for households to spend their money

C. They decrease the incentive for households to save their money

D. They have no effect on households' saving and spending habits

Correct answer: C. They decrease the incentive for households to save their money

Explanation: According to the Saving and Investment Channel, lower interest rates on bank deposits reduce the incentives households have to save their money, and instead, there is an increased incentive for households to spend their money on goods and services.

Guidance time: 3 minutes

Difficulty level: Hard

13. **Topic:** Monetary Policy Transmission

Question: What is the effect of lower interest rates on the exchange rate according to the Exchange Rate Channel of monetary policy transmission?

A. They increase the exchange rate

B. They stabilize the exchange rate

C. They have no effect on the exchange rate

D. They lower the exchange rate

Correct answer: D. They lower the exchange rate

Explanation: According to the Exchange Rate Channel, if the Reserve Bank lowers the cash rate, it means that interest rates in India have fallen compared with interest rates in the rest of the world. Lower interest rates reduce the returns investors earn from assets in India (relative to other countries), resulting in a lower exchange rate.

Guidance time: 3 minutes

Difficulty level: Hard

14. **Topic:** Monetary Policy Defined

Question: What does it mean when central banks lower interest rates?

A. Monetary policy is tightening

B. Monetary policy is easing

C. Monetary policy is stable

D. Monetary policy is variable

Correct answer: B. Monetary policy is easing

Explanation: When central banks lower interest rates, it's referred to as an easing of monetary policy because it encourages economic activity by making borrowing cheaper.

Guidance time: 2 minutes

Difficulty level: Medium

15. **Topic:** Objectives of Monetary Policy

Question: According to the Reserve Bank of India Act, 1934, which of the following is NOT set out as an objective of the Bank?

A. To regulate the issue of bank notes

B. To ensure a high rate of employment

C. To keep reserves with a view to securing monetary stability in India

D. To operate the currency and credit system of the country to its advantage

Correct answer: B. To ensure a high rate of employment

Explanation: While maintaining high employment rates may be an indirect outcome or consideration of monetary policy, the Reserve Bank of India Act, 1934, does not explicitly set it out as one of the Bank's objectives. The objectives as per the Act include regulating the issue of bank notes, keeping reserves to secure monetary stability in India, and operating the currency and credit system of the country to its advantage.

Guidance time: 2 minutes

Difficulty level: Medium

16. **Topic:** Objectives of Monetary Policy

Question: In the context of developing countries, which of the following is NOT typically a part of the monetary policy objectives?

A. Promotion of exports

B. Maintenance of economic growth

C. Creation of an efficient market for government securities

D. Encouraging high interest rates

Correct answer: D. Encouraging high interest rates

Explanation: In developing countries, high interest rates might discourage investments due to increased borrowing costs. Hence, encouraging high interest rates is not typically a part of the monetary policy objectives.

Guidance time: 2 minutes

Difficulty level: Medium

17. **Topic:** Monetary Policy Framework

Question: Which of the following best describes the purpose of the operating procedure within the monetary policy framework?

A. It provides guidance on the objectives of monetary policy.

B. It outlines how to adjust interest rates to control inflation.

C. It focuses on the operating targets and instruments of the central bank.

D. It describes the transmission mechanisms of monetary policy.

Correct answer: C. It focuses on the operating targets and instruments of the central bank.

Explanation: The operating procedure is one of the three components of the monetary policy framework, focusing specifically on the operating targets and instruments used by the central bank.

Guidance time: 2 minutes

Difficulty level: Medium

18. **Topic:** Channels of Monetary Policy Transmission

Question: How does the exchange rate channel influence economic activity and inflation?

A. By changing the incentives for saving and investment

B. By affecting the amount of cash available for spending

C. By influencing the prices of assets and people's wealth

D. By affecting the price of foreign goods and services compared with those produced in the country

Correct answer: D. By affecting the price of foreign goods and services compared with those produced in the country

Explanation: The exchange rate channel affects the price of foreign goods and services relative to domestic ones. A lower exchange rate, for example, makes foreign goods and services more expensive, which can lead to an increase in exports and domestic activity, and adds to inflation because imports become more expensive in the domestic currency.

Guidance time: 3 minutes

Difficulty level: Hard

19. **Topic:** Monetary Policy Transmission

Question: How does a reduction in interest rates affect the wealth of households and businesses according to the Asset Prices and Wealth Channel of monetary policy transmission?

A. It increases their wealth

B. It decreases their wealth

C. It has no effect on their wealth

D. It stabilizes their wealth

Correct answer: A. It increases their wealth

Explanation: Lower interest rates support asset prices by encouraging demand for assets. Higher asset prices increase the equity (collateral) of an asset that is available for banks to lend against, which can increase people's wealth.

Guidance time: 3 minutes

Difficulty level: Hard

20. **Topic:** Monetary Policy Defined

Question: If a central bank raises interest rates, how is the monetary policy described?

A. Easing

B. Tightening

C. Stable

D. Inactive

Correct answer: B. Tightening

Explanation: When a central bank raises interest rates, it is described as a tightening of monetary policy. This action can slow down economic activity by making borrowing more expensive.

Guidance time: 2 minutes

Difficulty level: Easy

21. **Topic:** Objectives of Monetary Policy

Question: According to the Reserve Bank of India Act, what is the primary objective of monetary policy?

A. Maximizing government revenue

B. Ensuring economic equality

C. Regulating foreign trade

D. Maintaining a balance between price stability and economic growth

Correct answer: D. Maintaining a balance between price stability and economic growth

Explanation: As per the Reserve Bank of India Act, the primary objective of monetary policy is to maintain a judicious balance between price stability and economic growth.

Guidance time: 2 minutes

Difficulty level: Medium

22. **Topic:** Transmission of Monetary Policy

Question: What is the outcome of the Saving and Investment Channel when interest rates for loans are lowered?

- A. Households borrow less due to the higher cost of debt
- B. The incentive for households to save increases
- C. Households are discouraged to spend on goods and services
- D. Households are encouraged to borrow more due to lower repayments

Correct answer: D. Households are encouraged to borrow more due to lower repayments

Explanation: In the Saving and Investment Channel, lower interest rates for loans can encourage households to borrow more as they face lower repayments. As a result, demand for assets, such as housing, can increase.

Guidance time: 3 minutes

Difficulty level: Hard

23. **Topic:** Channels of Monetary Policy Transmission

Question: In the Cash-flow Channel, how does a reduction in lending rates affect households and businesses?

- A. It reduces the amount of cash they have available to spend
- B. It increases the amount of income that households and businesses get from deposits
- C. It reduces the interest repayments on debt, increasing the amount of cash available for spending
- D. It has no effect on the amount of cash available for spending

Correct answer: C. It reduces the interest repayments on debt, increasing the amount of cash available for spending

Explanation: In the Cash-flow Channel, a reduction in lending rates reduces interest repayments on debt, increasing the amount of cash available for households and businesses to spend on goods and services.

Guidance time: 3 minutes

Difficulty level: Medium

24. **Topic:** Monetary Policy Defined

Question: Which of the following tools is commonly used by central banks to implement monetary policy?

- A. Government budget balance
- B. Foreign exchange rate setting
- C. Open market operations

D. Regulation of government spending

Correct answer: C. Open market operations

Explanation: Open market operations, in which a central bank buys or sells government bonds in the open market, is a common tool used by central banks to implement monetary policy.

Guidance time: 2 minutes

Difficulty level: Easy

25. **Topic:** Monetary Policy Framework

Question: In terms of the monetary policy framework, what does the term "operating target" refer to?

- A. The objectives set by the central bank
- B. The methods used by the central bank to achieve its objectives
- C. The short-term interest rate that the central bank aims to influence
- D. The desired level of inflation set by the central bank

Correct answer: C. The short-term interest rate that the central bank aims to influence

Explanation: In the context of the monetary policy framework, the term "operating target" typically refers to the short-term interest rate that the central bank aims to influence through its operations.

Guidance time: 2 minutes

Difficulty level: Hard

26. **Topic:** Role of Central Banks in Monetary Policy

Question: In an economy, a central bank uses monetary policy to control which of the following?

- A. The interest rate level
- B. The level of government spending
- C. The level of corporate taxes
- D. The unemployment rate

Correct answer: A. The interest rate level

Explanation: Central banks use monetary policy primarily to control the interest rate level, which in turn affects economic activity and inflation. However, while they indirectly influence factors like employment, they do not control the level of government spending or corporate taxes directly.

Guidance time: 2 minutes

Difficulty level: Easy

27. **Topic:** Monetary Policy Transmission

Question 27: How does an increase in interest rates influence borrowing and spending habits in the interest rate channel of monetary policy transmission?

- A. An increase in interest rates encourages borrowing and spending.
- B. An increase in interest rates discourages borrowing and spending.
- C. An increase in interest rates has no effect on borrowing and spending.
- D. An increase in interest rates first increases then decreases borrowing and spending.

Correct answer: B. An increase in interest rates discourages borrowing and spending.

Explanation: In the interest rate channel of monetary policy transmission, an increase in interest rates makes borrowing more expensive, which can discourage both borrowing and spending, thereby slowing economic activity.

Guidance time: 2 minutes

Difficulty level: Medium

28. **Topic:** Central Bank Independence

Question: Why is central bank independence important for the effectiveness of monetary policy?

- A. It prevents the central bank from making decisions that could lead to hyperinflation.
- B. It prevents the central bank from changing interest rates too frequently.
- C. It allows the central bank to make decisions based on economic conditions, not political pressures.
- D. It restricts the central bank's ability to print money.

Correct answer: C. It allows the central bank to make decisions based on economic conditions, not political pressures.

Explanation: Central bank independence is important because it allows the bank to make decisions based on economic conditions and considerations rather than political pressures or considerations, thereby improving the effectiveness of monetary policy.

Guidance time: 2 minutes

Difficulty level: Medium

29. **Topic:** Monetary Policy and Inflation

Question: What is the likely impact on inflation if a central bank increases the money supply?

- A. Inflation is likely to decrease.
- B. Inflation is likely to increase.
- C. Inflation is likely to remain stable.
- D. The money supply has no impact on inflation.

Correct answer: B. Inflation is likely to increase.

Explanation: If a central bank increases the money supply, there are more dollars available relative to the number of goods and services. This can lead to higher demand, which can in turn drive up prices, leading to increased inflation.

Guidance time: 2 minutes

Difficulty level: Easy

30. **Topic:** Objectives of Monetary Policy

Question: What is the ultimate goal of most central banks when setting monetary policy?

- A. Achieving a high level of government spending
- B. Achieving a high level of economic growth
- C. Maintaining stability of the financial system
- D. Maximizing government revenue

Correct answer: C. Maintaining stability of the financial system

Explanation: While central banks may have multiple objectives, including supporting economic growth, the ultimate goal of most is to maintain the stability of the financial system. This typically involves controlling inflation, managing interest rates, and ensuring the health and stability of financial institutions.

Guidance time: 2 minutes

Difficulty level: Medium

31. **Topic:** Channels of Monetary Policy Transmission

Question: Which channel of monetary policy transmission is directly related to changes in the price of assets, such as real estate and stocks?

- A. The bank lending channel
- B. The exchange rate channel
- C. The asset price channel
- D. The interest rate channel

Correct answer: C. The asset price channel

Explanation: The asset price channel is directly related to changes in the price of assets, such as real estate and stocks. When interest rates are low, borrowing is cheap and people are more likely to invest in assets, increasing their price.

Guidance time: 2 minutes

Difficulty level: Hard

32. **Topic:** Monetary Policy Instruments

Question: Which monetary policy tool involves the purchase and sale of government securities by the central bank?

- A. Reserve requirements
- B. Discount rate
- C. Open market operations

D. Moral suasion

Correct answer: C. Open market operations

Explanation: Open market operations involve the purchase and sale of government securities by the central bank in the open market. This is a commonly used tool to control the money supply and influence interest rates.

Guidance time: 2 minutes

Difficulty level: Medium

33. **Topic:** Quantitative Easing

Question: Quantitative easing is a monetary policy in which a central bank does what?

- A. Decreases government spending to reduce the money supply
- B. Raises interest rates to slow down the economy
- C. Buys government bonds to inject money into the economy
- D. Decreases the reserve requirement for commercial banks

Correct answer: C. Buys government bonds to inject money into the economy

Explanation: Quantitative easing is a form of monetary policy in which a central bank purchases longer-term government bonds and other types of securities in an effort to inject money directly into the economy and stimulate economic activity.

Guidance time: 2 minutes

Difficulty level: Medium

34. **Topic:** Impact of Monetary Policy

Question: What is the likely effect on the economy if a central bank decides to decrease interest rates?

- A. The economy is likely to experience a recession.
- B. The economy is likely to experience a slowdown.
- C. The economy is likely to experience growth.
- D. The economy is likely to experience hyperinflation.

Correct answer: C. The economy is likely to experience growth.

Explanation: Lower interest rates typically stimulate economic growth by making borrowing cheaper. This encourages spending by businesses and consumers, which can lead to increased economic activity.

Guidance time: 2 minutes

Difficulty level: Easy

35. **Topic:** Monetary Policy Targets

Question: What is a common intermediate target of monetary policy?

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A. The inflation rate

B. The unemployment rate

C. The exchange rate

D. The GDP growth rate

Correct answer: A. The inflation rate

Explanation: While central banks may indirectly influence a variety of economic variables, one common intermediate target of monetary policy is the inflation rate. Central banks often aim to keep inflation at a certain target level to ensure price stability.

Guidance time: 2 minutes

Difficulty level: Medium

36. **Topic:** Reserve Ratios and Monetary Policy

Question: What are the two types of reserve ratios that banks are required to maintain?

- A. Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)
- B. Cash Reserve Ratio (CRR) and Investment Reserve Ratio (IRR)
- C. Statutory Liquidity Ratio (SLR) and Loan Reserve Ratio (LRR)
- D. Statutory Liquidity Ratio (SLR) and Deposit Reserve Ratio (DRR)

Correct answer: A. Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

Explanation: Banks are required to maintain two types of reserve ratios - Cash Reserve Ratio (CRR), which is held in cash with the RBI, and Statutory Liquidity Ratio (SLR), which is held in liquid assets such as gold or government securities.

Guidance time: 2 minutes

Difficulty level: Medium

37. **Topic:** Open Market Operations (OMO)

Question: What happens to the liquidity in the market when RBI sells government securities?

- A. It increases
- B. It decreases
- C. It remains unchanged
- D. It fluctuates unpredictably

Correct answer: B. It decreases

Explanation: When the RBI sells government securities, it absorbs the money that the banks or individuals pay to purchase the securities. This reduces the liquidity available in the market.

Guidance time: 2 minutes

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Difficulty level: Medium

38. **Topic:** Qualitative Tools of Monetary Policy

Question: When the Reserve Bank of India raises margin requirements, what impact does it have on customers' borrowing habits?

- A. Customers can borrow more
- B. Customers can borrow less
- C. Customers' borrowing habits are unaffected
- D. Customers must borrow at a higher interest rate

Correct answer: B. Customers can borrow less

Explanation: Margin requirements determine how much collateral customers must provide for loans. When the RBI raises these requirements, customers have to provide more collateral, which can limit how much they are able to borrow.

Guidance time: 2 minutes

Difficulty level: Medium

39. **Topic:** Monetary Policy Decision Structure

Question: What is the primary objective of the Monetary Policy Committee (MPC) according to the amendment of the RBI Act, 2016?

- A. To control money supply
- B. To implement 'flexible inflation targeting framework'
- C. To set the bank rate
- D. To implement the Market Stabilisation Scheme (MSS)

Correct answer: B. To implement 'flexible inflation targeting framework'

Explanation: According to the amendment of the RBI Act in 2016, the Monetary Policy Committee (MPC) was given a statutory basis for the implementation of the 'flexible inflation targeting framework'. This means the primary objective of the MPC is to maintain price stability by controlling inflation.

Guidance time: 2 minutes

Difficulty level: Medium

40. **Topic:** Policy Rates and Monetary Policy

Question: What is the difference between the repo rate and the reverse repo rate?

- A. Repo rate is the rate at which banks lend to RBI, and reverse repo rate is the rate at which RBI lends to banks
- B. Repo rate is the rate at which RBI lends to banks, and reverse repo rate is the rate at which banks lend to RBI
- C. Repo rate is higher than the reverse repo rate

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D. Reverse repo rate is higher than the repo rate

Correct answer: B. Repo rate is the rate at which RBI lends to banks, and reverse repo rate is the rate at which banks lend to RBI

Explanation: Repo rate is the rate at which banks borrow from the RBI against government securities, and reverse repo rate is the rate at which the RBI borrows from banks. Typically, reverse repo rate is less than the repo rate.

Guidance time: 2 minutes

Difficulty level: Hard

41. **Topic:** Monetary Policy and Inflation Targeting

Question: As of the period from August 5, 2016 to March 31, 2021, what is the upper tolerance limit of inflation set by the Central Government of India?

- A. 2%
- B. 4%
- C. 6%
- D. 8%

Correct answer: C. 6%

Explanation: The Central Government of India has set the upper tolerance limit of inflation at 6% for the period from August 5, 2016 to March 31, 2021. This is in line with the 'flexible inflation targeting framework' adopted by the Reserve Bank of India.

Guidance time: 2 minutes

Difficulty level: Medium

42. **Topic:** Monetary Policy and GDP Growth

Question: In recent times, many countries are targeting which of the following as a part of their monetary policy?

- A. Nominal GDP growth
- B. Real GDP growth
- C. Inflation rate
- D. Unemployment rate

Correct answer: A. Nominal GDP growth

Explanation: In recent times, alongside traditional goals like inflation control, many countries are moving towards targeting nominal GDP growth as a part of their monetary policy. This includes the total increase in the value of all goods and services in the economy, including changes due to inflation.

Guidance time: 2 minutes

Difficulty level: Medium

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43. **Topic:** Quantitative Tools of Monetary Policy

Question: How does an increase in Cash Reserve Ratio (CRR) impact the money supply in the market?

- A. Increases the money supply
- B. Decreases the money supply
- C. Does not impact the money supply
- D. Fluctuates the money supply

Correct answer: B. Decreases the money supply

Explanation: When the Cash Reserve Ratio (CRR) increases, banks are required to hold a larger portion of their deposits as reserves. This means they have less money to lend out, which decreases the money supply in the market.

Guidance time: 2 minutes

Difficulty level: Hard

44. **Topic:** Qualitative Tools of Monetary Policy

Question: What does "Moral suasion" by the RBI refer to?

- A. Legally forcing banks to keep money in government securities
- B. Persuading banks to keep money in government securities
- C. Providing incentives to banks to keep money in government securities
- D. Penalizing banks that do not keep money in government securities

Correct answer: B. Persuading banks to keep money in government securities

Explanation: "Moral suasion" refers to the act of persuading, rather than forcing or incentivizing. When the RBI uses moral suasion, it is using its authority to convince banks to act in a certain way, such as keeping money in government securities, rather than forcing them to do so through regulation or financial incentives.

Guidance time: 2 minutes

Difficulty level: Medium

45. **Topic:** Policy Rates and Monetary Policy

Question: How is the Reverse Repo Rate typically related to the Repo Rate?

- A. Reverse Repo Rate = Repo Rate – 1
- B. Reverse Repo Rate = Repo Rate + 1
- C. Reverse Repo Rate = Repo Rate
- D. There is no set relation between the Repo and Reverse Repo Rates

Correct answer: A. Reverse Repo Rate = Repo Rate – 1

Explanation: Typically, the Reverse Repo Rate is set as the Repo Rate minus 1. This means that the Reverse Repo Rate is typically lower than the Repo Rate, which is the rate at which banks can borrow from the RBI.

Guidance time: 2 minutes

Difficulty level: Hard

46. **Topic:** Monetary Policy Instruments

Question: What does the abbreviation 'LAF' stand for in the context of monetary policy?

- A. Long Adjustment Facility
- B. Liquidity Adjustment Facility
- C. Liquidity Assessment Facility
- D. Loan Adjustment Facility

Correct answer: B. Liquidity Adjustment Facility

Explanation: In the context of monetary policy, 'LAF' stands for Liquidity Adjustment Facility. This is a tool used by central banks, like the RBI in India, to manage liquidity in the financial system.

Guidance time: 2 minutes

Difficulty level: Medium

47. **Topic:** Policy Rates and Monetary Policy

Question: What does the term 'Bank Rate' refer to?

- A. The interest rate at which banks lend to customers
- B. The interest rate at which banks borrow from the RBI
- C. The rate of interest at which the RBI lends long-term funds to banks
- D. The interest rate that banks offer on savings accounts

Correct answer: C. The rate of interest at which the RBI lends long-term funds to banks

Explanation: The term 'Bank Rate' refers to the interest rate at which the RBI lends long-term funds to commercial banks. It is used as a signal by the central bank to the commercial banks on how they should adjust their own lending rates.

Guidance time: 2 minutes

Difficulty level: Medium

48. **Topic:** Monetary Policy and Inflation Targeting

Question: What does the term 'Inflation targeting' refer to?

- A. The act of announcing an official target range for inflation
- B. The process of increasing the rate of inflation
- C. The process of decreasing the rate of inflation
- D. The strategy of maintaining a steady rate of inflation

Correct answer: A. The act of announcing an official target range for inflation

Explanation: 'Inflation targeting' refers to a monetary policy strategy where a central bank sets and announces a specific inflation target or target range that it will aim to meet in the future. This strategy is aimed at ensuring price stability.

Guidance time: 2 minutes

Difficulty level: Medium

49. **Topic:** Monetary Policy Decision Structure

Question: Who sets the inflation target in India?

- A. The Reserve Bank of India (RBI)
- B. The Ministry of Finance, Government of India
- C. The Government of India, in consultation with the Reserve Bank
- D. The Parliament of India

Correct answer: C. The Government of India, in consultation with the Reserve Bank

Explanation: In India, the inflation target is set by the Government of India, in consultation with the Reserve Bank, once in every five years. This is part of the 'flexible inflation targeting framework' adopted by the RBI.

Guidance time: 2 minutes

Difficulty level: Medium

50. **Topic:** Monetary Policy Instruments

Question: What is the Marginal Standing Facility (MSF) Rate?

- A. The rate at which the RBI lends to banks against government securities
- B. The rate at which the RBI lends to banks in case of any shortfall of liquidity
- C. The rate at which banks borrow from the RBI on a short-term basis
- D. The rate at which the RBI borrows from banks

Correct answer: B. The rate at which the RBI lends to banks in case of any shortfall of liquidity

Explanation: The Marginal Standing Facility (MSF) Rate is the penal rate at which the RBI lends money to banks, over the rate available under the repo policy. It serves as a last resort for banks to borrow from, in case of any shortfall of liquidity.

Guidance time: 2 minutes

Difficulty level: Hard

51. **Topic:** Qualitative Tools of Monetary Policy

Question: What is meant by 'Selective credit control' in the context of monetary policy?

- A. Providing extra credit to selective industries or businesses

- B. Restricting credit by not lending to selective industries or speculative businesses

- C. Providing credit only to the manufacturing sector

- D. Providing credit only to the service sector

Correct answer: B. Restricting credit by not lending to selective industries or speculative businesses

Explanation: Selective credit control is a strategy used by central banks to control credit. It involves restricting credit by not lending to certain industries or speculative businesses. The aim is to prevent risky or speculative lending and to control the amount of credit in the economy.

Guidance time: 2 minutes

Difficulty level: Medium

52. **Topic:** Open Market Operations (OMO)

Question 17: When the RBI buys government securities, what happens to the liquidity in the market?

- A. It increases
- B. It decreases
- C. It remains the same
- D. It fluctuates

Correct answer: A. It increases

Explanation: When the RBI buys government securities, it is essentially injecting money into the market, increasing the amount of money that is available for lending and thus increasing liquidity.

Guidance time: 2 minutes

Difficulty level: Medium

53. **Topic:** Reserve Ratio (SLR)

Question: Are banks allowed to earn interest on Statutory Liquidity Ratio (SLR) reserves?

- A. Yes
- B. No
- C. Only on a portion of the SLR reserves
- D. Only if they exceed the SLR requirement

Correct answer: A. Yes

Explanation: Banks are allowed to earn interest on the portion of their deposits that they are required to maintain as Statutory Liquidity Ratio (SLR) reserves. These reserves can be held in liquid assets such as government securities, which often pay interest.

Guidance time: 2 minutes

Difficulty level: Medium

54. **Topic:** Market Stabilisation Scheme (MSS)

Question: What is the Market Stabilisation Scheme (MSS)?

- A. A scheme for stabilising the stock market
- B. A scheme for stabilising the prices of commodities
- C. A scheme for issuing government bonds
- D. A scheme for controlling inflation

Correct answer: C. A scheme for issuing government bonds

Explanation: The Market Stabilisation Scheme (MSS) is a monetary policy intervention by the Reserve Bank of India (RBI) to withdraw excess liquidity by selling government bonds in the market.

Guidance time: 2 minutes

Difficulty level: Hard

55. **Topic:** Policy Rates and Monetary Policy

Question: How is the Bank Rate used by the RBI?

- A. To penalize the banks if they do not maintain the prescribed SLR or CRR
- B. To incentivize banks to lend more
- C. To control the inflation rate
- D. To control the exchange rate

Correct answer: A. To penalize the banks if they do not maintain the prescribed SLR or CRR

Explanation: The Bank Rate is used by the RBI as a tool to maintain monetary stability. One of its uses is to penalize banks if they do not maintain the prescribed Statutory Liquidity Ratio (SLR) or Cash Reserve Ratio (CRR).

Guidance time: 2 minutes

Difficulty level: Medium

56. **Topic:** Repo Rate and Monetary Policy

Question: How does an increase in the Repo Rate by the RBI affect the lending rate of banks?

- A. It increases the lending rate
- B. It decreases the lending rate
- C. It does not affect the lending rate
- D. It fluctuates the lending rate

Correct answer: A. It increases the lending rate

Explanation: Repo rate is the rate at which the RBI lends to commercial banks. An increase in the repo rate will make borrowing from the RBI more expensive for banks. As a result, banks also increase their own lending rates to offset the higher cost, which makes borrowing more expensive for their customers.

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Guidance time: 2 minutes

Difficulty level: Medium

57. **Topic:** Monetary Policy Committee (MPC).

Question: How many members are there in the Monetary Policy Committee of the RBI?

- A. 3
- B. 5
- C. 6
- D. 7

Correct answer: C. 6

Explanation: The Monetary Policy Committee of the RBI has 6 members. Three members are from the RBI and the other three members are appointed by the Government of India.

Guidance time: 2 minutes

Difficulty level: Medium

58. **Topic:** Reserve Ratio (CRR)

Question: In which form does the RBI require banks to maintain the Cash Reserve Ratio (CRR)?

- A. In the form of cash
- B. In the form of government securities
- C. In the form of foreign exchange reserves
- D. In the form of gold reserves

Correct answer: A. In the form of cash

Explanation: The Cash Reserve Ratio (CRR) is the proportion of a bank's total deposits that it must hold in the form of cash. The cash is held in the bank's account with the RBI.

Guidance time: 2 minutes

Difficulty level: Medium

59. **Topic:** Inflation Targeting and Monetary Policy

Question: What is the target inflation rate set by the RBI under the 'flexible inflation targeting framework'?

- A. 2 percent with a range of +/-1 percent
- B. 4 percent with a range of +/-2 percent
- C. 5 percent with a range of +/-1 percent
- D. 6 percent with a range of +/-2 percent

Correct answer: B. 4 percent with a range of +/-2 percent

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Explanation: Under the 'flexible inflation targeting framework', the RBI aims to maintain inflation at 4 percent, with a tolerance of +/-2 percent.

Guidance time: 2 minutes

Difficulty level: Medium

60. **Topic:** Open Market Operations (OMO)

Question: Why does the RBI conduct Open Market Operations (OMO)?

- A. To regulate the money supply in the economy
- B. To manage the value of the Rupee against other currencies
- C. To manage the inflation rate
- D. To regulate the banking sector

Correct answer: A. To regulate the money supply in the economy

Explanation: Open Market Operations (OMO) are used by the RBI to regulate the money supply in the economy. By buying or selling government securities, the RBI can inject money into the economy or absorb money from it, thereby influencing liquidity and interest rates.

Guidance time: 2 minutes

Difficulty level: Medium

61. **Topic:** Policy Rates and Monetary Policy

Question: What is the relationship between the Repo Rate and inflation?

- A. A lower Repo Rate can stimulate inflation
- B. A higher Repo Rate can stimulate inflation
- C. The Repo Rate does not affect inflation
- D. The Repo Rate can only control hyperinflation

Correct answer: A. A lower Repo Rate can stimulate inflation

Explanation: The Repo Rate is the rate at which the RBI lends to banks. A lower Repo Rate reduces the cost of borrowing, encouraging spending and investment, which can lead to increased demand and potentially higher inflation. Conversely, a higher Repo Rate makes borrowing more expensive, which can slow down spending and help control inflation.

Guidance time: 2 minutes

Difficulty level: Hard

62. **Topic:** Qualitative Tools of Monetary Policy

Question: Which of the following is not a qualitative tool of monetary policy?

- A. Moral suasion

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B. Selective credit control

C. Open market operations

D. Persuasion and negotiation

Correct answer: C. Open market operations

Explanation: Open market operations are a quantitative, not qualitative, tool of monetary policy. This tool involves buying or selling government securities in the open market in order to regulate the money supply in the economy.

Guidance time: 2 minutes

Difficulty level: Medium

63. **Topic:** Reserve Ratio (SLR)

Question: Why does the RBI require banks to maintain a Statutory Liquidity Ratio (SLR)?

- A. To ensure that banks have enough funds to meet their obligations
- B. To protect the interests of the depositors
- C. To maintain liquidity in the financial system
- D. All of the above

Correct answer: D. All of the above

Explanation: The Statutory Liquidity Ratio (SLR) is a fraction of a bank's net demand and time liabilities that it must maintain in safe and liquid assets, such as cash, gold, and government securities. This requirement ensures that banks have enough funds to meet their obligations, protects the interests of the depositors, and maintains liquidity in the financial system.

Guidance time: 2 minutes

Difficulty level: Medium

64. **Topic:** Monetary Policy Instruments

Question: What is the purpose of the Marginal Standing Facility (MSF) Rate?

- A. To incentivize banks to lend more
- B. To penalize banks for not meeting their CRR or SLR requirements
- C. To provide a safety valve against unanticipated liquidity shocks to the banking system
- D. To control inflation

Correct answer: C. To provide a safety valve against unanticipated liquidity shocks to the banking system

Explanation: The Marginal Standing Facility (MSF) Rate is the rate at which banks can borrow funds overnight from the RBI against government securities. It provides a safety valve against unanticipated liquidity shocks to the banking system.

Guidance time: 2 minutes

Difficulty level: Hard

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65. **Topic:** Policy Rates and Monetary Policy

Question: How does a decrease in the Bank Rate affect the economy?

- A. It stimulates economic growth
- B. It slows down economic growth
- C. It does not affect economic growth
- D. It leads to hyperinflation

Correct answer: A. It stimulates economic growth

Explanation: A decrease in the Bank Rate reduces the cost of borrowing, which can stimulate economic activity by encouraging businesses and consumers to borrow and spend more. This increased spending can stimulate economic growth.

Guidance time: 2 minutes

Difficulty level: Medium

CHAPTER 09 INTERNATIONAL TRADE

UNIT - 1: THEORIES OF INTERNATIONAL TRADE

1. **Topic:** International Trade and Economic Growth

Question : What is a primary benefit of international trade?

- a) It promotes monopoly creation.
- b) It can increase a country's production costs.
- c) It expands the market for goods and services.
- d) It eliminates the need for domestic production.

Correct answer: c) It expands the market for goods and services.

Explanation: One of the main benefits of international trade is that it expands the market for goods and services, allowing companies to sell their products to a larger audience, thus potentially increasing their revenue and profits.

Guidance time: 1 minute

Difficulty level: Easy

2. **Topic:** Theories of International Trade

Question : According to Adam Smith's theory, when is trade between two countries mutually beneficial?

- a) When one country has absolute cost advantage in all commodities.
- b) When one country can produce a commodity with absolute advantage over another country.
- c) When both countries can produce all commodities at the same cost.
- d) When both countries import more than they export.

Correct answer: b) When one country can produce a commodity with absolute advantage over another country.

Explanation: Adam Smith's theory of absolute advantage posits that trade between two countries would be mutually beneficial if one country could produce one commodity at absolute advantage (over the other commodity) and the other country could, in turn, produce another commodity at an absolute advantage over the first.

Guidance time: 2 minutes

Difficulty level: Medium

3. **Topic:** International Trade and Resource Efficiency

Question : How does international trade contribute to the efficient use of resources?

- a) By restricting resource distribution to wealthier nations.
- b) By promoting competition and preventing domestic monopolies.

c) By encouraging resource overexploitation.

d) By limiting resource usage to domestic needs only.

Correct answer: b) By promoting competition and preventing domestic monopolies.

Explanation: International trade encourages more efficient use of resources by promoting competition. When domestic companies compete with foreign companies, they are incentivized to improve their processes and become more efficient. This helps prevent the formation of domestic monopolies.

Guidance time: 2 minutes

Difficulty level: Medium

4. **Topic:** Theories of International Trade

Question : What is the key difference between the concept of absolute advantage and comparative advantage?

- a) Absolute advantage refers to the ability to produce more with fewer resources, while comparative advantage refers to the ability to produce goods at a lower opportunity cost.
- b) Absolute advantage refers to the ability to produce goods at a lower opportunity cost, while comparative advantage refers to the ability to produce more with fewer resources.
- c) Absolute advantage refers to the ability to produce more of all goods, while comparative advantage refers to the ability to produce less of all goods.
- d) Absolute advantage refers to the ability to produce less of all goods, while comparative advantage refers to the ability to produce more of all goods.

Correct answer: a) Absolute advantage refers to the ability to produce more with fewer resources, while comparative advantage refers to the ability to produce goods at a lower opportunity cost.

Explanation: The principle of absolute advantage refers to the ability of a party to produce a greater quantity of a good, product, or service than competitors, using the same amount of resources. Comparative advantage, on the other hand, refers to the ability to produce a specific good at a lower opportunity cost, not necessarily with fewer resources.

Guidance time: 2 minutes

Difficulty level: Medium

5. **Topic:** Risks of International Trade

Question : What is a potential downside of an underdeveloped country's dependence on foreign nations due to international trade?

- a) Increased economic growth and prosperity
- b) Enhancement of cultural identity
- c) Risk to economic autonomy and potential loss of cultural identity
- d) Encouragement of domestic monopolies

Correct answer: c) Risk to economic autonomy and potential loss of cultural identity

Explanation: While international trade can provide underdeveloped countries with access to necessary goods, technology, and knowledge, overreliance on foreign nations can lead to a risky dependence that impairs their economic autonomy. Furthermore, the influence of foreign cultures can risk a loss of cultural identity.

Guidance time: 2 minutes

Difficulty level: Medium

6. **Topic:** International Trade and Innovation

Question : How does international trade stimulate innovation?

- a) By decreasing competition
- b) By limiting access to new markets
- c) By promoting homogeneity in products and services
- d) By necessitating increased use of automation and supporting technological change

Correct answer: d) By necessitating increased use of automation and supporting technological change

Explanation: International trade often necessitates increased use of automation, supports technological change, and stimulates innovation. This is because firms need to remain competitive and efficient in the global market.

Guidance time: 2 minutes

Difficulty level: Medium

7. **Topic:** Theories of International Trade

Question : According to the mercantilist view, what is the goal of international trade?

- a) To accumulate wealth through aggressive export over import
- b) To balance imports and exports equally
- c) To focus primarily on domestic trade
- d) To import more than export

Correct answer: a) To accumulate wealth through aggressive export over import

Explanation: Mercantilism, as the earliest international economic system, proposes massive and aggressive export over import to accumulate wealth, to have a favorable balance of payment and trade.

Guidance time: 2 minutes

Difficulty level: Medium

8. **Topic:** International Trade and Developing Countries

Question : How does international trade help developing countries move up the global value chain?

- a) By restricting access to innovative services
- b) By increasing their dependency on developed nations
- c) By enhancing the value of their products through quality improvement and higher standards
- d) By encouraging them to import more than they export

Correct answer: c) By enhancing the value of their products through quality improvement and higher standards

Explanation: For emerging economies, international trade can lead to improvement in the quality of output of goods and services, superior products, finer labour, and environmental standards. These enhancements increase the value of their products and enable them to move up the global value chain.

Guidance time: 2 minutes

Difficulty level: Medium

9. Topic: Theories of International Trade

Question : In the given example of country A and country B, which country has the absolute advantage in producing steel?

- a) Country A
- b) Country B
- c) Both
- d) Neither

Correct answer: a) Country A

Explanation: According to the given example, Country A can produce three kilograms of steel in one hour of labour, while Country B can only produce one kilogram in the same amount of time. Therefore, Country A has an absolute advantage in producing steel.

Guidance time: 2 minutes

Difficulty level: Medium

10. Topic: International Trade and Market Diversification

Question: How does opening up to international trade impact the productive base of an economy?

- a) It narrows down the productive base, focusing only on key industries.
- b) It broadens the productive base and facilitates export diversification.
- c) It leads to the abandonment of less profitable industries.
- d) It promotes the domestic market over foreign markets.

Correct answer: b) It broadens the productive base and facilitates export diversification.

Explanation: Opening up to international trade often results in broadening the productive base of an economy. By accessing foreign markets, firms and industries can diversify their exports and reduce their dependence on a few domestic markets or sectors.

Guidance time: 2 minutes

Difficulty level: Medium

11. Topic: International Trade and Economic Integration

Question: What is a primary goal of economic integration?

- a) To encourage economic isolationism
- b) To create barriers to international trade
- c) To reduce or eliminate trade barriers between member nations
- d) To promote trade imbalances between nations

Correct answer: c) To reduce or eliminate trade barriers between member nations

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Explanation: Economic integration refers to the unification of economic policies between different states through the partial or full abolition of tariff and non-tariff restrictions on trade. The primary goal of economic integration is to reduce or even eliminate trade barriers between member nations, thus facilitating free trade.

Guidance time: 1 minute

Difficulty level: Easy

12. Topic: Impact of International Trade on Employment

Question : What is a potential negative impact of international trade on domestic employment?

- a) It creates more job opportunities in all sectors.
- b) It may lead to job losses in industries that cannot compete internationally.
- c) It prevents any form of unemployment.
- d) It results in lower wages for all workers.

Correct answer: b) It may lead to job losses in industries that cannot compete internationally.

Explanation: While international trade can lead to job creation, it can also result in job losses, particularly in industries that are less competitive on the international stage. This is one of the potential drawbacks of international trade.

Guidance time: 2 minutes

Difficulty level: Medium

13. Topic: International Trade and Economic Development

Question : How does international trade contribute to economic development?

- a) By limiting the inflow of foreign direct investment
- b) By reducing access to new technology and knowledge
- c) By promoting economic diversification and technological advancement
- d) By increasing the reliance on a single export commodity

Correct answer: c) By promoting economic diversification and technological advancement

Explanation: International trade can drive economic development by providing access to a wider range of goods and services, fostering competition, stimulating economic diversification, and encouraging technological advancement. It can also lead to increased foreign direct investment and knowledge and technology transfer

Guidance time: 2 minutes

Difficulty level: Medium

14. Topic: Risks of International Trade

Question : Which of the following is a risk associated with increased international trade?

- a) Increased economic stability
- b) Reduction in foreign direct investment
- c) Exposure to global economic fluctuations and crises

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d) Decreased market access for domestic products

Correct answer: c) Exposure to global economic fluctuations and crises

Explanation: One of the risks of increased international trade is exposure to global economic fluctuations and crises. For example, an economic crisis in a major trading partner can have a significant impact on an economy's trade balance, growth rate, and employment levels.

Guidance time: 2 minutes

Difficulty level: Medium

15. Topic: Theories of International Trade

Question : According to the Heckscher-Ohlin theorem, what is the basis for international trade?

- a) The differences in technology between countries
- b) The similarities in resource endowments between countries
- c) The differences in resource endowments between countries
- d) The similarities in technology between countries

Correct answer: c) The differences in resource endowments between countries

Explanation: The Heckscher-Ohlin theorem states that countries will export goods that use their abundant and cheap factors of production, and import goods that use their scarce factors. Hence, it posits that the basis for international trade is the differences in resource endowments between countries.

Guidance time: 2 minutes

Difficulty level: Medium

16. Topic: Trade Agreements and Tariffs

Question : What is the main purpose of a tariff?

- a) To encourage the import of goods
- b) To protect domestic industries from foreign competition
- c) To promote free trade between countries
- d) To decrease the price of imported goods

Correct answer: b) To protect domestic industries from foreign competition

Explanation: A tariff is a tax imposed on imported goods and services. The main purpose of a tariff is to protect domestic industries from foreign competition by raising the price of imported goods.

Guidance time: 1 minute

Difficulty level: Easy

17. Topic: Theories of International Trade

Question : Which theory of international trade posits that trade is largely influenced by the factor endowments - labor, land, and capital - of a nation?

- a) The theory of absolute advantage
- b) The Heckscher-Ohlin theory

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c) The theory of comparative advantage

d) The new trade theory

Correct answer: b) The Heckscher-Ohlin theory

Explanation: The Heckscher-Ohlin theory postulates that a country will export goods that use its abundant factors of production and import goods that use its scarce factors. In essence, this theory implies that the pattern of international trade is determined by differences in factor endowments.

Guidance time: 2 minutes

Difficulty level: Medium

18. Topic: Impact of International Trade on Environment

Question : Which statement correctly reflects the relationship between international trade and the environment?

- a) International trade always has negative effects on the environment.
- b) International trade has no effect on the environment.
- c) International trade always has positive effects on the environment.
- d) International trade can have both positive and negative effects on the environment.

Correct answer: d) International trade can have both positive and negative effects on the environment.

Explanation: International trade can have both positive and negative impacts on the environment. On one hand, it can lead to economic growth and increased efficiency, potentially reducing resource depletion. On the other hand, it may result in increased pollution and natural resource extraction due to increased production.

Guidance time: 2 minutes

Difficulty level: Medium

19. Topic: International Trade and Development

Question : How can international trade help a developing country improve its standard of living?

- a) By restricting access to goods and services
- b) By reducing opportunities for employment
- c) By promoting economic growth and development
- d) By increasing reliance on a single export commodity

Correct answer: c) By promoting economic growth and development

Explanation: International trade can help a developing country improve its standard of living by promoting economic growth and development. This can occur through a number of mechanisms, such as facilitating access to new markets, attracting foreign direct investment, and spurring technological advancement.

Guidance time: 2 minutes

Difficulty level: Medium

20. Topic: Trade Agreements and Tariffs

Question : Which of the following best describes a free trade agreement (FTA)?

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- a) An agreement to limit the number of goods that can be imported
- b) An agreement to impose tariffs on all imported goods
- c) An agreement to promote trade by eliminating trade barriers
- d) An agreement to only trade with specific countries

Correct answer: c) An agreement to promote trade by eliminating trade barriers

Explanation: A free trade agreement (FTA) is a treaty between two or more countries to establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances.

Guidance time: 1 minute

Difficulty level: Easy

21. Topic: International Trade and Global Economy

Question 1: What is the primary function of the World Trade Organization (WTO)?

- a) To regulate international trade and resolve trade disputes
- b) To promote economic isolationism
- c) To increase barriers to trade
- d) To control the monetary policies of its member countries

Correct answer: a) To regulate international trade and resolve trade disputes

Explanation: The primary function of the WTO is to regulate international trade. The organization facilitates the negotiation and implementation of trade agreements, resolves trade disputes among its members, and provides a platform for trade discussions.

Guidance time: 1 minute

Difficulty level: Easy

22. Topic: Trade and National Income

Question 2: How can international trade contribute to an increase in a country's national income?

- a) By reducing the country's export potential
- b) By increasing opportunities for businesses to access larger markets
- c) By limiting the country's access to foreign direct investment
- d) By imposing high tariffs on imported goods

Correct answer: b) By increasing opportunities for businesses to access larger markets

Explanation: International trade can contribute to an increase in a country's national income by providing businesses with access to larger, international markets. This expansion of potential customers can lead to increased sales, profits, and, subsequently, higher national income.

Guidance time: 2 minutes

Difficulty level: Medium

23. Topic: Theories of International Trade

Question : Which theory of international trade suggests that countries should specialize in the production of goods for which they have a lower opportunity cost?

- a) Theory of absolute advantage
- b) Theory of comparative advantage
- c) Heckscher-Ohlin theory
- d) New trade theory

Correct answer: b) Theory of comparative advantage

Explanation: The theory of comparative advantage suggests that countries should specialize in the production of goods for which they have a lower opportunity cost. This theory explains how trade can create value for both parties even when one can produce all goods with fewer resources than the other.

Guidance time: 2 minutes

Difficulty level: Medium

24. Topic: Trade and Economic Growth

Question : Which of the following is a potential benefit of international trade?

- a) Reduction in economic growth
- b) Decreased access to goods and services
- c) Increased competition leading to improved products and services
- d) Reduction in employment opportunities

Correct answer: c) Increased competition leading to improved products and services

Explanation: International trade opens up new markets and exposes countries to goods and services from abroad. This increased competition can lead to product improvements as companies strive to maintain their edge and stay ahead of their competitors.

Guidance time: 2 minutes

Difficulty level: Medium

25. Topic: Tariffs and Trade

Question : What is the economic effect of a tariff on imported goods?

- a) It makes the imported goods cheaper, increasing demand
- b) It makes the imported goods more expensive, reducing demand
- c) It has no effect on the price or demand of imported goods
- d) It decreases the price of domestic goods

Correct answer: b) It makes the imported goods more expensive, reducing demand

Explanation: A tariff is a tax imposed on imported goods. By increasing the cost of imports, a tariff can make those goods more expensive, which typically reduces demand for them.

Guidance time: 2 minutes

Difficulty level: Medium

26. Topic: Balance of Trade

Question : What does a trade surplus mean for a country's balance of trade?

- a) The country's exports exceed its imports
- b) The country's imports exceed its exports
- c) The country's exports and imports are equal
- d) The country does not participate in international trade

Correct answer: a) The country's exports exceed its imports

Explanation: A trade surplus occurs when the value of a country's exports exceeds the value of its imports. In this situation, the country's balance of trade is positive.

Guidance time: 1 minute

Difficulty level: Easy

27. Topic: International Trade and Exchange Rates

Question : How can a depreciation of a country's currency impact its trade balance?

- a) It has no impact on the trade balance
- b) It makes the country's exports more expensive and imports cheaper, potentially leading to a trade deficit
- c) It makes the country's exports cheaper and imports more expensive, potentially leading to a trade surplus
- d) It leads to an immediate stop of international trade

Correct answer: c) It makes the country's exports cheaper and imports more expensive, potentially leading to a trade surplus

Explanation: A depreciation of a country's currency makes its exports cheaper for foreign buyers and imports more expensive for domestic consumers. This change can increase the country's exports and decrease its imports, potentially leading to a trade surplus.

Guidance time: 2 minutes

Difficulty level: Medium

28. Topic: Trade Agreements

Question : What is the purpose of a preferential trade agreement?

- a) To increase trade barriers between member countries
- b) To give special treatment to goods and services from member countries
- c) To impose tariffs on all imported goods
- d) To prevent any form of trade between member countries

Correct answer: b) To give special treatment to goods and services from member countries

Explanation: A preferential trade agreement (PTA) is a trade pact between countries that reduces tariffs for certain products to the countries who sign the agreement. While the tariffs are not necessarily eliminated, they are lower than countries not party to the agreement. It is a form of economic integration.

Guidance time: 2 minutes

Difficulty level: Medium

29. Topic: Protectionism in Trade

Question : Which of the following is a reason a country might adopt protectionist trade policies?

- a) To protect emerging domestic industries from international competition
- b) To increase the country's dependence on imported goods
- c) To reduce the country's economic growth
- d) To discourage foreign direct investment

Correct answer: a) To protect emerging domestic industries from international competition

Explanation: Protectionism refers to government actions and policies that restrict international trade. One reason a country might adopt protectionist trade policies is to shield emerging domestic industries from foreign competition. This is often referred to as the infant industry argument.

Guidance time: 2 minutes

Difficulty level: Medium

30. Topic: Trade and Development

Question: How can international trade contribute to the economic development of a country?

- a) By discouraging domestic production and consumption
- b) By increasing access to a wider range of goods and services, new technologies, and knowledge
- c) By increasing economic inequality and poverty
- d) By limiting the country's participation in the global market

Correct answer: b) By increasing access to a wider range of goods and services, new technologies, and knowledge

Explanation: International trade can contribute to a country's economic development in several ways. For example, it can provide access to a wider range of goods and services, introduce new technologies, and foster knowledge exchange. These factors can lead to economic diversification, increased productivity, and improved living standards.

Guidance time: 2 minutes

Difficulty level: Medium

31. Topic: Heckscher-Ohlin Theory of Trade

Question : According to the Heckscher-Ohlin Theory, countries tend to export goods that intensively use what?

- a) The factor of production that is relatively scarce in the country.
- b) The factor of production that is relatively abundant in the country.
- c) The factor of production that is most expensive in the country.
- d) The factor of production that is cheapest in the country.

Correct answer: b) The factor of production that is relatively abundant in the country.

Explanation: Heckscher-Ohlin Theory suggests that countries tend to export goods whose production uses intensively the factor of production that is relatively abundant in the country.

Guidance time: 2 minutes

Difficulty level: Moderate

32. Topic: New International Trade Theory

Question : Who received the 2008 Nobel Prize for Economics for his work in economic geography and in identifying international trade patterns?

- a) Eli Heckscher
- b) Bertil Ohlin
- c) Paul Krugman
- d) Adam Smith

Correct answer: c) Paul Krugman

Explanation: Paul Krugman received the 2008 Nobel Prize for his work in economic geography and in identifying international trade patterns. He notably criticized the Heckscher-Ohlin model, noting that it did not fit observed data.

Guidance time: 1 minute

Difficulty level: Easy

33. Topic: New International Trade Theory

Question : According to the New Trade Theory, what effect does international trade have on markets?

- a) It leads to optimal results.
- b) It usually leads to suboptimal results.
- c) It has no effect on market outcomes.
- d) It only affects the markets of developing countries.

Correct answer: b) It usually leads to suboptimal results.

Explanation: New Trade Theory suggests that, due to factors such as oligopolistic industries and external economies, markets normally lead to suboptimal results.

Guidance time: 2 minutes

Difficulty level: Difficult

34. Topic: International Trade

Question : The theory that explains the differences in comparative advantage in terms of differences in factor endowments is known as:

- a) Modern Theory
- b) Theory of Comparative Costs
- c) Heckscher-Ohlin Theory
- d) New International Trade Theory

Correct answer: c) Heckscher-Ohlin Theory

Explanation: Heckscher-Ohlin Theory explains the differences in comparative advantage in terms of differences in factor endowments, such as labour and capital.

Guidance time: 2 minutes

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Difficulty level: Moderate

35. Topic: Economies of Scale and Network Effects

Question : What is the 'bandwagon effect' referred to in the context of network effects?

- a) The phenomenon where the value of a product or service increases as more individuals use it.
- b) The phenomenon where the value of a product or service decreases as more individuals use it.
- c) The phenomenon where a company can lower its costs by producing more of a product.
- d) The phenomenon where a company can increase its profits by selling more of a product.

Correct answer: a) The phenomenon where the value of a product or service increases as more individuals use it.

Explanation: In the context of network effects, the 'bandwagon effect' refers to the situation where the value of a product or service is enhanced as the number of individuals using it increases.

Guidance time: 2 minutes

Difficulty level: Moderate

36. Topic: Economies of Scale

Question : What is the effect of economies of scale on a firm's cost per unit as it produces more of a product?

- a) It increases the cost per unit.
- b) It decreases the cost per unit.
- c) It has no effect on the cost per unit.
- d) It first increases, then decreases the cost per unit.

Correct answer: b) It decreases the cost per unit.

Explanation: Economies of scale refer to the cost advantage that a firm experiences as the scale of production increases. As the quantity of production increases, the cost per unit of the product decreases.

Guidance time: 2 minutes

Difficulty level: Easy

37. Topic: Modern Theory of International Trade

Question : Modern Theory of International Trade treats international trade as a special case of what?

- a) Inter-industry trade
- b) Intra-industry trade
- c) Inter-regional trade
- d) Intra-regional trade

Correct answer: c) Inter-regional trade

Explanation: Modern Theory of International Trade suggests that international trade is only a special case of inter-regional trade.

Guidance time: 2 minutes

Difficulty level: Moderate

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38. Topic: Theory of Comparative Costs

Question : What is the basis of the Theory of Comparative Costs?

- a) Differences in productive efficiency of workers
- b) Differences in factor endowments
- c) Differences in factor prices
- d) Differences in comparative costs

Correct answer: d) Differences in comparative costs

Explanation: The Theory of Comparative Costs bases its argument on the differences in comparative costs between countries.

Guidance time: 2 minutes

Difficulty level: Easy

39. Topic: Heckscher-Ohlin Theory of Trade

Question : According to the Heckscher-Ohlin Theory, a country well endowed with labour should export what kind of products?

- a) Capital-intensive products
- b) Labour-intensive products
- c) Technology-intensive products
- d) Resource-intensive products

Correct answer: b) Labour-intensive products

Explanation: According to Heckscher-Ohlin Theory, countries that are well endowed with labour should export labour-intensive products.

Guidance time: 2 minutes

Difficulty level: Moderate

40. Topic: New International Trade Theory

Question : According to the New International Trade Theory, which of the following is an advantage of international trade?

- a) It allows for less competition.
- b) It decreases the economies of scale.
- c) It reduces market size.
- d) It increases competition and allows greater exploitation of economies of scale.

Correct answer: d) It increases competition and allows greater exploitation of economies of scale.

Explanation: The New International Trade Theory suggests that international trade increases competition and allows for greater exploitation of economies of scale, offering benefits over and above those due to comparative advantage.

Guidance time: 2 minutes

Difficulty level: Difficult

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41. Topic: International Trade Patterns

Question 1: Who won the 2008 Nobel Prize for Economics for his work in economic geography and identifying international trade patterns?

- a) Eli Heckscher
- b) Bertil Ohlin
- c) Paul Krugman
- d) David Ricardo

Correct answer: c) Paul Krugman

Explanation: American economist and journalist Paul Krugman received the 2008 Nobel Prize for Economics for his work in economic geography and in identifying international trade patterns.

Guidance time: 1 minute

Difficulty level: Moderate

42. Topic: New International Trade Theory

Question : What is one of the key concepts in the New International Trade Theory that gives advantages to countries that import goods to compete with products from the home country?

- a) Economies of scale
- b) Disadvantages of scale
- c) Economies of diversity
- d) Disadvantages of diversity

Correct answer: a) Economies of scale

Explanation: According to the New International Trade Theory, one of the key concepts that give advantages to countries that import goods to compete with products from the home country is economies of scale.

Guidance time: 2 minutes

Difficulty level: Difficult

43. Topic: Network Effects

Question : Which term refers to the way one person's value for a good or service is affected by the value of that good or service to others?

- a) Economies of scale
- b) Network effects
- c) Bandwagon effects
- d) Social effects

Correct answer: b) Network effects

Explanation: Network effects refer to the way one person's value for a good or service is affected by the value of that good or service to others. The value of the product or service is enhanced as the number of individuals using it increases.

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Guidance time: 2 minutes

Difficulty level: Moderate

44. Topic: Theory of Comparative Costs

Question : According to the Theory of Comparative Costs, what is considered as the sole factor of production?

- a) Capital
- b) Labour
- c) Both capital and labour
- d) Neither capital nor labour

Correct answer: b) Labour

Explanation: The Theory of Comparative Costs considers labour as the sole factor of production and presents a one-factor (labour) model.

Guidance time: 2 minutes

Difficulty level: Moderate

45. Topic: Modern Theory of International Trade

Question : According to the Modern Theory of International Trade, what is the main cause of commodity price differences?

- a) Differences in productive efficiency of workers
- b) Factor price differences
- c) Differences in comparative costs
- d) Differences in factor endowments

Correct answer: b) Factor price differences

Explanation: According to the Modern Theory of International Trade, factor price differences are considered as the main cause of commodity price differences.

Guidance time: 2 minutes

Difficulty level: Difficult

46. Topic: Heckscher-Ohlin Theory of Trade

Question : According to the Heckscher-Ohlin Theory, a country well endowed with capital should export what kind of products?

- a) Capital-intensive products
- b) Labour-intensive products
- c) Technology-intensive products
- d) Resource-intensive products

Correct answer: a) Capital-intensive products

Explanation: According to Heckscher-Ohlin Theory, countries that are well endowed with capital—such as factories and machinery—should export capital-intensive products.

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Guidance time: 2 minutes

Difficulty level: Moderate

47. Topic: Network Effects

Question : The increase in value of a product or service as more people use it is referred to as what?

- a) Economies of scale
- b) Network effect
- c) Bandwagon effect
- d) Cascade effect

Correct answer: b) Network effect

Explanation: The network effect refers to the increase in value of a product or service as the number of users grows.

Guidance time: 1 minute

Difficulty level: Easy

48. Topic: International Trade

Question : In the context of international trade, what is 'intra-industry trade'?

- a) Trade between different industries within the same country
- b) Trade within the same industry across different countries
- c) Trade between different industries across different countries
- d) Trade within the same industry within the same country

Correct answer: b) Trade within the same industry across different countries

Explanation: Intra-industry trade refers to the exchange of similar products belonging to the same industry. For instance, a country might both import and export cars or other goods within the same industry.

Guidance time: 2 minutes

Difficulty level: Moderate

49. Topic: New International Trade Theory

Question : What type of industry does the New International Trade Theory suggest many traded goods are produced by?

- a) Monopolistic and subject to internal economies
- b) Oligopolistic and subject to external economies
- c) Monopolistic and subject to external economies
- d) Oligopolistic and subject to internal economies

Correct answer: b) Oligopolistic and subject to external economies

Explanation: According to the New International Trade Theory, many traded goods are produced by industries that are oligopolistic (a few large producers) and subject to external economies (benefits from large-scale production).

Guidance time: 2 minutes

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Difficulty level: Difficult

50. Topic: Heckscher-Ohlin Theory of Trade

Question : The Heckscher-Ohlin Theory proposes that countries tend to export goods that use what intensively?

- a) The factor of production that is relatively scarce in the country
- b) The factor of production that is relatively abundant in the country
- c) Both factors of production equally
- d) Neither factor of production

Correct answer: b) The factor of production that is relatively abundant in the country

Explanation: The Heckscher-Ohlin Theory maintains that countries tend to export goods whose production uses intensively the factor of production that is relatively abundant in the country.

Guidance time: 2 minutes

Difficulty level: Moderate

51. Topic: Comparative Advantage and International Trade

Question 1: The Theory of Comparative Costs attributes the differences in comparative advantage to what?

- a) Differences in productive efficiency of workers
- b) Factor price differences
- c) Differences in comparative costs
- d) Differences in factor endowments

Correct answer: a) Differences in productive efficiency of workers

Explanation: The Theory of Comparative Costs attributes the differences in comparative advantage to differences in the productive efficiency of workers.

Guidance time: 2 minutes

Difficulty level: Moderate

52. Topic: New International Trade Theory

Question 2: According to the New International Trade Theory, why can international trade be a positive-sum game?

- a) It enables greater selection across different types of goods
- b) It increases competition and allows greater exploitation of economies of scale
- c) It allows countries to specialize in what they do best
- d) Both A and B

Correct answer: d) Both A and B

Explanation: According to the New International Trade Theory, international trade can be a positive-sum game because it enables greater selection across different types of goods and it increases competition and allows greater exploitation of economies of scale.

Guidance time: 2 minutes

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Difficulty level: Difficult

53. Topic: International Trade

Question : What is one reason why there is a lot of intra-industry trade?

- a) Trade enables greater selection across different types of goods
- b) Countries tend to export goods whose production uses intensively the factor of production that is relatively scarce
- c) Countries tend to import goods that they can produce most efficiently
- d) Countries with capital abundance tend to import labour-intensive goods

Correct answer: a) Trade enables greater selection across different types of goods

Explanation: One reason for intra-industry trade is that trade enables greater selection across different types of goods. For example, countries that export household refrigerators may import industrial coolers.

Guidance time: 2 minutes

Difficulty level: Moderate

54. Topic: Heckscher-Ohlin Theory of Trade

Question : What is the main idea of the Heckscher-Ohlin Theory of Trade?

- a) Countries tend to export goods whose production uses intensively the factor of production that is relatively scarce
- b) Countries tend to export goods whose production uses intensively the factor of production that is relatively abundant
- c) Countries tend to import goods whose production uses intensively the factor of production that is relatively scarce
- d) Countries tend to import goods whose production uses intensively the factor of production that is relatively abundant

Correct answer: b) Countries tend to export goods whose production uses intensively the factor of production that is relatively abundant

Explanation: The main idea of the Heckscher-Ohlin Theory of Trade is that countries tend to export goods whose production uses intensively the factor of production that is relatively abundant in the country.

Guidance time: 2 minutes

Difficulty level: Moderate

55. Topic: Modern Theory of International Trade

Question : What does the Modern Theory of International Trade explain the differences in comparative advantage in terms of?

- a) Differences in productive efficiency of workers
- b) Factor price differences
- c) Differences in comparative costs
- d) Differences in factor endowments

Correct answer: d) Differences in factor endowments

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Explanation: The Modern Theory of International Trade explains the differences in comparative advantage in terms of differences in factor endowments.

Guidance time: 2 minutes

Difficulty level: Difficult

56. Topic: New International Trade Theory

Question : What does the term 'bandwagon effect' refer to in the context of New International Trade Theory?

- a) The tendency of consumers to buy goods that others are also buying
- b) The increase in value of a product as more people use it
- c) The benefits derived from large-scale production
- d) The tendency of firms to produce more of a product when its cost per unit is lower

Correct answer: b) The increase in value of a product as more people use it

Explanation: The 'bandwagon effect' refers to the network effect, where the value of a product or service is enhanced as the number of individuals using it increases.

Guidance time: 2 minutes

Difficulty level: Moderate

57. Topic: Heckscher-Ohlin Theory of Trade

Question : According to the Heckscher-Ohlin Theory, what should countries well endowed with labour export?

- a) Capital-intensive products
- b) Labour-intensive products
- c) Both capital and labour-intensive products
- d) Neither capital nor labour-intensive products

Correct answer: b) Labour-intensive products

Explanation: According to the Heckscher-Ohlin Theory, countries that are well endowed with labour should export labour-intensive products.

Guidance time: 2 minutes

Difficulty level: Moderate

58. Topic: International Trade and Competition

Question : According to the provided text, what impact does the increased competition from foreign firms have on less efficient firms?

- a) It forces them to contract
- b) It forces them to expand
- c) It forces them to merge with more efficient firms
- d) It has no impact on them

Correct answer: a) It forces them to contract

Explanation: Increased competition from foreign firms generally forces less efficient firms to contract as they may struggle to compete with more efficient or cost-effective foreign firms.

Guidance time: 2 minutes

Difficulty level: Easy

59. Topic: International Trade and Development

Question : According to the text, how can international trade contribute to economic development in developing countries?

- a) It provides access to a wider range of goods and services
- b) It allows for greater exploitation of economies of scale
- c) It provides access to new technologies
- d) All of the above

Correct answer: d) All of the above

Explanation: International trade can contribute to economic development in developing countries by providing access to a wider range of goods and services, allowing for greater exploitation of economies of scale, and providing access to new technologies.

Guidance time: 2 minutes

Difficulty level: Easy

60. Topic: Comparative Advantage and International Trade

Question : What is one reason why a country may have a comparative advantage in the production of a certain good?

- a) The country has a relative abundance of resources necessary to produce the good
- b) The country has a relative scarcity of resources necessary to produce the good
- c) The country has a comparative advantage in all goods
- d) The country has a comparative disadvantage in all goods

Correct answer: a) The country has a relative abundance of resources necessary to produce the good

Explanation: One reason why a country may have a comparative advantage in the production of a certain good is that it has a relative abundance of the resources necessary to produce the good.

Guidance time: 2 minutes

Difficulty level: Easy

UNIT - 2: THE INSTRUMENTS OF TRADE POLICY

1. Topic: International Trade Strategy and Trade Policy Instruments

Question : What has been India's approach towards free trade deals in recent times?

- a) India has actively pursued free trade deals over the last decade.
- b) India has completely avoided free trade deals in the past ten years.
- c) India has occasionally engaged in free trade deals, but not extensively.
- d) India has been vocal against free trade deals in the international arena.

Correct answer: a) India has actively pursued free trade deals over the last decade.

Explanation: As mentioned in the provided text, India has embarked on an FTA-signing spree, actively engaging in free trade deals with various countries, including Mauritius, UAE, Australia, UK, Canada, EU, and others.

Guidance time: 1 minute

Difficulty level: Easy

2. Topic: International Trade Strategy and Trade Policy Instruments

Question : Which of the following statements is true regarding tariffs?

- a) Tariffs are taxes imposed on exports to generate revenue for the government.
- b) Tariffs are trade policy instruments aimed at encouraging imports and boosting international trade.
- c) Tariffs are used to regulate the volume of imports and protect domestic import-competing industries.
- d) Tariffs have no impact on the world market prices of goods and services.

Correct answer: c) Tariffs are used to regulate the volume of imports and protect domestic import-competing industries.

Explanation: Tariffs are taxes or duties imposed on goods and services that are imported or exported. They aim to alter the relative prices of goods and services imported, regulating the volume of imports and protecting domestic industries from foreign competition.

Guidance time: 1 minute

Difficulty level: Easy

3. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the main objective of imposing anti-dumping duties?

- a) To encourage foreign exporters to increase their prices for fair competition.
- b) To protect domestic producers from unfair pricing practices by foreign exporters.
- c) To promote dumping of goods in the international market for higher profits.
- d) To facilitate the export of goods at lower prices to gain a competitive advantage.

Correct answer: b) To protect domestic producers from unfair pricing practices by foreign exporters.

Explanation: Anti-dumping duties are imposed on imports that are priced below fair market value to protect domestic industries from foreign firms engaging in unfair pricing practices, known as dumping.

Guidance time: 1 minute

Difficulty level: Medium

4. Topic: International Trade Strategy and Trade Policy Instruments

Question : What type of tariff is calculated as a fixed percentage of the value of the imported commodity?

- a) Specific tariff
- b) Ad valorem tariff
- c) Compound tariff
- d) Mixed tariff

Correct answer: b) Ad valorem tariff

Explanation: Ad valorem tariff is levied as a constant percentage of the monetary value of one unit of the imported good. It is calculated based on the value of the imported commodity.

Guidance time: 1 minute

Difficulty level: Easy

5. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the purpose of a tariff rate quota (TRQ)?

- a) To encourage imports of specific goods at a lower tariff rate.
- b) To impose a high tariff on all imports to protect domestic industries.
- c) To establish a minimum price for specific imported goods.
- d) To combine quotas and tariffs to control imports within a certain threshold.

Correct answer: d) To combine quotas and tariffs to control imports within a certain threshold.

Explanation: Tariff rate quotas (TRQs) combine quotas and tariffs. Imports within the specified quota portion are subject to a lower tariff rate, while imports above the quota face a higher tariff.

Guidance time: 1 minute

Difficulty level: Medium

6. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the purpose of countervailing duties (CVD)?

- a) To encourage exports by providing subsidies to foreign exporters.
- b) To offset the advantage gained by foreign exporters from export subsidies.
- c) To discourage imports by imposing higher tariffs on specific goods.
- d) To facilitate fair competition between domestic and foreign producers.

Correct answer: b) To offset the advantage gained by foreign exporters from export subsidies.

Explanation: Countervailing duties are imposed to counteract the artificially low prices charged by foreign exporters who benefit from export subsidies in their home country.

Guidance time: 1 minute

Difficulty level: Medium

7. Topic: International Trade Strategy and Trade Policy Instruments

Question : Which of the following tariff structures imposes higher tariffs on manufactured goods compared to raw materials and intermediate inputs?

- a) Specific tariff
 - b) Escalated tariff structure
 - c) Mixed tariff
 - d) Ad valorem tariff
- Correct answer:** b) Escalated tariff structure

Explanation: The escalated tariff structure imposes higher nominal tariff rates on manufactured goods compared to raw materials and intermediate inputs, creating a trade distortion that favors importing countries' manufacturing industries.

Guidance time: 1 minute

Difficulty level: Medium

8. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the purpose of Most-Favoured Nation (MFN) tariffs in the context of the World Trade Organization (WTO)?

- a) To grant preferential treatment to certain developing countries.
- b) To impose higher tariffs on non-WTO member countries.
- c) To ensure reciprocity in trade negotiations among WTO members.
- d) To encourage fair competition and price equality in international trade.

Correct answer: c) To ensure reciprocity in trade negotiations among WTO members.

Explanation: MFN tariffs are the import tariffs that WTO members promise to impose on imports from other WTO members, ensuring that all members are treated equally unless they are part of a preferential trade agreement.

Guidance time: 1 minute

Difficulty level: Medium

9. Topic: International Trade Strategy and Trade Policy Instruments

Question : Which trade policy measure is aimed at encouraging the importation of goods?

- a) Specific tariff
- b) Anti-dumping duties
- c) Countervailing duties
- d) Import subsidies

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Correct answer: d) Import subsidies

Explanation: Import subsidies are payments or incentives provided by governments to encourage the importation of specific goods, which is a trade policy measure aimed at boosting imports.

Guidance time: 1 minute

Difficulty level: Easy

10. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the purpose of bound tariffs in the context of the World Trade Organization (WTO)?

- a) To ensure that tariffs do not exceed a certain level.
- b) To encourage exporting countries to lower their tariffs.
- c) To impose the highest possible tariffs on imports.
- d) To prevent any changes in tariff rates once they are set.

Correct answer: a) To ensure that tariffs do not exceed a certain level.

Explanation: Bound tariffs represent the maximum level of import duty that a WTO member can impose on a specific product. The bound tariffs ensure transparency and predictability in trade policy.

Guidance time: 1 minute

Difficulty level: Easy

11. Topic: International Trade Strategy and Trade Policy Instruments

Question 1: What are the two policy instruments combined in tariff rate quotas (TRQs)?

- a) Specific tariffs and variable tariffs
- b) Most-Favoured Nation tariffs and preferential tariffs
- c) Import tariffs and export tariffs
- d) Quotas and tariffs

Correct answer: d) Quotas and tariffs

Explanation: Tariff rate quotas (TRQs) combine two policy instruments, quotas, and tariffs, to control imports within a certain threshold.

Guidance time: 1 minute

Difficulty level: Easy

12. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the main objective of applying anti-dumping duties?

- a) To promote dumping of goods in the international market for higher profits.
- b) To discourage imports and protect domestic industries from foreign competition.
- c) To encourage foreign exporters to lower their prices for fair competition.
- d) To facilitate the export of goods at lower prices to gain a competitive advantage.

Correct answer: b) To discourage imports and protect domestic industries from foreign competition.

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Explanation: Anti-dumping duties are imposed to counteract the practice of foreign firms selling goods at prices below fair market value, thereby protecting domestic industries from unfair foreign competition.

Guidance time: 1 minute

Difficulty level: Easy

13. Topic: International Trade Strategy and Trade Policy Instruments

Question : What type of tariff is a combination of both ad valorem and specific tariffs?

- a) Compound tariff
- b) Variable tariff
- c) Escalated tariff structure
- d) Technical/Other tariff

Correct answer: a) Compound tariff

Explanation: Compound tariffs are a combination of both ad valorem and specific tariffs, where the tariff is calculated based on both the value of the imported goods and a unit of measure.

Guidance time: 1 minute

Difficulty level: Easy

14. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the purpose of preferential tariffs in trade agreements?

- a) To impose higher tariffs on non-member countries of the trade agreement.
- b) To grant preferential treatment to certain developing countries within the trade agreement.
- c) To eliminate all tariffs among member countries of the trade agreement.
- d) To facilitate trade between developed countries only.

Correct answer: b) To grant preferential treatment to certain developing countries within the trade agreement.

Explanation: Preferential tariffs are trade policy measures in trade agreements where member countries grant each other lower tariff rates than their Most-Favoured Nation (MFN) rates, providing preferential treatment to specific countries.

Guidance time: 1 minute

Difficulty level: Easy

15. Topic: International Trade Strategy and Trade Policy Instruments

Question : What are applied tariffs in the context of trade policy?

- a) The tariffs that are promised to be imposed by WTO members on imports from other members.
- b) The tariffs imposed on imports on a Most-Favoured Nation (MFN) basis.
- c) The maximum level of import duty that a WTO member can impose on a specific product.
- d) The tariffs imposed on non-WTO member countries.

Correct answer: b) The tariffs imposed on imports on a Most-Favoured Nation (MFN) basis.

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Explanation: Applied tariffs are the actual duties that are charged on imports from other WTO members on a Most-Favoured Nation (MFN) basis.

Guidance time: 1 minute

Difficulty level: Easy

16. Topic: International Trade Strategy and Trade Policy Instruments

Question : Which of the following tariffs is charged so high that it effectively prohibits imports?

- a) Specific tariff
- b) Ad valorem tariff
- c) Most-Favoured Nation tariff
- d) Prohibitive tariff

Correct answer: d) Prohibitive tariff

Explanation: A prohibitive tariff is set at such a high rate that it effectively prohibits imports, making it impractical for foreign goods to enter the market.

Guidance time: 1 minute

Difficulty level: Easy

17. Topic: International Trade Strategy and Trade Policy Instruments

Question : In what situation would a compound tariff be applied?

- a) When a specific tariff generates more revenue than an ad valorem tariff for a particular good.
- b) When a mixed tariff is not suitable for specific goods.
- c) When an ad valorem tariff is too low to protect domestic industries effectively.
- d) When both an ad valorem and a specific tariff are applied to different types of goods.

Correct answer: d) When both an ad valorem and a specific tariff are applied to different types of goods.

Explanation: Compound tariffs are used when both an ad valorem and a specific tariff are applied to different types of goods based on which generates the most income for the nation.

Guidance time: 1 minute

Difficulty level: Medium

18. Topic: International Trade Strategy and Trade Policy Instruments

Question : How do tariffs impact domestic and international market prices of goods?

- a) Tariffs raise prices in the domestic market but have no effect on international market prices.
- b) Tariffs lower prices in the domestic market and raise prices in the international market.
- c) Tariffs raise prices in both the domestic and international markets.
- d) Tariffs lower prices in both the domestic and international markets.

Correct answer: a) Tariffs raise prices in the domestic market but have no effect on international market prices.

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Explanation: Tariffs raise prices in the domestic market by imposing taxes on imports, but they do not directly impact international market prices.

Guidance time: 1 minute

Difficulty level: Easy

19. Topic: International Trade Strategy and Trade Policy Instruments

Question : What trade policy instrument is typically used in response to foreign dumping and export subsidies?

- a) Specific tariff
- b) Most-Favoured Nation tariff
- c) Anti-dumping duties
- d) Variable tariff

Correct answer: c) Anti-dumping duties

Explanation: Anti-dumping duties are imposed as a response to foreign dumping practices, where goods are sold at unfairly low prices, and export subsidies offered by foreign governments.

Guidance time: 1 minute

Difficulty level: Easy

20. Topic: International Trade Strategy and Trade Policy Instruments

Question : How do countries participate in trade negotiations while being part of the multilateral trading system or bilateral trade agreements?

- a) By imposing high tariffs on imports to protect domestic industries.
- b) By making legal commitments to limit their tariff levels beyond a certain level.
- c) By promoting the use of specific tariffs to encourage imports.
- d) By negotiating preferential tariffs with non-WTO member countries.

Correct answer: b) By making legal commitments to limit their tariff levels beyond a certain level.

Explanation: Countries participating in trade negotiations make legal commitments to bind their tariff levels, agreeing not to raise tariffs above a certain level.

Guidance time: 1 minute

Difficulty level: Easy

21. Topic: International Trade Strategy and Trade Policy Instruments

Question 1: Which trade policy instrument combines quotas and tariffs to control imports within a certain threshold?

- a) Specific tariff
- b) Ad valorem tariff
- c) Tariff rate quota (TRQ)
- d) Variable tariff

Correct answer: c) Tariff rate quota (TRQ)

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Explanation: Tariff rate quotas (TRQs) are policy instruments that combine both quotas and tariffs. Imports within the specified quota face a lower tariff rate, while imports above the threshold face a higher tariff.

Guidance time: 1 minute

Difficulty level: Easy

22. Topic: International Trade Strategy and Trade Policy Instruments

Question 2: What is the primary goal of countervailing duties (CVD)?

- a) To promote fair competition between domestic and foreign producers.
- b) To protect domestic industries from dumping practices.
- c) To regulate the volume of imports.
- d) To offset the advantage gained by foreign exporters from subsidies.

Correct answer: d) To offset the advantage gained by foreign exporters from subsidies.

Explanation: Countervailing duties (CVD) are imposed to counteract the advantage gained by foreign exporters due to subsidies provided by their home governments.

Guidance time: 1 minute

Difficulty level: Easy

23. Topic: International Trade Strategy and Trade Policy Instruments

Question : Which type of tariff is calculated based on the specific contents or components of the imported goods?

- a) Specific tariff
- b) Ad valorem tariff
- c) Technical/Other tariff
- d) Escalated tariff structure

Correct answer: c) Technical/Other tariff

Explanation: Technical/Other tariffs are calculated based on the specific contents or components of the imported goods, rather than their overall value.

Guidance time: 1 minute

Difficulty level: Easy

24. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the main objective of preferential tariffs in international trade?

- a) To impose lower tariffs on non-WTO member countries.
- b) To encourage countries to engage in bilateral trade agreements.
- c) To facilitate fair competition among domestic and foreign producers.
- d) To grant certain countries lower tariffs as part of trade agreements.

Correct answer: d) To grant certain countries lower tariffs as part of trade agreements.

Explanation: Preferential tariffs are granted to certain countries within trade agreements to provide them with lower tariff rates compared to their Most-Favoured Nation (MFN) rates.

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Guidance time: 1 minute

Difficulty level: Easy

25. Topic: International Trade Strategy and Trade Policy Instruments

Question : Which type of tariff ensures that the tariff rate remains constant regardless of changes in the value of the imported goods?

- a) Specific tariff
- b) Ad valorem tariff
- c) Most-Favoured Nation tariff
- d) Compound tariff

Correct answer: b) Ad valorem tariff

Explanation: Ad valorem tariffs are calculated as a fixed percentage of the value of the imported goods, ensuring that the tariff rate remains constant regardless of changes in value.

Guidance time: 1 minute

Difficulty level: Easy

26. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the purpose of specific tariffs?

- a) To protect domestic producers from unfair trade practices.
- b) To encourage imports of specific goods by imposing low tariffs.
- c) To regulate the volume of imports and protect domestic industries.
- d) To impose a uniform tariff rate on all imported goods.

Correct answer: b) To encourage imports of specific goods by imposing low tariffs.

Explanation: Specific tariffs can be used to encourage imports of specific goods by imposing relatively low tariffs on those products.

Guidance time: 1 minute

Difficulty level: Easy

27. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the primary aim of applying prohibitive tariffs?

- a) To discourage imports and protect domestic industries from foreign competition.
- b) To encourage foreign exporters to increase their prices for fair competition.
- c) To facilitate the export of goods at lower prices to gain a competitive advantage.
- d) To impose the highest possible tariffs on imports.

Correct answer: a) To discourage imports and protect domestic industries from foreign competition.

Explanation: Prohibitive tariffs are set at extremely high rates with the aim of discouraging imports and protecting domestic industries from foreign competition.

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Guidance time: 1 minute

Difficulty level: Easy

28. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the primary purpose of bound tariffs in the context of the World Trade Organization (WTO)?

- a) To ensure that tariffs remain fixed and cannot be changed.
- b) To impose the lowest possible tariffs on imports to promote free trade.
- c) To set the maximum level of import duty that a WTO member can impose on a specific product.
- d) To grant preferential treatment to certain developing countries.

Correct answer: c) To set the maximum level of import duty that a WTO member can impose on a specific product.

Explanation: Bound tariffs represent the maximum level of import duty that a WTO member can impose on a specific product, providing transparency and predictability in trade policy.

Guidance time: 1 minute

Difficulty level: Easy

29. Topic: International Trade Strategy and Trade Policy Instruments

Question : What trade policy measure is implemented as a response to foreign firms selling goods below fair market value to gain an unfair advantage?

- a) Specific tariff
- b) Countervailing duties (CVD)
- c) Most-Favoured Nation tariffs
- d) Prohibitive tariff

Correct answer: b) Countervailing duties (CVD)

Explanation: Countervailing duties (CVD) are imposed as a response to foreign firms engaging in unfair trade practices, such as selling goods below fair market value due to subsidies offered by their home governments.

Guidance time: 1 minute

Difficulty level: Easy

30. Topic: International Trade Strategy and Trade Policy Instruments

Question : What is the primary goal of tariff rate quotas (TRQs)?

- a) To facilitate trade between developed countries.
- b) To encourage imports of specific goods by imposing lower tariffs.
- c) To control the overall volume of imports within a certain threshold.
- d) To promote dumping of goods in the international market.

Correct answer: c) To control the overall volume of imports within a certain threshold.

Explanation: Tariff rate quotas (TRQs) combine quotas and tariffs to control the overall volume of imports, allowing lower tariff rates within a specified quota and higher tariffs beyond the quota.

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Guidance time: 1 minute

Difficulty level: Easy

31. Topic: Effects of Tariffs

Question : How does the imposition of tariffs affect international trade?

- a) Increases the volume of imports and exports
- b) Creates obstacles to trade and decreases the volume of imports and exports
- c) Encourages consumption of foreign goods
- d) Has no impact on international trade

Correct answer: b) Creates obstacles to trade and decreases the volume of imports and exports

Explanation: Tariffs act as trade barriers, making it more expensive for foreign goods to enter the domestic market. This discourages both imports and exports, reducing the volume of international trade.

Guidance time: 1 minute

Difficulty level: Easy

32. Topic: Effects of Tariffs

Question : When a country imposes a tariff on imported goods, what happens to domestic consumers?

- a) They benefit from lower prices of imported goods
- b) They experience an increase in consumer surplus
- c) They consume more of the imported goods due to lower prices
- d) They suffer a loss in consumer surplus and consume less of the imported goods

Correct answer: d) They suffer a loss in consumer surplus and consume less of the imported goods

Explanation: Tariffs increase the prices of imported goods, leading to a loss in consumer surplus for domestic consumers. As a result, they consume less of the imported goods due to the higher prices.

Guidance time: 1 minute

Difficulty level: Easy

33. Topic: Effects of Tariffs

Question : How do tariffs impact domestic industries in the importing country?

- a) They protect domestic industries from foreign competition
- b) They encourage domestic industries to focus on export markets
- c) They decrease producer surplus in the industry
- d) They promote efficiency in the domestic industries

Correct answer: a) They protect domestic industries from foreign competition

Explanation: Tariffs make imported goods more expensive, which encourages domestic consumers to buy domestically produced goods. This protectionist measure helps shield domestic industries from foreign competition.

Guidance time: 1 minute

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Difficulty level: Easy

34. Topic: Effects of Tariffs

Question : What is one of the positive effects of tariffs on producers in the importing country?

- a) Decreased production and employment in the industry
- b) Lower prices for their products in the domestic market
- c) Increase in producer surplus in the industry
- d) Entry of foreign firms into the industry

Correct answer: c) Increase in producer surplus in the industry

Explanation: Tariffs increase the price of domestically produced goods in the domestic market, leading to an increase in producer surplus for the domestic producers in the industry.

Guidance time: 1 minute

Difficulty level: Easy

35. Topic: Effects of Tariffs

Question : What is a potential negative consequence of tariffs on international trade?

- a) Encouraging efficient production in the rest of the world
- b) Facilitating comparative advantage for countries
- c) Discouraging efficient production in the rest of the world
- d) Promoting free trade agreements among countries

Correct answer: c) Discouraging efficient production in the rest of the world

Explanation: Tariffs distort international trade by discouraging efficient production in other countries and encouraging inefficient production in the home country.

Guidance time: 1 minute

Difficulty level: Medium

36. Topic: Effects of Tariffs

Question : Which of the following is NOT a potential effect of tariffs on the importing country?

- a) Increase in government revenues
- b) Encouragement of domestic industries
- c) Decrease in domestic employment
- d) Reduction in consumer surplus

Correct answer: c) Decrease in domestic employment

Explanation: Tariffs can lead to an increase in domestic employment in the protected industries due to higher production and protection from foreign competition.

Guidance time: 1 minute

Difficulty level: Medium

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37. Topic: Effects of Tariffs

Question : What are non-tariff measures (NTMs) in trade policy?

- a) Taxes imposed on imports and exports
- b) Barriers to international trade other than tariffs
- c) Subsidies provided to domestic industries
- d) Agreements between countries for free trade

Correct answer: b) Barriers to international trade other than tariffs

Explanation: Non-tariff measures (NTMs) are policy measures that restrict or distort international trade without involving tariffs. These measures include quotas, licenses, technical barriers, and other regulatory measures.

Guidance time: 1 minute

Difficulty level: Medium

38. Topic: Effects of Tariffs

Question : How has trade liberalization impacted the importance of tariffs as a tool of protection?

- a) Tariffs have become the primary tool of protection in international trade
- b) Tariffs have been completely eliminated in favor of non-tariff measures
- c) Tariffs have remained unchanged in their importance
- d) Tariffs have diminished in their importance as a tool of protection

Correct answer: d) Tariffs have diminished in their importance as a tool of protection

Explanation: Trade liberalization has led to a reduction in tariffs through government policy measures and international agreements, making non-tariff measures more prominent as tools of protection in international trade.

Guidance time: 1 minute

Difficulty level: Medium

39. Topic: Effects of Tariffs

Question : How do tariffs affect government revenues in the importing country?

- a) They lead to a decrease in government revenues
- b) They have no impact on government revenues
- c) They increase government revenues by the value of the total tariff charged
- d) They result in a loss of government revenues due to reduced trade

Correct answer: c) They increase government revenues by the value of the total tariff charged

Explanation: Tariffs are a form of tax on imported goods, and thus, they increase government revenues by the amount of tariff collected on the imports.

Guidance time: 1 minute

Difficulty level: Easy

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40. Topic: Effects of Tariffs

Question : How do tariffs impact domestic consumers' consumption of imported goods?

- a) Tariffs encourage domestic consumers to consume more imported goods
- b) Tariffs have no impact on domestic consumers' consumption of imported goods
- c) Tariffs discourage domestic consumers from consuming imported goods
- d) Tariffs increase the variety of imported goods available to domestic consumers

Correct answer: c) Tariffs discourage domestic consumers from consuming imported goods

Explanation: Tariffs increase the prices of imported goods, making them more expensive for domestic consumers. As a result, domestic consumers tend to consume fewer imported goods.

Guidance time: 1 minute

Difficulty level: Easy

41. Topic: Effects of Tariffs

Question 1: What is the main goal of countervailing duties (CVD)?

- a) To encourage domestic consumers to buy imported goods
- b) To offset the effects of foreign subsidies on imported goods
- c) To increase government revenues from imports
- d) To promote efficient production in the exporting country

Correct answer: b) To offset the effects of foreign subsidies on imported goods

Explanation: Countervailing duties (CVD) are imposed to counteract the advantage foreign producers gain from receiving subsidies in their home country. CVDs aim to level the playing field for domestic industries by offsetting the unfair advantage of foreign subsidies.

Guidance time: 1 minute

Difficulty level: Medium

42. Topic: Effects of Tariffs

Question : How do tariffs affect the prospect of market access for exporting countries?

- a) Tariffs improve market access for exporting countries
- b) Tariffs have no impact on market access for exporting countries
- c) Tariffs worsen the prospect of market access for exporting countries
- d) Tariffs have no effect on international trade between countries

Correct answer: c) Tariffs worsen the prospect of market access for exporting countries

Explanation: Tariffs act as barriers to trade, making it more difficult for exporting countries to access the importing country's market. Tariffs reduce the competitiveness of foreign goods in the importing country, making it harder for exporters to penetrate that market.

Guidance time: 1 minute

Difficulty level: Easy

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43. Topic: Effects of Tariffs

Question : How do tariffs impact the output and employment in domestic industries?

- a) Tariffs lead to a decrease in output and employment in domestic industries
- b) Tariffs have no impact on output and employment in domestic industries
- c) Tariffs lead to an increase in output and employment in domestic industries
- d) Tariffs only affect output, not employment in domestic industries

Correct answer: c) Tariffs lead to an increase in output and employment in domestic industries

Explanation: Tariffs protect domestic industries by making foreign goods more expensive, encouraging domestic consumers to buy domestically produced goods. This increased demand leads to higher output and, in turn, an increase in employment in domestic industries.

Guidance time: 1 minute

Difficulty level: Medium

44. Topic: Effects of Tariffs

Question : How do tariffs affect the price of domestically produced goods in the domestic market?

- a) Tariffs have no impact on the price of domestically produced goods
- b) Tariffs decrease the price of domestically produced goods
- c) Tariffs increase the price of domestically produced goods
- d) Tariffs lead to a decrease in supply of domestically produced goods

Correct answer: c) Tariffs increase the price of domestically produced good

Explanation: Tariffs make imported goods more expensive, leading to an increase in the price of domestically produced goods in the domestic market. This is because domestic consumers turn to domestic goods due to the higher prices of imports.

Guidance time: 1 minute

Difficulty level: Easy

45. Topic: Effects of Tariffs

Question : What is the main objective of imposing anti-dumping duties?

- a) To lower prices of imported goods for domestic consumers
- b) To protect domestic industries from foreign competition
- c) To encourage foreign firms to enter the domestic market
- d) To promote free trade between countries

Correct answer: b) To protect domestic industries from foreign competition

Explanation: Anti-dumping duties are imposed to counteract the harmful effects of foreign firms selling goods in the domestic market at unfairly low prices (dumping). The goal is to protect domestic industries from this predatory pricing and maintain a level playing field.

Guidance time: 1 minute

Difficulty level: Easy

46. Topic: Effects of Tariffs

Question : How do tariffs impact consumer surplus in the importing country?

- a) Tariffs increase consumer surplus due to lower prices of imported goods
- b) Tariffs have no impact on consumer surplus
- c) Tariffs decrease consumer surplus due to higher prices of imported goods
- d) Tariffs lead to an increase in consumer surplus in the long run

Correct answer: c) Tariffs decrease consumer surplus due to higher prices of imported goods

Explanation: Tariffs make imported goods more expensive, leading to higher prices for domestic consumers. This reduction in consumer surplus is a result of paying higher prices for goods compared to the situation of free trade.

Guidance time: 1 minute

Difficulty level: Easy

47. Topic: Effects of Tariffs

Question : How do tariffs impact the level of international trade between countries?

- a) Tariffs increase the volume of international trade
- b) Tariffs have no impact on the volume of international trade
- c) Tariffs decrease the volume of international trade
- d) Tariffs only affect the trade balance between countries

Correct answer: c) Tariffs decrease the volume of international trade

Explanation: Tariffs act as trade barriers, reducing the volume of imports and exports between countries. They create obstacles to trade and decrease the overall level of international trade.

Guidance time: 1 minute

Difficulty level: Easy

48. Topic: Effects of Tariffs

Question : What is the purpose of bound tariffs in the WTO?

- a) To allow countries to impose higher tariffs if needed
- b) To limit the level of import duties that can be charged by a country
- c) To encourage countries to lower their tariffs over time
- d) To promote free trade agreements between countries

Correct answer: b) To limit the level of import duties that can be charged by a country

Explanation: Bound tariffs in the World Trade Organization (WTO) are the maximum tariff levels that a country commits to, and they serve to limit the import duties that can be imposed on specific products. Bound tariffs promote transparency and predictability in trade policy.

Guidance time: 1 minute

Difficulty level: Medium

49. Topic: Effects of Tariffs

Question : What is the main objective of preferential tariffs in trade agreements?

- a) To impose higher tariffs on specific products from certain countries
- b) To encourage free trade among countries
- c) To provide special treatment to certain countries with lower tariffs
- d) To limit the volume of imports from certain countries

Correct answer: c) To provide special treatment to certain countries with lower tariffs

Explanation: Preferential tariffs in trade agreements offer lower tariff rates to certain countries, providing them with special treatment compared to the most-favored-nation (MFN) tariff rates. This promotes trade and economic cooperation between the countries involved in the agreement.

Guidance time: 1 minute

Difficulty level: Easy

50. Topic: Effects of Tariffs

Question : What do tariff rate quotas (TRQs) combine in trade policy?

- a) Tariffs and quotas
- b) Tariffs and subsidies
- c) Tariffs and taxes
- d) Tariffs and licensing requirements

Correct answer: a) Tariffs and quotas

Explanation: Tariff rate quotas (TRQs) combine two policy instruments: quotas and tariffs. Import volumes within the specified quota are subject to a lower tariff rate, while imports above the quota threshold face a higher tariff rate.

Guidance time: 1 minute

Difficulty level: Easy

51. Topic: Non-Tariff Measures (NTMs)

Question : What are non-tariff measures (NTMs)?

- a) Policy measures imposed by governments that interfere with free trade
- b) Taxes and duties imposed on imports and exports
- c) Measures that promote free trade between countries
- d) Rules and regulations that govern customs procedures

Correct answer: a) Policy measures imposed by governments that interfere with free trade

Explanation: Non-tariff measures (NTMs) are policy measures other than ordinary customs tariffs that can potentially affect international trade in goods, either by changing quantities traded, prices, or both. NTMs include various regulations, rules, and standards that can either restrict or facilitate trade.

Guidance time: 1 minute

Difficulty level: Easy

52. Topic: Non-Tariff Measures (NTMs)

Question : What is the main difference between non-tariff measures (NTMs) and non-tariff barriers (NTBs)?

- a) NTBs are policy measures while NTMs are taxes and duties
- b) NTBs are discriminatory measures favoring domestic industries, while NTMs are trade regulations
- c) NTMs are always used to promote free trade, while NTBs are always protectionist
- d) NTBs cover technical measures, while NTMs cover non-technical measures

Correct answer: b) NTBs are discriminatory measures favoring domestic industries, while NTMs are trade regulations

Explanation: Non-tariff measures (NTMs) are policy measures that can either restrict or facilitate trade, including regulations and rules that affect international trade. Non-tariff barriers (NTBs), on the other hand, are a subset of NTMs and specifically refer to measures with a protectionist or discriminatory intent, favoring domestic industries over foreign competition.

Guidance time: 1 minute

Difficulty level: Medium

53. Topic: Non-Tariff Measures (NTMs)

Question : Which of the following is an example of a technical measure under non-tariff measures (NTMs)?

- a) Import quotas
- b) Price control measures
- c) Technical Barriers to Trade (TBT) regulations
- d) Government procurement policies

Correct answer: c) Technical Barriers to Trade (TBT) regulations

Explanation: Technical measures under NTMs refer to product-specific properties such as characteristics, technical specifications, and production processes. Technical Barriers to Trade (TBT) regulations are standards and technical regulations that define specific characteristics a product should have, including labelling, packaging, and production methods.

Guidance time: 1 minute

Difficulty level: Easy

54. Topic: Non-Tariff Measures (NTMs)

Question : What are Sanitary and Phytosanitary (SPS) measures under non-tariff measures (NTMs)?

- a) Measures to restrict competition and grant exclusive preferences to certain economic operators
- b) Measures to limit the quantity of goods that can be imported, regardless of origin
- c) Measures to protect human, animal, or plant life from risks arising from additives, pests, contaminants, toxins, or disease-causing organisms
- d) Measures to increase import costs by regulating access to foreign exchange for imports

Correct answer: c) Measures to protect human, animal, or plant life from risks arising from additives, pests, contaminants, toxins, or disease-causing organisms

Explanation: Sanitary and Phytosanitary (SPS) measures are measures under NTMs that aim to protect human, animal, or plant life from various risks, including risks arising from additives, pests, contaminants, toxins, or disease-causing organisms.

Guidance time: 1 minute

Difficulty level: Easy

55. Topic: Non-Tariff Measures (NTMs)

Question : Which type of non-technical measure is aimed at limiting the quantity of imported goods, usually through licenses or prohibitions?

- a) Financial measures
- b) Import quotas
- c) Government procurement policies
- d) Safeguard measures

Correct answer: b) Import quotas

Explanation: Import quotas are non-technical measures that directly restrict the quantity of imported goods allowed into a country within a specified time period. They are typically enforced through the issuance of licenses and can be binding or non-binding.

Guidance time: 1 minute

Difficulty level: Easy

56. Topic: Non-Tariff Measures (NTMs)

Question : What is the main objective of non-automatic licensing and prohibitions under non-tariff measures (NTMs)?

- a) To limit the quantity of goods that can be imported from a specific country
- b) To increase the cost of imports by regulating access to foreign exchange
- c) To impose technical requirements and regulations on imported goods
- d) To neutralize the adverse effects of imports in the market of the importing country

Correct answer: a) To limit the quantity of goods that can be imported from a specific country

Explanation: Non-automatic licensing and prohibitions under NTMs are aimed at limiting the quantity of goods that can be imported, regardless of their origin. These measures may require specific licenses or complete prohibitions on certain imports.

Guidance time: 1 minute

Difficulty level: Medium

57. Topic: Non-Tariff Measures (NTMs)

Question : How do price control measures (para-tariff measures) affect imported goods' prices?

- a) They decrease the prices of imported goods to support domestic industries
- b) They have no impact on the prices of imported goods

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c) They increase the prices of imported goods to discourage imports

d) They make imported goods cheaper than domestically produced goods

Correct answer: c) They increase the prices of imported goods to discourage imports

Explanation: Price control measures, also known as para-tariff measures, are steps taken to control or influence the prices of imported goods, usually by imposing additional taxes or charges. These measures increase the cost of imports, leading to higher prices for imported goods and discouraging imports.

Guidance time: 1 minute

Difficulty level: Easy

58. Topic: Non-Tariff Measures (NTMs)

Question : What are technical measures under non-tariff measures (NTMs)?

- a) Rules and regulations that govern customs procedures
- b) Measures to limit the quantity of imported goods
- c) Measures to protect human, animal, or plant life from risks
- d) Product-specific properties such as characteristics and technical specifications

Correct answer: d) Product-specific properties such as characteristics and technical specifications

Explanation: Technical measures under NTMs refer to product-specific properties such as characteristics, technical specifications, and production processes. These measures are intended to ensure product quality, safety, environmental protection, and health standards.

Guidance time: 1 minute

Difficulty level: Easy

59. Topic: Non-Tariff Measures (NTMs)

Question : What are measures affecting competition under non-tariff measures (NTMs)?

- a) Rules and regulations that grant exclusive preferences to certain economic operators
- b) Procedures and formalities related to customs clearance
- c) Restrictions on the distribution of imported goods in the domestic market
- d) Government-imposed preferences for local tenders over foreign tenders

Correct answer: a) Rules and regulations that grant exclusive preferences to certain economic operators

Explanation: Measures affecting competition under NTMs refer to rules and regulations that grant exclusive or special preferences or privileges to certain limited groups of economic operators. These measures can include government-imposed preferences for domestic suppliers over foreign suppliers.

Guidance time: 1 minute

Difficulty level: Medium

60. Topic: Non-Tariff Measures (NTMs)

Question : What is the main objective of government procurement policies as non-tariff measures (NTMs)?

- a) To restrict imports through licensing and prohibitions

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b) To increase import costs by regulating foreign exchange access

c) To limit the quantity of imported goods to support domestic industries

d) To give preference to domestic firms in government purchases over foreign firms

Correct answer: d) To give preference to domestic firms in government purchases over foreign firms

Explanation: Government procurement policies as NTMs aim to give preference to domestic firms over foreign firms in government purchases. These policies may mandate that a specified percentage of government purchases should be from domestic suppliers.

Guidance time: 1 minute

Difficulty level: Easy

61. Topic: Non-Tariff Measures (NTMs)

Question 1: What do Technical Barriers to Trade (TBT) regulations cover under non-tariff measures (NTMs)?

- a) Import quotas
- b) Sanitary and Phytosanitary (SPS) measures
- c) Mandatory standards and technical regulations for products
- d) Price control measures

Correct answer: c) Mandatory standards and technical regulations for products

Explanation: Technical Barriers to Trade (TBT) regulations cover mandatory 'Standards and Technical Regulations' that define specific characteristics products should have, such as size, design, labelling, packaging, and production methods.

Guidance time: 1 minute

Difficulty level: Easy

62. Topic: Non-Tariff Measures (NTMs)

Question : Which type of non-technical measure requires a specified fraction of a final good to be produced domestically?

- a) Import quotas
- b) Price control measures
- c) Trade-Related Investment Measures
- d) Distribution restrictions

Correct answer: c) Trade-Related Investment Measures

Explanation: Trade-Related Investment Measures include rules on local content requirements, which mandate a specified fraction of a final good to be produced domestically.

Guidance time: 1 minute

Difficulty level: Easy

63. Topic: Non-Tariff Measures (NTMs)

Question : How do import quotas differ from tariff-rate quotas under non-tariff measures (NTMs)?

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a) Import quotas allow unlimited imports, while tariff-rate quotas restrict imports to a specified level.

b) Import quotas are imposed by the exporting country, while tariff-rate quotas are imposed by the importing country.

c) Import quotas are always discriminatory, while tariff-rate quotas are not.

d) Import quotas specify a fixed volume or value of imports, while tariff-rate quotas impose a combination of quotas and tariffs.

Correct answer: d) Import quotas specify a fixed volume or value of imports, while tariff-rate quotas impose a combination of quotas and tariffs.

Explanation: Import quotas directly restrict the quantity of imports allowed into a country, while tariff-rate quotas combine a quota with a tariff, allowing imports up to a certain volume or value at a lower tariff rate and imposing a higher tariff for additional imports beyond that limit.

Guidance time: 1 minute

Difficulty level: Medium

64. Topic: Non-Tariff Measures (NTMs)

Question : What is the main objective of government-imposed embargos under non-tariff measures (NTMs)?

- a) To restrict imports through licensing and prohibitions
- b) To increase import costs by regulating foreign exchange access
- c) To protect human, animal, or plant life from risks
- d) To impose a total ban on imports or exports to a particular country or region

Correct answer: d) To impose a total ban on imports or exports to a particular country or region

Explanation: Embargos are the most extreme form of non-tariff measures (NTMs) and involve a total ban on the import or export of certain goods to a particular country or region.

Guidance time: 1 minute

Difficulty level: Easy

65. Topic: Non-Tariff Measures (NTMs)

Question : What do procedural obstacles (PO) refer to under non-tariff measures (NTMs)?

- a) Import quotas that limit the quantity of goods imported from a specific country
- b) Technical measures that ensure product quality, safety, and health standards
- c) Administrative procedures, delays in testing, certification, etc., making it difficult for businesses to adhere to regulations
- d) Rules and regulations granting exclusive preferences to certain economic operators

Correct answer: c) Administrative procedures, delays in testing, certification, etc., making it difficult for businesses to adhere to regulations

Explanation: Procedural obstacles (PO) under NTMs refer to practical problems in administration, transportation, delays in testing, certification, etc., that may make it difficult for businesses to comply with certain regulations.

Guidance time: 1 minute

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Difficulty level: Easy

66. Topic: Non-Tariff Measures (NTMs)

Question : How do non-technical measures (NTMs) differ from technical measures under non-tariff measures (NTMs)?

- a) Non-technical measures relate to product-specific properties, while technical measures relate to trade requirements.
- b) Non-technical measures are discriminatory, while technical measures are not.
- c) Non-technical measures include measures that facilitate trade, while technical measures do not.
- d) Non-technical measures encompass a broader set of measures than technical measures.

Correct answer: d) Non-technical measures encompass a broader set of measures than technical measures.

Explanation: Non-technical measures (NTMs) cover all types of measures that alter the conditions of international trade, including measures that restrict or facilitate trade. Technical measures under NTMs refer specifically to product-specific properties.

Guidance time: 1 minute

Difficulty level: Easy

67. Topic: Non-Tariff Measures (NTMs)

Question : What are import-related measures under non-tariff measures (NTMs)?

- a) Measures imposed by the importing country
- b) Measures imposed by the exporting country
- c) Measures that restrict competition and grant exclusive preferences
- d) Measures that alter the conditions of international trade

Correct answer: a) Measures imposed by the importing country

Explanation: Import-related measures under NTMs refer to measures imposed by the importing country that can potentially affect international trade in goods.

Guidance time: 1 minute

Difficulty level: Easy

68. Topic: Non-Tariff Measures (NTMs)

Question : How do non-technical measures (NTMs) impact consumer surplus in the importing country?

- a) They increase consumer surplus due to lower prices of imported goods
- b) They have no impact on consumer surplus
- c) They decrease consumer surplus due to higher prices of imported goods and domestic substitutes
- d) They increase consumer surplus due to higher prices of domestic goods

Correct answer: c) They decrease consumer surplus due to higher prices of imported goods and domestic substitutes

Explanation: Non-technical measures (NTMs) that increase the prices of imported goods and domestic substitutes lead to a decrease in consumer surplus in the importing country.

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Guidance time: 1 minute

Difficulty level: Easy

69. Topic: Non-Tariff Measures (NTMs)

Question : What is the main objective of price control measures (para-tariff measures) under non-tariff measures (NTMs)?

- a) To limit the quantity of goods that can be imported from a specific country
- b) To increase import costs by regulating access to foreign exchange
- c) To decrease the prices of imported goods to support domestic industries
- d) To increase the prices of imported goods to discourage imports

Correct answer: d) To increase the prices of imported goods to discourage imports

Explanation: Price control measures, or para-tariff measures, are taken to control or influence the prices of imported goods, usually by imposing additional taxes or charges, with the objective of discouraging imports.

Guidance time: 1 minute

Difficulty level: Easy

70. Topic: Non-Tariff Measures (NTMs)

Question : Which type of non-technical measure involves restrictions on the distribution of goods in the importing country?

- a) Import quotas
- b) Technical Barriers to Trade (TBT) regulations
- c) Distribution restrictions
- d) Non-automatic Licensing and Prohibitions

Correct answer: c) Distribution restrictions

Explanation: Distribution restrictions under non-technical measures (NTMs) refer to limitations imposed on the distribution of goods in the importing country, involving additional license or certification requirements.

Guidance time: 1 minute

Difficulty level: Easy

71. Topic: Non-Tariff Measures (NTMs)

Question 1: Which of the following is true about Technical Barriers to Trade (TBT) measures under non-tariff measures (NTMs)?

- a) TBT measures aim to limit the quantity of imports from specific countries.
- b) TBT measures include import quotas and price control measures.
- c) TBT measures are standards-based regulations that define specific product characteristics.
- d) TBT measures are exclusively used for environmental protection.

Correct answer: c) TBT measures are standards-based regulations that define specific product characteristics.

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Explanation: Technical Barriers to Trade (TBT) measures are regulations that define the specific characteristics a product should have, such as size, design, labeling, and production methods, to ensure conformity with standards and technical regulations.

Guidance time: 1 minute

Difficulty level: Easy

72. Topic: Non-Tariff Measures (NTMs)

Question 2: How do Technical Barriers to Trade (TBT) measures and Sanitary and Phytosanitary (SPS) measures differ under non-tariff measures (NTMs)?

- a) TBT measures apply only to food products, while SPS measures cover all traded products.
- b) TBT measures cover mandatory standards, while SPS measures cover non-mandatory guidelines.
- c) TBT measures focus on environmental protection, while SPS measures aim to protect human, animal, and plant life.
- d) TBT measures involve import quotas, while SPS measures do not restrict imports quantitatively.

Correct answer: c) TBT measures focus on environmental protection, while SPS measures aim to protect human, animal, and plant life.

Explanation: TBT measures are primarily concerned with standards and technical regulations for products, while SPS measures focus on protecting human, animal, and plant life from risks arising from additives, pests, contaminants, toxins, or disease-causing organisms.

Guidance time: 1 minute

Difficulty level: Medium

73. Topic: Non-Tariff Measures (NTMs)

Question : What are Trade-Related Investment Measures (TRIMs) under non-tariff measures (NTMs)?

- a) Regulations that define the specific characteristics of traded products.
- b) Measures aimed at granting exclusive preferences to certain economic operators.
- c) Measures that impose restrictions on the distribution of goods in the importing country.
- d) Rules on local content requirements that mandate a specified fraction of a final good to be produced domestically.

Correct answer: d) Rules on local content requirements that mandate a specified fraction of a final good to be produced domestically.

Explanation: Trade-Related Investment Measures (TRIMs) include rules on local content requirements, which mandate a specified fraction of a final good to be produced domestically.

Guidance time: 1 minute

Difficulty level: Easy

74. Topic: Non-Tariff Measures (NTMs)

Question : How do import quotas and tariff-rate quotas differ under non-tariff measures (NTMs)?

- a) Import quotas restrict imports to a specified level, while tariff-rate quotas allow unlimited imports.

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b) Import quotas impose a combination of quotas and tariffs, while tariff-rate quotas specify a fixed volume or value of imports.

c) Import quotas are imposed by the exporting country, while tariff-rate quotas are imposed by the importing country.

d) Import quotas have a discriminatory intent, while tariff-rate quotas do not.

Correct answer: b) Import quotas impose a combination of quotas and tariffs, while tariff-rate quotas specify a fixed volume or value of imports.

Explanation: Import quotas impose a combination of quantitative restrictions and tariffs on additional imports beyond the specified limit, while tariff-rate quotas specify a fixed volume or value of imports allowed at a lower tariff rate.

Guidance time: 1 minute

Difficulty level: Medium

75. Topic: Non-Tariff Measures (NTMs)

Question : What is the main objective of government procurement policies under non-tariff measures (NTMs)?

- a) To increase import costs by regulating foreign exchange access
 - b) To decrease the prices of imported goods to support domestic industries
 - c) To impose a total ban on imports or exports to a particular country or region
 - d) To grant exclusive preferences to domestic firms in government purchases
- Correct answer:** d) To grant exclusive preferences to domestic firms in government purchases

Explanation: Government procurement policies under NTMs aim to grant exclusive or special preferences to domestic firms in government purchases, favoring them over foreign competitors.

Guidance time: 1 minute

Difficulty level: Easy

76. Topic: Non-Tariff Measures (NTMs)

Question : How do safeguard measures under non-tariff measures (NTMs) impact international trade?

- a) Safeguard measures aim to increase the quantity of imports to support domestic industries.
 - b) Safeguard measures are discriminatory, favoring certain countries over others.
 - c) Safeguard measures restrict imports temporarily if domestic industries are injured or threatened by a surge in imports.
 - d) Safeguard measures are used as an alternative to technical measures to protect human, animal, or plant life.
- Correct answer:** c) Safeguard measures restrict imports temporarily if domestic industries are injured or threatened by a surge in imports.

Explanation: Safeguard measures under NTMs are initiated by countries to restrict imports temporarily if their domestic industries are injured or threatened by a surge in imports.

Guidance time: 1 minute

Difficulty level: Easy

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77. Topic: Non-Tariff Measures (NTMs)

Question : How do non-automatic licensing and prohibitions differ under non-tariff measures (NTMs)?

- a) Non-automatic licensing limits the quantity of goods imported, while prohibitions impose a total ban on imports.
- b) Non-automatic licensing is imposed by the exporting country, while prohibitions are imposed by the importing country.
- c) Non-automatic licensing applies to specific countries, while prohibitions apply to all imports.
- d) Non-automatic licensing restricts the distribution of goods, while prohibitions focus on technical regulations.

Correct answer: a) Non-automatic licensing limits the quantity of goods imported, while prohibitions impose a total ban on imports.

Explanation: Non-automatic licensing under NTMs limits the quantity of goods that can be imported, while prohibitions impose a total ban on imports of certain goods.

Guidance time: 1 minute

Difficulty level: Easy

78. Topic: Non-Tariff Measures (NTMs)

Question : How do non-technical measures (NTMs) affect producers in the importing country?

- a) They increase producer surplus in the industry due to higher prices of domestic goods.
- b) They decrease producer surplus in the industry due to lower prices of imported goods.
- c) They have no impact on producer surplus in the industry.
- d) They encourage foreign competition, leading to higher profits for domestic producers.

Correct answer: a) They increase producer surplus in the industry due to higher prices of domestic goods.

Explanation: Non-technical measures (NTMs) that increase the prices of imported goods and domestic substitutes lead to an increase in producer surplus in the importing country.

Guidance time: 1 minute

Difficulty level: Easy

79. Topic: Non-Tariff Measures (NTMs)

Question : How do distribution restrictions under non-technical measures (NTMs) impact the selling of imported goods?

- a) They impose a total ban on imports or exports of certain commodities.
- b) They grant exclusive or special preferences to limited groups of economic operators.
- c) They limit the distribution of imported goods through additional licensing requirements or geographic restrictions.
- d) They increase import costs by regulating access to and cost of foreign exchange.

Correct answer: c) They limit the distribution of imported goods through additional licensing requirements or geographic restrictions.

Explanation: Distribution restrictions under NTMs involve limitations on the distribution of imported goods in the importing country, such as requirements for additional licenses or restrictions on the type of agents who may resell.

Guidance time: 1 minute

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Difficulty level: Easy

80. Topic: Non-Tariff Measures (NTMs)

Question : Which of the following is an example of an export-related measure?

- a) Import quotas
- b) Import taxes
- c) Export subsidies
- d) Voluntary Export Restraints

Correct answer: c) Export subsidies

Explanation: Export subsidies are measures provided by governments to encourage domestic industries to sell specified products or services abroad.

Guidance time: 1 minute

Difficulty level: Easy

81. Topic: Non-Tariff Measures (NTMs)

Question : What is the main effect of an export tax on exported goods?

- a) It decreases domestic supply and increases domestic prices.
- b) It increases exports and decreases domestic consumption.
- c) It raises the price of the good and decreases exports.
- d) It leads to higher domestic consumption and reduces domestic prices.

Correct answer: c) It raises the price of the good and decreases exports.

Explanation: An export tax increases the price of the good and reduces exports.

Guidance time: 1 minute

Difficulty level: Easy

82. Topic: Non-Tariff Measures (NTMs)

Question : What is the purpose of Voluntary Export Restraints (VERs)?

- a) To impose formal quotas on imports from specific countries.
- b) To reduce international prices by increasing international supply.
- c) To encourage exporting countries to voluntarily limit the quantity of goods exported.
- d) To impose retaliatory trade restraints on importing countries.

Correct answer: c) To encourage exporting countries to voluntarily limit the quantity of goods exported.

Explanation: Voluntary Export Restraints (VERs) are a type of informal quota administered by an exporting country, voluntarily limiting the quantity of goods that can be exported.

Guidance time: 1 minute

Difficulty level: Easy

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83. Topic: Non-Tariff Measures (NTMs)

Question : How do export restrictions impact international markets?

- a) They decrease international prices by increasing international supply.
- b) They increase international prices by reducing international supply.
- c) They have no effect on international prices.
- d) They decrease international prices by reducing domestic consumption.

Correct answer: b) They increase international prices by reducing international supply.

Explanation: Export restrictions, such as bans on exports, reduce international supply, leading to an increase in international prices.

Guidance time: 1 minute

Difficulty level: Easy

84. Topic: Non-Tariff Measures (NTMs)

Question : Which of the following is an example of a specific export-related measure?

- a) Export taxes
- b) Voluntary Export Restraints (VERs)
- c) Ban on exports
- d) Export subsidies

Correct answer: c) Ban on exports

Explanation: A ban on exports is an example of a specific export-related measure where the government prohibits the export of certain goods, usually during periods of shortages.

Guidance time: 1 minute

Difficulty level: Easy

85. Topic: Non-Tariff Measures (NTMs)

Question : How do export subsidies impact domestic industries?

- a) They reduce domestic prices and increase domestic consumption.
- b) They decrease domestic supply and increase domestic prices.
- c) They increase domestic supply and decrease domestic prices.
- d) They increase domestic prices and reduce domestic consumption.

Correct answer: a) They reduce domestic prices and increase domestic consumption.

Explanation: Export subsidies provide financial support to domestic producers, leading to lower prices of exported goods and increased domestic consumption.

Guidance time: 1 minute

Difficulty level: Easy

86. Topic: Non-Tariff Measures (NTMs)

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Question : What is the primary objective of governments providing export subsidies?

- a) To reduce international prices and increase international supply.
- b) To discourage domestic industries from selling products or services abroad.
- c) To protect domestic industries from foreign competition.
- d) To encourage domestic industries to sell specified products or services abroad.

Correct answer: d) To encourage domestic industries to sell specified products or services abroad.

Explanation: Governments provide export subsidies to encourage domestic industries to sell specified products or services abroad.

Guidance time: 1 minute

Difficulty level: Easy

87. Topic: Non-Tariff Measures (NTMs)

Question : How does an export tax impact domestic prices?

- a) It increases domestic prices due to reduced exports.
- b) It decreases domestic prices due to increased domestic supply.
- c) It has no impact on domestic prices.
- d) It leads to higher domestic prices and reduced domestic consumption.

Correct answer: b) It decreases domestic prices due to increased domestic supply.

Explanation: An export tax increases domestic supply and reduces domestic prices.

Guidance time: 1 minute

Difficulty level: Easy

88. Topic: Non-Tariff Measures (NTMs)

Question : Which of the following is an example of a non-technical export-related measure?

- a) Export taxes
- b) Voluntary Export Restraints (VERs)
- c) Ban on exports
- d) Export subsidies

Correct answer: b) Voluntary Export Restraints (VERs)

Explanation: Voluntary Export Restraints (VERs) are an example of a non-technical export-related measure, where the exporting country voluntarily limits the quantity of goods exported.

Guidance time: 1 minute

Difficulty level: Easy

89. Topic: Non-Tariff Measures (NTMs)

Question : How do export-related measures impact international trade?

- a) They lead to higher international prices and reduced domestic consumption.

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b) They have no impact on international trade.

c) They decrease international supply and lead to higher domestic consumption.

d) They increase international supply and reduce international prices.

Correct answer: a) They lead to higher international prices and reduced domestic consumption.

Explanation: Export-related measures such as export taxes and export restrictions reduce international supply, leading to higher international prices and potentially reduced domestic consumption.

Guidance time: 1 minute

Difficulty level: Easy

90. Topic: Non-Tariff Measures (NTMs)

Question 1: What is the primary objective of export quotas?

a) To increase domestic supply and reduce domestic prices.

b) To decrease international prices and increase international supply.

c) To encourage exporting countries to voluntarily limit the quantity of goods exported.

d) To impose formal quotas on imports from specific countries.

Correct answer: a) To increase domestic supply and reduce domestic prices.

Explanation: Export quotas are direct restrictions imposed by the government of the exporting country to limit the quantity of goods exported, which increases domestic supply and reduces domestic prices.

Guidance time: 1 minute

Difficulty level: Easy

91. Topic: Non-Tariff Measures (NTMs)

Question : Which of the following is an example of a non-technical measure in export-related measures?

a) Export taxes

b) Voluntary Export Restraints (VERs)

c) Prohibition on export of certain goods

d) Technical Barriers to Trade (TBT)

Correct answer: c) Prohibition on export of certain goods

Explanation: Prohibition on the export of certain goods is an example of a non-technical measure in export-related measures, as it restricts the export of specific goods.

Guidance time: 1 minute

Difficulty level: Easy

92. Topic: Non-Tariff Measures (NTMs)

Question : How does an import-competing industry benefit from non-automatic licensing measures imposed by exporting countries?

a) It lowers domestic prices and increases domestic consumption.

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b) It restricts the quantity of imported goods and protects domestic industries.

c) It encourages exporting countries to voluntarily limit the quantity of goods exported.

d) It raises the price of the good and decreases exports.

Correct answer: b) It restricts the quantity of imported goods and protects domestic industries.

Explanation: Non-automatic licensing measures imposed by exporting countries limit the quantity of imported goods, thereby protecting domestic industries from foreign competition.

Guidance time: 1 minute

Difficulty level: Easy

93. Topic: Non-Tariff Measures (NTMs)

Question : How does an embargo differ from other export-related measures?

a) An embargo is a tax collected on exported goods.

b) An embargo is a voluntary restriction imposed by an exporting country on the quantity of goods exported.

c) An embargo is a total ban imposed by a government on the import or export of certain goods.

d) An embargo is an informal quota administered by an importing country on the quantity of goods imported.

Correct answer: c) An embargo is a total ban imposed by a government on the import or export of certain goods.

Explanation: An embargo is a total ban imposed by a government on the import or export of certain goods, while other export-related measures involve restrictions or taxes.

Guidance time: 1 minute

Difficulty level: Easy

94. Topic: Non-Tariff Measures (NTMs)

Question : How do government procurement policies impact trade?

a) They encourage domestic industries to sell specified products or services abroad.

b) They grant exclusive preferences or privileges to a limited group of economic operators.

c) They restrict the quantity of imported goods and protect domestic industries.

d) They impose formal quotas on imports from specific countries.

Correct answer: a) They encourage domestic industries to sell specified products or services abroad.

Explanation: Government procurement policies may encourage domestic industries to sell specified products or services abroad by giving preference to local tenders over foreign tenders.

Guidance time: 1 minute

Difficulty level: Easy

95. Topic: Non-Tariff Measures (NTMs)

Question : What is the main objective of safeguard measures?

a) To impose formal quotas on imports from specific countries.

b) To encourage exporting countries to voluntarily limit the quantity of goods exported.

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c) To restrict imports temporarily if the domestic industry is injured or threatened with serious injury.

d) To reduce international prices and increase international supply.

Correct answer: c) To restrict imports temporarily if the domestic industry is injured or threatened with serious injury.

Explanation: Safeguard measures are initiated by countries to restrict imports temporarily if the domestic industry is injured or threatened with serious injury caused by a surge in imports.

Guidance time: 1 minute

Difficulty level: Easy

96. Topic: Non-Tariff Measures (NTMs)

Question : How do import quotas affect the domestic market of the importing country?

a) They increase domestic supply and reduce domestic prices.

b) They decrease domestic supply and increase domestic prices.

c) They lead to higher international prices and reduced domestic consumption.

d) They have no impact on the domestic market.

Correct answer: b) They decrease domestic supply and increase domestic prices.

Explanation: Import quotas limit the quantity of goods imported, reducing domestic supply and leading to higher domestic prices.

Guidance time: 1 minute

Difficulty level: Easy

97. Topic: Non-Tariff Measures (NTMs)

Question : How do export taxes impact the quantity of goods exported?

a) They decrease exports by increasing the price of the goods.

b) They increase exports by reducing the price of the goods.

c) They have no impact on the quantity of goods exported.

d) They increase exports by increasing the price of the goods.

Correct answer: a) They decrease exports by increasing the price of the goods.

Explanation: Export taxes raise the price of exported goods, which decreases the quantity of goods exported.

Guidance time: 1 minute

Difficulty level: Easy

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UNIT - 3: TRADE NEGOTIATIONS

1. Topic: Regional trade agreements

Question : What are Regional Trade Agreements (RTAs)?

a) Treaties between two or more governments that define the rules of trade for all signatories.

b) Trade agreements that focus on reducing barriers to trade within a single country.

c) Agreements between countries from the same geographical region only.

d) Agreements aimed at increasing barriers to trade between member countries.

Correct answer: a) Treaties between two or more governments that define the rules of trade for all signatories.

Explanation: Regional Trade Agreements (RTAs) are treaties between two or more governments that aim to reduce barriers to trade between member countries.

Guidance time: 1 minute

Difficulty level: Easy

2. Topic: Regional trade agreements

Question : Which type of RTA involves an importing country offering trade incentives to encourage the exporting country's economy?

a) Unilateral trade agreements

b) Bilateral Agreements

c) Regional Preferential Trade Agreements

d) Trading Bloc

Correct answer: a) Unilateral trade agreements

Explanation: Unilateral trade agreements involve an importing country offering trade incentives to encourage the exporting country's economy.

Guidance time: 1 minute

Difficulty level: Easy

3. Topic: Regional trade agreements

Question : What is the primary objective of bilateral agreements?

a) To increase exchange of goods between two countries.

b) To reduce trade barriers for only the members of a specific group of countries.

c) To eliminate all tariff and quota barriers on trade with non-members.

d) To maintain a common external tariff on trade with countries outside the union.

Correct answer: a) To increase exchange of goods between two countries.

Explanation: Bilateral agreements set rules of trade between two countries with the objective of increasing exchange of goods between them.

Guidance time: 1 minute

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Difficulty level: Easy

4. Topic: Regional trade agreements

Question : Which type of RTA reduces trade barriers on a reciprocal and preferential basis for only the members of the group?

- a) Unilateral trade agreements
- b) Bilateral Agreements
- c) Regional Preferential Trade Agreements
- d) Trading Bloc

Correct answer: c) Regional Preferential Trade Agreements

Explanation: Regional Preferential Trade Agreements reduce trade barriers on a reciprocal and preferential basis for only the members of the group.

Guidance time: 1 minute

Difficulty level: Easy

4. Topic: Regional trade agreements

Question : Which type of RTA has a group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries?

- a) Unilateral trade agreements
- b) Bilateral Agreements
- c) Trading Bloc
- d) Economic and Monetary Union

Correct answer: c) Trading Bloc

Explanation: Trading Bloc has a group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries.

Guidance time: 1 minute

Difficulty level: Easy

5. Topic: Regional trade agreements

Question : What distinguishes a customs union from a free trade area?

- a) A customs union maintains a common external tariff, while a free trade area has no tariffs on trade within member countries.
- b) A customs union allows free flow of output and factors of production, while a free trade area maintains separate external tariffs.
- c) A customs union eliminates all tariff and quota barriers on trade with each other, while a free trade area applies tariffs to non-members.
- d) A customs union requires strong convergence in macroeconomic policies, while a free trade area maintains independence in determining tariffs.

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Correct answer: a) A customs union maintains a common external tariff, while a free trade area has no tariffs on trade within member countries.

Explanation: In a customs union, member countries maintain a common external tariff on trade with non-members, while in a free trade area, member countries eliminate all tariffs on trade with each other.

Guidance time: 1 minute

Difficulty level: Easy

6. Topic: Regional trade agreements

Question : What is the main objective of a common market?

- a) To eliminate all tariff and quota barriers on trade with each other.
- b) To deepen a customs union by providing free flow of output and factors of production.
- c) To form a group of countries that have a free trade agreement between themselves.
- d) To share a common currency and harmonize institutional arrangements.

Correct answer: b) To deepen a customs union by providing free flow of output and factors of production.

Explanation: A common market deepens a customs union by providing for the free flow of output and factors of production.

Guidance time: 1 minute

Difficulty level: Easy

7. Topic: Regional trade agreements

Question : How does an Economic and Monetary Union differ from a common market?

- a) An Economic and Monetary Union eliminates all tariff and quota barriers on trade with each other, while a common market requires strong convergence in macroeconomic policies.
- b) An Economic and Monetary Union provides free flow of output and factors of production, while a common market shares a common currency.
- c) An Economic and Monetary Union shares a common currency and harmonizes institutional arrangements, while a common market maintains a common external tariff.
- d) An Economic and Monetary Union maintains separate external tariffs, while a common market allows free transit of goods and services.

Correct answer: c) An Economic and Monetary Union shares a common currency and harmonizes institutional arrangements, while a common market maintains a common external tariff.

Explanation: An Economic and Monetary Union shares a common currency and harmonizes institutional arrangements among member countries, while a common market maintains a common external tariff.

Guidance time: 1 minute

Difficulty level: Easy

8. Topic: Regional trade agreements

Question : What are Regional Trade Agreements (RTAs) intended to achieve?

- a) To increase barriers to trade between member countries.

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b) To eliminate trade barriers within a single country.

c) To reduce barriers to trade between member countries.

d) To restrict trade to only countries in the same geographical region.

Correct answer: c) To reduce barriers to trade between member countries.

Explanation: Regional Trade Agreements (RTAs) are intended to reduce barriers to trade between member countries.

Guidance time: 1 minute

Difficulty level: Easy

9. Topic: Regional trade agreements

Question : What distinguishes a free-trade area from a customs union?

- a) A free-trade area maintains a common external tariff, while a customs union has no tariffs on trade within member countries.
- b) A free-trade area eliminates all tariff and quota barriers on trade with each other, while a customs union applies tariffs to non-members.
- c) A free-trade area allows free flow of output and factors of production, while a customs union requires strong convergence in macroeconomic policies.
- d) A free-trade area has no tariffs on trade within member countries, while a customs union maintains a common external tariff.

Correct answer: d) A free-trade area has no tariffs on trade within member countries, while a customs union maintains a common external tariff.

Explanation: In a free-trade area, member countries eliminate all tariffs on trade with each other, while in a customs union, member countries maintain a common external tariff on trade with non-members.

Guidance time: 1 minute

Difficulty level: Easy

10. Topic: Regional trade agreements

Question 1: Which type of RTA has a group of countries that form a single territory for customs purposes and have a common external tariff?

- a) Unilateral trade agreements
- b) Bilateral Agreements
- c) Trading Bloc
- d) Customs union

Correct answer: d) Customs union

Explanation: In a customs union, member countries form a single territory for customs purposes and maintain a common external tariff on trade with non-members.

Guidance time: 1 minute

Difficulty level: Easy

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11. Topic: Regional trade agreements

Question : What is the primary objective of economic and monetary union (EMU)?

- a) To increase exchange of goods between member countries.
- b) To reduce trade barriers on a reciprocal and preferential basis.
- c) To share a common currency and harmonize macroeconomic policies.
- d) To eliminate all tariff and quota barriers on trade with each other.

Correct answer: c) To share a common currency and harmonize macroeconomic policies.

Explanation: Economic and Monetary Union (EMU) aims to share a common currency and harmonize macroeconomic policies among member countries.

Guidance time: 1 minute

Difficulty level: Easy

12. Topic: Regional trade agreements

Question : Which type of RTA allows the members to retain independence in determining their tariffs with non-members?

- a) Unilateral trade agreements
- b) Free-trade area
- c) Common Market
- d) Economic and Monetary Union

Correct answer: b) Free-trade area

Explanation: In a free-trade area, member countries retain independence in determining their tariffs with non-members.

Guidance time: 1 minute

Difficulty level: Easy

13. Topic: Regional trade agreements

Question : What distinguishes a common market from a customs union?

- a) A common market maintains a common external tariff, while a customs union allows free flow of output and factors of production.
- b) A common market eliminates all tariff and quota barriers on trade with each other, while a customs union maintains separate external tariffs.
- c) A common market provides for the free flow of output and factors of production, while a customs union has no tariffs on trade within member countries.
- d) A common market requires strong convergence in macroeconomic policies, while a customs union shares a common currency.

Correct answer: c) A common market provides for the free flow of output and factors of production, while a customs union has no tariffs on trade within member countries.

Explanation: A common market provides for the free flow of output and factors of production, while a customs union maintains no tariffs on trade within member countries.

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Guidance time: 1 minute

Difficulty level: Easy

14. Topic: Regional trade agreements

Question : Which type of RTA involves an importing country offering trade incentives to encourage the exporting country's economy?

- a) Unilateral trade agreements
- b) Bilateral Agreements
- c) Regional Preferential Trade Agreements
- d) Trading Bloc

Correct answer: a) Unilateral trade agreements

Explanation: Unilateral trade agreements involve an importing country offering trade incentives to encourage the exporting country's economy.

Guidance time: 1 minute

Difficulty level: Easy

15. Topic: Regional trade agreements

Question : What is the main objective of a trading bloc?

- a) To increase exchange of goods between member countries.
- b) To eliminate all tariff and quota barriers on trade with non-members.
- c) To maintain a common external tariff on trade with countries outside the union.
- d) To reduce trade barriers for only the members of a specific group of countries.

Correct answer: c) To maintain a common external tariff on trade with countries outside the union.

Explanation: A trading bloc has a group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries.

Guidance time: 1 minute

Difficulty level: Easy

16. Topic: Regional trade agreements

Question : What type of RTA is the Global System of Trade Preferences among Developing Countries (GSTP)?

- a) Unilateral trade agreements
- b) Bilateral Agreements
- c) Regional Preferential Trade Agreements
- d) Trading Bloc

Correct answer: c) Regional Preferential Trade Agreements

Explanation: The Global System of Trade Preferences among Developing Countries (GSTP) is an example of a Regional Preferential Trade Agreement among a group of countries.

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Guidance time: 1 minute

Difficulty level: Easy

17. Topic: Regional trade agreements

Question : How does a bilateral agreement differ from a regional preferential trade agreement?

- a) Bilateral agreements set rules of trade between two countries, while regional preferential trade agreements reduce trade barriers on a reciprocal and preferential basis for only the members of the group.
- b) Bilateral agreements allow free flow of output and factors of production, while regional preferential trade agreements apply a common external tariff to other countries.
- c) Bilateral agreements have no tariffs on trade within member countries, while regional preferential trade agreements maintain separate external tariffs.
- d) Bilateral agreements maintain a common external tariff on trade with non-members, while regional preferential trade agreements eliminate all tariffs on trade with each other.

Correct answer: a) Bilateral agreements set rules of trade between two countries, while regional preferential trade agreements reduce trade barriers on a reciprocal and preferential basis for only the members of the group.

Explanation: Bilateral agreements set rules of trade between two countries, while regional preferential trade agreements reduce trade barriers on a reciprocal and preferential basis for only the members of the group.

Guidance time: 1 minute

Difficulty level: Easy

18. Topic: Regional trade agreements

Question : Which type of RTA involves a group of countries that form a single territory for customs purposes but maintain their own distinct external tariffs with respect to imports from the rest of the world?

- a) Unilateral trade agreements
- b) Bilateral Agreements
- c) Customs union
- d) Free-trade area

Correct answer: d) Free-trade area

Explanation: In a free-trade area, member countries form a single territory for customs purposes but maintain their own distinct external tariffs with respect to imports from the rest of the world.

Guidance time: 1 minute

Difficulty level: Easy

19. Topic: Regional trade agreements

Question : What distinguishes an Economic and Monetary Union (EMU) from a customs union?

- a) An Economic and Monetary Union shares a common currency, while a customs union provides free flow of output and factors of production.

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b) An Economic and Monetary Union allows free transit of goods and services, while a customs union eliminates all tariff and quota barriers on trade with each other.

c) An Economic and Monetary Union maintains a common external tariff, while a customs union requires strong convergence in macroeconomic policies

d) An Economic and Monetary Union aims to share a common currency and harmonize macroeconomic policies, while a customs union maintains no tariffs on trade within member countries.

Correct answer: a) An Economic and Monetary Union shares a common currency, while a customs union provides free flow of output and factors of production.

Explanation: An Economic and Monetary Union (EMU) shares a common currency, while a customs union provides free flow of output and factors of production.

Guidance time: 1 minute

Difficulty level: Easy

20. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What does GATT primarily cover?

- a) International trade in services
- b) International trade in goods
- c) International trade in intellectual property
- d) International trade in investments

Correct answer: b) International trade in goods

Explanation: The General Agreement on Tariffs and Trade (GATT) primarily covers international trade in goods.

Guidance time: 1 minute

Difficulty level: Easy

21. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : Which body is responsible for the workings of the GATT agreement?

- a) Ministerial Conference
- b) Goods Council
- c) General Council
- d) Services Council

Correct answer: b) Goods Council

Explanation: The Goods Council, made up of representatives from all WTO member countries, is responsible for the workings of the GATT agreement.

Guidance time: 1 minute

Difficulty level: Easy

22. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What led to the loss of relevance of GATT in the 1980s?

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a) Emergence of globalisation

b) Expansion of international investments

c) Inadequacies in institutional structure and dispute settlement system

d) All of the above

Correct answer: d) All of the above

Explanation: GATT lost its relevance due to factors such as the fast-evolving contemporary world trade scenario, international investments expansion, inadequacies in institutional structure, and more.

Guidance time: 1 minute

Difficulty level: Medium

23. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : When was the Uruguay Round completed and the World Trade Organization (WTO) established?

- a) Completed in 1990, established in 1994
- b) Completed in 1993, established in 1995
- c) Completed in 1986, established in 1990
- d) Completed in 1989, established in 1993

Correct answer: b) Completed in 1993, established in 1995

Explanation: The Uruguay Round, the largest-ever round of multilateral trade negotiations, was completed in 1993, leading to the establishment of the World Trade Organization (WTO) on January 1, 1995.

Guidance time: 1 minute

Difficulty level: Medium

24. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the principal objective of the WTO?

- a) To facilitate trade flow smoothly, freely, fairly, and predictably.
- b) To set and enforce rules for international trade.
- c) To resolve trade disputes.
- d) To provide a forum for trade negotiations.

Correct answer: a) To facilitate trade flow smoothly, freely, fairly, and predictably.

Explanation: The principal objective of the WTO is to facilitate the flow of international trade smoothly, freely, fairly, and predictably.

Guidance time: 1 minute

Difficulty level: Easy

25. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : Which body is the top-level decision-making body in the WTO?

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- a) Goods Council
- b) General Council
- c) Ministerial Conference
- d) Services Council

Correct answer: c) Ministerial Conference

Explanation: The Ministerial Conference is the top-level decision-making body in the WTO and can take decisions on all matters under any of the multilateral trade agreements.

Guidance time: 1 minute

Difficulty level: Easy

26. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What does the principle of "most-favoured-nation (MFN)" treatment mean?

- a) Treating other people equally.
- b) Granting special favours to certain trading partners.
- c) Granting developing countries special access to markets.
- d) Applying higher customs duty rates to specific countries.

Correct answer: a) Treating other people equally.

Explanation: The principle of "most-favoured-nation (MFN)" treatment means treating other trading partners equally without discrimination.

Guidance time: 1 minute

Difficulty level: Easy

27. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the objective of the rule on "national treatment"?

- a) Treating foreigners and locals equally in the market.
- b) Providing special favours to domestic producers.
- c) Lowering customs duties for locally-produced goods.
- d) Allowing discrimination against specific countries.

Correct answer: a) Treating foreigners and locals equally in the market.

Explanation: The rule of "national treatment" aims to treat foreign and domestic goods, services, and intellectual property equally after they have entered the market.

Guidance time: 1 minute

Difficulty level: Easy

28. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the main goal of progressive liberalization in the WTO agreements?

- a) To gradually eliminate all trade barriers.

- b) To encourage developing countries to implement trade liberalization.
- c) To allow countries to make changes in their trade policies without negotiation.
- d) To introduce quotas and measures to set limits on imports.

Correct answer: a) To gradually eliminate all trade barriers.

Explanation: Progressive liberalization in the WTO agreements aims to gradually eliminate trade barriers through negotiation.

Guidance time: 1 minute

Difficulty level: Medium

29. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the purpose of binding commitments in the WTO?

- a) To allow countries to raise trade barriers at any time.
- b) To provide stability and predictability in trade policies.
- c) To encourage countries to implement market access commitments.
- d) To promote fair competition among WTO members.

Correct answer: b) To provide stability and predictability in trade policies.

Explanation: Binding commitments in the WTO aim to provide stability and predictability in trade policies by discouraging sudden changes in trade barriers.

Guidance time: 1 minute

Difficulty level: Easy

30. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question 1: What are the main areas covered by the GATT committees?

- a) Agriculture, services, and investment
- b) Market access, subsidies, and anti-dumping measures
- c) Intellectual property, textiles, and clothing
- d) Tariffs, non-tariff barriers, and tropical products

Correct answer: d) Tariffs, non-tariff barriers, and tropical products

Explanation: The GATT committees deal with specific subjects such as tariffs, non-tariff barriers, market access, subsidies, anti-dumping measures, tropical products, and more.

Guidance time: 1 minute

Difficulty level: Medium

31. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What was the objective of the Uruguay Round of multilateral trade negotiations?

- a) To limit restrictions on tariffs only
- b) To bring about the biggest reform of the world's trading system

- c) To focus on agricultural trade liberalization
- d) To eliminate non-tariff barriers on trade

Correct answer: b) To bring about the biggest reform of the world's trading system

Explanation: The objective of the Uruguay Round was to bring about the biggest reform of the world's trading system, covering a wide range of trade policy issues.

Guidance time: 1 minute

Difficulty level: Easy

32. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : When did the Uruguay Round start, and when was it scheduled to be completed?

- a) Started in 1986, completed in 1990
- b) Started in 1989, completed in 1993
- c) Started in 1993, completed in 1995
- d) Started in 1990, completed in 1994

Correct answer: a) Started in 1986, completed in 1990

Explanation: The Uruguay Round started in 1986 in Punta del Este, Uruguay, and was scheduled to be completed by December 1990.

Guidance time: 1 minute

Difficulty level: Easy

33. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : How many countries participated in the Uruguay Round of multilateral trade negotiations?

- a) 64
- b) 98
- c) 123
- d) 150

Correct answer: c) 123

Explanation: The Uruguay Round of multilateral trade negotiations had 123 countries participating in the negotiations.

Guidance time: 1 minute

Difficulty level: Easy

34. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the main purpose of the WTO Secretariat?

- a) To make decisions on all matters under the multilateral trade agreements
- b) To oversee the implementation of the WTO agreements
- c) To support trade negotiations among member governments

- d) To provide technical assistance and training programs to developing countries

Correct answer: b) To oversee the implementation of the WTO agreements

Explanation: The main purpose of the WTO Secretariat is to support the implementation of the WTO agreements and oversee their proper functioning.

Guidance time: 1 minute

Difficulty level: Easy

35. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What percentage of world trade is accounted for by the WTO currently?

- a) 70%
- b) 85%
- c) 95%
- d) 100%

Correct answer: c) 95%

Explanation: The WTO currently accounts for about 95% of world trade, with 164 member countries participating.

Guidance time: 1 minute

Difficulty level: Easy

36. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the principle of non-discrimination in the WTO?

- a) MFN treatment
- b) National treatment
- c) Fair competition
- d) Progressive liberalization

Correct answer: a) MFN treatment

Explanation: The principle of non-discrimination in the WTO is based on "most-favoured-nation (MFN)" treatment, which requires treating all trading partners equally without discrimination.

Guidance time: 1 minute

Difficulty level: Easy

37. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : Which agreement extends competition rules to purchases by government entities in many countries?

- a) GATT
- b) GATS
- c) TRIPS
- d) Government Procurement Agreement

Correct answer: d) Government Procurement Agreement

Explanation: The Government Procurement Agreement is a plurilateral agreement that extends competition rules to purchases by government entities in many countries.

Guidance time: 1 minute

Difficulty level: Medium

38. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the goal of the rule on "transparent" trade policies in the WTO?

- a) To discourage the use of quotas and other trade barriers
- b) To allow countries to change their trade policies without negotiation
- c) To ensure trade rules are clear and made public
- d) To provide flexibility to developing countries in implementing trade agreements

Correct answer: c) To ensure trade rules are clear and made public

Explanation: The goal of the rule on "transparent" trade policies is to ensure that trade rules and policies are clear, publicly disclosed, and open for scrutiny.

Guidance time: 1 minute

Difficulty level: Easy

39. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : How does the WTO contribute to development in developing countries?

- a) By providing special assistance and trade concessions for developing countries
- b) By imposing higher tariffs on imports from developing countries
- c) By allowing developing countries to maintain high trade barriers
- d) By granting duty-free and quota-free imports for products from developing countries

Correct answer: d) By granting duty-free and quota-free imports for products from developing countries

Explanation: The WTO contributes to development in developing countries by allowing developed countries to grant duty-free and quota-free imports for products from those countries.

Guidance time: 1 minute

Difficulty level: Easy

40. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question 1: Which of the following is NOT one of the objectives of the World Trade Organization (WTO)?

- a) To set and enforce rules for international trade
- b) To increase the transparency of decision-making processes
- c) To regulate exchange rate policies among member countries
- d) To resolve trade disputes

Correct answer: c) To regulate exchange rate policies among member countries

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Explanation: The World Trade Organization (WTO) does not regulate exchange rate policies among member countries. Its objectives include setting and enforcing rules for international trade, increasing transparency, and resolving trade disputes.

Guidance time: 1 minute

Difficulty level: Medium

41. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question 2: Which of the following is a key guiding principle of the WTO aimed at securing fair conditions of trade?

- a) Most-favoured-nation (MFN) treatment
- b) National treatment
- c) Dumping regulations
- d) Subsidies for developing countries

Correct answer: a) Most-favoured-nation (MFN) treatment

Explanation: The principle of most-favoured-nation (MFN) treatment is aimed at securing fair conditions of trade by treating all trading partners equally, without discrimination.

Guidance time: 1 minute

Difficulty level: Easy

42. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the purpose of "progressive liberalization" in the WTO agreements?

- a) To encourage rapid trade liberalization among developed countries
- b) To facilitate gradual trade liberalization over time
- c) To impose strict trade barriers on developing countries
- d) To promote preferential trade agreements among member countries

Correct answer: b) To facilitate gradual trade liberalization over time

Explanation: "Progressive liberalization" in the WTO agreements allows countries to introduce changes to trade barriers gradually over time, offering flexibility in implementing the agreements.

Guidance time: 1 minute

Difficulty level: Easy

43. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the main purpose of the WTO Trade Policy Review Mechanism?

- a) To encourage transparency in trade policies
- b) To monitor trade policies of developing countries
- c) To impose sanctions on countries violating trade rules
- d) To assist countries in implementing trade agreements

Correct answer: a) To encourage transparency in trade policies

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Explanation: The main purpose of the WTO Trade Policy Review Mechanism is to encourage transparency in trade policies by regularly reviewing national trade policies through multilateral surveillance.

Guidance time: 1 minute

Difficulty level: Easy

44. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What proportion of WTO members are developing countries or countries in transition to market economies?

- a) Over 50%
- b) Over 75%
- c) Over 90%
- d) Over 99%

Correct answer: c) Over 90%

Explanation: Over 90% of WTO members are developing countries or countries in transition to market economies.

Guidance time: 1 minute

Difficulty level: Easy

45. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : Which of the following agreements covers the rules for trade in services?

- a) GATT
- b) GATS
- c) TRIPS
- d) Government Procurement Agreement

Correct answer: b) GATS (General Agreement on Trade in Services)

Explanation: The General Agreement on Trade in Services (GATS) covers the rules for trade in services in the WTO.

Guidance time: 1 minute

Difficulty level: Easy

46. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the goal of the WTO rule on "fair competition"?

- a) To allow countries to impose higher tariffs on imports
- b) To establish rules for bilateral trade agreements
- c) To ensure open, fair, and undistorted competition in trade
- d) To facilitate preferential treatment for certain industries

Correct answer: c) To ensure open, fair, and undistorted competition in trade

Explanation: The WTO rule on "fair competition" aims to ensure open, fair, and undistorted competition in international trade.

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Guidance time: 1 minute

Difficulty level: Easy

47. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What does the Government Procurement Agreement extend competition rules to?

- a) Purchases by governments of developed countries
- b) Purchases by government entities in all WTO member countries
- c) Purchases by government entities in developing countries only
- d) Purchases made by the World Bank and IMF

Correct answer: b) Purchases by government entities in all WTO member countries

Explanation: The Government Procurement Agreement extends competition rules to purchases by government entities in many countries that are members of the WTO.

Guidance time: 1 minute

Difficulty level: Medium

48. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : What is the primary focus of the WTO's agreements?

- a) Environmental regulations
- b) Labor standards
- c) Trade-related rules and policies
- d) Financial market regulations

Correct answer: c) Trade-related rules and policies

Explanation: The primary focus of the WTO's agreements is on trade-related rules and policies governing international trade in goods, services, and intellectual property.

Guidance time: 1 minute

Difficulty level: Easy

49. Topic: The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO)

Question : Which round of multilateral trade negotiations led to the establishment of the World Trade Organization (WTO)?

- a) Tokyo Round
- b) Uruguay Round
- c) Doha Round
- d) Nairobi Round

Correct answer: b) Uruguay Round

Explanation: The establishment of the World Trade Organization (WTO) was a result of the Uruguay Round of multilateral trade negotiations.

Guidance time: 1 minute

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Difficulty level: Easy

50. Topic: Agreement on Agriculture

Question : Which agreement aims at strengthening GATT disciplines and improving agricultural trade?

- a) Agreement on Technical Barriers to Trade (TBT)
- b) Agreement on Agriculture
- c) Agreement on Subsidies and Countervailing Measures
- d) Agreement on Import Licensing Procedures

Correct answer: b) Agreement on Agriculture

Explanation: The Agreement on Agriculture aims at strengthening GATT disciplines and improving agricultural trade by including specific and binding commitments on market access, domestic support, and export subsidies.

Guidance time: 1 minute

Difficulty level: Easy

51. Topic: Agreement on Agriculture

Question : The Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures aims to:

- a) Promote foreign direct investments in developing countries
- b) Establish multilateral frameworks for the planning, adoption, and implementation of sanitary and phytosanitary measures
- c) Prevent international trade barriers in textiles and clothing
- d) Facilitate dispute settlement procedures among member countries

Correct answer: b) Establish multilateral frameworks for the planning, adoption, and implementation of sanitary and phytosanitary measures

Explanation: The Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures aims to establish multilateral frameworks for planning, adopting, and implementing sanitary and phytosanitary measures to prevent arbitrary or unjustifiable discrimination and minimize adverse effects on international trade.

Guidance time: 1 minute

Difficulty level: Medium

52. Topic: Agreement on Agriculture

Question : The Agreement on Textiles and Clothing replaced which arrangement?

- a) Agreement on Safeguards
- b) Agreement on Trade-Related Investment Measures (TRIMs)
- c) Multi-Fibre Arrangement (MFA)
- d) Agreement on Customs Valuation

Correct answer: c) Multi-Fibre Arrangement (MFA)

Explanation: The Agreement on Textiles and Clothing (ATC) replaced the Multi-Fibre Arrangement (MFA), which was prevalent since 1974 and entailed import protection policies for textiles.

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Guidance time: 1 minute

Difficulty level: Easy

53. Topic: Agreement on Agriculture

Question : The Agreement on Technical Barriers to Trade (TBT) aims to prevent standards and conformity assessment systems from becoming:

- a) Trade barriers
- b) Subsidies for domestic industries
- c) Import restrictions
- d) Anti-dumping measures

Correct answer: a) Trade barriers

Explanation: The Agreement on Technical Barriers to Trade (TBT) aims to prevent standards and conformity assessment systems from becoming unnecessary trade barriers by ensuring transparency and harmonization with international standards.

Guidance time: 1 minute

Difficulty level: Easy

54. Topic: Agreement on Agriculture

Question : The Agreement on Trade-Related Investment Measures (TRIMs) focuses on governing investment measures in relation to:

- a) Cross-border investments
- b) Imports of textiles and clothing
- c) Dumping margins and investigations
- d) Trade in services

Correct answer: a) Cross-border investments

Explanation: The Agreement on Trade-Related Investment Measures (TRIMs) expands disciplines governing investment measures in relation to cross-border investments and prohibits certain measures that are inconsistent with the principle of national treatment.

Guidance time: 1 minute

Difficulty level: Easy

55. Topic: Agreement on Agriculture

Question : The Anti-Dumping Agreement seeks to prevent anti-dumping measures from being abused or misused to:

- a) Promote foreign direct investments
- b) Protect domestic industries
- c) Promote trade in services
- d) Eliminate tariffs on certain goods

Correct answer: b) Protect domestic industries

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Explanation: The Anti-Dumping Agreement seeks to prevent anti-dumping measures from being abused or misused to protect domestic industries from unfair trade practices.

Guidance time: 1 minute

Difficulty level: Easy

56. Topic: Agreement on Agriculture

Question : Which agreement specifies rules for customs valuation and aims to eliminate arbitrary valuation systems?

- a) Agreement on Safeguards
- b) Agreement on Customs Valuation
- c) Agreement on Subsidies and Countervailing Measures
- d) Agreement on Import Licensing Procedures

Correct answer: b) Agreement on Customs Valuation

Explanation: The Agreement on Customs Valuation specifies rules for customs valuation and aims to harmonize customs valuation systems internationally by eliminating arbitrary valuation systems.

Guidance time: 1 minute

Difficulty level: Easy

57. Topic: Agreement on Agriculture

Question : The Agreement on Pre-shipment Inspection (PSI) aims to secure transparency in:

- a) Exporting countries' pre-shipment inspection procedures
- b) Importing countries' customs valuation procedures
- c) Trading blocs' dispute settlement mechanisms
- d) Disputes between PSI agencies and exporters

Correct answer: a) Exporting countries' pre-shipment inspection procedures

Explanation: The Agreement on Pre-shipment Inspection (PSI) aims to secure transparency in exporting countries' pre-shipment inspection procedures, ensuring fair operation and dispute resolution mechanisms.

Guidance time: 1 minute

Difficulty level: Medium

58. Topic: Agreement on Agriculture

Question : The Agreement on Rules of Origin provides for the harmonization of rules of origin for application to:

- a) Preferential commercial policy instruments
- b) All non-preferential commercial policy instruments
- c) Trade-related investment measures
- d) Textile and clothing trade

Correct answer: b) All non-preferential commercial policy instruments

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Explanation: The Agreement on Rules of Origin provides for the harmonization of rules of origin for application to all non-preferential commercial policy instruments.

Guidance time: 1 minute

Difficulty level: Easy

59. Topic: Agreement on Agriculture

Question : Which agreement aims to clarify definitions of subsidies and strengthen disciplines by subsidy type?

- a) Agreement on Safeguards
- b) Agreement on Subsidies and Countervailing Measures
- c) Agreement on Trade-Related Investment Measures (TRIMs)
- d) Agreement on Import Licensing Procedures

Correct answer: b) Agreement on Subsidies and Countervailing Measures

Explanation: The Agreement on Subsidies and Countervailing Measures aims to clarify definitions of subsidies and strengthen disciplines by subsidy type to prevent misuse of subsidies.

Guidance time: 1 minute

Difficulty level: Easy

60. Topic: Agreement on Agriculture

Question 1: The Agreement on Safeguards provides disciplines for requirements and procedures for imposing safeguards, which are emergency measures to restrict imports in the event of:

- a) A sudden surge in imports
- b) Anti-dumping investigations
- c) Trade disputes between countries
- d) Disputes related to intellectual property rights

Correct answer: a) A sudden surge in imports

Explanation: The Agreement on Safeguards provides disciplines for requirements and procedures for imposing safeguards in the event of a sudden surge in imports.

Guidance time: 1 minute

Difficulty level: Easy

61. Topic: Agreement on Agriculture

Question : Which agreement provides general obligations regarding trade in services, such as most-favoured-nation treatment and transparency?

- a) General Agreement on Trade in Services (GATS)
- b) Agreement on Technical Barriers to Trade (TBT)
- c) Agreement on Textiles and Clothing
- d) Agreement on Agriculture

Correct answer: a) General Agreement on Trade in Services (GATS)

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Explanation: The General Agreement on Trade in Services (GATS) provides general obligations regarding trade in services, including most-favoured-nation treatment and transparency.

Guidance time: 1 minute

Difficulty level: Easy

62. Topic: Agreement on Agriculture

Question : The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) stipulates most-favoured-nation treatment and national treatment for intellectual properties, such as:

- a) Import licensing procedures
 - b) Copyright and trademarks
 - c) Import protection policies
 - d) Tariff classifications
- Correct answer:** b) Copyright and trademarks

Explanation: The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) stipulates most-favoured-nation treatment and national treatment for intellectual properties, such as copyright and trademarks.

Guidance time: 1 minute

Difficulty level: Easy

63. Topic: Agreement on Agriculture

Question : The Trade Policy Review Mechanism (TPRM) conducts periodical reviews of members' trade policies and practices through the:

- a) World Bank and IMF
- b) World Trade Organization (WTO)
- c) World Customs Organization (WCO)
- d) Trade Policy Review Body (TPRB)

Correct answer: d) Trade Policy Review Body (TPRB)

Explanation: The Trade Policy Review Mechanism (TPRM) conducts periodical reviews of members' trade policies and practices through the Trade Policy Review Body (TPRB).

Guidance time: 1 minute

Difficulty level: Easy

64. Topic: Agreement on Agriculture

Question : Plurilateral Trade Agreements involve several countries with a common interest but do not involve:

- a) Any WTO countries
- b) All WTO countries
- c) Developing countries
- d) Any trade-related agreements

Correct answer: b) All WTO countries

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Explanation: Plurilateral Trade Agreements involve several countries with a common interest but do not involve all WTO countries.

Guidance time: 1 minute

Difficulty level: Easy

65. Topic: Agreement on Agriculture

Question : Which agreement aims to prevent arbitrary or unjustifiable discrimination in the planning, adoption, and implementation of sanitary and phytosanitary measures?

- a) Agreement on Textiles and Clothing
- b) Agreement on Agriculture
- c) Agreement on Safeguards
- d) Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures

Correct answer: d) Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures

Explanation: The Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures aims to prevent arbitrary or unjustifiable discrimination in the planning, adoption, and implementation of sanitary and phytosanitary measures.

Guidance time: 1 minute

Difficulty level: Easy

66. Topic: Agreement on Agriculture

Question : The Agreement on Technical Barriers to Trade (TBT) ensures that standards and conformity assessment systems do not act as:

- a) Tariff barriers
- b) Import restrictions
- c) Subsidies
- d) Unnecessary trade barriers

Correct answer: d) Unnecessary trade barriers

Explanation: The Agreement on Technical Barriers to Trade (TBT) ensures that standards and conformity assessment systems do not become unnecessary trade barriers.

Guidance time: 1 minute

Difficulty level: Easy

67. Topic: Agreement on Agriculture

Question : The Agreement on Trade-Related Investment Measures (TRIMs) stipulates that countries receiving foreign investments shall not impose investment measures inconsistent with the principle of:

- a) National treatment
- b) Most-favoured-nation treatment

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c) Preferential treatment

d) Dumping

Correct answer: a) National treatment

Explanation: The Agreement on Trade-Related Investment Measures (TRIMs) stipulates that countries receiving foreign investments shall not impose investment measures inconsistent with the principle of national treatment.

Guidance time: 1 minute

Difficulty level: Easy

68. Topic: Agreement on Agriculture

Question : The Agreement on Subsidies and Countervailing Measures seeks to prevent anti-dumping measures from being:

- a) Misused to protect domestic industries
- b) Misused to restrict imports
- c) Abused to promote fair competition
- d) Abused to promote foreign direct investments

Correct answer: a) Misused to protect domestic industries

Explanation: The Agreement on Subsidies and Countervailing Measures seeks to prevent anti-dumping measures from being misused to protect domestic industries from unfair trade practices.

Guidance time: 1 minute

Difficulty level: Easy

69. Topic: Agreement on Agriculture

Question : The Agreement on Safeguards clarifies disciplines for requirements and procedures for imposing safeguards, which are emergency measures to restrict imports in the event of:

- a) A sudden surge in exports
- b) A sudden decline in domestic production
- c) A sudden surge in foreign investments
- d) A sudden surge in imports

Correct answer: d) A sudden surge in imports

Explanation: The Agreement on Safeguards clarifies disciplines for requirements and procedures for imposing safeguards, which are emergency measures to restrict imports in the event of a sudden surge in imports.

Guidance time: 1 minute

Difficulty level: Easy

70. Topic: Trade Policy and Agreements

Question : When was the Doha Round officially launched?

- a) 1995
- b) 1999

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c) 2001

d) 2005

Correct answer: c) 2001

Explanation: The Doha Round, formally known as the Doha Development Agenda, was officially launched at the WTO's Fourth Ministerial Conference in Doha, Qatar, in November 2001.

Guidance time: 1 minute

Difficulty level: Easy

71. Topic: Trade Policy and Agreements

Question : The Doha Round seeks to accomplish major modifications of the international trading system through:

- a) Higher trade barriers
 - b) Reduced trade rules
 - c) Lower trade barriers and revised trade rules
 - d) Increased subsidies for agriculture
- Correct answer:** c) Lower trade barriers and revised trade rules

Explanation: The Doha Round aims to accomplish major modifications of the international trading system through lower trade barriers and revised trade rules.

Guidance time: 1 minute

Difficulty level: Easy

72. Topic: Trade Policy and Agreements

Question : How many areas of trade are included in the Doha Round negotiations?

- a) 5
- b) 10
- c) 15
- d) 20

Correct answer: d) 20

Explanation: The Doha Round negotiations include 20 areas of trade, including agriculture, services trade, non-agricultural products (NAMA), trade facilitation, environment, and intellectual property issues.

Guidance time: 1 minute

Difficulty level: Easy

73. Topic: Trade Policy and Agreements

Question : What was the most controversial **Topic** in the Doha Round's agenda?

- a) Trade in services
- b) Intellectual property issues
- c) Environment
- d) Agriculture trade

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Correct answer: d) Agriculture trade

Explanation: Agriculture trade was the most controversial Topic in the Doha Round's agenda, leading to heated negotiations.

Guidance time: 1 minute

Difficulty level: Medium

74. Topic: Trade Policy and Agreements

Question : The report indicates that G20 economies must demonstrate leadership to keep markets open and predictable, particularly for which two commodities?

- a) Technology and pharmaceuticals
- b) Food and fertilizer
- c) Automobiles and machinery
- d) Clothing and textiles

Correct answer: b) Food and fertilizer

Explanation: G20 economies must demonstrate leadership to keep markets open and predictable, especially for food and fertilizer commodities, to ensure their flow to where they are needed.

Guidance time: 1 minute

Difficulty level: Medium

75. Topic: Trade Policy and Agreements

Question : According to the report, overall, the pace of implementation of new export restrictions by WTO members has:

- a) Decreased since 2020
- b) Increased since 2020
- c) Remained constant since 2020
- d) Significantly decreased since 2020

Correct answer: b) Increased since 2020

Explanation: Overall, the pace of implementation of new export restrictions by WTO members has increased since 2020, particularly during the pandemic and other crises.

Guidance time: 1 minute

Difficulty level: Medium

76. Topic: Trade Policy and Agreements

Question : As of mid-October 2022, how many export restrictions on food, feed, and fertilizers were still in place among WTO members?

- a) 27
- b) 44
- c) 52

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d) 66

Correct answer: c) 52

Explanation: As of mid-October 2022, WTO members still had in place 52 export restrictions on food, feed, and fertilizers, affecting international trade.

Guidance time: 1 minute

Difficulty level: Medium

77. Topic: Trade Policy and Agreements

Question : How many new trade-facilitating measures were introduced by G20 economies during the review period?

- a) 47
- b) 66
- c) 77
- d) 88

Correct answer: b) 66

Explanation: During the review period, G20 economies introduced 66 new trade-facilitating measures, which aimed to improve trade worth USD 451.8 billion.

Guidance time: 1 minute

Difficulty level: Medium

78. Topic: Trade Policy and Agreements

Question : Initiations of trade remedy investigations by G20 economies declined sharply during the review period. How many initiations were recorded?

- a) 17
- b) 27
- c) 37
- d) 47

Correct answer: a) 17

Explanation: Initiations of trade remedy investigations by G20 economies declined sharply during the review period, with only 17 initiations recorded.

Guidance time: 1 minute

Difficulty level: Medium

79. Topic: Trade Policy and Agreements

Question : What percentage of G20 imports were affected by trade-restricting measures implemented since 2009 and still in force?

- a) 5.2%
- b) 7.8%
- c) 11.6%

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d) 15.3%

Correct answer: c) 11.6%

Explanation: By mid-October 2022, 11.6% of G20 imports were affected by trade-restricting measures implemented since 2009 and still in force.

Guidance time: 1 minute

Difficulty level: Medium

80. Topic: Trade Policy and Agreements

Question 1: Among the COVID-19 trade and trade-related measures in goods implemented by G20 economies, what percentage was considered trade-restrictive?

- a) 18%
- b) 29%
- c) 39%
- d) 47%

Correct answer: c) 39%

Explanation: Among the COVID-19 trade and trade-related measures in goods implemented by G20 economies, 39% were considered trade-restrictive.

Guidance time: 1 minute

Difficulty level: Medium

81. Topic: Trade Policy and Agreements

Question : What percentage of pandemic-related export restrictions remained in place by mid-October 2022?

- a) 23%
- b) 33%
- c) 44%
- d) 77%

Correct answer: d) 77%

Explanation: By mid-October 2022, 77% of pandemic-related export restrictions had been repealed, leaving 17 restrictions still in place.

Guidance time: 1 minute

Difficulty level: Medium

82. Topic: Trade Policy and Agreements

Question : Since the beginning of the pandemic, how many COVID-19 trade and trade-related measures in goods were implemented by G20 economies?

- a) 121
- b) 201
- c) 301
- d) 401

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Correct answer: b) 201

Explanation: Since the beginning of the pandemic, 201 COVID-19 trade and trade-related measures in goods were implemented by G20 economies.

Guidance time: 1 minute

Difficulty level: Medium

83. Topic: Trade Policy and Agreements

Question : Which measure continued to be the most frequent trade remedy action in terms of initiations and terminations among G20 economies?

- a) Countervailing measures
- b) Anti-dumping measures
- c) Safeguard measures
- d) Voluntary export restraints

Correct answer: b) Anti-dumping measures

Explanation: Among G20 economies, anti-dumping measures continued to be the most frequent trade remedy action in terms of initiations and terminations.

Guidance time: 1 minute

Difficulty level: Medium

84. Topic: Trade Policy and Agreements

Question : The report indicates that supply chains have proven to be resilient despite various challenges. Which three factors have contributed to this resilience?

- a) Trade restrictions, inflation, and monetary tightening
- b) War in Ukraine, inflation, and monetary tightening
- c) War in Ukraine, COVID-19 pandemic, and inflation
- d) COVID-19 pandemic, inflation, and monetary tightening

Correct answer: c) War in Ukraine, COVID-19 pandemic, and inflation

Explanation: Supply chains have proven to be resilient despite the war in

Ukraine, the continuing impacts of the COVID-19 pandemic, and the highest inflation many countries have experienced in decades.

Guidance time: 1 minute

Difficulty level: Medium

85. Topic: Trade Policy and Agreements

Question : What percentage of pandemic-related trade restrictions was still in place by mid-October 2022?

- a) 32%
- b) 44%
- c) 57%

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d) 77%

Correct answer: b) 44%

Explanation: By mid-October 2022, 44% of pandemic-related trade restrictions were still in place, affecting international trade.

Guidance time: 1 minute

Difficulty level: Medium

86. Topic: Trade Policy and Agreements

Question : How many new COVID-19-related support measures to mitigate the social and economic impacts of the pandemic were recorded over the past five months from the report's publication?

- a) 3
- b) 8
- c) 13
- d) 18

Correct answer: b) 8

Explanation: Over the past five months, the number of new COVID-19-related support measures to mitigate the social and economic impacts of the pandemic decreased, with eight new measures recorded.

Guidance time: 1 minute

Difficulty level: Medium

87. Topic: Trade Policy and Agreements

Question : The report indicates that the number of new COVID-19-related trade measures by G20 economies has:

- a) Increased significantly
 - b) Decreased significantly
 - c) Remained constant
 - d) Decreased slightly
- Correct answer:** d) Decreased slightly

Explanation: The implementation of new COVID-19-related trade measures by G20 economies has decelerated slightly over the past five months, with a small number of new measures recorded.

Guidance time: 1 minute

Difficulty level: Medium

88. Topic: Trade Policy and Agreements

Question : G20 economies have phased out pandemic-related import and export measures, but what percentage of export restrictions were still in place by mid-October 2022?

- a) 32%
- b) 44%
- c) 57%

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d) 77%

Correct answer: b) 44%

Explanation: By mid-October 2022, 44% of pandemic-related export restrictions were still in place among G20 economies.

Guidance time: 1 minute

Difficulty level: Medium

89. Topic: Trade Policy and Agreements

Question : Among G20 economies, which three countries had the highest number of export restrictions on food, feed, and fertilizers still in place as of mid-October 2022?

- a) China, India, and Russia
- b) Brazil, Saudi Arabia, and Turkey
- c) Canada, South Africa, and Indonesia
- d) Argentina, France, and Mexico

Correct answer: a) China, India, and Russia

Explanation: As of mid-October 2022, China, India, and Russia had the highest number of export restrictions on food, feed, and fertilizers still in place among G20 economies.

Guidance time: 1 minute

Difficulty level: Medium

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UNIT - 4: EXCHANGE RATE AND ITS ECONOMIC EFFECTS

1. Topic: Exchange Rates and Exchange Rate Regimes

Question : What is a foreign currency transaction?

- a) A transaction denominated in a foreign currency
- b) A transaction requiring settlement in a foreign currency
- c) A transaction involving goods and services produced in another country
- d) A transaction between residents and non-residents of a country

Correct answer: a) A transaction denominated in a foreign currency

Explanation: A foreign currency transaction is a transaction that is denominated in or requires settlement in a foreign currency, including transactions when an enterprise buys or sells goods or services whose price is denominated in a foreign currency, borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency, becomes a party to an unperformed forward exchange contract, or otherwise acquires or disposes of assets or incurs or settles liabilities denominated in a foreign currency.

Guidance time: 1 minute

Difficulty level: Easy

1. Topic: Exchange Rates and Exchange Rate Regimes

Question : What are the two major types of exchange rate regimes?

- a) Free-floating and managed float
- b) Fixed and flexible
- c) Pegged and floating
- d) Managed float and fixed

Correct answer: a) Free-floating and managed float

Explanation: The two major types of exchange rate regimes are the free-floating exchange rate regime (also called flexible exchange rate) and the managed float exchange rate regime.

Guidance time: 1 minute

Difficulty level: Easy

2. Topic: Exchange Rates and Exchange Rate Regimes

Question : In a free-floating exchange rate system, how are exchange rates determined?

- a) By private market forces without government involvement
- b) By government intervention to influence currency values

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c) By fixed rates set by government policy

d) By currency pegs to a foreign currency

Correct answer: a) By private market forces without government involvement

Explanation: In a free-floating exchange rate system, exchange rates are determined by private market forces without government involvement. The relationship between governments and central banks and currency markets is similar to the relationship between these institutions and stock markets.

Guidance time: 1 minute

Difficulty level: Easy

3. Topic: Exchange Rates and Exchange Rate Regimes

Question : What is the advantage of a free-floating exchange rate system?

- a) Predictability and stability of exchange rates
- b) Government control over exchange rates
- c) Self-regulation and buffer against international events
- d) Reduction in exchange rate risks for international transactions

Correct answer: c) Self-regulation and buffer against international events

Explanation: The advantage of a free-floating exchange rate system is that it is self-regulating and acts as a buffer to insulate an economy from the impact of international events. There is no need for government intervention if the exchange rate is left to the market.

Guidance time: 1 minute

Difficulty level: Easy

4. Topic: Exchange Rates and Exchange Rate Regimes

Question : What is the primary **Difficulty** with free-floating exchange rates?

- a) Unpredictability and lack of stability
- b) Government intervention and control
- c) Limited policy flexibility
- d) Exchange rate pegs to other currencies

Correct answer: a) Unpredictability and lack of stability

Explanation: The primary **Difficulty** with free-floating exchange rates lies in their unpredictability. Fluctuating exchange rates make international transactions riskier and increase the cost of doing business with other countries.

Guidance time: 1 minute

Difficulty level: Easy

5. Topic: Exchange Rates and Exchange Rate Regimes

Question : In a managed float system, how do governments or central banks influence exchange rates?

- a) By fixing the exchange rate to a specific value
- b) By participating in currency markets to influence values
- c) By allowing exchange rates to freely fluctuate

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d) By setting currency pegs to a foreign currency

Correct answer: b) By participating in currency markets to influence values

Explanation: In a managed float system, governments or central banks seek to increase or decrease their exchange rates by buying or selling their own currencies. While exchange rates are still free to float, governments try to influence their values through intervention.

Guidance time: 1 minute

Difficulty level: Easy

6. Topic: Exchange Rates and Exchange Rate Regimes

Question : What is a fixed exchange rate system?

- a) A system where exchange rates are set purely by private market forces
- b) A system where exchange rates fluctuate freely with government intervention
- c) A system where exchange rates are set by government policy
- d) A system where exchange rates are fixed by the IMF

Correct answer: c) A system where exchange rates are set by government policy

Explanation: In a fixed exchange rate system, the exchange rate between two currencies is set by government policy. The values of the currencies are fixed and do not fluctuate freely in the market.

Guidance time: 1 minute

Difficulty level: Easy

7. Topic: Exchange Rates and Exchange Rate Regimes

Question : What are the main advantages of a fixed exchange rate regime in an open economy?

- a) Currency stability, lower inflation, and greater policy flexibility
- b) Reduced exchange rate risks, enhanced trade and investment, and lower inflation
- c) Government control over monetary policy and reduced transaction costs
- d) Increased currency volatility and higher exchange rate risks

Correct answer: b) Reduced exchange rate risks, enhanced trade and investment, and lower inflation

Explanation: In an open economy, the main advantages of a fixed exchange rate regime include reduced exchange rate risks and transaction costs, enhanced trade and investment due to currency stability, and lower inflation as it imposes discipline on a country's monetary authority.

Guidance time: 1 minute

Difficulty level: Medium

8. Topic: Exchange Rates and Exchange Rate Regimes

Question : What is the primary disadvantage of a flexible exchange rate regime?

- a) Lack of government control over monetary policy
- b) Increased exchange rate risks and uncertainties
- c) Limited policy flexibility to influence competitiveness

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d) High transaction costs for international trade and investment

Correct answer: b) Increased exchange rate risks and uncertainties

Explanation: The primary disadvantage of a flexible exchange rate regime is the volatility of exchange rates, which generates uncertainties and risks for international transactions.

Guidance time: 1 minute

Difficulty level: Medium

9. Topic: Exchange Rates and Exchange Rate Regimes

Question : In a fixed exchange rate system, what is the role of government policy?

- a) To allow exchange rates to freely fluctuate
- b) To intervene in currency markets to influence values
- c) To maintain an adequate amount of foreign exchange reserves
- d) To regulate stock markets to prevent fraud

Correct answer: b) To intervene in currency markets to influence values

Explanation: In a fixed exchange rate system, the exchange rate between two currencies is set by government policy. Governments may intervene in currency markets to influence the values of their currencies.

Guidance time: 1 minute

Difficulty level: Medium

10. Topic: Exchange Rates and Exchange Rate Regimes

Question 1: What is the primary advantage of a managed float exchange rate regime?

- a) Currency stability and credibility
- b) Policy flexibility and government control
- c) Self-regulation and buffer against international events
- d) Limited exchange rate risks for international transactions

Correct answer: b) Policy flexibility and government control

Explanation: The primary advantage of a managed float exchange rate regime is that it allows policy flexibility and government control over monetary policy. Governments can intervene in currency markets to influence exchange rates.

Guidance time: 1 minute

Difficulty level: Medium

11. Topic: Exchange Rates and Exchange Rate Regimes

Question : In an open economy, which exchange rate regime is argued to be efficient and highly transparent?

- a) Fixed exchange rate regime
- b) Managed float exchange rate regime
- c) Free-floating exchange rate regime

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d) Currency peg to a foreign currency

Correct answer: c) Free-floating exchange rate regime

Explanation: In an open economy, the free-floating exchange rate regime is argued to be efficient and highly transparent as the exchange rate is free to fluctuate in response to the supply of and demand for foreign exchange in the market.

Guidance time: 1 minute

Difficulty level: Medium

12. Topic: Exchange Rates and Exchange Rate Regimes

Question : Which exchange rate regime allows a central bank to pursue its own independent monetary policy?

- a) Fixed exchange rate regime
- b) Managed float exchange rate regime
- c) Currency peg to a foreign currency
- d) Free-floating exchange rate regime

Correct answer: d) Free-floating exchange rate regime

Explanation: The free-floating exchange rate regime allows a central bank to pursue its own independent monetary policy as it is not obligated to intervene in the currency markets.

Guidance time: 1 minute

Difficulty level: Medium

13. Topic: Exchange Rates and Exchange Rate Regimes

Question : Which exchange rate regime can enhance the credibility of a country's monetary policy?

- a) Fixed exchange rate regime
- b) Managed float exchange rate regime
- c) Currency peg to a foreign currency
- d) Free-floating exchange rate regime

Correct answer: a) Fixed exchange rate regime

Explanation: A fixed exchange rate regime can enhance the credibility of a country's monetary policy as it imposes discipline on the country's monetary authority and is more likely to generate lower levels of inflation.

Guidance time: 1 minute

Difficulty level: Medium

14. Topic: Exchange Rates and Exchange Rate Regimes

Question : Which exchange rate regime avoids currency fluctuations and eliminates exchange rate risks for international trade and investments?

- a) Fixed exchange rate regime
- b) Managed float exchange rate regime
- c) Currency peg to a foreign currency

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d) Free-floating exchange rate regime

Correct answer: a) Fixed exchange rate regime

Explanation: A fixed exchange rate regime avoids currency fluctuations and eliminates exchange rate risks and transaction costs that can impede international flow of trade and investments.

Guidance time: 1 minute

Difficulty level: Medium

15. Topic: Exchange Rates and Exchange Rate Regimes

Question : Which exchange rate regime allows exchange rates to be used as a policy tool to influence the competitiveness of the tradable goods sector?

- a) Fixed exchange rate regime
- b) Managed float exchange rate regime
- c) Currency peg to a foreign currency
- d) Free-floating exchange rate regime

Correct answer: b) Managed float exchange rate regime

Explanation: In a managed float exchange rate regime, exchange rates can be used as a policy tool to influence the competitiveness of the tradable goods sector.

Guidance time: 1 minute

Difficulty level: Medium

16. Topic: Exchange Rates and Exchange Rate Regimes

Question : Which exchange rate regime requires the central bank to maintain a significant amount of foreign exchange reserves?

- a) Fixed exchange rate regime
- b) Managed float exchange rate regime
- c) Currency peg to a foreign currency
- d) Free-floating exchange rate regime

Correct answer: c) Currency peg to a foreign currency

Explanation: In a currency peg system, the central bank is required to maintain an adequate amount of foreign exchange reserves to support the fixed exchange rate.

Guidance time: 1 minute

Difficulty level: Medium

17. Topic: Exchange Rates and Exchange Rate Regimes

Question : What is the main advantage of a fixed exchange rate regime in relation to trade and investment?

- a) Greater policy flexibility for governments
- b) Reduced exchange rate risks for traders and investors
- c) Enhanced credibility of the country's monetary policy
- d) Increased transparency and efficiency in the market

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Correct answer: b) Reduced exchange rate risks for traders and investors

Explanation: The main advantage of a fixed exchange rate regime in relation to trade and investment is the reduced exchange rate risks and uncertainties, which make international transactions less risky for traders and investors.

Guidance time: 1 minute

Difficulty level: Medium

18. Topic: Exchange Rates and Exchange Rate Regimes

Question : What is the primary advantage of a floating exchange rate regime for governments and central banks?

- a) Currency stability and predictability
- b) Policy flexibility and independence
- c) Elimination of exchange rate risks for international trade
- d) Increased credibility of monetary policy

Correct answer: b) Policy flexibility and independence

Explanation: The primary advantage of a floating exchange rate regime for governments and central banks is the policy flexibility and independence to pursue their own monetary policy.

Guidance time: 1 minute

Difficulty level: Medium

19. Topic: Exchange Rates and Exchange Rate Regimes

Question : Which exchange rate regime imposes discipline on a country's monetary authority and is more likely to generate lower levels of inflation?

- a) Fixed exchange rate regime
- b) Managed float exchange rate regime
- c) Currency peg to a foreign currency
- d) Free-floating exchange rate regime

Correct answer: a) Fixed exchange rate regime

Explanation: A fixed exchange rate regime imposes discipline on a country's monetary authority and is more likely to generate lower levels of inflation, which enhances monetary stability.

Guidance time: 1 minute

Difficulty level: Medium

20. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : What is a nominal exchange rate?

- a) The rate at which a person can trade the goods and services of one country for another
- b) The rate at which a person can trade the currency of one country for the currency of another
- c) The rate at which a person can trade real goods for financial assets
- d) The rate at which a person can trade foreign currency for goods and services

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Correct answer: b) The rate at which a person can trade the currency of one country for the currency of another

Explanation: A nominal exchange rate refers to the rate at which a person can trade the currency of one country for the currency of another country.

Guidance time: 1 minute

Difficulty level: Easy

21. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : What does a real exchange rate measure?

- a) The rate at which a person can trade real goods for financial assets
- b) The rate at which a person can trade foreign goods and services for domestic goods and services
- c) The rate at which a person can trade the currency of one country for another
- d) The rate at which a person can trade the goods and services of one country for another

Correct answer: b) The rate at which a person can trade foreign goods and services for domestic goods and services

Explanation: A real exchange rate measures the rate at which a person can trade the goods and services of one country for the goods and services of another country.

Guidance time: 1 minute

Difficulty level: Easy

22. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : How is the real exchange rate calculated for a single good in two countries?

- a) Real exchange rate = Nominal exchange rate × Domestic price
- b) Real exchange rate = Domestic price ÷ Nominal exchange rate
- c) Real exchange rate = Foreign price × Nominal exchange rate
- d) Real exchange rate = Nominal exchange rate ÷ Foreign price

Correct answer: a) Real exchange rate = Nominal exchange rate × Domestic price ÷ Foreign price

Explanation: The real exchange rate between two currencies is the product of the nominal exchange rate and the ratio of prices between the two countries. It is calculated as Real exchange rate = Nominal exchange rate × Domestic price ÷ Foreign price.

Guidance time: 1 minute

Difficulty level: Medium

23. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : What is the Real Effective Exchange Rate (REER)?

- a) The nominal effective exchange rate divided by a price deflator
- b) The nominal exchange rate divided by a price deflator
- c) The nominal effective exchange rate divided by a price index
- d) The nominal exchange rate divided by a price index

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Correct answer: a) The nominal effective exchange rate divided by a price deflator or index of costs

Explanation: The Real Effective Exchange Rate (REER) is the nominal effective exchange rate (a measure of the value of a domestic currency against a weighted average of various foreign currencies) divided by a price deflator or index of costs.

Guidance time: 1 minute

Difficulty level: Medium

24. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : How does an increase in the Real Effective Exchange Rate (REER) impact trade competitiveness?

- a) Exports become more expensive and imports become cheaper
- b) Exports become cheaper and imports become more expensive
- c) Both exports and imports become more expensive
- d) Both exports and imports become cheaper

Correct answer: a) Exports become more expensive and imports become cheaper

Explanation: An increase in the Real Effective Exchange Rate (REER) implies that exports become more expensive and imports become cheaper, indicating a loss in trade competitiveness.

Guidance time: 1 minute

Difficulty level: Medium

25. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : Which market participants are involved in the foreign exchange market?

- a) Commercial banks and private investors only
- b) Commercial banks, brokerage houses, and private investors
- c) Exporters and importers only
- d) Investment institutions and insurance companies only

Correct answer: b) Commercial banks, brokerage houses, and private investors

Explanation: The foreign exchange market participants mainly include commercial banks executing orders from exporters, importers, investment institutions, insurance and retirement funds, hedgers, and private investors. Brokerage houses also play an important role as contractors between various entities in the market.

Guidance time: 1 minute

Difficulty level: Medium

26. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : What are the two types of transactions in the foreign exchange market?

- a) Current transactions and foreign direct investments
- b) Spot transactions and forward transactions
- c) Currency exchange transactions and commodity transactions

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d) Hedging transactions and speculative transactions

Correct answer: b) Spot transactions and forward transactions

Explanation: In the foreign exchange market, there are two types of transactions: current transactions carried out in the spot market, which involve immediate delivery, and future transactions carried out in the forward and/or futures markets where contracts are agreed upon for future delivery.

Guidance time: 1 minute

Difficulty level: Easy

27. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : What are spot exchange rates?

- a) Exchange rates prevailing for future delivery
- b) Exchange rates quoted for current transactions with immediate delivery
- c) Exchange rates for commodity transactions
- d) Exchange rates quoted by market makers

Correct answer: b) Exchange rates quoted for current transactions with immediate delivery

Explanation: Spot exchange rates are the exchange rates prevailing for spot trading, where settlement generally takes two days and immediate delivery is involved.

Guidance time: 1 minute

Difficulty level: Easy

28. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : What is a forward exchange rate?

- a) Exchange rates for future delivery quoted by market makers
- b) Exchange rates prevailing for spot trading
- c) Exchange rates for speculative transactions
- d) Exchange rates quoted in foreign exchange transactions

Correct answer: a) Exchange rates for future delivery quoted by market makers

Explanation: Forward exchange rates are the exchange rates quoted for future delivery, where contracts are agreed upon to buy or sell currencies for future settlement.

Guidance time: 1 minute

Difficulty level: Easy

29. Topic: Nominal vs. Real Exchange Rates and Foreign Exchange Market

Question : When does a forward premium occur in the foreign exchange market?

- a) When the forward exchange rate is more than the spot exchange rate
- b) When the forward exchange rate is less than the spot exchange rate
- c) When there is no difference between the forward and spot exchange rates

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d) When market makers set their own exchange rates

Correct answer: a) When the forward exchange rate is more than the spot exchange rate

Explanation: A forward premium occurs when the forward exchange rate is higher than the spot exchange rate, indicating that the future rate is more expensive than the current rate.

Guidance time: 1 minute

Difficulty level: Easy

30. Topic: Nominal and Real Exchange Rates

Question : What is the real exchange rate?

- a) The rate at which one country's currency can be exchanged for another country's currency
- b) The rate at which a person can trade goods and services of one country for goods and services of another
- c) The rate at which trade flows are affected by nominal exchange rates
- d) The rate at which commercial banks execute currency exchange operations

Correct answer: b) The rate at which a person can trade goods and services of one country for goods and services of another

Explanation: The real exchange rate is the rate at which a person can trade the goods and services of one country for the goods and services of another country. It describes 'how many' of a good or service in one country can be traded for 'one' of that good or service in a foreign country.

Guidance time: 1 minute

Difficulty level: Easy

31. Topic: Nominal and Real Exchange Rates

Question : How is the real exchange rate calculated when studying the economy as a whole?

- a) Real exchange rate = Nominal exchange rate x Domestic price
- b) Real exchange rate = Nominal exchange rate x Foreign price
- c) Real exchange rate = Nominal exchange rate x Domestic Price Index
- d) Real exchange rate = Nominal exchange rate x Foreign Price Index

Correct answer: c) Real exchange rate = Nominal exchange rate x Domestic Price Index / Foreign Price Index

Explanation: When studying the economy as a whole, the real exchange rate is calculated as the product of the nominal exchange rate and the ratio of the Domestic Price Index to the Foreign Price Index.

Guidance time: 1 minute

Difficulty level: Medium

32. Topic: Nominal and Real Exchange Rates

Question : What does the Real Effective Exchange Rate (REER) represent?

- a) The nominal effective exchange rate divided by a price deflator or index of costs
- b) The spot exchange rate prevailing for currency trading
- c) The exchange rate between two specific currencies

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d) The product of the nominal exchange rate and the Domestic Price Index

Correct answer: a) The nominal effective exchange rate divided by a price deflator or index of costs

Explanation: The Real Effective Exchange Rate (REER) represents the nominal effective exchange rate (a measure of the value of a domestic currency against a weighted average of various foreign currencies) divided by a price deflator or index of costs.

Guidance time: 1 minute

Difficulty level: Medium

33. Topic: Nominal and Real Exchange Rates

Question : What is the primary implication of an increase in REER?

- a) Loss in trade competitiveness
- b) Increase in exports and imports
- c) Lower exchange rate risks for traders
- d) Enhanced credibility of a country's monetary policy

Correct answer: a) Loss in trade competitiveness

Explanation: An increase in Real Effective Exchange Rate (REER) implies that exports become more expensive and imports become cheaper, indicating a loss in trade competitiveness.

Guidance time: 1 minute

Difficulty level: Easy

34. Topic: Nominal and Real Exchange Rates

Question : Who are the main participants in the foreign exchange market?

- a) Commercial banks, importers, and exporters
- b) Investment institutions, insurance and retirement funds, and private investors
- c) Commercial banks, brokerage houses, and private investors
- d) Exporters, importers, and private investors

Correct answer: c) Commercial banks, brokerage houses, and private investors

Explanation: The main participants in the foreign exchange market are commercial banks executing orders from various entities, brokerage houses acting as contractors between banks and other entities, and private investors.

Guidance time: 1 minute

Difficulty level: Easy

35. Topic: Nominal and Real Exchange Rates

Question : What do commercial banks and brokerage houses do in the foreign exchange market?

- a) Execute currency exchange operations at prices set by other active players
- b) Set their own quotations and trade actively
- c) Only execute trades at quotations offered by active market players
- d) Trade currencies at the spot exchange rates

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Correct answer: b) Set their own quotations and trade actively

Explanation: Commercial banks and brokerage houses not only execute currency exchange operations at prices set by other active players but also come out with their own prices, actively influencing the price formation process in the market.

Guidance time: 1 minute

Difficulty level: Medium

36. Topic: Nominal and Real Exchange Rates

Question : What is the difference between spot trading and future trading in the foreign exchange market?

- a) Spot trading involves immediate delivery, while future trading involves delivery at a specified future date
- b) Spot trading involves delivery at a specified future date, while future trading involves immediate delivery
- c) Both spot trading and future trading involve delivery at a specified future date
- d) Both spot trading and future trading involve immediate delivery

Correct answer: a) Spot trading involves immediate delivery, while future trading involves delivery at a specified future date

Explanation: In spot trading, the exchange involves immediate delivery, while in future trading, contracts are agreed upon to buy or sell currencies for future delivery, which takes place at a specified time in the future.

Guidance time: 1 minute

Difficulty level: Easy

37. Topic: Nominal and Real Exchange Rates

Question : What is a forward premium in the foreign exchange market?

- a) A situation where the forward exchange rate is higher than the spot exchange rate
- b) A situation where the forward exchange rate is lower than the spot exchange rate
- c) A situation where currency futures are quoted at a higher rate than currency forwards
- d) A situation where currency futures are quoted at a lower rate than currency forwards

Correct answer: a) A situation where the forward exchange rate is higher than the spot exchange rate

Explanation: A forward premium occurs when the forward exchange rate is higher than the spot exchange rate, indicating that the future delivery of currency is at a higher rate than the immediate delivery.

Guidance time: 1 minute

Difficulty level: Easy

38. Topic: Nominal and Real Exchange Rates

Question : What is the role of passive market players in the foreign exchange market?

- a) Set their own quotations and make trades at those quotations
- b) Actively influence the price formation process
- c) Execute trades at quotations offered by active market players
- d) Pursue speculative operations with currency

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Correct answer: c) Execute trades at quotations offered by active market players

Explanation: Passive market players cannot set their own quotations and make trades at quotations offered by active market players. They normally pursue various aims, such as payment of export-import contracts, foreign investments, tourism, hedging currency risks, etc.

Guidance time: 1 minute

Difficulty level: Medium

39. Topic: Nominal and Real Exchange Rates

Question : What does the dollar's critical role in the forex markets lead to?

- a) It is often called a 'vehicle currency'
- b) It is only used as the national currency of the United States
- c) It is excluded from foreign exchange transactions
- d) It is traded less frequently compared to other currencies

Correct answer: a) It is often called a 'vehicle currency'

Explanation: Due to its critical role in the forex markets, the dollar is often referred to as a 'vehicle currency', as it is widely used in foreign exchange transactions even when it is not the national currency of either the importer or the exporter.

Guidance time: 1 minute

Difficulty level: Easy

40. Topic: Determination of Nominal Exchange Rate

Question : What determines the external value of a country's currency in the foreign exchange market?

- a) Supply and demand for foreign exchange
- b) Government policies and regulations
- c) Foreign investments and trade balance
- d) Foreign interest rates and inflation rates

Correct answer: a) Supply and demand for foreign exchange

Explanation: The external value of a country's currency, or its exchange rate, is determined by the forces of supply and demand for foreign exchange in the domestic foreign exchange market.

Guidance time: 1 minute

Difficulty level: Easy

41. Topic: Determination of Nominal Exchange Rate

Question : What are the reasons for the demand of foreign currency in the foreign exchange market?

- a) To purchase goods and services from another country
- b) To make investment income payments abroad
- c) To speculate and hedge against risks
- d) All of the above

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Correct answer: d) All of the above

Explanation: Individuals, institutions, and governments demand foreign currency for various reasons, including purchasing goods and services from other countries, making investment income payments abroad, and engaging in speculation and hedging activities.

Guidance time: 1 minute

Difficulty level: Easy

42. Topic: Determination of Nominal Exchange Rate

Question : What does the equilibrium exchange rate represent?

- a) The rate at which a country's currency is pegged to another currency
- b) The rate at which all currencies are exchanged in the foreign exchange market
- c) The rate at which supply and demand for a particular foreign currency intersect
- d) The rate at which a country's trade balance is zero

Correct answer: c) The rate at which supply and demand for a particular foreign currency intersect

Explanation: The equilibrium exchange rate is the rate at which the supply and demand for a particular foreign currency intersect, determining the exchange rate in the foreign exchange market.

Guidance time: 1 minute

Difficulty level: Easy

43. Topic: Determination of Nominal Exchange Rate

Question : What does currency appreciation mean?

- a) The value of a currency increases with respect to another currency or a basket of other currencies
- b) The value of a currency decreases with respect to another currency or a basket of other currencies
- c) The exchange rate remains constant over time
- d) The exchange rate fluctuates widely

Correct answer: a) The value of a currency increases with respect to another currency or a basket of other currencies

Explanation: Currency appreciation refers to the movement of the exchange rate in which the value of a currency increases with respect to another currency or a basket of other currencies.

Guidance time: 1 minute

Difficulty level: Easy

44. Topic: Determination of Nominal Exchange Rate

Question : What does currency depreciation mean?

- a) The value of a currency increases with respect to another currency or a basket of other currencies
- b) The value of a currency decreases with respect to another currency or a basket of other currencies
- c) The exchange rate remains constant over time
- d) The exchange rate fluctuates widely

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Correct answer: b) The value of a currency decreases with respect to another currency or a basket of other currencies

Explanation: Currency depreciation refers to the movement of the exchange rate in which the value of a currency decreases with respect to another currency or a basket of other currencies.

Guidance time: 1 minute

Difficulty level: Easy

45. Topic: Determination of Nominal Exchange Rate

Question : What is the relationship between home-currency depreciation and foreign-currency appreciation?

- a) They are unrelated concepts
- b) They occur simultaneously when there is an increase in the home currency price of the foreign currency
- c) They occur simultaneously when there is a decrease in the home currency price of the foreign currency
- d) They occur independently in different markets

Correct answer: c) They occur simultaneously when there is a decrease in the home currency price of the foreign currency

Explanation: Home-currency depreciation (foreign-currency appreciation) occurs when there is a decrease in the home currency price of the foreign currency, and vice versa. These two concepts occur simultaneously.

Guidance time: 1 minute

Difficulty level: Easy

46. Topic: Determination of Nominal Exchange Rate

Question : What happens when there is an increase in the supply of foreign exchange in the foreign exchange market?

- a) The exchange rate increases, and the domestic currency appreciates
- b) The exchange rate decreases, and the domestic currency depreciates
- c) The exchange rate remains unchanged
- d) The exchange rate fluctuates widely

Correct answer: a) The exchange rate increases, and the domestic currency appreciates

Explanation: An increase in the supply of foreign exchange shifts the supply curve to the right, resulting in a decline in the exchange rate, which means the domestic currency appreciates.

Guidance time: 1 minute

Difficulty level: Easy

47. Topic: Determination of Nominal Exchange Rate

Question : What are exchange rates used for in an open economy?

- a) Translate foreign prices into domestic currency
- b) Compare prices of goods and services produced in different countries
- c) Express import or export prices in the same currency

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d) All of the above

Correct answer: d) All of the above

Explanation: In an open economy, exchange rates are used to translate foreign prices into domestic currency, compare prices of goods and services produced in different countries, and express import or export prices in the same currency.

Guidance time: 1 minute

Difficulty level: Easy

48. Topic: Determination of Nominal Exchange Rate

Question : How is currency depreciation represented in the foreign exchange market?

- a) Shift of the demand curve to the left
- b) Shift of the supply curve to the right
- c) Shift of the demand curve to the right
- d) Shift of the supply curve to the left

Correct answer: d) Shift of the supply curve to the left

Explanation: Currency depreciation is represented in the foreign exchange market by a shift of the supply curve to the left, leading to a decline in the exchange rate and a decrease in the value of the domestic currency.

Guidance time: 1 minute

Difficulty level: Medium

49. Topic: Determination of Nominal Exchange Rate

Question : What is the reason for the simultaneous occurrence of home-currency depreciation and foreign-currency appreciation?

- a) The behavior of market participants
- b) Government interventions in the foreign exchange market
- c) Economic policies of the countries involved
- d) The nature of exchange rate movements

Correct answer: d) The nature of exchange rate movements

Explanation: The simultaneous occurrence of home-currency depreciation and foreign-currency appreciation is a result of the nature of exchange rate movements, where changes in the home currency price of a foreign currency affect the value of both currencies.

Guidance time: 1 minute

Difficulty level: Medium

50. Topic: Determination of Nominal Exchange Rate

Question : What determines the external value of a country's currency in the foreign exchange market?

- a) Demand and supply of foreign exchange

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b) Interest rates set by the central bank

c) The inflation rate of the home country

d) The level of government debt

Correct answer: a) Demand and supply of foreign exchange

Explanation: The external value of a country's currency, or its exchange rate, is determined by the demand for and supply of foreign exchange in the domestic foreign exchange market.

Guidance time: 1 minute

Difficulty level: Easy

51. Topic: Determination of Nominal Exchange Rate

Question : What are the reasons for individuals, institutions, and governments to demand foreign currency in the foreign exchange market?

- a) To purchase goods and services from another country
- b) To speculate on currency movements
- c) To lower the value of their own currency
- d) To invest in the home country

Correct answer: a) To purchase goods and services from another country

Explanation: People demand foreign currency to buy goods and services from other countries, among other reasons.

Guidance time: 1 minute

Difficulty level: Easy

52. Topic: Determination of Nominal Exchange Rate

Question : What does the equilibrium exchange rate in the foreign exchange market represent?

- a) The rate at which currency can be exchanged without any transaction costs
- b) The rate at which demand for and supply of foreign currency are equal
- c) The rate set by the central bank to stabilize the economy
- d) The rate quoted by brokerage houses for currency trading

Correct answer: b) The rate at which demand for and supply of foreign currency are equal

Explanation: The equilibrium exchange rate is the rate at which the demand for and supply of a particular foreign currency are balanced in the foreign exchange market.

Guidance time: 1 minute

Difficulty level: Easy

53. Topic: Determination of Nominal Exchange Rate

Question : What do currency appreciation and depreciation indicate?

- a) Currency appreciation indicates an increase in the value of one currency with respect to another, while currency depreciation indicates a decrease in value.

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b) Currency appreciation indicates a decrease in the value of one currency with respect to another, while currency depreciation indicates an increase in value.

c) Currency appreciation indicates a decrease in the value of one currency, while currency depreciation indicates an increase in value.

d) Currency appreciation indicates an increase in the value of one currency, while currency depreciation indicates a decrease in value.

Correct answer: a) Currency appreciation indicates an increase in the value of one currency with respect to another, while currency depreciation indicates a decrease in value.

Explanation: Currency appreciation refers to an increase in the value of one currency with respect to another, while currency depreciation refers to a decrease in value.

Guidance time: 1 minute

Difficulty level: Easy

54. Topic: Determination of Nominal Exchange Rate

Question : In the example given, if the Rupee-dollar exchange rate changes from \$1 = ₹70 in January to \$1 = ₹75 in April, what does it indicate?

a) Appreciation of the Indian Rupee and depreciation of the US dollar

b) Appreciation of the US dollar and depreciation of the Indian Rupee

c) Depreciation of both the Indian Rupee and the US dollar

d) Appreciation of both the Indian Rupee and the US dollar

Correct answer: b) Appreciation of the US dollar and depreciation of the Indian Rupee

Explanation: The increase in the Rupee-dollar exchange rate from \$1 = ₹70 to \$1 = ₹75 indicates appreciation of the US dollar and depreciation of the Indian Rupee.

Guidance time: 1 minute

Difficulty level: Easy

55. Topic: Determination of Nominal Exchange Rate

Question : When does currency appreciation take place?

a) When there is an increase in the home currency price of the foreign currency

b) When there is an increase in the foreign currency price of the home currency

c) When there is a decrease in the home currency price of the foreign currency

d) When there is a decrease in the foreign currency price of the home currency

Correct answer: b) When there is an increase in the foreign currency price of the home currency

Explanation: Currency appreciation takes place when there is an increase in the foreign currency price of the home currency, making the home currency relatively more valuable.

Guidance time: 1 minute

Difficulty level: Easy

56. Topic: Determination of Nominal Exchange Rate

Question : How does an increase in the supply of foreign exchange affect the exchange rate?

a) It leads to an increase in the exchange rate, causing the domestic currency to appreciate.

b) It leads to a decrease in the exchange rate, causing the domestic currency to depreciate.

c) It has no effect on the exchange rate.

d) It leads to a decrease in the exchange rate, causing the domestic currency to appreciate.

Correct answer: a) It leads to an increase in the exchange rate, causing the domestic currency to appreciate.

Explanation: An increase in the supply of foreign exchange shifts the supply curve to the right, leading to a decline in the exchange rate, causing the domestic currency to appreciate.

Guidance time: 1 minute

Difficulty level: Easy

57. Topic: Determination of Nominal Exchange Rate

Question : How can exchange rate movements affect international trade flows?

a) Exchange rate movements have no impact on international trade flows.

b) Exchange rate movements can make imports cheaper and exports more expensive.

c) Exchange rate movements can make imports more expensive and exports cheaper.

d) Exchange rate movements only affect currency speculation.

Correct answer: b) Exchange rate movements can make imports cheaper and exports more expensive.

Explanation: Exchange rate movements can affect international trade flows by making imports cheaper and exports more expensive, which can influence the volume of imports and exports between countries.

Guidance time: 1 minute

Difficulty level: Easy

58. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : What is devaluation?

a) A decrease in a currency's value due to market forces

b) An increase in a currency's value due to market forces

c) A deliberate downward adjustment in the value of a country's currency by the government or central bank

d) An increase in a currency's value by the government or central bank

Correct answer: c) A deliberate downward adjustment in the value of a country's currency by the government or central bank

Explanation: Devaluation is a monetary policy tool used by countries with fixed or nearly fixed exchange rates. It involves a deliberate downward adjustment in the value of the country's currency.

Guidance time: 1 minute

Difficulty level: Easy

59. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : What is the opposite of devaluation?

a) Revaluation

b) Depreciation

c) Appreciation

d) Inflation

Correct answer: a) Revaluation

Explanation: Revaluation refers to a discrete official increase in the otherwise fixed par value of a nation's currency. It is the opposite of devaluation.

Guidance time: 1 minute

Difficulty level: Easy

60. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : What is depreciation?

a) A decrease in a currency's value due to market forces

b) An increase in a currency's value due to market forces

c) A deliberate downward adjustment in the value of a country's currency by the government or central bank

d) An increase in a currency's value by the government or central bank

Correct answer: a) A decrease in a currency's value due to market forces

Explanation: Depreciation is a decrease in a currency's value relative to other major currency benchmarks due to market forces under a floating exchange rate.

Guidance time: 1 minute

Difficulty level: Easy

61. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : What is appreciation?

a) A decrease in a currency's value due to market forces

b) An increase in a currency's value due to market forces

c) A deliberate downward adjustment in the value of a country's currency by the government or central bank

d) An increase in a currency's value by the government or central bank

Correct answer: b) An increase in a currency's value due to market forces

Explanation: Appreciation is an increase in a currency's value relative to other major currencies due to market forces under a floating exchange rate.

Guidance time: 1 minute

Difficulty level: Easy

62. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : How do fluctuations in the exchange rate affect a country's trade?

a) Fluctuations in the exchange rate have no impact on a country's trade.

b) Depreciation of the currency leads to an increase in imports and a decrease in exports.

c) Appreciation of the currency leads to an increase in imports and a decrease in exports.

d) Depreciation of the currency leads to an increase in exports and a decrease in imports.

Correct answer: d) Depreciation of the currency leads to an increase in exports and a decrease in imports.

Explanation: Depreciation of the currency makes exports cheaper and imports more expensive, leading to an increase in exports and a decrease in imports.

Guidance time: 1 minute

Difficulty level: Easy

63. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : How does an appreciation of the domestic currency affect economic activity?

a) It leads to an expansionary impact on the economy at an aggregate level.

b) It leads to a contractionary impact on the economy at an aggregate level.

c) It has no impact on economic activity.

d) It only affects domestic demand for imports.

Correct answer: b) It leads to a contractionary impact on the economy at an aggregate level.

Explanation: An appreciation of the domestic currency leads to higher export prices and lower import prices, which can have a contractionary impact on the economy by reducing aggregate demand.

Guidance time: 1 minute

Difficulty level: Easy

64. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : How does depreciation of the domestic currency affect inflation?

a) It increases inflation due to higher prices of imported consumer goods.

b) It decreases inflation due to lower prices of domestic goods.

c) It has no impact on inflation.

d) It leads to cost-push inflation due to increased cost of imported inputs.

Correct answer: a) It increases inflation due to higher prices of imported consumer goods.

Explanation: Depreciation of the domestic currency leads to higher prices of imported consumer goods, which can contribute to inflation.

Guidance time: 1 minute

Difficulty level: Easy

65. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : How does depreciation of the domestic currency impact companies with external commercial borrowings (ECBs)?

- a) It reduces their debt burden and increases their profits.
- b) It has no impact on companies with ECBs.
- c) It increases their debt burden and lowers their profits.
- d) It only affects companies with foreign direct investments.

Correct answer: c) It increases their debt burden and lowers their profits.

Explanation: Depreciation of the domestic currency increases the debt burden of companies with external commercial borrowings (ECBs) and lowers their profits.

Guidance time: 1 minute

Difficulty level: Easy

66. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : How does depreciation of the domestic currency impact foreign investors?

- a) It encourages foreign capital inflows into the country.
- b) It discourages foreign capital inflows into the country.
- c) It has no impact on foreign capital inflows.
- d) It only affects foreign direct investment flows.

Correct answer: b) It discourages foreign capital inflows into the country.

Explanation: Depreciation of the domestic currency makes foreign investors indecisive or cautious, leading to a decrease in foreign capital inflows.

Guidance time: 1 minute

Difficulty level: Easy

67. Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : What is the impact of appreciation on a country's exports?

- a) It makes exports cheaper and increases export quantity.
- b) It makes exports more expensive and decreases export quantity.
- c) It has no impact on a country's exports.
- d) It only affects the price of imported goods.

Correct answer: b) It makes exports more expensive and decreases export quantity.

Explanation: Appreciation of the currency raises the price of exports, leading to a decrease in the quantity of exports.

Guidance time: 1 minute

Difficulty level: Easy

68. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : What is the main difference between devaluation and depreciation of a country's currency?

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- a) Devaluation is a deliberate government policy action, while depreciation occurs due to market forces.
- b) Devaluation occurs under a floating exchange rate, while depreciation occurs under a fixed exchange rate.
- c) Devaluation is an increase in the value of a currency, while depreciation is a decrease in value.
- d) Devaluation affects the relative value of a currency against another, while depreciation affects the absolute value.

Correct answer: a) Devaluation is a deliberate government policy action, while depreciation occurs due to market forces.

Explanation: Devaluation is a deliberate downward adjustment in a country's currency value, often done by the government. Depreciation, on the other hand, is a decrease in a currency's value due to market forces under a floating exchange rate.

Guidance time: 1 minute

Difficulty level: Easy

69. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : Revaluation is the opposite of which of the following?

- a) Devaluation
- b) Depreciation
- c) Exchange rate fluctuation
- d) Appreciation

Correct answer: a) Devaluation

Explanation: Revaluation is the opposite of devaluation, and it refers to a discrete official increase in the otherwise fixed par value of a nation's currency.

Guidance time: 1 minute

Difficulty level: Easy

70. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : What determines the exchange rate in a country with a fixed exchange rate regime?

- a) Market forces of demand and supply
- b) Government policy actions
- c) Currency appreciation and depreciation
- d) Fluctuations in the international economy

Correct answer: b) Government policy actions

Explanation: In a country with a fixed exchange rate regime, the exchange rate is determined by deliberate government policy actions, such as devaluation or revaluation.

Guidance time: 1 minute

Difficulty level: Easy

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71. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : How does currency depreciation affect a country's exports and imports?

- a) It increases the price of exports and decreases the price of imports.
- b) It decreases the price of exports and increases the price of imports.
- c) It has no effect on the price of exports and imports.
- d) It has opposite effects on the price of exports and imports.

Correct answer: a) It increases the price of exports and decreases the price of imports.

Explanation: Currency depreciation makes exports more competitive, as their prices become relatively lower, while it makes imports more expensive, as their prices increase in domestic currency terms.

Guidance time: 1 minute

Difficulty level: Easy

72. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : How does currency appreciation impact an economy at an aggregate level?

- a) It leads to an expansionary effect on the economy.
- b) It leads to a contractionary effect on the economy.
- c) It has no impact on the economy.
- d) It causes fluctuations in economic growth.

Correct answer: b) It leads to a contractionary effect on the economy.

Explanation: Currency appreciation leads to higher export prices and lower import prices, which can reduce aggregate demand and potentially slow down economic growth.

Guidance time: 1 minute

Difficulty level: Easy

73. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : What is the likely impact of currency depreciation on inflation in the short run?

- a) It is likely to decrease inflation due to cheaper imports.
- b) It is likely to increase inflation due to higher import prices.
- c) It has no impact on inflation.
- d) It leads to deflation in the economy.

Correct answer: b) It is likely to increase inflation due to higher import prices.

Explanation: Currency depreciation can lead to higher inflation in the short run due to increased prices of imported goods and possible cost-push inflation.

Guidance time: 1 minute

Difficulty level: Easy

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74. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : What is the potential impact of currency appreciation on employment and wages?

- a) It is likely to lead to higher employment and wages in labor-intensive industries.
- b) It is likely to lead to lower employment and wages in labor-intensive industries.
- c) It has no impact on employment and wages.
- d) It causes fluctuations in employment and wages.

Correct answer: b) It is likely to lead to lower employment and wages in labor-intensive industries.

Explanation: Currency appreciation can make labor-intensive industries less competitive, potentially leading to lower employment and wages in those sectors.

Guidance time: 1 minute

Difficulty level: Easy

75. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : How does currency depreciation affect a country's current account balance?

- a) It is likely to improve the current account balance if demand for imports is relatively inelastic.
- b) It is likely to worsen the current account balance if demand for imports is relatively elastic.
- c) It has no impact on the current account balance.
- d) It causes fluctuations in the current account balance.

Correct answer: a) It is likely to improve the current account balance if demand for imports is relatively inelastic.

Explanation: If demand for imports and exports is relatively inelastic, currency depreciation can lead to an improvement in the current account balance.

Guidance time: 1 minute

Difficulty level: Easy

76. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Topic: Impact of Exchange Rate Fluctuations on Domestic Economy

Question : What is devaluation in the context of exchange rates?

- a) A decrease in the value of a country's currency due to market forces
- b) A deliberate downward adjustment in the value of a country's currency relative to another currency or standard
- c) An increase in the value of a country's currency due to market forces
- d) An increase in the value of a country's currency relative to another currency or standard

Correct answer: b) A deliberate downward adjustment in the value of a country's currency relative to another currency or standard

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Explanation: Devaluation is a monetary policy tool used by countries with a fixed or nearly fixed exchange rate regime. It involves a deliberate downward adjustment in the value of a country's currency relative to another currency or currency basket.

Guidance time: 1 minute

Difficulty level: Easy

77. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : What is the opposite of devaluation?

- a) Depreciation
- b) Appreciation
- c) Revaluation
- d) Floating exchange rate

Correct answer: c) Revaluation

Explanation: Revaluation is the opposite of devaluation. It refers to a discrete official increase in the otherwise fixed par value of a nation's currency.

Guidance time: 1 minute

Difficulty level: Easy

78. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : Which exchange rate regime is associated with devaluation and revaluation?

- a) Fixed exchange rate
- b) Floating exchange rate
- c) Managed exchange rate
- d) Pegged exchange rate

Correct answer: a) Fixed exchange rate

Explanation: Devaluation and revaluation are associated with a fixed exchange rate regime, where the government or central bank actively intervenes to maintain the exchange rate at a specific level.

Guidance time: 1 minute

Difficulty level: Easy

79. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : How does depreciation of a currency affect trade?

- a) It reduces the price of exports and increases the price of imports.
- b) It increases the price of exports and reduces the price of imports.
- c) It has no impact on the price of exports and imports.

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d) It increases the price of both exports and imports.

Correct answer: a) It reduces the price of exports and increases the price of imports.

Explanation: Depreciation of a currency lowers the relative price of a country's exports and makes imports more expensive, thus influencing trade volumes.

Guidance time: 1 minute

Difficulty level: Easy

80. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : What is the impact of currency appreciation on the domestic economy?

- a) It leads to an expansionary impact on the economy.
- b) It increases the price of exports and encourages economic activity.
- c) It reduces inflation and increases demand for domestic goods.
- d) It reduces the fiscal deficit and improves the current account balance.

Correct answer: b) It increases the price of exports and encourages economic activity.

Explanation: Currency appreciation raises the price of exports and encourages economic activity by diverting spending from foreign goods to domestic goods.

Guidance time: 1 minute

Difficulty level: Easy

81. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : How does depreciation of a domestic currency affect inflation?

- a) It increases inflation due to higher prices of imported goods.
- b) It decreases inflation due to lower prices of imported goods.
- c) It has no impact on inflation.
- d) It increases inflation due to higher prices of domestically-produced goods.

Correct answer: a) It increases inflation due to higher prices of imported goods.

Explanation: Depreciation of a domestic currency leads to higher prices of imported goods, which can contribute to consumer price inflation.

Guidance time: 1 minute

Difficulty level: Easy

82. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : What is the potential impact of depreciation on the fiscal health of a country?

- a) It reduces the fiscal deficit due to higher export earnings.
- b) It increases the fiscal deficit due to higher import payments.

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c) It has no impact on the fiscal health of the country.

d) It leads to a budget surplus due to increased government revenue.

Correct answer: b) It increases the fiscal deficit due to higher import payments.

Explanation: Depreciation can increase import payments, leading to a widening of the current account deficit and potentially impacting the fiscal health of a country.

Guidance time: 1 minute

Difficulty level: Easy

83. Topic: Devaluation (Revaluation) vs. Depreciation (Appreciation) and Impacts of Exchange Rate Fluctuations on Domestic Economy

Question : How does currency appreciation affect the competitiveness of domestic industry?

- a) It improves competitiveness as it makes domestic goods cheaper for foreign buyers.
- b) It reduces competitiveness as it makes domestic goods more expensive for foreign buyers.
- c) It has no impact on the competitiveness of domestic industry.
- d) It increases competitiveness due to lower production costs.

Correct answer: b) It reduces competitiveness as it makes domestic goods more expensive for foreign buyers.

Explanation: Currency appreciation makes domestic goods more expensive for foreign buyers, reducing the competitiveness of domestic industry in international markets.

Guidance time: 1 minute

Difficulty level: Easy

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UNIT - 5: INTERNATIONAL CAPITAL MOVEMENTS

1. Topic: Types of FDI

Question : A U.S. company purchased a 35% share in a German manufacturing firm for €500,000. If the exchange rate at the time of the purchase was \$1.2/€1, how much was the investment in dollars?

- a) \$600,000
- b) \$450,000
- c) \$650,000
- d) \$400,000

Correct answer: a) \$600,000

Explanation: The investment in dollars can be calculated by multiplying the investment in euros by the exchange rate. So, €500,000 * \$1.2/€1 = \$600,000.

Guidance time: 2 minutes

Difficulty level: Medium

2. Topic: Impact of FDI

Question : Which of the following is a potential benefit of FDI for the host country?

- a) Increased job opportunities
- b) Outflow of capital
- c) Depreciation of the local currency
- d) Increased dependence on foreign markets

Correct answer: a) Increased job opportunities

Explanation: FDI can help create jobs in the host country, which is a positive impact. Choices B, C, and D are potential downsides of FDI.

Guidance time: 1 minute

Difficulty level: Easy

3. Topic: FDI and Economic Growth

Question : How does FDI potentially contribute to economic growth in the host country?

- a) By reducing domestic investment

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b) By causing a brain drain

c) By introducing new technologies and skills

d) By increasing import dependency

Correct answer: c) By introducing new technologies and skills

Explanation: Foreign direct investment can bring new technologies and skills to the host country, potentially leading to increased productivity and economic growth. Other options are typically seen as potential negatives of FDI.

Guidance time: 1 minute

Difficulty level: Easy

4. Topic: FDI and Trade Balance

Question : What could be the impact of FDI on a country's trade balance?

a) No impact

b) Increase in exports leading to an improved trade balance

c) Increase in imports leading to a worsened trade balance

d) Both b and c are possible

Correct answer: d) Both b and c are possible

Explanation: FDI can impact a country's trade balance in different ways. It might lead to an increase in exports if the foreign investor produces goods for export, improving the trade balance. Alternatively, if the foreign investment is used to produce goods that replace imports, this could also improve the trade balance. However, if the FDI is used to produce for the domestic market and leads to increased imports of inputs, it could worsen the trade balance.

Guidance time: 2 minutes

Difficulty level: Medium

5. Topic: FDI and Exchange Rates

Question : A U.S. company invested €3 million in a French company. At the time of investment, the exchange rate was \$1.3/€1. After a year, the exchange rate changed to \$1.1/€1. What was the value of the investment in U.S. dollars after a year, assuming no changes in the Euro value of the investment?

a) \$3.3 million

b) \$3.9 million

c) \$4.5 million

d) \$3.6 million

Correct answer: b) \$3.9 million

Explanation: The value of the investment in U.S. dollars can be calculated by multiplying the investment in Euros by the exchange rate. So, €3 million * \$1.3/€1 = \$3.9 million.

Guidance time: 2 minutes

Difficulty level: Medium

6. Topic: FDI and Market Entry

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Question : Which of the following best describes a Greenfield investment?

a) Buying shares in an existing foreign company

b) Starting a completely new venture in a foreign country

c) Buying all the assets of a bankrupt company in a foreign country

d) Merging with an existing company in a foreign country

Correct answer: b) Starting a completely new venture in a foreign country

Explanation: A Greenfield investment refers to when a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Guidance time: 1 minute

Difficulty level: Medium

7. Topic: Impact of FDI

Question : Which of the following is a potential disadvantage of FDI for the host country?

a) Technology transfer

b) Creation of jobs

c) Exploitation of natural resources

d) Skill development

Correct answer: c) Exploitation of natural resources

Explanation: While FDI can bring benefits such as technology transfer and skill development, potential disadvantages can include the over-exploitation of natural resources, particularly in cases where the host country has weak regulatory oversight.

Guidance time: 1 minute

Difficulty level: Easy

10. Topic: Types of FDI

Question 1: A U.S. company opens a car manufacturing facility in Japan. This is an example of which type of foreign direct investment?

a) Horizontal FDI

b) Vertical FDI

c) Conglomerate FDI

d) Two-way FDI

Correct answer: a) Horizontal FDI

Explanation: In a horizontal FDI, the company conducts the same business operation in a foreign country as it does in its home country. Thus, a U.S. car manufacturer opening a car manufacturing facility in Japan is an example of horizontal FDI.

Guidance time: 1 minute

Difficulty level: Easy

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11. Topic: Differences between FDI and FPI

Question : Which investment type typically involves a stake below 10% in a firm?

a) Foreign Direct Investment (FDI)

b) Foreign Portfolio Investment (FPI)

c) Both FDI and FPI

d) Neither FDI nor FPI

Correct answer: b) Foreign Portfolio Investment (FPI)

Explanation: As per international standards, portfolio investments are characterized by lower stake in companies with their total stake in a firm at below 10 percent.

Guidance time: 1 minute

Difficulty level: Easy

12. Topic: Nature of FDI and FPI

Question : Which of the following is more likely to be speculative in nature?

a) Foreign Direct Investment (FDI)

b) Foreign Portfolio Investment (FPI)

c) Both FDI and FPI

d) Neither FDI nor FPI

Correct answer: b) Foreign Portfolio Investment (FPI)

Explanation: FPI, being short-term in nature, is more likely to be speculative. Investors often shift their capital with changes in the prospects of their investments.

Guidance time: 1 minute

Difficulty level: Easy

13. Topic: FDI in Various Industries

Question : What is a "two-way direct foreign investment"?

a) An investment where the investor and the enterprise are located in the same country

b) An investment where both countries have advanced industries

c) Reciprocal investments between countries

d) Investments in both physical and financial assets

Correct answer: c) Reciprocal investments between countries

Explanation: Two-way direct foreign investments are reciprocal investments between countries. For example, some industries may be more advanced in one nation, while other industries are more efficient in other nations.

Guidance time: 2 minutes

Difficulty level: Medium

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14. Topic: Types of FDI

Question : A company from the UK decides to invest in a shoe factory in India. The UK company itself is a textile manufacturer. This is an example of:

a) Horizontal FDI

b) Vertical FDI

c) Conglomerate FDI

d) Two-way FDI

Correct answer: b) Vertical FDI

Explanation: This is an example of vertical FDI. Vertical FDI is when a company establishes or acquires a business activity in a foreign country that is different from the investor's main business activity but somehow supplements its major activity.

Guidance time: 1 minute

Difficulty level: Medium

15. Topic: FDI Components

Question : Which of the following is not a component of FDI?

a) Equity capital

b) Reinvested earnings

c) Short-term loans

d) Intra-company loans between direct investors (parent enterprises) and affiliate enterprises

Correct answer: c) Short-term loans

Explanation: FDI typically comprises of equity capital, reinvested earnings and other direct capital, often in the form of intra-company loans between direct investors (parent enterprises) and affiliate enterprises. Short-term loans are generally not considered a part of FDI.

Guidance time: 1 minute

Difficulty level: Medium

16. Topic: Foreign Portfolio Investment (FPI)

Question : FPI is more concerned with:

a) Manufacture of goods

b) Provision of services

c) Earning a return through investment in foreign securities

d) Controlling or managing the affairs of the company in whose securities they invest

Correct answer: c) Earning a return through investment in foreign securities

Explanation: The primary aim of a foreign portfolio investor is to earn a remunerative return through investment in foreign securities. They are not concerned with the manufacturing of goods or provision of services and do not intend to exercise voting power or control over the company in whose securities they invest.

Guidance time: 1 minute

Difficulty level: Easy

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17. Topic: FDI and FPI

Question : Which type of investment often comes with technology transfer?

- a) Foreign Direct Investment (FDI)
- b) Foreign Portfolio Investment (FPI)
- c) Both FDI and FPI
- d) Neither FDI nor FPI

Correct answer: a) Foreign Direct Investment (FDI)

Explanation: FDI often comes with technology transfer as the investor not only brings in capital but also new technologies, processes and managerial practices.

Guidance time: 1 minute

Difficulty level: Easy

18. Topic: Differences between FDI and FPI

Question : Which investment type typically has a direct impact on employment of labor and wages?

- a) Foreign Direct Investment (FDI)
- b) Foreign Portfolio Investment (FPI)
- c) Both FDI and FPI
- d) Neither FDI nor FPI

Correct answer: a) Foreign Direct Investment (FDI)

Explanation: FDI often results in a direct impact on employment and wages as it involves creation of physical assets and facilities, increasing employment opportunities and wages in the host country.

Guidance time: 1 minute

Difficulty level: Medium

19. Topic: FDI and FPI

Question : Which type of investment involves creation of physical assets?

- a) Foreign Direct Investment (FDI)
- b) Foreign Portfolio Investment (FPI)
- c) Both FDI and FPI
- d) Neither FDI nor FPI

Correct answer: a) Foreign Direct Investment (FDI)

Explanation: Foreign Direct Investment (FDI) involves creation of physical assets as it involves establishing factories, assets, land, inventories etc. in the host country.

Guidance time: 1 minute

Difficulty level: Easy

20. Topic: Types of FDI

Question 1: When an investor establishes the same type of business operation in a foreign country as it operates in its home country, it is called:

- a) Horizontal direct investment
- b) Vertical direct investment
- c) Conglomerate direct investment
- d) None of the above

Correct answer: a) Horizontal direct investment

Explanation: A horizontal direct investment occurs when the investor establishes the same type of business operation in a foreign country as it operates in its home country.

Guidance time: 1 minute

Difficulty level: Medium

1. Topic: Types of FDI

Question 2: When an investor makes a foreign investment in a business that is unrelated to its existing business in its home country, it is called:

- a) Horizontal direct investment
- b) Vertical direct investment
- c) Conglomerate direct investment
- d) None of the above

Correct answer: c) Conglomerate direct investment

Explanation: A conglomerate type of foreign direct investment is one where an investor makes a foreign investment in a business that is unrelated to its existing business in its home country.

Guidance time: 1 minute

Difficulty level: Medium

2. Topic: Two-way Direct Foreign Investments

Question : What does two-way direct foreign investment refer to?

- a) When some industries are more advanced in one nation, while other industries are more efficient in other nations
- b) When a company invests in both physical and financial assets
- c) When a company invests in both its home country and a foreign country
- d) When a company invests in two different industries

Correct answer: a) When some industries are more advanced in one nation, while other industries are more efficient in other nations

Explanation: Two-way direct foreign investments occur when some industries are more advanced in one nation, while other industries are more efficient in other nations.

Guidance time: 1-2 minutes

Difficulty level: Medium

3. Topic: Foreign Portfolio Investment (FPI)

Question : Why is FPI often considered speculative?

- a) Because portfolio investors may often shift their capital with changes in prospects
- b) Because portfolio investors often exercise voting power
- c) Because portfolio investors often establish physical assets
- d) None of the above

Correct answer: a) Because portfolio investors may often shift their capital with changes in prospects

Explanation: Portfolio investments are often considered speculative as portfolio investors may often shift their capital with changes in prospects, sometimes leading to a financial crisis for the host country.

Guidance time: 1-2 minutes

Difficulty level: Medium

4. Topic: FDI and FPI

Question : Which type of investment is more easily withdrawn?

- a) Foreign Direct Investment (FDI)
- b) Foreign Portfolio Investment (FPI)
- c) Both are equally easy to withdraw
- d) Neither can be easily withdrawn

Correct answer: b) Foreign Portfolio Investment (FPI)

Explanation: Foreign Portfolio Investment (FPI) is typically easier to withdraw as it involves investment in financial assets rather than physical assets, and is generally of short term nature.

Guidance time: 1 minute

Difficulty level: Easy

5. Topic: FDI and FPI

Question : Which type of investment is typically speculative in nature?

- a) Foreign Direct Investment (FDI)
- b) Foreign Portfolio Investment (FPI)
- c) Both FDI and FPI
- d) Neither FDI nor FPI

Correct answer: b) Foreign Portfolio Investment (FPI)

Explanation: FPI is typically speculative in nature as portfolio investors will evaluate, on a separate basis, the prospects of each independent unit in which they might invest and may often shift their capital with changes in these prospects.

Guidance time: 1 minute

Difficulty level: Medium

6. Topic: FDI and FPI

Question : Which type of investment is typically characterized by a lower stake in companies with their total stake in a firm at below 10 percent?

- a) Foreign Direct Investment (FDI)
- b) Foreign Portfolio Investment (FPI)
- c) Both FDI and FPI
- d) Neither FDI nor FPI

Correct answer: b) Foreign Portfolio Investment (FPI)

Explanation: FPI is typically characterized by a lower stake in companies with their total stake in a firm at below 10 percent. FPI does not aim to control or manage the company, but to earn a return on investment.

Guidance time: 1 minute

Difficulty level: Medium

7. Topic: FDI and FPI

Question : Which type of investment is often accompanied by technology transfer?

- a) Foreign Direct Investment (FDI)
- b) Foreign Portfolio Investment (FPI)
- c) Both FDI and FPI
- d) Neither FDI nor FPI

Correct answer: a) Foreign Direct Investment (FDI)

Explanation: FDI is often accompanied by technology transfer as the investor not only brings in capital but also new technologies, processes and managerial practices.

Guidance time: 1 minute

Difficulty level: Easy

8. Topic: FDI and FPI

Question : Which type of investment typically has an enduring interest in management and control?

- a) Foreign Direct Investment (FDI)
- b) Foreign Portfolio Investment (FPI)
- c) Both FDI and FPI
- d) Neither FDI nor FPI

Correct answer: a) Foreign Direct Investment (FDI)

Explanation: FDI typically has an enduring interest in management and control as it often implies a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise.

Guidance time: 1 minute

Difficulty level: Medium

9. Topic: Types of FDI

Question : When a car manufacturing company acquires an interest in a foreign company that supplies parts or raw materials required for the company, it is an example of:

- a) Horizontal direct investment
- b) Vertical direct investment
- c) Conglomerate direct investment
- d) None of the above

Correct answer: b) Vertical direct investment

Explanation: A vertical investment is one under which the investor establishes or acquires a business activity in a foreign country which is different from the investor's main business activity yet in some way supplements its major activity.

Guidance time: 1 minute

Difficulty level: Medium

30. Topic: Reasons for Foreign Direct Investment

Question : What might encourage a company to perform a defensive investment?

- a) The company wishes to preserve its competitive position.
- b) The company wants to diversify its investment portfolio.
- c) The company aims to enter a new market.
- d) The company seeks to reduce costs by utilizing cheaper labor.

Correct answer: a) The company wishes to preserve its competitive position.

Explanation: Defensive investments are typically made to preserve a company's competitive position, for instance, in response to moves made by a competitor.

Guidance time: 1 minute

Difficulty level: Medium

31. Topic: Determinants of Foreign Direct Investment

Question : What determinant of FDI might lead a company to invest in a country with low-cost unskilled labor?

- a) Market-seeking FDI
- b) Policy Framework
- c) Resource- or asset-seeking FDI
- d) Efficiency-seeking FDI

Correct answer: c) Resource- or asset-seeking FDI

Explanation: Resource- or asset-seeking FDI is when a company invests in a foreign country to gain access to specific resources that are more abundant or cost-effective in the host country, such as low-cost unskilled labor.

Guidance time: 1 minute

Difficulty level: Medium

32. Topic: Foreign Direct Investment and Tax Policies

Question : Which of the following statements is true about the relationship between FDI and tax policies?

- a) High tax burden can compensate for a generally fragile and unattractive FDI environment.
- b) Low tax burden cannot compensate for a generally fragile and unattractive FDI environment.
- c) Tax policies have no impact on FDI.
- d) High tax burden always attracts more FDI.

Correct answer: b) Low tax burden cannot compensate for a generally fragile and unattractive FDI environment.

Explanation: Although a low tax burden might seem appealing to foreign investors, it cannot make up for a generally fragile and unattractive FDI environment which might be characterized by political instability, inadequate infrastructure, or other negative factors.

Guidance time: 1 minute

Difficulty level: Medium

33. Topic: Host Country Determinants of FDI

Question : Which of the following is not a host country determinant of FDI?

- a) Market size and per capita income
- b) Political instability in the home country
- c) Access to raw materials
- d) Availability of skilled labor

Correct answer: b) Political instability in the home country

Explanation: Host country determinants of FDI are factors within the potential host country that might attract investment. Political instability in the home country is not a host country determinant.

Guidance time: 1 minute

Difficulty level: Easy

34. Topic: Foreign Direct Investment and Market Entry

Question : Which of the following can be a reason for a company to invest in a foreign country rather than exporting to it?

- a) The host country has established high customs duties or non-tariff barriers.
- b) The home country has a large domestic market.
- c) The host country has low labor costs.
- d) The home country has strict environmental regulations.

Correct answer: a) The host country has established high customs duties or non-tariff barriers.

Explanation: High customs duties or non-tariff barriers in the host country can make it difficult for foreign firms to sell in the host-country market by exporting. Therefore, investing in the foreign country can be a strategy for 'getting behind the tariff wall.'

Guidance time: 1 minute

Difficulty level: Medium

35. Topic: FDI and Host Country Development

Question : How can FDI contribute to the development of the host country?

- a) By investing in the host country, the foreign company may help to alleviate poverty.
- b) Foreign companies are likely to contribute to higher inflation rates.
- c) FDI increases the burden on the host country's infrastructure.
- d) FDI is likely to increase the unemployment rate in the host country.

Correct answer: a) By investing in the host country, the foreign company may help to alleviate poverty.

Explanation: Foreign Direct Investment can lead to job creation, technology transfer, and the improvement of infrastructure, which can contribute to the alleviation of poverty in the host country.

Guidance time: 1 minute

Difficulty level: Easy

36. Topic: Foreign Direct Investment and Trade Relations

Question : How can FDI contribute to the interdependence of national economies?

- a) By establishing international industrial cooperation
- b) By contributing to the isolation of national economies
- c) By leading to an imbalance of trade relations
- d) By increasing the host country's dependency on foreign goods

Correct answer: a) By establishing international industrial cooperation

Explanation: FDI often involves the establishment of international industrial cooperation, like joint ventures or partnerships, which can contribute to the increasing interdependence of national economies.

Guidance time: 1 minute

Difficulty level: Medium

37. Topic: Control over Strategic Resources

Question : A company's strategy to obtain control of strategic raw materials through FDI is a form of what?

- a) Horizontal integration
- b) Vertical integration
- c) Conglomerate diversification
- d) Market penetration

Correct answer: b) Vertical integration

Explanation: Vertical integration is a strategy where a company expands its operations into different stages of production within the same industry. If a company aims to control the supply of raw materials by investing in a foreign country, this is an example of vertical integration.

Guidance time: 1 minute

Difficulty level: Medium

38. Topic: Negative Factors for FDI

Question : What is a factor that might discourage FDI in a host country?

- a) Large market size and potential for growth
- b) High rates of industrial disputes
- c) Access to raw material deposits
- d) Low labor costs

Correct answer: b) High rates of industrial disputes

Explanation: High rates of industrial disputes, such as strikes or other labor unrest, can be a negative factor for FDI, as it can lead to instability and unpredictability in the business environment.

Guidance time: 1 minute

Difficulty level: Medium

39. Topic: FDI and Market Size

Question : Why might a foreign company be interested in investing in a country with a large and rapidly growing population?

- a) The company is interested in philanthropic activities.
- b) The company wants to utilize the country's natural resources.
- c) The company sees a potential market for its products or services.
- d) The company wants to outsource its production.

Correct answer: c) The company sees a potential market for its products or services.

Explanation: A large and rapidly growing population can represent a substantial market for a company's products or services. By investing in such a country, the company can better access this market.

Guidance time: 1 minute

Difficulty level: Easy

40. Topic: FDI and Environmental Standards

Question 1: How might lower environmental standards in a host country influence FDI?

- a) They can increase the cost of FDI.
- b) They can attract FDI because of the potential cost savings.
- c) They can discourage FDI because of the potential reputational risk.
- d) They have no influence on FDI.

Correct answer: b) They can attract FDI because of the potential cost savings.

Explanation: Lower environmental standards in a host country might attract FDI because they can potentially reduce the cost of operations, such as waste disposal or pollution control.

Guidance time: 1 minute

Difficulty level: Medium

41. Topic: Influence of Political Stability on FDI

Question : How does political stability in a host country influence FDI?

- a) It has no effect on FDI.
- b) It decreases the risk associated with FDI.
- c) It increases the cost of FDI.
- d) It restricts FDI.

Correct answer: b) It decreases the risk associated with FDI.

Explanation: Political stability in a host country decreases the risk associated with FDI by providing a stable and predictable environment for foreign investors.

Guidance time: 1 minute

Difficulty level: Easy

42. Topic: FDI and Labor Abundance

Question : Why might a company invest in a country with a labor abundance and low wages?

- a) The company seeks to improve labor conditions in the host country.
- b) The company seeks to increase its labor costs.
- c) The company seeks to reduce its production costs.
- d) The company seeks to reduce its market reach.

Correct answer: c) The company seeks to reduce its production costs.

Explanation: By investing in a country with a labor abundance and low wages, a company might significantly reduce its production costs, especially if the production process is labor-intensive.

Guidance time: 1 minute

Difficulty level: Easy

43. Topic: FDI and Economic Efficiency

Question : How might lower levels of economic efficiency in the host country influence FDI?

- a) They can attract FDI because of the potential for high profits.
- b) They can discourage FDI because they might indicate instability or a lack of development.
- c) They can increase the cost of FDI.
- d) They have no influence on FDI.

Correct answer: b) They can discourage FDI because they might indicate instability or a lack of development.

Explanation: Lower levels of economic efficiency might discourage FDI because they might indicate other issues such as instability or a lack of development, which could make investments riskier.

Guidance time: 1 minute

Difficulty level: Medium

44. Topic: FDI and High GDP

Question : Why might a high GDP and a high per capita income in the host country attract FDI?

- a) The high GDP indicates a high level of poverty, which could lead to lower labor costs.
- b) The high per capita income suggests a higher standard of living, which could indicate a larger consumer market.
- c) The high GDP means that the country has a high level of debt, which could discourage other investors.
- d) The high per capita income indicates a high level of corruption, which could make business operations easier.

Correct answer: b) The high per capita income suggests a higher standard of living, which could indicate a larger consumer market.

Explanation: A high GDP and a high per capita income in the host country suggest a higher standard of living, which could indicate a larger consumer market for the products or services of the foreign company. Thus, these factors could attract FDI.

Guidance time: 1 minute

Difficulty level: Medium

45. Topic: FDI and Tariff Barriers

Question : Why might a company engage in FDI to enter markets with high customs duties or non-tariff barriers?

- a) The company wants to increase its cost of operation.
- b) The company wants to avoid these barriers by 'getting behind the tariff wall'.
- c) The company wants to export more of its products from its home country.
- d) The company wants to limit its market reach.

Correct answer: b) The company wants to avoid these barriers by 'getting behind the tariff wall'.

Explanation: By establishing a subsidiary or affiliate in the country with high customs duties or non-tariff barriers, a company can produce its products locally, thus avoiding these barriers and effectively 'getting behind the tariff wall'.

Guidance time: 1 minute

Difficulty level: Medium

45. Topic: FDI and Host Country Tax Policies

Question : How can the tax policies of a host country influence FDI?

- a) Tax policies have no influence on FDI.
- b) High taxes can attract FDI due to the promise of higher government services.
- c) Low taxes can attract FDI due to the potential for higher profits.
- d) Tax policies can only influence domestic investments, not FDI.

Correct answer: c) Low taxes can attract FDI due to the potential for higher profits.

Explanation: Lower taxes can attract FDI due to the potential for higher profits, although a low tax burden cannot compensate for a generally fragile and unattractive FDI environment. Thus, tax policies are among the factors that foreign investors might consider when deciding where to invest.

Guidance time: 1 minute

Difficulty level: Medium

46. Topic: Defensive Investments and FDI

Question : What is the main purpose of a defensive investment in the context of FDI?

- a) To generate profits
- b) To preserve the firm's competitive position
- c) To avoid taxes
- d) To expand into new markets

Correct answer: b) To preserve the firm's competitive position

Explanation: A defensive investment is made with the primary aim of preserving the firm's competitive position, such as investing in a foreign country to prevent a competitor from gaining an advantage.

Guidance time: 1 minute

Difficulty level: Medium

47. Topic: FDI and Social Amenities in Host Country

Question : How can the standard of social amenities in the host country influence FDI?

- a) High standards can discourage FDI due to the associated high costs.
- b) High standards can attract FDI as they may indicate a good quality of life, which can be attractive to expatriates.
- c) Social amenities have no influence on FDI.
- d) Low standards can attract FDI due to the associated low costs.

Correct answer: b) High standards can attract FDI as they may indicate a good quality of life, which can be attractive to expatriates.

Explanation: High standards of social amenities in the host country can be attractive to foreign companies and their expatriate employees, thus potentially attracting more FDI.

Guidance time: 1 minute

Difficulty level: Medium

48. Topic: Host Country Determinants of FDI

Question : Which of the following is not a host country determinant of FDI according to the given table?

- a) Raw materials
- b) Host country's military power
- c) Market size and per capita income
- d) Physical infrastructure

Correct answer: b) Host country's military power

Explanation: According to the given table, raw materials, market size and per capita income, and physical infrastructure are all host country determinants of FDI. The host country's military power is not listed as a determinant.

Guidance time: 1 minute

Difficulty level: Easy

49. Topic: Forms of Foreign Direct Investment (FDI)

Question: What does the term 'Greenfield Investment' refer to?

- a) Buying shares in an existing foreign company.
- b) Establishing a new overseas affiliate for starting production.
- c) Acquiring a controlling interest in an existing foreign company.
- d) Merging with a foreign company.

Correct answer: b) Establishing a new overseas affiliate for starting production.

Explanation: A Greenfield Investment is a type of foreign direct investment where a parent company creates a new operation in a foreign country from the ground up.

Guidance time: 1 minute

Difficulty level: Medium

50. Topic: Benefits of FDI

Question: Which of the following is NOT a potential benefit of FDI?

- a) Increased domestic competition.
- b) Higher wages for skilled jobs.
- c) Strain on host country's balance of payments.
- d) Enhanced total output/GDP.

Correct answer: c) Strain on host country's balance of payments.

Explanation: Strain on the host country's balance of payments is a potential downside of FDI, not a benefit. This can happen when imported inputs need to be obtained or when profits are repatriated.

Guidance time: 1.5 minutes

Difficulty level: Medium

51. Topic: Problems associated with FDI

Question: Which of the following is a common criticism of FDI?

- a) It increases domestic competition.
- b) It provides better access to foreign markets.
- c) It accentuates regional disparity.
- d) It generates direct employment.

Correct answer: c) It accentuates regional disparity.

Explanation: One of the criticisms of FDI is that it tends to move towards regions or states which are well endowed in terms of natural resources and availability of infrastructure, potentially accentuating regional disparity.

Guidance time: 2 minutes

Difficulty level: Medium

52. Topic: Modes of FDI

Question: Which of the following is not a mode of FDI?

- a) Brownfield investment
- b) Public Private Partnership (PPP)
- c) Joint venture with a foreign company
- d) Equity injection into an overseas company

Correct answer: b) Public Private Partnership (PPP)

Explanation: Public Private Partnership (PPP) is a cooperative arrangement between the public and private sectors but is not specifically a mode of Foreign Direct Investment (FDI).

Guidance time: 1 minute

Difficulty Level: Medium

53. Topic: Concepts of FDI

Question: In the context of FDI, what does the term 'crowding-out effect' refer to?

- a) The displacement of domestic investments by foreign ones.
- b) The elimination of domestic competition.
- c) The creation of new job opportunities in the host country.
- d) The growth of the foreign sector at the expense of the domestic one.

Correct answer: a) The displacement of domestic investments by foreign ones.

Explanation: The 'crowding-out effect' refers to a situation where public sector spending replaces or drives down private sector spending.

Guidance time: 2 minutes

Difficulty Level: Hard

54. Topic: Basics of FDI

Question: What is a Greenfield Investment?

- a) Investment in an established company
- b) Building new operational facilities from the ground up
- c) Investment in the stock market
- d) Merger with an existing company

Correct answer: b) Building new operational facilities from the ground up

Explanation: A greenfield investment refers to a foreign company investing in a new, previously undeveloped entity, including building new operational facilities from the ground up.

Guidance time: 1 min

Difficulty Level: Easy

55. Topic: Modes of FDI

Question: Which of the following is not a form of FDI?

- a) Acquiring a controlling interest in an existing foreign company
- b) Injecting equity into an overseas company
- c) Buying stocks of a foreign company
- d) Opening a subsidiary in a foreign country

Correct answer: c) Buying stocks of a foreign company

Explanation: Buying stocks of a foreign company falls under the category of portfolio investment, not FDI. FDI involves gaining a significant level of influence and control in the foreign business.

Guidance time: 1 min

Difficulty Level: Easy

56. Topic: Impact of FDI

Question: What is a potential benefit of FDI for a host country?

- a) Increased competition in the domestic market
- b) Dependence on international investors
- c) Potential for economic exploitation
- d) Negative environmental impacts

Correct answer: a) Increased competition in the domestic market

Explanation: FDI can stimulate competition in the host country's domestic market, which can lead to innovation, efficiency, and improved products and services.

Guidance time: 1 min

Difficulty Level: Easy

57. Topic: Benefits of FDI

Question: How does FDI potentially influence wages in the host country?

- a) It leads to a decrease in wages for all workers
- b) It promotes relatively higher wages for skilled jobs
- c) It has no influence on wages
- d) It ensures equal wages for all workers

Correct answer: b) It promotes relatively higher wages for skilled jobs

Explanation: Foreign direct investment often promotes relatively higher wages for skilled jobs, which can have a positive impact on the host country's economy.

Guidance time: 1 min

Difficulty Level: Easy

58. Topic: Problems associated with FDI

Question: Which of the following could be a potential problem associated with FDI?

- a) Crowding out of domestic investment
- b) Increased availability of jobs
- c) Increased competition
- d) Technology transfer to host country

Correct answer: a) Crowding out of domestic investment

Explanation: FDI can sometimes lead to a "crowding out" effect, where foreign investors outcompete domestic firms for resources, leading to a reduction in domestic investment.

Guidance time: 1 min

Difficulty Level: Moderate

59. Topic: FDI and Economic Development

Question: How might FDI contribute to the economic development of the host country?

- a) By increasing the total output or GDP
- b) By causing an outflow of capital
- c) By restricting competition in the domestic market
- d) By concentrating on capital-intensive methods of production and service

Correct answer: a) By increasing the total output or GDP

Explanation: FDI can stimulate economic development in the host country by increasing the total output or GDP. This can occur through increased capital investment, technology transfer, job creation, and enhancement of managerial skills.

Guidance time: 1 min

Difficulty Level: Easy

60. Topic: FDI and Technology Transfer

Question: What is the relationship between FDI and technology transfer?

- a) FDI restricts the transfer of technology
- b) FDI can facilitate the transfer of technology to the host country
- c) There is no relationship between FDI and technology transfer
- d) FDI facilitates the transfer of technology from the host country to the home country

Correct answer: b) FDI can facilitate the transfer of technology to the host country

Explanation: One of the benefits of FDI is the potential for technology transfer from the investing company to the host country. This can result in increased productivity and economic growth in the host country.

Guidance time: 1 min

Difficulty Level: Easy

61. Topic: FDI and Labor Standards

Question: How might FDI potentially affect labor standards in the host country?

- a) It increases labor standards
- b) It has no effect on labor standards
- c) It can contribute to the continuance of lower labor standards
- d) It ensures equal labor standards in all countries

Correct answer: c) It can contribute to the continuance of lower labor standards

Explanation: While FDI can lead to job creation, it can also contribute to the continuance of lower labor standards in the host country, especially if the foreign enterprise is seeking to maximize profit by taking advantage of these standards.

Guidance time: 1 min

Difficulty Level: Moderate

62. Topic: FDI and Domestic Savings

Question: How might FDI affect efforts to generate domestic savings in the host country?

- a) It increases domestic savings
- b) It has no effect on domestic savings
- c) It can cause domestic governments to slow down efforts to generate domestic savings
- d) It ensures an equal level of savings in all countries

Correct answer: c) It can cause domestic governments to slow down efforts to generate domestic savings

Explanation: When a country is receiving significant foreign investment, there might be less urgency or perceived need to generate domestic savings. This can slow down efforts to increase savings at the domestic level.

Guidance time: 1 min

Difficulty Level: Moderate

63. Topic: FDI and Market Distortions

Question: How might FDI potentially contribute to market distortions in the host country?

- a) By promoting free competition
- b) By maintaining market equilibrium
- c) By inducing market distortions through practices like aggressive advertising and anticompetitive practices
- d) It does not contribute to market distortions

Correct answer: c) By inducing market distortions through practices like aggressive advertising and anticompetitive practices

Explanation: Foreign entities can sometimes resort to aggressive advertising and anticompetitive practices, which could potentially distort the market in the host country.

Guidance time: 1 min

Difficulty Level: Moderate

64. Topic: FDI and Employment

Question: Which of the following is not a way FDI can impact employment?

- a) Creating direct employment opportunities
- b) Generating indirect employment through backward and forward linkages
- c) Guaranteeing job security for all workers
- d) Creating opportunities for training and development

Correct answer: c) Guaranteeing job security for all workers

Explanation: FDI doesn't necessarily guarantee job security for all workers. The extent to which FDI contributes to employment and job security depends on a variety of factors including the nature of the investment, the industry, and the economic conditions of the host country.

Guidance time: 1 min

Difficulty Level: Moderate

65. Topic: FDI and Economic Integration

Question: How can FDI contribute to economic integration?

- a) By restricting trade between countries
- b) By promoting trade and investment links between countries
- c) By creating barriers to market entry
- d) By promoting self-sufficiency and reducing dependence on foreign trade

Correct answer: b) By promoting trade and investment links between countries

Explanation: FDI can promote economic integration by creating stronger trade and investment links between countries, as firms that invest overseas often also import from and export to the host country.

Guidance time: 1 min

Difficulty Level: Moderate

66. Topic: Types of FDI

Question: What is Horizontal FDI?

- a) Investment made to merge with or acquire an existing firm in the host country
- b) Investment made to start a similar business operation in a foreign country
- c) Investment made to start a completely new type of business in a foreign country
- d) Investment made to control the supply chain in a foreign country

Correct answer: b) Investment made to start a similar business operation in a foreign country

Explanation: Horizontal FDI refers to a company setting up a similar business operation in a foreign country, typically to access new markets or avoid trade barriers.

Guidance time: 1 min

Difficulty Level: Moderate

67. Topic: Forms of FDI

Question: What is a Brownfield investment?

- a) Investment in a new start-up
- b) Building new operational facilities from the ground up
- c) Investment in existing infrastructure in a foreign country
- d) Merger with an existing company

Correct answer: c) Investment in existing infrastructure in a foreign country

Explanation: A Brownfield investment refers to an investment made in existing infrastructure, rather than building new facilities from scratch.

Guidance time: 1 min

Difficulty Level: Moderate

68. Topic: FDI and Host Country Development

Question: Which of the following is a way that FDI can contribute to the development of a host country?

- a) It can increase the country's dependence on foreign capital
- b) It can lead to the outflow of profits
- c) It can contribute to the development of human capital and skills in the host country
- d) It can cause crowding out of local enterprises

Correct answer: c) It can contribute to the development of human capital and skills in the host country

Explanation: FDI can lead to the development of human capital in the host country, as it often involves the transfer of knowledge and skills, and can provide training opportunities for local employees.

Guidance time: 1 min

Difficulty Level: Easy

69. Topic: FDI and Environmental Impact

Question: Which of the following is a potential environmental impact of FDI?

- a) It can lead to increased pollution and degradation of natural resources
- b) It has no impact on the environment
- c) It always leads to improvements in environmental standards
- d) It results in equal environmental impacts in all countries

Correct answer: a) It can lead to increased pollution and degradation of natural resources

Explanation: FDI, particularly in industries like mining, manufacturing, and energy, can potentially have negative environmental impacts, including increased pollution and degradation of natural resources.

Guidance time: 1 min

Difficulty Level: Moderate

70. Topic: FDI and Trade Balance

Question: Which of the following can be a possible impact of FDI on a host country's trade balance?

- a) It can lead to a decrease in exports

- b) It can lead to an increase in imports
- c) It can improve the trade balance by increasing exports and/or decreasing imports
- d) It has no impact on the trade balance

Correct answer: c) It can improve the trade balance by increasing exports and/or decreasing imports

Explanation: FDI can potentially improve a host country's trade balance by increasing the country's exports (if the FDI is aimed at producing goods for export) and/or decreasing imports (if the FDI substitutes goods that would have been imported).

Guidance time: 1 min

Difficulty Level: Moderate

71. Topic: FDI and Income Inequality

Question: Which of the following statements is true about the potential impact of FDI on income inequality in the host country?

- a) FDI always leads to a reduction in income inequality
- b) FDI has no impact on income inequality
- c) FDI can potentially exacerbate income inequality in the host country
- d) FDI ensures equal income distribution in all countries

Correct answer: c) FDI can potentially exacerbate income inequality in the host country

Explanation: While FDI can bring benefits like job creation and economic growth, it can also potentially exacerbate income inequality in the host country. This could happen if the benefits of the FDI are not evenly distributed, or if the FDI leads to job losses in certain sectors.

Guidance time: 1 min

Difficulty Level: Moderate

72. Topic: FDI and Economic Stability

Question: How can FDI potentially impact the economic stability of the host country?

- a) It always leads to economic stability
- b) It can potentially lead to economic instability if the FDI is volatile
- c) It has no impact on economic stability
- d) It always leads to economic instability

Correct answer: b) It can potentially lead to economic instability if the FDI is volatile

Explanation: While FDI can contribute to economic growth and development, if it is volatile (for example, if it is easily reversed or subject to sudden fluctuations), it can potentially lead to economic instability.

Guidance time: 1 min

Difficulty Level: Moderate

73. Topic: FDI and Infrastructure Development

Question: How can FDI potentially impact infrastructure development in the host country?

- a) It can contribute to infrastructure development by providing necessary capital and expertise
- b) It has no impact on infrastructure development
- c) It always leads to a degradation of infrastructure
- d) It ensures equal infrastructure development in all countries

Correct answer: a) It can contribute to infrastructure development by providing necessary capital and expertise

Explanation: FDI can potentially contribute to the development of infrastructure in the host country, as foreign investors often bring with them not only capital, but also expertise and technology that can enhance infrastructure development.

Guidance time: 1 min

Difficulty Level: Easy

74. Topic: FDI Trends in India

Question: According to the World Investment Report 2022, what was India's rank among the world's major FDI recipients in 2020?

- a) Seventh
- b) Eighth
- c) Ninth
- d) Tenth

Correct answer: b) Eighth

Explanation: According to the World Investment Report 2022, India was ranked eighth among the world's major FDI recipients in 2020.

Guidance time: 1 min

Difficulty Level: Easy

75. Topic: Major Sectors Receiving FDI in India

Question: Which of the following sectors was a major recipient of FDI in India in FY22?

- a) Agriculture
- b) Real estate
- c) Information and technology
- d) Retail

Correct answer: c) Information and technology

Explanation: As per the provided text, information and technology, telecommunication, and automobile were the major receivers of FDI in India in FY22.

Guidance time: 1 min

Difficulty Level: Easy

76. Topic: Overseas Direct Investment by Indian Companies

Question: According to data from RBI, what was the overseas direct investment by Indian companies in September 2022?

- a) US\$ 1,922.51 million
- b) US\$ 2,922.51 million
- c) US\$ 3,922.51 million
- d) US\$ 4,922.51 million

Correct answer: a) US\$ 1,922.51 million

Explanation: As per the provided data from the Reserve Bank of India (RBI), overseas direct investment stood at US\$ 1,922.51 million in September 2022.

Guidance time: 1 min

Difficulty Level: Moderate

77. Topic: Investments by Indian Companies Abroad

Question: How much did Tata Steel announce it would invest in its Hartlepool Tube Mill in North-East England in June 2022?

- a) 1 million pounds
- b) 3 million pounds
- c) 5 million pounds
- d) 7 million pounds

Correct answer: d) 7 million pounds

Explanation: As per the provided data, in June 2022, Tata Steel announced plans to invest 7 million pounds for its Hartlepool Tube Mill in North-East England.

Guidance time: 1 min

Difficulty Level: Easy

78. Topic: Indian Investments in the Technology Sector

Question: How much did ANI Technologies invest in its wholly-owned subsidiary in Singapore?

- a) US\$ 375 million
- b) US\$ 475 million
- c) US\$ 575 million
- d) US\$ 675 million

Correct answer: d) US\$ 675 million

Explanation: As per the given data, ANI Technologies, the promoter of OLA, invested US\$ 675 million in its wholly-owned subsidiary in Singapore.

Guidance time: 1 min

Difficulty Level: Easy

79. Topic: Indian Investments in the Health Sector

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Question: How much did Dr Reddy invest in a joint-venture (JV) in the US?

- a) US\$ 99.99 million
- b) US\$ 129.99 million
- c) US\$ 149.99 million
- d) US\$ 169.99 million

Correct answer: c) US\$ 149.99 million

Explanation: As per the given data, Dr Reddy invested US\$ 149.99 million in a joint-venture (JV) in the US.

Guidance time: 1 min

Difficulty Level: Easy

80. Topic: Overseas Expansion of Indian Brands

Question: In July 2022, which Indian company entered into a long-term partnership with Gap Inc.?

- a) Reliance Retail Limited
- b) Aditya Birla Group
- c) Future Group
- d) Tata Group

Correct answer: a) Reliance Retail Limited

Explanation: As per the provided text, in July 2022, Reliance Retail Limited entered into a long-term partnership with Gap Inc.

Guidance time: 1 min

Difficulty Level: Easy

81. Topic: Collaborations between Indian and Foreign Companies

Question: In January 2022, which Indian company created a joint venture with Progressive Energy of the UK?

- a) Reliance Group
- b) Essar Group
- c) Tata Group
- d) Adani Group

Correct answer: b) Essar Group

Explanation: As per the given data, in January 2022, Essar Group of India created a joint venture with Progressive Energy of the UK.

Guidance time: 1 min

Difficulty Level: Moderate

82. Topic: Investments by Indian Companies in the Energy Sector

Question: How much did ONGC Videsh invest in a joint venture in Russia?

- a) US\$ 43.31 million

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b) US\$ 63.31 million

c) US\$ 83.31 million

d) US\$ 103.31 million

Correct answer: c) US\$ 83.31 million

Explanation: As per the provided data, ONGC Videsh invested US\$ 83.31 million in a joint venture in Russia.

Guidance time: 1 min

Difficulty Level: Easy

83. Topic: Indian Companies in the Automobile Sector

Question: How much did Ola Electric announce it would invest in the UK over the next 5 years?

- a) US\$ 50 million
- b) US\$ 75 million
- c) US\$ 100 million
- d) US\$ 125 million

Correct answer: c) US\$ 100 million

Explanation: As per the given data, in January, Ola Electric announced its plans to invest US\$ 100 million over the next 5 years in the UK.

Guidance time: 1 min

Difficulty Level: Easy

84. Topic: FDI in India

Question: How much was the total FDI inflow into India during 2020-21?

- a) US\$ 61,973 million
- b) US\$ 71,973 million
- c) US\$ 81,973 million
- d) US\$ 91,973 million

Correct answer: c) US\$ 81,973 million

Explanation: As per the provided text, the total FDI inflows into India during 2020-21 stood at US\$ 81,973 million.

Guidance time: 1 min

Difficulty Level: Moderate

85. Topic: Overseas Investments by Indian Companies

Question: How much did Wipro invest in its wholly-owned subsidiary in Cyprus?

- a) US\$ 104.96 million
- b) US\$ 154.96 million
- c) US\$ 204.96 million
- d) US\$ 254.96 million

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Correct answer: c) US\$ 204.96 million

Explanation: According to the data provided, Wipro invested US\$ 204.96 million in its wholly-owned subsidiary in Cyprus.

Guidance time: 1 min

Difficulty Level: Easy

86. Topic: Overseas Expansion of Indian Brands

Question: Which company signed a distribution agreement with Italian luxury fashion house Maison Valentino to open its boutique in Delhi in July 2022?

- a) Reliance Brands Ltd.
- b) Tata Group
- c) Aditya Birla Fashion
- d) Future Group

Correct answer: a) Reliance Brands Ltd.

Explanation: As per the given information, Reliance Brands Ltd. signed a distribution agreement with Maison Valentino to open its first boutique in Delhi in July 2022.

Guidance time: 1 min

Difficulty Level: Easy

87. Topic: Indian Investments in the Energy Sector

Question: How much did Gail India invest in a JV and wholly-owned unit in Myanmar and the US?

- a) US\$ 50.17 million
- b) US\$ 60.17 million
- c) US\$ 70.17 million
- d) US\$ 80.17 million

Correct answer: c) US\$ 70.17 million

Explanation: As per the provided data, Gail India, an energy PSU, invested US\$ 70.17 million in a JV and wholly-owned unit in Myanmar and the US.

Guidance time: 1 min

Difficulty Level: Moderate

88. Topic: Collaborations between Indian and Foreign Companies

Question: In July 2022, which Indian company signed a Memorandum of Understanding (MoU) with BHP to explore low-carbon iron and steelmaking technology?

- a) Reliance Industries
- b) Tata Steel
- c) JSW Steel
- d) Steel Authority of India Limited

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Correct answer: b) Tata Steel

Explanation: As per the provided information, in July 2022, Tata Steel signed a Memorandum of Understanding (MoU) with BHP to explore low-carbon iron and steelmaking technology.

Guidance time: 1 min

Difficulty Level: Moderate

89. Topic: Investments by Indian Companies in the Energy Sector

Question: How much did Hindalco Ltd's US subsidiary, Novelis, announce its plans to invest in a vehicle recycling facility in North America?

- a) US\$ 265 million
- b) US\$ 315 million
- c) US\$ 365 million
- d) US\$ 415 million

Correct answer: c) US\$ 365 million

Explanation: As per the given data, Hindalco Ltd's US subsidiary, Novelis, announced its plans to invest US\$ 365 million in a vehicle recycling facility in North America.

Guidance time: 1 min

Difficulty Level: Moderate

90. Topic: Investments by Indian Companies Abroad

Question: How much did Jindal Steel and Power invest in its wholly-owned subsidiary in Mauritius?

- a) US\$ 266 million
- b) US\$ 306 million
- c) US\$ 346 million
- d) US\$ 366 million

Correct answer: d) US\$ 366 million

Explanation: As per the provided data, Jindal Steel and Power invested US\$ 366 million in its wholly-owned subsidiary in Mauritius.

Guidance time: 1 min

Difficulty Level: Easy

91. Topic: Indian Investments in the Health Sector

Question: How much did Lupin Ltd invest in their JV in the US?

- a) US\$ 101.25 million
- b) US\$ 111.25 million
- c) US\$ 121.25 million
- d) US\$ 131.25 million

Correct answer: d) US\$ 131.25 million

Explanation: As per the given data, Lupin Ltd invested US\$ 131.25 million in their JV in the US.

Guidance time: 1 min

Difficulty Level: Easy

92. Topic: Indian Investments in the Technology Sector

Question: How much did Tata Communications invest in its wholly-owned subsidiary in Singapore?

- a) US\$ 490 million
- b) US\$ 590 million
- c) US\$ 690 million
- d) US\$ 790 million

Correct answer: c) US\$ 690 million

Explanation: As per the provided data, Tata Communications invested US\$ 690 million in its wholly-owned subsidiary in Singapore.

Guidance time: 1 min

Difficulty Level: Easy

93. Topic: Overseas Direct Investment by Indian Companies

Question: How much did Reliance New Energy invest in its wholly-owned subsidiary in Norway?

- a) US\$ 57.73 million
- b) US\$ 67.73 million
- c) US\$ 77.73 million
- d) US\$ 87.73 million

Correct answer: d) US\$ 87.73 million

Explanation: As per the given data, Reliance New Energy invested US\$ 87.73 million in its wholly-owned subsidiary in Norway.

Guidance time: 1 min

Difficulty Level: Easy

CHAPTER 10 INDIAN ECONOMY

1. Topic: Indian Economy Pre-Independence

Question: Which ancient Indian treatise contains principles of statecraft and economics?

- A. Vedas
- B. Upanishads
- C. Ramayana
- D. Arthashastra

Correct answer: D. Arthashastra

Explanation: Arthashastra is an ancient Indian treatise on statecraft, economic policy and military strategy. It was authored by Kautilya, also known as Chanakya.

Guidance time: 2 minutes

Difficulty level: Medium

2. Topic: Indian Economy Pre-Independence

Question: What was the main cause of the destruction of Indian handicrafts and manufactures during the British colonial period?

- A. Lack of skilled labour
- B. Natural disasters
- C. Hostile imperial policies and competition from machine-made goods
- D. Lack of raw materials

Correct answer: C. Hostile imperial policies and competition from machine-made goods

Explanation: The British colonial policies and competition from machine-made goods resulted in the decline of Indian handicrafts and manufactures.

Guidance time: 2 minutes

Difficulty level: Medium

3. Topic: Indian Economy Pre-Independence

Question: What was the zamindari system in British-ruled India?

- A. A system of land tenure
- B. A system of tax collection

C. A system of governance

D. A system of education

Correct answer: A. A system of land tenure

Explanation: The zamindari system was a system of land tenure introduced by the British in India. The zamindars were the landlords who collected rent from the peasants.

Guidance time: 2 minutes

Difficulty level: Medium

4. Topic: Indian Economy Pre-Independence

Question: When did the factory-based production start in India?

- A. Before 1757
- B. 1850
- C. 1947
- D. 1757

Correct answer: B. 1850

Explanation: Factory-based production did not exist in India before 1850. The 'Modern' industrial enterprises in colonial India started to grow in the mid-19th century.

Guidance time: 2 minutes

Difficulty level: Medium

5. Topic: Indian Economy Pre-Independence

Question: What was India's global ranking in terms of the number of cotton mill spindles in the 1930s?

- A. First
- B. Third
- C. Fifth
- D. Tenth

Correct answer: C. Fifth

Explanation: In the 1930s, the cotton mill industry in India had 9 million spindles, which placed India in the fifth position globally in terms of the number of spindles.

Guidance time: 2 minutes

Difficulty level: Medium

6. Topic: Indian Economy Pre-Independence

Question: Which city saw a rapid expansion of Jute mills in the late 19th century?

- A. Mumbai
- B. Chennai
- C. Kolkata
- D. Delhi

Correct answer: C. Kolkata

Explanation: Jute mills expanded rapidly in and around Kolkata in response to a mounting global demand for ropes and other products.

Guidance time: 2 minutes

Difficulty level: Medium

7. **Topic:** Indian Economy Pre-Independence

Question: Which of the following industries were not established in India before 1850?

- A. Cotton milling
- B. Jute milling
- C. Iron industry
- D. Paper-milling

Correct answer: A. Cotton milling

Explanation: The cotton milling business, along with others like the iron industry, started to grow in the mid-19th century, after 1850.

Guidance time: 2 minutes

Difficulty level: Medium

8. **Topic:** Indian Economy Pre-Independence

Question: What was the global rank of India's iron industry in terms of output in 1930?

- A. First
- B. Third
- C. Fifth
- D. Eighth

Correct answer: D. Eighth

Explanation: India's iron industry was ranked eighth in the world in terms of output in 1930.

Guidance time: 2 minutes

Difficulty level: Medium

9. **Topic:** Indian Economy Pre-Independence

Question: What was the share of factory employment in India in 1941?

- A. 0.4%
- B. 1.4%
- C. 2.4%
- D. 3.4%

Correct answer: B. 1.4%

Explanation: The share of factory employment in India was 1.4% in 1941.

Guidance time: 2 minutes

Difficulty level: Medium

10. **Topic:** Indian Economy Pre-Independence

Question: What was the primary focus of Arthashastra?

- A. Philosophy
- B. Religion
- C. Politics and Economics
- D. Art and Culture

Correct answer: C. Politics and Economics

Explanation: Arthashastra, the ancient Indian text by Kautilya, focused on politics, statecraft, and economics.

Guidance time: 2 minutes

Difficulty level: Medium

11. **Topic:** British Rule and Indian Economy

Question: When did the rule of the East India Company in India end?

- A. 1757
- B. 1858
- C. 1947
- D. 1950

Correct answer: B. 1858

Explanation: The rule of the East India Company ended in 1858, following the Sepoy Mutiny or the First War of Indian Independence in 1857. After this, the British government took direct control of India.

Guidance time: 1 minute

Difficulty level: Easy

12. **Topic:** Industrial Revolution and Indian Economy

Question: What change did the Industrial Revolution bring to the nature of India's foreign trade?

- A. From an exporter of raw materials to an exporter of manufactures
- B. From an exporter of manufactures to an exporter of raw materials
- C. No significant change
- D. Increased both raw materials and manufactures exports

Correct answer: B. From an exporter of manufactures to an exporter of raw materials

Explanation: The Industrial Revolution led to an increase in the manufacturing capabilities of Britain. As a result, India, which was a major colony of Britain at that time, became a major supplier of raw materials for British industries and started importing finished goods, changing its role from an exporter of manufactures to an exporter of raw materials.

Guidance time: 2 minutes

Difficulty level: Medium

13. **Topic:** British Rule and Indian Agriculture

Question: Which of the following is NOT a consequence of the Zamindari system under British rule?

- A. High indebtedness of agriculturists
- B. Increased agricultural productivity
- C. Growth of a class of exploitative money lenders
- D. Absentee landlordism

Correct answer: B. Increased agricultural productivity

Explanation: The Zamindari system, introduced by the British, had detrimental effects on Indian agriculture. It led to high indebtedness of agriculturists, growth of a class of exploitative money lenders, absentee landlordism, and low attention to productivity-enhancing measures, which led to a decline in agricultural productivity.

Guidance time: 2 minutes

Difficulty level: Medium

14. **Topic:** Industrialisation in Colonial India

Question: Which industry was India globally competitive in during the 1930s?

- A. Iron industry
- B. Cotton milling
- C. Paper-milling
- D. Brewing industry

Correct answer: B. Cotton milling

Explanation: The cotton milling industry in India grew steadily throughout the second half of the 19th century and achieved high international competitiveness. By the 1930s, India had 9 million spindles, placing it fifth globally in terms of the number of spindles.

Guidance time: 2 minutes

Difficulty level: Medium

15. **Topic:** British Colonialism and Indian Economy

Question: Which of the following was NOT a consequence of British colonial policies on Indian economy?

- A. Destruction of Indian handicrafts and manufactures
- B. Large scale unemployment
- C. Increased pressure on land
- D. Increased industrialisation

Correct answer: D. Increased industrialisation

Explanation: British colonial policies had detrimental effects on the Indian economy. They led to the destruction of Indian handicrafts and manufactures, large-scale unemployment, and increased pressure on land. They did not encourage industrialisation; in fact, they discouraged the development of industries that could compete with British industries.

Guidance time: 2 minutes

Difficulty level: Medium

16. **Topic:** Ancient Indian Economy

Question: What was the dominant occupation in ancient India?

- A. Trade
- B. Artisan work
- C. Agriculture
- D. Administration

Correct answer: C. Agriculture

Explanation: In ancient India, the economy consisted of self-sufficient villages and cities. Though cities offered diverse economic activities, in villages, agriculture was the dominant occupation and the main source of livelihood for the majority of people.

Guidance time: 2 minutes

Difficulty level: Easy

17. **Topic:** Industrialisation in Colonial India

Question: Around what time did 'Modern' industrial enterprises start to grow in colonial India?

- A. Mid-17th century
 - B. Mid-18th century
 - C. Mid-19th century
 - D. Mid-20th century
- Correct answer:** C. Mid-19th century

Explanation: The 'Modern' industrial enterprises in colonial India started to grow in the mid-19th century. This includes industries such as the cotton milling, jute mills, brewing, paper-milling, leather-making, matches, and rice-milling industries.

Guidance time: 1 minute

Difficulty level: Medium

18. **Topic:** Ancient Indian Economy

Question: According to the 'Arthashastra', what were the two primary aspects of 'artha'?

- A. Wealth and power
- B. Land and wealth
- C. Power and land
- D. Power and prestige

Correct answer: B. Land and wealth

Explanation: 'Arthashastra', attributed to Kautilya (Chanakya), is one of the earliest treatises on ancient Indian economic philosophy. In this, 'artha' encompasses all aspects of the material well-being of individuals, which is primarily 'wealth' and secondarily 'land'.

Guidance time: 2 minutes

Difficulty level: Medium

19. **Topic:** Indian Economy Pre-Independence

Question: Which system of land tenure introduced during the British rule created a class of people focused on perpetuating British rule?

- A. Ryotwari system
- B. Zamindari system
- C. Mahalwari system
- D. Patta system

Correct answer: B. Zamindari system

Explanation: The Zamindari system created a class of people who were more focused on perpetuating the British rule. They often extracted excessive rents and other payments due to the increased demand for land under tenancy.

Guidance time: 2 minutes

Difficulty level: Medium

20. **Topic:** Industrialisation in Colonial India

Question: What was the share of factory employment in India's total population in 1941?

- A. 0.4%
- B. 1.4%
- C. 2.4%
- D. 3.4%

Correct answer: B. 1.4%

Explanation: The share of factory employment in India's total population was relatively small due to the slow progress of industrialisation. In 1941, this share was only 1.4%.

Guidance time: 1 minute

Difficulty level: Hard

21. **Topic:** Indian Economic Policies Post-Independence

Question: What was the primary objective of the Nehruvian model of economic policy in India post-independence?

- A. Rapid economic growth with equity and distributive justice
- B. Promoting foreign investment and globalization
- C. Developing a free market economy with minimal government intervention
- D. Encouraging small scale industries and cottage industries

Correct answer: A. Rapid economic growth with equity and distributive justice

Explanation: The Nehruvian model emphasized a socialistic pattern of society with the goal of achieving rapid economic growth accompanied by equity and distributive justice.

Guidance time: 2 minutes

Difficulty level: Medium

22. **Topic:** Indian Economic Policies Post-Independence

Question: What was the core focus of the Industrial Policy Resolution (1948)?

- A. Privatization of strategic industries
- B. Encouraging foreign investment
- C. Expanded role for the public sector and licensing to the private sector
- D. Abolishing the licensing system for industries

Correct answer: C. Expanded role for the public sector and licensing to the private sector

Explanation: The Industrial Policy Resolution of 1948 envisaged an expanded role for the public sector and introduced a licensing system for the private sector.

Guidance time: 2 minutes

Difficulty level: Medium

24. **Topic:** Green Revolution in India

Question: The Green Revolution in India was characterized by:

- A. Technological advancements in manufacturing
- B. High yielding seed varieties and intensive use of water, fertilizer and pesticides
- C. Rapid industrialization and infrastructural development
- D. Massive deforestation for agricultural purposes

Correct answer: B. High yielding seed varieties and intensive use of water, fertilizer and pesticides

Explanation: The Green Revolution was characterized by the introduction of new agricultural techniques, including the use of high-yielding seed varieties, and the intensive use of water, fertilizer, and pesticides.

Guidance time: 2 minutes

Difficulty level: Medium

25. **Topic:** Indian Banking Sector Post-Independence

Question: When were the first major nationalizations in the Indian banking sector carried out?

- A. 1956
- B. 1969
- C. 1980
- D. 1991

Correct answer: B. 1969

Explanation: The government of India carried out the first major nationalizations in the Indian banking sector in the year 1969 when it nationalized 14 major banks.

Guidance time: 1 minute

Difficulty level: Easy

26. **Topic:** The Licence Raj in India

Question: Which of the following was a result of the Licence Raj in India?

- A. Increased foreign investment
- B. Decline in productivity
- C. Rapid industrialization
- D. Boost in small-scale industries

Correct answer: B. Decline in productivity

Explanation: The Licence Raj, marked by strict controls over industrial licensing, led to a decline in productivity and had a dampening effect on the growth of the Indian economy.

Guidance time: 2 minutes

Difficulty level: Medium

27. **Topic:** The Monopolies and Restrictive Trade Practices (MRTP) Act

Question 6: The Monopolies and Restrictive Trade Practices (MRTP) Act was aimed at regulating:

- A. Small and medium-sized enterprises
- B. Large firms with relatively large market power
- C. Foreign companies operating in India
- D. Agricultural practices and trade

Correct answer: B. Large firms with relatively large market power

Explanation: The MRTP Act of 1969 was aimed at preventing concentration of economic power in the hands of a few, and for regulation of monopolistic, restrictive and unfair trade practices.

Guidance time: 2 minutes

Difficulty level: Medium

28. **Topic:** Indian Economy and World Trade

Question 7: What type of trade policy did India follow until the late 1950s?

- A. Open foreign investment policy and relatively open trade policy
- B. Closed economy with minimal trade
- C. Predominantly export-oriented trade policy
- D. Predominantly import-oriented trade policy

Correct answer: A. Open foreign investment policy and relatively open trade policy

Explanation: Post-independence, India followed an open foreign investment policy and a relatively open trade policy until the late 1950s, after which balance of payments crisis led to a tightening of trade policies.

Guidance time: 2 minutes

Difficulty level: Medium

30. **Topic:** Gandhian Philosophy and Economic Policies

Question 8: According to Gandhian philosophy, what should be the focus of India's economic policies?

- A. Heavy industry and manufacturing
- B. Small scale and cottage industries, and village republics
- C. Service sector and IT industries

D. Agricultural and allied sectors

Correct answer: B. Small scale and cottage industries, and village republics

Explanation: Gandhian philosophy emphasised on small scale and cottage industries, and village republics, with the aim of promoting self-sufficiency and empowerment at the grassroots level.

Guidance time: 2 minutes

Difficulty level: Medium

31. Topic: Indian Agriculture Policy

Question 9: In the 1960s, what strategic change did the government make in agricultural policies?

- A. Emphasis on institutional changes like land reforms, farm cooperatives etc
- B. Intensive use of chemical fertilizers and pesticides
- C. Increased reliance on foreign agricultural technologies
- D. Shift from institutional change to enhancing agricultural productivity

Correct answer: D. Shift from institutional change to enhancing agricultural productivity

Explanation: With continuous failures of monsoon and severe droughts, the government shifted its focus from institutional changes to enhancing productivity in agriculture, thereby triggering the Green Revolution.

Guidance time: 2 minutes

Difficulty level: Medium

32. Topic: Industrial Policy Resolution

Question 10: The Industrial Policy Resolution of 1956 was criticized for its focus on:

- A. Expansion of the public sector
- B. Promotion of small scale and cottage industries
- C. Relaxation of the licensing system
- D. Encouraging foreign investment

Correct answer: A. Expansion of the public sector

Explanation: The Industrial Policy Resolution of 1956 was criticised because its guiding principle supported an enormous expansion of the public sector which led to a dampening of private initiative and enterprise.

Guidance time: 2 minutes

Difficulty level: Medium

33. Topic: Economic Reforms in India

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Question: In what year were the initial liberalization reforms started in India?

- A. 1991
- B. 1985
- C. 1995
- D. 1980

Correct answer: B. 1985

Explanation: The seeds of early liberalization and reforms were sown during the 1980s, especially after 1985.

Guidance time: 1 minute

Difficulty level: Easy

34. Topic: Economic Reforms in India

Question: What was the average annual growth rate of GDP during the seventh plan period (1985–1990)?

- A. 5.7 percent
- B. 5.8 percent
- C. 6 percent
- D. 6.5 percent

Correct answer: B. 5.8 percent

Explanation: During the seventh plan period (1985–1990), the average annual growth rate of GDP was 5.8 percent.

Guidance time: 1 minute

Difficulty level: Medium

35. Topic: Economic Reforms in India

Question: What is 'broad-banding' in context of industrial policy reforms?

- A. Government intervention in industrial disputes
- B. Relaxation of licensing for product mix changes
- C. Broad-based taxation policies
- D. Wide spectrum of sanctions against industries

Correct answer: B. Relaxation of licensing for product mix changes

Explanation: The facility of 'broad-banding' was accorded for industry groups to allow flexibility and rapid changes in their product mix without going in for fresh licensing.

Guidance time: 1 minute

Difficulty level: Hard

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36. Topic: Economic Reforms in India

Question: When was the Securities and Exchange Board of India (SEBI) established?

- A. 1988
- B. 1992
- C. 1980
- D. 1990

Correct answer: A. 1988

Explanation: The Securities and Exchange Board of India (SEBI) was established on April 12, 1988.

Guidance time: 1 minute

Difficulty level: Easy

38. Topic: Economic Reforms in India

Question: What was the objective of the Monopolies and Restrictive Trade Practices (MRTP) Act?

- A. Regulation of large firms with significant market power
- B. Encouragement of monopoly in trade
- C. Restriction on small scale industries
- D. Removal of foreign trade barriers

Correct answer: A. Regulation of large firms with significant market power

Explanation: The MRTP act had many restrictive conditions creating barriers for entry, diversification and expansion for large industrial houses.

Guidance time: 2 minutes

Difficulty level: Medium

39. Topic: Economic Reforms in India

Question: What does OGL stand for in context of the Indian economy?

- A. Open Goods Licence
- B. Open General Licence
- C. Official Goods Licence
- D. Official General Licence

Correct answer: B. Open General Licence

Explanation: The Open General Licence (OGL) list was steadily expanded as part of the liberalization process.

Guidance time: 1 minute

Difficulty level: Easy

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40. Topic: Economic Reforms in India

Question: How much did the Indian rupee depreciate in terms of the real effective exchange rate (REER) from 1985–86 to 1989–90?

- A. 30%
- B. 20%
- C. 40%
- D. 50%

Correct answer: A. 30%

Explanation: Based on the real effective exchange rate (REER), the rupee was depreciated by about 30.0 per cent from 1985–86 to 1989–90.

Guidance time: 1 minute

Difficulty level: Medium

41. Topic: Economic Reforms in India

Question: Which of the following were NOT part of the industrial policy initiatives in the 1980s?

- A. Delicensing of 25 broad categories of industries
- B. Broad-banding for industry groups
- C. Implementation of strict labor laws
- D. Establishment of the Securities and Exchange Board of India (SEBI)

Correct answer: C. Implementation of strict labor laws

Explanation: The industrial policy initiatives in the 1980s aimed at creating a more dynamic industrial environment and did not involve implementation of strict labor laws.

Guidance time: 2 minutes

Difficulty level: Medium

41. Topic: Economic Reforms in India

Question: What was the result of the liberalization efforts in the 1980s on GDP growth?

- A. GDP growth remained the same
- B. GDP growth declined
- C. GDP growth increased
- D. GDP growth was unstable

Correct answer: C. GDP growth increased

Explanation: The liberalization efforts of the 1980s bore fruit in the form of higher GDP growth rates during this period as compared to the previous three decades.

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Guidance time: 2 minutes

Difficulty level: Medium

42. Topic: Economic Reforms in India

Question: What was the limit to which the asset limit for MRTP regulations was raised in 1985-86?

- A. 20 crore
- B. 50 crore
- C. 100 crore
- D. 150 crore

Correct answer: C. 100 crore

Explanation: In 1985–86, the asset limit above which firms were subject to MRTP regulations was raised from 20 crore to 100 crore.

Guidance time: 2 minutes

Difficulty level: Medium

43. Topic: Economic Reforms in India

Question: Why was the term 'reforms by stealth' used for the liberalization in the 1980s?

- A. The reforms were secretive and not publicly known
- B. The reforms were enforced without public consent
- C. The reforms were unpredictable and sudden
- D. The reforms were piecemeal and not comprehensive

Correct answer: D. The reforms were piecemeal and not comprehensive

Explanation: The term 'reforms by stealth' was used to denote the ad hoc and not widely publicized nature of the liberalization in the 1980s, and they were not in the form of a comprehensive package.

Guidance time: 2 minutes

Difficulty level: Hard

44. Topic: Economic Reforms in India

Question: How were the 1980s reforms different from the New Economic Policy of 1990?

- A. The 1980s reforms were more comprehensive
- B. The 1980s reforms were not based on a clear roadmap
- C. The 1980s reforms were more protectionist in nature
- D. The 1980s reforms were more oriented towards inward trade and investment

Correct answer: B. The 1980s reforms were not based on a clear roadmap

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Explanation: While the reforms of the 1980s were instrumental in encouraging economic growth, they lacked the clear and observable roadmap that characterized the New Economic Policy of 1990.

Guidance time: 2 minutes

Difficulty level: Hard

45. Topic: Economic Reforms in India

Question: What is 'inward-oriented' trade and investment practice?

- A. Encouraging foreign investments
- B. Focusing on domestic production and consumption
- C. Focusing on export promotion
- D. Encouraging multilateral trade agreements

Correct answer: B. Focusing on domestic production and consumption

Explanation: Inward-oriented trade and investment practices refer to policies that prioritize domestic production and consumption over foreign trade and investment.

Guidance time: 2 minutes

Difficulty level: Hard

46. Topic: Economic Reforms in India

Question: How did the introduction of MODVAT tax impact the Indian industry?

- A. It increased the tax burden on industries
- B. It reduced taxation on inputs and associated distortions
- C. It had no significant impact on industries
- D. It led to an increase in indirect taxes

Correct answer: B. It reduced taxation on inputs and associated distortions

Explanation: The multipoint excise duties were converted into a modified value-added (MODVAT) tax which significantly reduced the taxation on inputs and the associated distortions.

Guidance time: 2 minutes

Difficulty level: Hard

47. Topic: Economic Reforms in India

Question: How did the Indian government manage the exchange rate in the 1980s?

- A. It appreciated the rupee to boost exports
- B. It devalued the rupee to reduce imports
- C. It set the exchange rate at a realistic level to expand exports

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D. It kept the exchange rate stable to avoid inflation

Correct answer: C. It set the exchange rate at a realistic level to expand exports

Explanation: The exchange rate was set at a realistic level which helped expand exports and in turn reduced pressure on foreign exchange needed for imports.

Guidance time: 2 minutes

Difficulty level: Medium

48. Topic: Economic Reforms in India

Question: What were the 1980s economic reforms primarily aimed at changing?

- A. Outward-oriented trade and investment practices
- B. Inward-oriented trade and investment practices
- C. Status quo in economic policies
- D. Adoption of laissez-faire economics

Correct answer: B. Inward-oriented trade and investment practices

Explanation: The 1980s economic reforms were specifically aimed at changing the prevailing thrust on 'inward-oriented' trade and investment practices.

Guidance time: 2 minutes

Difficulty level: Medium

49. Topic: Economic Reforms in India

Question: In the 1980s, the liberalization reforms in India broadly covered three areas. Which of the following is not one of them?

- A. Industry
- B. Trade
- C. Agriculture
- D. Taxation

Correct answer: C. Agriculture

Explanation: The early reforms of the 1980s broadly covered three areas, namely industry, trade, and taxation. Agriculture was not a focal point of these reforms.

Guidance time: 2 minutes

Difficulty level: Medium

50. Topic: Economic Reforms in India

Question: Why was the private sector discouraged from making investments during the pre-liberalization era?

- A. Due to excessive government controls and public sector reservations

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B. Due to lack of skilled manpower

C. Due to lack of market demand

D. Due to lack of foreign investment

Correct answer: A. Due to excessive government controls and public sector reservations

Explanation: The private sector investments were inhibited due to reasons such as convoluted licensing policies, public sector reservations, and excessive government controls.

Guidance time: 2 minutes

Difficulty level: Medium

51. Topic: Economic Reforms in India

Question: How did import controls impact domestic industries during the pre-liberalization era in India?

- A. They encouraged domestic industries to compete with foreign manufactures
- B. They protected domestic industries from competition with foreign manufactures
- C. They had no significant impact on domestic industries
- D. They increased the cost of production for domestic industries

Correct answer: B. They protected domestic industries from competition with foreign manufactures

Explanation: Import controls in the form of tariffs, quotas and quantitative restrictions ensured that foreign manufactures and components did not cross the borders and compete with the domestic industries.

Guidance time: 2 minutes

Difficulty level: Hard

52. Topic: Economic Reforms in India

Question: What change in belief did the 1980s liberalization bring about among policy makers in India?

- A. That government intervention in markets should always be accepted as the standard
- B. That markets should be given priority over government in the conduct of many economic activities
- C. That well-regulated competitive markets cannot ensure economic growth
- D. That comprehensive economic reforms are not necessary for sustained economic growth

Correct answer: B. That markets should be given priority over government in the conduct of many economic activities

Explanation: The belief that well-regulated competitive markets can ensure economic growth and also increase total welfare got fostered in the minds of policy makers. In other words, the idea that government intervention in markets need not always be accepted as 'the standard' and that markets should be given priority over government in the conduct of a good number of economic activities gained a broad acceptance.

Guidance time: 2 minutes

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Difficulty level: Hard

53. **Topic:** Economic Reforms of 1991

Question: What was the main reason for implementing the economic reforms of 1991 in India?

- A. Rising fiscal deficit and external debt
- B. Fall in industrial output
- C. Pressure from the International Monetary Fund (IMF)
- D. A sudden drop in foreign exchange reserves

Correct answer: A. Rising fiscal deficit and external debt

Explanation: The primary reason for initiating the economic reforms in 1991 was to address the rising fiscal deficit and external debt which was clearly unsustainable and led to a balance of payments crisis.

Guidance time: 1 minute

Difficulty level: Medium

54. **Topic:** Economic Reforms of 1991

Question: What caused the severe strain on India's balance of payments in 1990?

- A. Decrease in exports
- B. Increase in imports
- C. Surge in oil prices due to the gulf war
- D. Rise in public debt

Correct answer: C. Surge in oil prices due to the gulf war

Explanation: The surge in oil prices due to the Gulf war in 1990 resulted in a significant strain on India's balance of payments.

Guidance time: 2 minutes

Difficulty level: Medium

55. **Topic:** Economic Reforms of 1991

Question: What was India's foreign exchange reserves situation just before the 1991 economic reforms?

- A. They were at an all-time high
- B. They were barely sufficient for two weeks of imports
- C. They were enough for about six months of imports
- D. They were rapidly increasing

Correct answer: B. They were barely sufficient for two weeks of imports

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Explanation: Just before the economic reforms of 1991, India's foreign exchange reserves had depleted to \$1.2 billion, which was barely sufficient for two weeks of imports.

Guidance time: 2 minutes

Difficulty level: Hard

56. **Topic:** Economic Reforms of 1991

Question: Which external institution did India depend on for borrowing during the 1991 economic crisis?

- A. World Bank
- B. International Monetary Fund
- C. Asian Development Bank
- D. Bank for International Settlements

Correct answer: B. International Monetary Fund

Explanation: During the 1991 economic crisis, India had to depend on external borrowing from the International Monetary Fund, which imposed stringent conditions for additional borrowing.

Guidance time: 2 minutes

Difficulty level: Medium

57. **Topic:** Economic Reforms of 1991

Question: What two major objectives did the economic reforms of 1991 aim to achieve?

- A. Enhancing foreign investment and reducing inflation
- B. Increasing exports and reducing public debt
- C. Moving the economy towards market orientation and reducing fiscal deficit
- D. Boosting domestic production and reducing unemployment

Correct answer: C. Moving the economy towards market orientation and reducing fiscal deficit

Explanation: The two major objectives of the 1991 economic reforms were to move the economy towards greater market orientation and to achieve macroeconomic stabilization by substantially reducing the fiscal deficit.

Guidance time: 2 minutes

Difficulty level: Hard

58. **Topic:** Economic Reforms of 1991

Question: The economic reforms of 1991 in India can be broadly classified into two types of policies. What are they?

- A. Export promotion policies and fiscal consolidation policies
- B. Trade liberalization policies and industrial regulation policies
- C. Stabilization measures and structural reform measures

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D. Agricultural development policies and financial sector reform policies

Correct answer: C. Stabilization measures and structural reform measures

Explanation: The economic reforms of 1991 in India were mainly categorized into stabilization measures, which were short-term measures to address inflation and adverse balance of payment issues, and structural reform measures, which were long-term initiatives aimed at removing structural rigidities in various sectors of the economy.

Guidance time: 2 minutes

Difficulty level: Hard

58. **Topic:** Economic Reforms of 1991

Question: What was the aim of stabilization measures under the economic reforms of 1991?

- A. To improve agricultural productivity
- B. To reduce the fiscal deficit
- C. To address inflation and adverse balance of payments
- D. To promote foreign direct investment

Correct answer: C. To address inflation and adverse balance of payments

Explanation: The stabilization measures under the 1991 economic reforms were short-term measures aimed at addressing the problems of inflation and adverse balance of payments.

Guidance time: 2 minutes

Difficulty level: Hard

59. **Topic:** Economic Reforms of 1991

Question: What was the main focus of the structural reform measures under the 1991 economic reforms?

- A. To promote exports
- B. To encourage foreign direct investment
- C. To bring productivity and competitiveness by removing structural rigidities
- D. To reduce public debt

Correct answer: C. To bring productivity and competitiveness by removing structural rigidities

Explanation: The structural reform measures under the 1991 economic reforms were long-term initiatives aimed at enhancing productivity and competitiveness by removing structural rigidities in different sectors of the economy.

Guidance time: 2 minutes

Difficulty level: Hard

60. **Topic:** Economic Reforms of 1991

Question: How did the fiscal initiatives of the 1980s affect the government's revenue expenditure and revenue receipts in India?

- A. Revenue expenditure remained stable while revenue receipts increased

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B. Revenue expenditure decreased while revenue receipts increased

C. Revenue expenditure consistently exceeded revenue receipts

D. Revenue expenditure and revenue receipts both increased proportionately

Correct answer: C. Revenue expenditure consistently exceeded revenue receipts

Explanation: The fiscal initiatives for enhanced economic growth in the 1980s saw the government's revenue expenditure consistently exceeding its revenue receipts, leading to a large fiscal deficit.

Guidance time: 2 minutes

Difficulty level: Hard

61. **Topic:** Economic Reforms of 1991

Question: Why did a 'crisis of confidence' arise in India just before the 1991 economic reforms?

- A. Due to a sudden increase in public debt
- B. Due to the collapse of the Soviet Union
- C. Due to the success of China's outward oriented policies
- D. Due to a fragile political situation and crises in the economic front

Correct answer: D. Due to a fragile political situation and crises in the economic front

Explanation: A 'crisis of confidence' arose in India just before the 1991 economic reforms due to a fragile political situation combined with crises in the economic front.

Guidance time: 2 minutes

Difficulty level: Hard

62. **Topic:** Economic Reforms in India 1991

Question: What was the key reason for the economic crisis that led to reforms in 1991?

- A. Increase in exports
- B. Decrease in public debt
- C. High fiscal deficits and adverse balance of payments
- D. Decrease in government expenditure

Correct answer: C. High fiscal deficits and adverse balance of payments

Explanation: The high fiscal deficits and adverse balance of payments were primarily due to the government's revenue expenditure consistently exceeding its revenue receipts. This resulted in a crisis that necessitated the economic reforms of 1991.

Guidance time: 2 minutes

Difficulty level: Easy

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63. Topic: Fiscal Reforms in India

Question : Which of the following measures was part of the fiscal reforms initiated in 1991?

- A. Increasing government expenditure
- B. Increase in subsidies
- C. Disinvestment of part of government's equity holdings in select public sector undertakings
- D. Restricting private sector participation

Correct answer: C. Disinvestment of part of government's equity holdings in select public sector undertakings

Explanation: One of the key measures of the fiscal reforms was disinvestment of part of the government's equity holdings in select public sector undertakings to curb government expenditure and encourage private sector participation.

Guidance time: 2 minutes

Difficulty level: Moderate

64. Topic: Monetary and Financial Sector Reforms

Question : What was a primary objective of the monetary and financial sector reforms initiated in 1991?

- A. Increasing the burden of nonperforming assets on government banks
- B. Regulating interest rates
- C. Reducing competition among public sector, private sector, and foreign banks
- D. Increasing reserve requirements

Correct answer: B. Regulating interest rates

Explanation: The monetary and financial sector reforms aimed at making the financial system more efficient and transparent. This included reducing the burden of nonperforming assets on government banks, introducing competition, and deregulating interest rates.

Guidance time: 2 minutes

Difficulty level: Moderate

65. Topic: Reforms in Capital Markets

Question: In which year was the Securities and Exchange Board of India (SEBI) given statutory recognition?

- A. 1988
- B. 1991
- C. 1992
- D. 1994

Correct answer: C. 1992

Explanation: SEBI, which was set up in 1988, was given statutory recognition in 1992 to act as an independent regulator of the capital market.

Guidance time: 1 minute

Difficulty level: Easy

67. Topic: The 'New Industrial Policy'

Question: Which of the following sectors was NOT exempted from the licensing restrictions by the 'New Industrial Policy' of 1991?

- A. Automobile
- B. Railway transport
- C. Textile
- D. Food processing

Correct answer: B. Railway transport

Explanation: The 'New Industrial Policy' of 1991 ended the 'License Raj' for all industries except for few that were related to security, strategic concerns, and environmental issues. Railway transport was one of them.

Guidance time: 2 minutes

Difficulty level: Moderate

68. Topic: Fiscal Reforms in India

Question: What was a major objective of the fiscal reforms of 1991 in India?

- A. Increase in fiscal deficit
- B. Reduction in fiscal deficit
- C. Increase in government expenditure
- D. Increase in external debt

Correct answer: B. Reduction in fiscal deficit

Explanation: The fiscal reforms of 1991 in India were primarily aimed at reducing the fiscal deficit by augmenting revenues and curtailing government expenditure.

Guidance time: 2 minutes

Difficulty level: Easy

69. Topic: Monetary and Financial Sector Reforms

Question: Which committee's recommendations were implemented as part of the monetary and financial sector reforms in 1991?

- A. The Rangarajan Committee
- B. The Urjit Patel Committee
- C. The Narasimham Committee
- D. The Vijay Kelkar Committee

Correct answer: C. The Narasimham Committee

Explanation: Reduction in reserve requirements, namely, the statutory liquidity ratio (SLR) and cash reserve ratio (CRR), were implemented in line with the recommendations of the Narasimham Committee Report, 1991.

Guidance time: 2 minutes

Difficulty level: Moderate

70. Topic: The 'New Industrial Policy'

Question: What change was brought about regarding small-scale industries by the 'New Industrial Policy' of 1991?

- A. Increased protection for small-scale industries
- B. Reservation of more goods for production by small-scale industries
- C. Removal of reservation for many goods produced by small-scale industries
- D. Imposition of more licensing restrictions on small-scale industries

Correct answer: C. Removal of reservation for many goods produced by small-scale industries

Explanation: Many goods that were previously produced exclusively by small-scale industries were de-reserved, allowing entry of large scale industries.

Guidance time: 2 minutes

Difficulty level: Moderate

71. Topic: External Trade Reforms

Question: What was the status of the rupee's convertibility after the reforms of 1991?

- A. Rupee was fully convertible on both current and capital accounts
- B. Rupee was convertible only on the capital account
- C. Rupee was convertible only on the current account
- D. Rupee was not convertible at all

Correct answer: C. Rupee was convertible only on the current account

Explanation: From 1994 onwards, all current account transactions including business, education, medical and foreign travel were permitted at market exchange rate and rupee became officially convertible on the current account.

Guidance time: 2 minutes

Difficulty level: Hard

72. Topic: Disinvestment in Public Sector Undertakings

Question: Why was the disinvestment of government holdings of equity share capital in public sector enterprises considered a bold step?

- A. It increased government control over these enterprises

B. It reduced the efficiency of these enterprises

- C. It provided these enterprises with greater autonomy and opportunity for professional management
- D. It increased the budgetary support to public sector

Correct answer: C. It provided these enterprises with greater autonomy and opportunity for professional management

Explanation: The disinvestment of government holdings of equity share capital in public sector enterprises was considered a bold step as it provided these units with greater autonomy in decision-making and opened up opportunities for professional management. It was also aimed at ensuring reasonable returns.

Guidance time: 2 minutes

Difficulty level: Hard

73. Topic: Reduction in Tariffs

Question: What was the highest tariff rate in India in 1990-91 before the reforms?

- A. 100%
- B. 150%
- C. 255%
- D. 355%

Correct answer: D. 355%

Explanation: In 1990-91, the highest tariff rate was 355%. This was substantially reduced over the years as part of the external trade reforms.

Guidance time: 1 minute

Difficulty level: Easy

74. Topic: Foreign Direct Investment (FDI)

Question: After the reforms of 1991, in which of the following sectors was FDI prohibited?

- A. Steel
- B. Retail trade
- C. Information Technology
- D. Automobiles

Correct answer: B. Retail trade

Explanation: Foreign investment was liberalized post-reforms, with the introduction of automatic approval for foreign direct investments up to 51%. However, FDI is still prohibited in a few sectors, including retail trade.

Guidance time: 2 minutes

Difficulty level: Moderate

75. Topic: Liberalization of Import Restrictions

Question: As per the reforms of 1991, which approach was adopted to liberalize import restrictions?

- A. The positive list approach
- B. The negative list approach
- C. Both the positive and negative list approach
- D. Neither the positive nor the negative list approach

Correct answer: B. The negative list approach

Explanation: External trade was further liberalized by replacing 'the positive list approach' of listing license-free items with the negative list approach, which means import licensing was done away with on all but a few goods.

Guidance time: 2 minutes

Difficulty level: Moderate

76. Topic: Industrial Licensing

Question: After the reforms of 1991, in which of the following areas was industrial licensing still required?

- A. Information Technology
- B. Pharmaceuticals
- C. Defence
- D. Food Processing

Correct answer: C. Defence

Explanation: As per the 'New Industrial Policy' of 1991, industrial licensing was abolished for all industries except for a few industries due to strategic and security concerns. The defence sector was among these.

Guidance time: 2 minutes

Difficulty level: Hard

77. Topic: Economic Reforms in India 1991

Question: Who was the Prime Minister of India when the economic reforms of 1991 were introduced?

- A. Indira Gandhi
- B. Rajiv Gandhi
- C. P. V. Narasimha Rao
- D. Atal Bihari Vajpayee

Correct answer: C. P. V. Narasimha Rao

Explanation: The economic reforms of 1991 were introduced under the leadership of then Prime Minister P. V. Narasimha Rao and his Finance Minister Dr. Manmohan Singh.

Guidance time: 1 minute

Difficulty level: Easy

78. Topic: Trade Policy Reforms

Question: In 1991, what system did India follow for its exchange rate?

- A. Floating exchange rate system
- B. Managed floating exchange rate system
- C. Fixed exchange rate system
- D. Dual exchange rate system

Correct answer: C. Fixed exchange rate system

Explanation: In 1991, India had a fixed exchange rate system, where the value of the rupee was pegged to the value of a basket of currencies of major trading partners. It was only from 1993 that India started following a managed floating exchange rate system.

Guidance time: 1 minute

Difficulty level: Moderate

79. Topic: Indian Economy Post 1991 Reforms

Question: Which of the following sectors has NOT shown significant growth due to the economic reforms of 1991?

- A. Pharmaceuticals
- B. Telecommunications
- C. Agriculture
- D. Financial services

Correct answer: C. Agriculture

Explanation: While various sectors such as pharmaceuticals, telecommunications, and financial services have seen significant growth due to the economic reforms of 1991, the value-added share of agriculture and allied activities has declined steadily over the past four decades.

Guidance time: 2 minutes

Difficulty level: Moderate

80. Topic: National Institution for Transforming India (NITI) Aayog

Question 18: In which year was the Planning Commission of India replaced by NITI Aayog?

- A. 2010
- B. 2015
- C. 2000
- D. 2020

Correct answer: B. 2015

Explanation: The Planning Commission of India, an institution which was a strong advocate of public investment-led development, was replaced by the National Institution for Transforming India (NITI) Aayog on 1st January 2015.

Guidance time: 1 minute

Difficulty level: Easy

80. Topic: GDP Growth Rates Post 1991 Reforms

Question 19: According to the data presented, in which year did India witness a negative annual GDP growth rate?

- A. 2000
- B. 2010
- C. 2020
- D. 1991

Correct answer: C. 2020

Explanation: According to the data presented in the table, India witnessed a negative annual GDP growth rate (-6.59608%) in the year 2020.

Guidance time: 2 minutes

Difficulty level: Easy

81. Topic: National Institution for Transforming India (NITI) Aayog

Question 20: Which of the following is NOT an objective of NITI Aayog?

- A. To foster cooperative federalism through structured support initiatives and mechanisms with the states
- B. To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of states
- C. To regulate the foreign exchange market
- D. To provide advice and encourage partnerships between key stakeholders and national and international like-minded think tanks, as well as educational and policy research institutions.

Correct answer: C. To regulate the foreign exchange market

Explanation: Regulating the foreign exchange market is not an objective of NITI Aayog. NITI Aayog is mainly a policy-making body, focusing on national development priorities and strategies, fostering cooperative federalism, and encouraging partnerships between stakeholders and think tanks.

Guidance time: 2 minutes

Difficulty level: Hard

82. Topic: Trade Policy Reforms

Question 21: What was the outcome of the 1991 devaluation of the Indian rupee?

A. It increased the value of the rupee against a basket of foreign currencies

B. It decreased the competitive position of Indian goods in the international market

C. It increased the competitive position of Indian goods in the international market

D. It had no impact on the value of the rupee

Correct answer: C. It increased the competitive position of Indian goods in the international market

Explanation: In 1991, the Indian government devalued the rupee by between 18 and 19 percent. This move made Indian goods cheaper for foreign buyers, thus increasing their competitiveness in the international market.

Guidance time: 1 minute

Difficulty level: Moderate

83. Topic: Indian Economy Post 1991 Reforms

Question 22: In the context of India's economic reforms, what is meant by 'outward-oriented regime'?

- A. An increased focus on domestic consumption
- B. A focus on increasing import tariffs
- C. Greater engagement and integration with the global economy
- D. Limiting foreign direct investment

Correct answer: C. Greater engagement and integration with the global economy

Explanation: An 'outward-oriented regime' refers to an economic policy that encourages trade and greater integration with the global economy. This is achieved through measures such as reduction and simplification of tariffs, removal of import and export restrictions, and increased access to foreign technology and finance.

Guidance time: 1 minute

Difficulty level: Moderate

84. Topic: National Institution for Transforming India (NITI) Aayog

Question 23: What is the main objective of the 'Shoonya' campaign initiated by NITI Aayog?

- A. To improve air quality in India by accelerating the deployment of electric vehicles
- B. To promote the 'use-and-dispose' economy
- C. To reduce India's oil import bill and greenhouse gas emissions
- D. To transform India's gold market

Correct answer: A. To improve air quality in India by accelerating the deployment of electric vehicles

Explanation: The 'Shoonya' campaign initiated by NITI Aayog aims to improve air quality in India by accelerating the deployment of electric vehicles, thereby reducing dependence on fossil fuels and subsequently cutting down on air pollution.

Guidance time: 1 minute

Difficulty level: Moderate

85. Topic: GDP Growth Rates Post 1991 Reforms

Question 24: What was the GDP Growth (Annual %) of India in 1994?

- A. 1.056831
- B. 5.482396
- C. 6.658924
- D. 4.750776

Correct answer: C. 6.658924

Explanation: According to the table provided, the GDP growth (Annual %) of India in the year 1994 was 6.658924%.

Guidance time: 1 minute

Difficulty level: Easy

86. Topic: National Institution for Transforming India (NITI) Aayog

Question 25: Which initiative by NITI Aayog envisions replacing the prevalent 'use-and-dispose' economy?

- A. Life
- B. E-Amrit
- C. Shoonya
- D. Transforming India's Gold Market

Correct answer: A. Life

Explanation: The 'Life' initiative by NITI Aayog envisions replacing the prevalent 'use-and-dispose' economy, moving towards a more sustainable and environmentally-friendly approach.

Guidance time: 1 minute

Difficulty level: Moderate

87. Topic: Indian Agriculture Sector

Question: What was the Gross Value Added (GVA, by the agriculture and allied sector in India for 2021-2022 until 31 January 2022)?

- A. 18.0%
- B. 18.8%
- C. 19.0%
- D. 19.8%

Correct answer: B. 18.8%

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Explanation: According to the data provided, the Gross Value Added by the agriculture and allied sector was 18.8% in 2021-22 until 31 January 2022.

Guidance time: 1 minute

Difficulty level: Easy

88. Topic: Indian Agriculture Sector

Question: How much did the Indian livestock sector grow in the last decade from 2010 to 2019?

- A. 5.5%
- B. 6.0%
- C. 6.6%
- D. 7.0%

Correct answer: C. 6.6%

Explanation: The Indian livestock sector grew by a record 6.6% during the last decade from 2010 to 2019.

Guidance time: 1 minute

Difficulty level: Easy

89. Topic: Agricultural Production in India

Question: What was the index number of agricultural production for rice in 2021-22 (base: triennium ending 2007-08-100)?

- A. 135
- B. 138.7
- C. 140
- D. 145

Correct answer: B. 138.7

Explanation: According to the provided data, the index number of agricultural production for rice in 2021-22 was 138.7.

Guidance time: 1 minute

Difficulty level: Moderate

90. Topic: Agricultural Production in India

Question: What was the total production of food grains in India in 2021-22 (in million tonnes)?

- A. 300 million tonnes
- B. 315.7 million tonnes
- C. 325 million tonnes

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D. 340 million tonnes

Correct answer: B. 315.7 million tonnes

Explanation: The total production of food grains in India for the year 2021-22 was 315.7 million tonnes.

Guidance time: 1 minute

Difficulty level: Easy

91. Topic: Agricultural Policies in India

Question: What is the target set by the government for the Minimum Support Price (MSP) of all 23 mandated crops?

- A. 1 times of all India weighted average cost of production
- B. 1.5 times of all India weighted average cost of production
- C. 2 times of all India weighted average cost of production
- D. 2.5 times of all India weighted average cost of production

Correct answer: B. 1.5 times of all India weighted average cost of production

Explanation: The Indian government has set a target of fixing the Minimum Support Price (MSP) of all 23 mandated crops at 1.5 times of the all India weighted average cost of production.

Guidance time: 1 minute

Difficulty level: Moderate

92. Topic: Indian Agricultural Exports

Question: What is the value of agricultural and allied products exported by India during the last year (in crore Rs)?

- A. 300000 crore Rs
- B. 350000 crore Rs
- C. 374611 crore Rs
- D. 400000 crore Rs

Correct answer: C. 374611 crore Rs

Explanation: The value of agricultural and allied products exported by India during the last year touched an all-time peak of Rs 374611 crore.

Guidance time: 1 minute

Difficulty level: Moderate

93. Topic: Indian Agricultural Policies

Question: Which scheme has been launched by the Indian government to support and promote organic farming and improvement of soil health?

- A. Pradhan Mantri Fasal Bima Yojana (PMFBY)

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B. Paramparagat Krishi Vikas Yojana (PKVY)

C. Agri Infrastructure Fund

D. Mission for Integrated Development of Horticulture (MIDH)

Correct answer: B. Paramparagat Krishi Vikas Yojana (PKVY)

Explanation: The Paramparagat Krishi Vikas Yojana (PKVY) has been launched by the Indian government to support and promote organic farming and improvement of soil health.

Guidance time: 1 minute

Difficulty level: Moderate

94. Topic: Indian Agricultural Policies

Question: Which of the following measures is NOT undertaken by the Indian government to support the agricultural sector?

- A. Income support to farmers through PM KISAN
- B. Fixing of Minimum Support Price (MSP) at three times the cost of production
- C. Institutional credit for agriculture sector at concessional rates
- D. Launch of the National Mission for Edible Oils

Correct answer: B. Fixing of Minimum Support Price (MSP) at three times the cost of production

Explanation: The Indian government fixes the Minimum Support Price (MSP) at one-and-a-half times the cost of production, not three times.

Guidance time: 1 minute

Difficulty level: Easy

95. Topic: Indian Agricultural Challenges

Question: Which of the following is NOT one of the issues faced by Indian agriculture?

- A. Small and fragmented landholdings
- B. Heavy dependence on monsoons
- C. Lack of new agricultural technologies
- D. Over-reliance on export markets

Correct answer: D. Over-reliance on export markets

Explanation: The issues faced by Indian agriculture include small and fragmented landholdings, heavy dependence on monsoons, and lack of new agricultural technologies. However, over-reliance on export markets is not listed as one of the issues.

Guidance time: 1 minute

Difficulty level: Easy

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96. Topic: Indian Agriculture Sector

Question 10: What percentage of India's population is directly dependent on agriculture for living?

- A. 30%
- B. 40%
- C. 47%
- D. 50%

Correct answer: C. 47%

Explanation: According to the latest estimates, 47% of India's population is directly dependent on agriculture for living.

Guidance time: 1 minute

Difficulty level: Easy

97. Topic: Indian Agriculture Sector

Question: What is the percentage of India's population that is directly dependent on agriculture for living, according to the latest estimates?

- A. 35%
- B. 47%
- C. 52%
- D. 40%

Correct answer: B. 47%

Explanation: According to the latest estimates provided in the text, about 47% of India's population is directly dependent on agriculture for their livelihood.

Guidance time: 1 minute

Difficulty level: Easy

98. Topic: Agricultural Production in India

Question: What was the index number of agricultural production for all crops in 2021-22 (base: triennium ending 2007-08=100)?

- A. Above 140
- B. 130
- C. 150
- D. 125

Correct answer: A. Above 140

Explanation: The text states that the index number of agricultural production in 2021-22 for all crops was above 140.

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Guidance time: 1 minute

Difficulty level: Easy

99. Topic: Indian Agricultural Exports

Question: What was the value of export of agricultural and allied products in the last year?

- A. Rs 300000 crore
- B. Rs 350000 crore
- C. Rs 400000 crore
- D. Rs 374611 crore

Correct answer: D. Rs 374611 crore

Explanation: The text states that the export of agricultural and allied products reached an all-time peak of Rs 374611 crore in the last year.

Guidance time: 1 minute

Difficulty level: Easy

100. Topic: Government Initiatives in Agriculture

Question: What is the Pradhan Mantri Fasal Bima Yojana (PMFBY)?

- A. A scheme to provide free seeds to farmers
- B. An insurance scheme for financial support to farmers suffering crop loss/damage
- C. A scheme to provide loans to farmers at a concessional rate
- D. A scheme to promote organic farming

Correct answer: B. An insurance scheme for financial support to farmers suffering crop loss/damage

Explanation: The text states that Pradhan Mantri Fasal Bima Yojana (PMFBY) is an insurance scheme for financial support to farmers suffering crop loss or damage.

Guidance time: 1 minute

Difficulty level: Easy

101. Topic: Indian Agriculture Challenges

Question: Which of the following is a challenge faced by Indian agriculture?

- A. Low farm productivity due to small and fragmented landholdings
- B. Lack of variety in crops
- C. Lack of dependence on monsoons
- D. Overutilization of new agricultural technologies

Correct answer: A. Low farm productivity due to small and fragmented landholdings

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Explanation: The text identifies low farm productivity due to small and fragmented landholdings as a challenge faced by Indian agriculture. These conditions result in very little marketable surplus and lower income levels for agriculturists.

Guidance time: 1 minute

Difficulty level: Easy

102. Topic: Agricultural Infrastructure in India

Question: What does the Agriculture Infrastructure Fund aim to provide?

- A. Soil Health Cards
- B. Insurance to farmers
- C. A medium / long term debt financing facility for investment in viable projects for post-harvest management Infrastructure and community farming assets
- D. Organic farming training

Correct answer: C. A medium / long term debt financing facility for investment in viable projects for post-harvest management Infrastructure and community farming assets

Explanation: The text states that the Agriculture Infrastructure Fund aims to provide a medium / long term debt financing facility for investment in viable projects for post-harvest management Infrastructure and community farming assets.

Guidance time: 1 minute

Difficulty level: Moderate

103. Topic: Indian Agriculture Sector

Question: Which of the following commodities does India not rank as the second-largest producer in the world?

- A. Tea
- B. Fruits
- C. Wheat
- D. Sugarcane

Correct answer: A. Tea

Explanation: According to the text, India is the second-largest producer of fruits, vegetables, tea, farmed fish, cotton, sugarcane, wheat, rice, cotton, and sugar. Tea is not mentioned among these.

Guidance time: 1 minute

Difficulty level: Moderate

104. Topic: Agricultural Growth in India

Question: What was the growth rate of the agriculture sector in India for the year 2022-23?

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A. 2.5%

B. 3.5%

C. 4.5%

D. 5.5%

Correct answer: B. 3.5%

Explanation: According to the economic survey of 2022-23 mentioned in the text, the agriculture sector in India recorded a growth of 3.5%.

Guidance time: 1 minute

Difficulty level: Easy

105. Topic: Agricultural Reforms in India

Question: How is the Minimum Support Price (MSP) for all 23 mandated crops in India determined?

- A. It is fixed at 1.5 times of all India weighted average cost of production
- B. It is determined by the market demand and supply
- C. It is fixed by the state governments
- D. It is determined by the cost of irrigation

Correct answer: A. It is fixed at 1.5 times of all India weighted average cost of production

Explanation: The text states that the Minimum Support Price (MSP) for all 23 mandated crops in India is fixed at 1.5 times of all India weighted average cost of production.

Guidance time: 1 minute

Difficulty level: Moderate

106. Topic: Government Initiatives for Indian Agriculture

Question: Which scheme is designed to increase water use efficiency at the farm level?

- A. PM KISAN
- B. Per Drop More Crop (PDMC).
- C. Pradhan Mantri Fasal Bima Yojana (PMFBY)
- D. Paramparagat Krishi Vikas Yojana (PKVY)

Correct answer: B. Per Drop More Crop (PDMC).

Explanation: The text mentions 'Per Drop More Crop' as a scheme designed to increase water use efficiency at the farm level.

Guidance time: 1 minute

Difficulty level: Easy

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107. **Topic:** Indian Agricultural Production

Question: According to the 2021-22 data, what was the food grains production in India?

- A. 275.7 million tonnes
 - B. 315.7 million tonnes
 - C. 350.7 million tonnes
 - D. 385.7 million tonnes
- Correct answer:** B. 315.7 million tonnes

Explanation: The text mentions that the food grains production in India has reached 315.7 million tonnes in 2021-22.

Guidance time: 1 minute

Difficulty level: Easy

109. **Topic:** The Secondary Sector in India

Question: What percentage does the industrial sector contribute to the total gross value added (GVA, in India's economy)?

- A. 10%
- B. 20%
- C. 30%
- D. 40%

Answer: C. 30%

Explanation: As per the content, the Indian industrial sector contributes about 30 percent of the total GVA in the country.

Difficulty level: Easy

Guidance time: 1 minute

110. **Topic:** Industrial Production in India

Question: Which sector accounts for 78 percent of total production in India?

- A. Mining
- B. Manufacturing
- C. Textiles
- D. Food processing

Answer: B. Manufacturing

Explanation: According to the passage, manufacturing is the most important sector and accounts for 78 percent of total production in India.

Difficulty level: Easy

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Guidance time: 1 minute

111. **Topic:** Manufacturing GVA

Question: As of the third quarter of the financial year 2021-22, what was the manufacturing GVA at current prices estimated at in US dollars?

- A. 47.77 billion
- B. 57.47 billion
- C. 67.47 billion
- D. 77.47 billion

Answer: D. 77.47 billion

Explanation: As per the given content, the manufacturing GVA at current prices was estimated at US\$ 77.47 billion in the third quarter of the financial year 2021-22.

Difficulty level: Medium

Guidance time: 1-2 minutes

112. **Topic:** Industrial Policies in India

Question: What was the key focus of the 'Ease of Doing Business' policy in India?

- A. Expansion of the industrial sector
- B. Simplification of procedures and digitization of government processes
- C. Increase in taxation
- D. Reducing corporate taxes

Answer: B. Simplification of procedures and digitization of government processes

Explanation: The 'Ease of Doing Business' policy in India focuses on the simplification of procedures, rationalization of legal provisions, digitization of government processes, and decriminalization of minor, technical or procedural defaults.

Difficulty level: Medium

Guidance time: 2 minutes

113. **Topic:** Industrial Policies in India

Question: Which policy was initiated in March 2020 to enhance India's manufacturing capabilities and export competitiveness?

- A. Make in India
- B. Ease of Doing Business
- C. Production Linked Incentive (PLI) Scheme
- D. FAME-India Scheme

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Answer: C. Production Linked Incentive (PLI) Scheme

Explanation: The Production Linked Incentive (PLI) Scheme was initiated in March 2020 to enhance India's manufacturing capabilities and export competitiveness.

Difficulty level: Medium

Guidance time: 2 minutes

114. **Topic:** Economic Sectors

Question: Which sector in the Indian economy accounts for 53.89% of the total Gross Value Added (GVA)?

- A. Primary sector
- B. Secondary sector
- C. Tertiary sector
- D. Quaternary sector

Answer: C. Tertiary sector

Explanation: The passage mentions that the service sector (tertiary sector) is the largest sector of India and accounts for 53.89% of the total GVA.

Guidance time: 30 seconds

Difficulty level: Easy

115. **Topic:** Industrial Policies

Question: Which Indian policy is focused on reducing the cost of logistics to make it competitive with other developed countries?

- A. Make in India
- B. National Logistics Policy
- C. Udyami Bharat
- D. Ease of Doing Business

Answer: B. National Logistics Policy

Explanation: The passage states that the National Logistics Policy was launched with the goal of reducing the cost of logistics to be on par with other developed countries.

Guidance time: 30 seconds

Difficulty level: Easy

116. **Topic:** FDI Inflow

Question: In 2021-22, what was the total foreign direct investment (FDI) inflow to India in US dollars?

- A. \$58.77 billion

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B. \$84.8 billion

C. \$77.47 billion

D. \$27.0 billion

Answer: B. \$84.8 billion

Explanation: As per the passage, India received the highest-ever FDI inflows of US\$ 84.8 billion in 2021-22.

Guidance time: 30 seconds

Difficulty level: Easy

117. **Topic:** Economic Sectors

Question: In 2020-21, what was the estimated Gross Value Added (GVA, at current prices for the services sector in India)?

- A. ` 96.54 lakh crore
- B. ` 77.47 lakh crore
- C. ` 58.77 lakh crore
- D. ` 84.8 lakh crore

Answer: A. ` 96.54 lakh crore

Explanation: According to the passage, the Gross Value Added (GVA, at current prices for the services sector was estimated at ` 96.54 lakh crore in 2020-21.

Guidance time: 30 seconds

Difficulty level: Easy

118. **Topic:** Manufacturing Sector

Question: As of 2023, what is India's rank in the Global Innovation Index (GII)?

- A. 40th
- B. 63rd
- C. 55th
- D. 78th

Answer: A. 40th

Explanation: The passage indicates that India's rank in the Global Innovation Index (GII) improved to 40th in 2022.

Guidance time: 30 seconds

Difficulty level: Easy

119. **Topic:** Government Policies

Question: When was the goods and services tax (GST) introduced in India?

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- A. 1st July 2014
- B. 1st July 2017
- C. 1st July 2020
- D. 1st July 2022

Answer: b. 1st July 2017

Explanation: According to the passage, GST was introduced in India on 1st July 2017.

Guidance time: 30 seconds

Difficulty level: Easy

120. **Topic:** Service Exports

Question: How much was India's service exports in November 2022?

- A. US\$ 27.0 billion
- B. US\$ 58.77 billion
- C. US\$ 84.8 billion
- D. US\$ 77.47 billion

Answer: A. US\$ 27.0 billion

Explanation: The passage states that India's service exports were at US\$ 27.0 billion in November 2022.

Guidance time: 30 seconds

Difficulty level: Easy

121. **Topic:** Industrial Growth

Question: What percentage of the total Gross Value Added in the country does the Indian industry contribute?

- A. 30%
- B. 53.89%
- C. 16.3%
- D. 78%

Answer: A. 30%

Explanation: As per the passage, the Indian industry contributes about 30% of the total gross value added in the country.

Guidance time: 30 seconds

Difficulty level: Easy

122. **Topic:** Industrial Policies

Question: Under which Indian policy is 100% foreign direct investment permitted for the sale of coal, coal mining activities, including associated processing infrastructure, and insurance intermediaries?

- A. Make in India
- B. Foreign Investment Promotion Board
- C. Udyami Bharat
- D. National Manufacturing Policy

Answer: A. Make in India

Explanation: According to the passage, under the Make in India policy, 100% foreign direct investment is permitted for the sale of coal, coal mining activities, including associated processing infrastructure, and insurance intermediaries.

Guidance time: 30 seconds

Difficulty level: Easy

123. **Topic:** Service Exports

Question: What was the contribution of the IT-BPM industry to India's total services exports in 2021-22?

- A. 45%
- B. 50%
- C. 55%
- D. 60%

Answer: A. 45%

Explanation: As per the passage, the IT-BPM industry contributed 45% to India's total services exports in 2021-22.

Guidance time: 30 seconds

Difficulty level: Easy

124. **Topic:** Economic Sectors

Question: According to the passage, what percentage of the total Gross Value Added does the agricultural sector contribute to the Indian economy?

- A. 16.3%
- B. 30%
- C. 53.89%
- D. 25%

Answer: A. 16.3%

Explanation: The passage states that the agricultural sector contributes 16.3% of the total gross value added in the Indian economy.

Guidance time: 30 seconds

Difficulty level: Easy

125. **Topic:** Industrial Policies

Question: Which policy launched by the Indian government aims to boost domestic manufacturing and exports?

- A. Make in India
- B. National Logistics Policy
- C. Udyami Bharat
- D. Ease of Doing Business

Answer: A. Make in India

Explanation: The Make in India policy, as mentioned in the passage, was launched with the aim of boosting domestic manufacturing and exports.

Guidance time: 30 seconds

Difficulty level: Easy

126. **Topic:** FDI Inflow

Question: According to the passage, what has been the increase in FDI inflows in the past seven years?

- A. 53%
- B. 63%
- C. 73%
- D. 83%

Answer: D. 83%

Explanation: As per the passage, there has been an increase of 83% in FDI inflows in the last seven years.

Guidance time: 30 seconds

Difficulty level: Easy

127. **Topic:** Economic Sectors

Question: What is the approximate value of the Gross Value Added (GVA, by the Indian industry sector in 2020-21)?

- A. ` 96.54 lakh crore
- B. ` 77.47 lakh crore
- C. ` 58.77 lakh crore
- D. ` 84.8 lakh crore

Answer: C. ` 58.77 lakh crore

Explanation: The passage mentions that the Gross Value Added (GVA, by the industry sector was estimated at ` 58.77 lakh crore in 2020-21.

Guidance time: 30 seconds

Difficulty level: Easy

128. **Topic:** Manufacturing Sector

Question: What is the main goal of the National Logistics Policy as mentioned in the passage?

- A. To improve India's rank in the Global Innovation Index
- B. To reduce the cost of logistics to be on par with other developed countries
- C. To promote the Make in India initiative
- D. To increase the FDI inflows to India

Answer: B. To reduce the cost of logistics to be on par with other developed countries

Explanation: The passage states that the main goal of the National Logistics Policy is to reduce the cost of logistics to make it competitive with other developed countries.

Guidance time: 30 seconds

Difficulty level: Easy

129. **Topic:** Government Policies

Question: What was the impact of the introduction of the goods and services tax (GST) on the Indian economy according to the passage?

- A. It led to a decrease in FDI inflows
- B. It increased the cost of logistics
- C. It reduced the cascading effect of taxes
- D. It promoted the Make in India initiative

Answer: C. It reduced the cascading effect of taxes

Explanation: According to the passage, the introduction of GST reduced the cascading effect of taxes on the cost of goods and services.

Guidance time: 30 seconds

Difficulty level: Easy

130. **Topic:** Service Exports

Question: As per the passage, which industry made a significant contribution to India's service exports in 2021-22?

- A. Tourism industry
- B. IT-BPM industry
- C. Manufacturing industry
- D. Retail industry

Answer: B. IT-BPM industry

Explanation: The passage mentions that the IT-BPM industry made a significant contribution to India's service exports in 2021-22.

Guidance time: 30 seconds

Difficulty level: Easy

131. **Topic:** Industrial Growth

Question: What percentage of the country's total GVA does the service sector contribute according to the passage?

- A. 16.3%
- B. 30%
- C. 53.89%
- D. 78%

Answer: C. 53.89%

Explanation: The passage specifies that the service sector contributes 53.89% of the country's total Gross Value Added.

Guidance time: 30 seconds

Difficulty level: Easy

132. **Topic:** Industrial Policies

Question: According to the passage, which Indian policy allows 100% foreign direct investment for the sale of coal, coal mining activities, and insurance intermediaries?

- A. National Manufacturing Policy
- B. Foreign Investment Promotion Board
- C. Make in India
- D. Udyami Bharat

Answer: C. Make in India

Explanation: The passage states that under the Make in India policy, 100% foreign direct investment is permitted for the sale of coal, coal mining activities, and insurance intermediaries.

Guidance time: 30 seconds

Difficulty level: Easy

133. **Topic:** Service Exports

Question: What was the total services export of India in November 2022 according to the passage?

- A. US\$ 27.0 billion

B. US\$ 58.77 billion

C. US\$ 84.8 billion

D. US\$ 77.47 billion

Answer: A. US\$ 27.0 billion

Explanation: The passage mentions that India's total services exports in November 2022 were US\$ 27.0 billion.

Guidance time: 30 seconds

Difficulty level: Easy