

Chapter 1 -NATURE AND SCOPE OF BUSINESS ECONOMIC

1. Economists regard decision making as important because:

- (a) The resources required to satisfy our unlimited wants and needs are finite, or scarce.
- (b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.
- (c) Resources have alternative uses.
- (d) All the above.

2. Business Economics is -

- (a) Abstract and applies the tools of Microeconomics.
- (b) Involves practical application of economic theory in business decision making.
- (c) Incorporates tools from multiple disciplines.
- (d) (b) and (c) above.

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

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

4. Which of the following is a normative statement?

- (a) Planned economies allocate resources via government departments.
- (b) Most transitional economies have experienced problems of falling output and rising prices over the past decade.
- (c) There is a greater degree of consumer sovereignty in market economies than planned economies.
- (d) Reducing inequality should be a major priority for mixed economies.

5. In every economic system, scarcity imposes limitations on

- (a) households, business firms, governments, and the nation as a whole.
- (b) households and business firms, but not the governments.
- (c) local and state governments, but not the federal government.
- (d) households and governments, but not business firms.

6. Macroeconomics is also called——— economics.

- (a) applied
- (b) aggregate
- (c) experimental
- (d) none of the above

7. An example of 'positive' economic analysis would be:

- (a) an analysis of the relationship between the price of food and the quantity purchased.
- (b) determining how much income each person should be guaranteed.
- (c) determining the 'fair' price for food.
- (d) deciding how to distribute the output of the economy.

8. Which of the following does not suggest a macro approach for India?

- (a) Determining the GNP of India.
- (b) Finding the causes of failure of ABC Ltd.
- (c) Identifying the causes of inflation in India.
- (d) Analyse the causes of failure of industry in providing large scale employment

9. Consider the following and decide which, if any, economy is without scarcity:

<p>(a) The pre-independent Indian economy, where most people were farmers.</p> <p>(b) A mythical economy where everybody is a billionaire.</p> <p>(c) Any economy where income is distributed equally among its people.</p> <p>(d) None of the above</p>
<p>10. Which of the following is not a subject matter of Micro-economies?</p> <p>(a) The price of mangoes.</p> <p>(b) The cost of producing a fire truck for the fire department of Delhi, India.</p> <p>(c) The quantity of mangoes produced for the mangoes market.</p> <p>(d) The national economy's annual rate of growth.</p>
<p>11. The branch of economic theory that deals with the problem of allocation of resources is-</p> <p>(a) Micro-Economic theory.</p> <p>(b) Macro-economic theory.</p> <p>(c) Econometrics.</p> <p>(d) None of the above.</p>
<p>12. Which of the following is not the subject matter of Business Economics?</p> <p>(a) Should our firm be in this business?</p> <p>(b) How much should be produced and at price should be kept?</p> <p>(c) How will the product be placed in the market?</p> <p>(d) How should we decrease unemployment in the economy?</p>
<p>13. Which of the following is a normative economic statement?</p> <p>(a) Unemployment rate decreases with industrialization</p> <p>(b) Economics is a social science that studies human behaviour.</p> <p>(c) The minimum wage should be raised to ` 200/- per day</p> <p>(d) India spends a huge amount of money on national defence.</p>
<p>14. Which of the following would be considered a topic of study in Macroeconomics?</p> <p>(a) The effect of increase in wages on the profitability of cotton industry</p> <p>(b) The effect on steel prices when more steel is imported</p> <p>(c) The effect of an increasing inflation rate on living standards of people in India</p> <p>(d) The effect of an increase in the price of coffee on the quantity of tea consumed</p>
<p>15. The difference between positive and normative Economics is:</p> <p>(a) Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.</p> <p>(b) Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.</p> <p>(c) Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.</p> <p>(d) Positive Economics prescribes while normative Economics describes.</p>
<p>16. Which of the following statements is incorrect?</p> <p>(a) Business economics is normative in nature.</p> <p>(b) Business Economics has a close connection with statistics.</p> <p>(c) Business Economist need not worry about macro variables.</p> <p>(d) Business Economics is also called Managerial Economics</p>
<p>17. In a free market economy the allocation of resources is determined by</p> <p>(a) voting done by consumers.</p> <p>(b) a central planning authority.</p> <p>(c) consumer preferences.</p>

(d) the level of profits of firms.
18. Which of the following is considered as a disadvantage of allocating resources using the market system? (a) Income will tend to be unevenly distributed. (b) People do not get goods of their choice. (c) Men of Initiative and enterprise are not rewarded. (d) Profits will tend to be low.
19. Which of the following statements does not apply to a market economy? (a) Firms decide whom to hire and what to produce. (b) Firms aim at maximizing profits. (c) Households decide which firms to work for and what to buy with their incomes. (d) Government policies are the primary forces that guide the decisions of firms and households.
20. Capital intensive technique would get chosen in a (a) labour surplus economy where the relative price of capital is lower. (b) capital surplus economy where the relative price of capital is lower. (c) developed economy where technology is better. (d) developing economy where technology is poor.
21. Which of the following is not one of the four central questions that the study of economics is supposed to answer? (a) Who produces what? (b) When are goods produced? (c) Who consumes what? (d) How are goods produced?
22. Macro Economics is the study of _____. (a) all aspects of scarcity. (b) the national economy and the global economy as a whole. (c) big businesses. (d) the decisions of individual businesses and people.
23. Freedom of choice is the advantage of - (a) Socialism (b) Capitalism (c) Communism (d) None of the above
24. Exploitation and inequality are minimal under: (a) Socialism (b) Capitalism (c) Mixed economy (d) None of the above
25. Administered prices refer to: (a) Prices determined by forces of demand and supply (b) Prices determined by sellers in the market (c) Prices determined by an external authority which is usually the government (d) None of the above
26. In Economics, the central economic problem means: (a) Output is restricted to the limited availability of resources (b) Consumer do not have as much money as they would wish (c) There will always be certain level of unemployment (d) Resources are not always allocated in an optimum way
27. Which of the following is not one of the features of capitalist economy? (a) Right of private property

<p>(b) Freedom of choice by the consumers (c) No profit, No Loss motive (d) Competition</p>
<p>28. There is need of economic study, because - (a) The resources are limited (b) The wants are unlimited (c) The resources are unlimited (d) Both a and b</p>
<p>29. The benefit of economic study is - (a) It ensure that all problems will be appropriately tackled (b) It helps in identifying problems (c) It enable to examine a problem in its right perspective (d) It gives exact solutions to every problem</p>
<p>30. The managerial economics - (a) Is Applied Economics that fills the gap between economic theory and business practice (b) Is just a theory concept (c) Trains managers how to behave in recession (d) Provides the tools which explain various concepts</p>
<p>31. Which of the following statements is correct? (a) Micro economics is important for study of a particular household and a particular firm (b) Macro economics is important for study of economic conditions of a country (c) None of the above (d) Both a and b</p>
<p>32. Mr. Satish hired a business consultant to guide him for growth of his business. The consultant visited his factory and suggested some changes with respect to staff appointment, loan availability and so on. Which approach is that consultant using? (a) Micro economics (b) Macro economics (c) None of the above (d) Both(a) and (b)</p>
<p>33. Profit motive is a merit of (a) Socialism (b) Capitalism (c) Mixed economy (d) None of the above</p>
<p>34. Which of the following statements is/are correct regarding business economics? (a) Business economics attempts to indicate how business policies are firmly rooted in economic principles. (b) Business economics uses micro economic analysis of the business unit and macro economic analysis of business environment. (c) Business economics takes a pragmatic approach towards facilitating an integration between economic theory and business practices. (d) All the above.</p>
<p>35. Unlimited ends and limited means together present the problem of _____. (a) Scarcity of resources (b) Choice (c) Distribution (d) None of the above</p>
<p>36. What is the merit of Capitalism? (a) It promotes self-interest & economic growth. (b) It leads economic balance in the country (c) It leads to equitable distribution of wealth.</p>

(d) It leads to equitable distribution of wealth
37. Normative economics is also known as - (a) Prescriptive Economics (b) Positive Economics (c) Applied Economics (d) None of these
38. Who defined Business economics in terms of the use of economic analysis in the formulation of business policies? (a) Adam Smith (b) Robbins (c) Joel Dean (d) Alfred Marshall
39. The choice between labour- and Capital-intensive techniques is related with: (a) What to Produce? (b) How to Produce? (c) For whom to Produce (d) All of the above.
40. Which of the following is NOT a central issue in macroeconomics? (a) How should the central bank of a country fight inflation? (b) What is responsible for high and persistent unemployment? (c) How do tax changes influence consumers' buying choices? (d) What factors determine economic growth?
41. Which of the following matters is/are fundamentally connected to economic analysis? (a) Economic prosperity (b) Higher standard of living (c) Changes in price of a commodity (d) All of the above
42. Which aspect of taxation involves Normative Economics? (a) the incidence of the tax (b) the effect of the tax on incentives to work (c) the "fairness" of the tax (d) all the above.
43. In a market economy, resource allocation is primarily determined by: (a) Central planning by the government (b) Consumer demand and supply in the marketplace (c) The decisions of a few large corporations (d) International trade agreements
44. Which of these countries is a purely socialist economy? (a) USSR (b) China (c) Vietnam (d) None of these
45. In a capitalist economy, profit is socially desirable because it: (a) reallocates wealth from small firms to large firms. (b) attracts resources to the most desirable types of production. (c) allows firms to operate at higher levels of cost. (d) permits firms to hire more workers and thereby reduces the unemployment rate.
46. What social function is served by profits in a capitalist economic system? (a) Taxes on profits support government programs. (b) They provide an incentive for the reallocation of resources.

<p>(c) Profits allow individuals to accumulate wealth and engage in capital investment</p> <p>(d) Profits result in higher levels of employment.</p>
<p>47. Positive economics means:</p> <p>(a) Does not depend on market interactions,</p> <p>(b) only looks at the best parts of the economy.</p> <p>(c) Examines how the economy works (as opposed to how it should work)</p> <p>(d) is very subjective.</p>
<p>48. Scarcity of resources exist at:</p> <p>(a) Micro level (b) Macro level</p> <p>(c) Micro as well as Macro (d) None of these</p>
<p>49. The Characteristics of Production Possibility Curve:</p> <p>(a) Slopes downwards from left to right</p> <p>(b) PPC is concave to the origin</p> <p>(c) Both A and B</p> <p>(d) None of these</p>
<p>50. Problem of choice is the basis of:</p> <p>(a) Economic Problem (b) Social Problem</p> <p>(c) Political Problem (d) None of these</p>
<p>51. The regulatory mechanism of the market system is:</p> <p>(a) Self interest</p> <p>(b) Private property</p> <p>(c) Competition</p> <p>(d) Specialization</p>
<p>52. 'Economics is the study of mankind in the ordinary business of life was given by</p> <p>(a) Adam Smith (b) Lord Robbins</p> <p>(c) Alfred Marshall (d) Samuelson</p>
<p>53. The branch of economic theory that deals with the problem of allocation of resources is</p> <p>(a) Micro economics (b) Macroeconomics</p> <p>(c) Econometrics (d) None of these</p>
<p>54. Capitalistic Economy uses ___ as principal means of allocating Resources</p> <p>(a) demand (b) supply</p> <p>(c) price (d) all of the above</p>
<p>55. A study of how an increase in the corporate income tax rate will affect the national unemployment rate is an example of:</p> <p>(a) Macroeconomics</p> <p>(b) Descriptive Economics</p> <p>(c) Microeconomics</p> <p>(d) Normative Economics</p>
<p>56. In which type of economy do consumers and producers make their choices based on the market forces demand and supply?</p> <p>(a) Open Economy (b) Controlled Economy</p> <p>(c) Command Economy (d) Market Economy</p>
<p>57. Under a free economy, prices are:</p> <p>(a) Regulated</p> <p>(b) Determined through a free interplay of demand and supply</p> <p>(c) Partly regulated</p>

(d) None of these
58. Which of the following falls under microeconomics? (a) National income (b) General price level (c) Factor pricing (d) National saving and investment
59. In a free-market economy, when consumers increase their purchase of a goods and the level of___ exceeds_____ then prices tend to rise : (a) demand, supply (b) supply, demand (c) prices, demand (d) profits, supply
60. According to Robbins, 'means' are: (a) Scarce (b) Unlimited (c) Undefined (d) All of these
61. Economics is the study of (a) How society manages its unlimited resources (b) How to reduce our wants until we are satisfied (c) How society manages its scarce resources (d) How to fully satisfy our unlimited wants
62. A mixed economy means : (a) Co-existence of small and large industries (b) Promoting both agriculture and industries in the economy (c) Co-existence of rich and poor (d) Co-existence of public and private sectors
63. Who defines Economics in terms of Dynamic Growth and Development? (a) Robbins (b) Paul A Samuelson (c) Adam Smith (d) None
64. A Free Market economy, solves its Central Problems through (a) planning authority (b) market mechanism (c) both (d) none
65. Normative aspect of Economics is given by : (a) Marshall (b) Robbins (c) Adam Smith (d) Samuelson
66. Which one is not the characteristic of a capitalistic economy? (a) Profit motive (b) Income inequality (c) Free employment (d) Collective ownership
67. Mixed economy means (a) All economic decisions are taken by the Central Authority (b) All economic decisions are taken by private entrepreneurs (c) Economic decisions are partly taken by the state and partly by private entrepreneurs (d) None of these
68. A developed economy uses_____ technique in production (a) labour intensive (b) capital intensive (c) home-based (d) traditional
69. one is the feature of Marshall's definition? (a) Limited ends (b) Scarce means

(c) Study of wealth as well as study of man (d) Study of allocation of resources
70. Which one in the following is not correct : (a) There are limited wants (b) Means are scarce (c) Resources have alternative uses (d) Economics is science
71. Who gave the positive aspect of science? (a) Alfred Marshall (b) A.C. Pigou (c) Adam Smith (d) Robbins
72. Which of these is an example of macroeconomics: (a) The problem of unemployment in India (b) The rising price level in the country (c) Increase in disparities of income (d) All of the above
73. In a capitalist economy the allocation of resources is performed by: (a) Producers (b) Government (c) Planners (d) Price mechanism
74. Which of the following statements is incorrect? (a) Alfred Marshall propagated the wealth definition of Economics (b) L. Robbins introduced the 'Scarcity' definition of Economics (c) Samuelson emphasized upon the "growth" aspect of Economics (d) A.C Pigou believed in the 'welfare' aspect of Economics
75. Inequalities of income do not perpetuate in (a) socialism (b) mixed economy (c) capitalism (d) none
76. Which of the following are the features of a mixed economy? (a) Planned economy (b) Dual system of pricing exists (c) Balanced regional development (d) All of the above.
77. Normative Economics is based on: (a) Ethical Considerations (b) Facts and Generalization (c) What is? (d) All of the above
78. A Capitalist Economy follows the policy of: (a) Laissez-faire (b) Regulated markets (c) Promoting public sector (d) None of the above.
79. "Economics is the science of choice-making' implies:- (a) No choice is to be made (b) The choice to be made between alternative uses (c) The choice to be made between means and ends (d) None of the above

<p>80. A capitalist economy is by and large</p> <p>(a) a closed economy</p> <p>(b) a free market economy</p> <p>(c) a centrally controlled economy</p> <p>(d) an economy in which a government neither collects any taxes nor incurs any expenditure</p>
<p>81. A free-market economy's driving force is:</p> <p>(a) Profit motive</p> <p>(b) Welfare of the people</p> <p>(c) Rising income and levels of living</p> <p>(d) None of the above</p>
<p>82. "Economics is neutral between ends". The statement is given by:</p> <p>(a) L. Robbins (b) Mrs. Joan</p> <p>(c) Alfred Marshall (d) A.C. Pigou</p>
<p>83. Where does the price mechanism exist?</p> <p>(a) Capitalist Economy</p> <p>(b) Socialist Economy</p> <p>(c) Both types of economies</p> <p>(d) None of the above</p>
<p>84. Economics which is concerned with welfare propositions is called</p> <p>(a) Socialistic economics</p> <p>(b) Capitalistic economics</p> <p>(c) Positive economics</p> <p>(d) Normative economics</p>
<p>85. In which among the following systems the right to property' exists</p> <p>(a) Mixed economy (b) Capitalist economy</p> <p>(c) Socialist economy (d) Traditional economy</p>
<p>86. Positive science only explains</p> <p>(a) What is?</p> <p>(b) What ought to be?</p> <p>(c) What is right or wrong</p> <p>(d) None of the above</p>
<p>87. Socialist Economy is also known as</p> <p>(a) Mixed Economy</p> <p>(b) Centrally Planned Economy</p> <p>(c) Capitalist Economy</p> <p>(d) None of the above</p>
<p>88. Who has defined economics as "Science which deals with wealth"?</p> <p>(a) Adam Smith (b) Canon</p> <p>(c) J.B. Say (d) A.C. Pigou</p>
<p>89. The meaning of time element in economics is:</p> <p>(a) Calendar time</p> <p>(b) Clock time</p> <p>(c) Operational time in which supply adjusts with the market demand</p> <p>(d) None of the above</p>
<p>90. All wants of an individual are not of:</p> <p>(a) Equal importance (b) Immediate importance</p>

(c) Fixed importance (d) All of the above
91. Micro economics does not study (a) Consumer behavior (b) Factor pricing (c) General price level (d) Firms equilibrium.
92. Find out the correct statement (a) Higher the prices, lower the quality demanded of a product is a normative statement (b) Micro and macro-economics are interdependent (c) In a capitalist economy, the economic problems are solved by planning commission (d) In deductive method logic proceeds from particular to the general
93. Microeconomics is the study of: (a) Individual parts of the economy (b) The economy as a whole (c) Choice making (d) Development of the economy
94. The definition of economics given by Robbins does not deal with one of the following aspects. Indicate that aspect. (a) Scarce means (b) Limited ends (c) Alternative uses (d) Economics is a science
95. Which Economic System is described by Schumpeter as 'capitalism in the oxygen tent'? (a) Laissez-Faire Economy (b) Command Economy (c) Mixed Economy (d) Agrarian Economy
96. The Central problem in every economic society is: (a) To ensure a minimum level of income for every individual. (b) To allocate scarce resources in such a manner that society, unlimited wants are satisfied in the best possible manner. (c) To ensure that production occurs in the most efficient manner. (d) To provide job to every job seeker.
97. Socialist Economy was propounded by: (a) Karl Marx & Fredut Angles (b) Samuelson (c) A.C. Pigou (d) Adam Smith
98. Concept of Business Economics was given by: (a) Joel Dean (b) Alfred Marshall (c) Adam Smith (d) L. Robbins
99. A business economy involves the theory of Business economics with (a) Normative Economics (b) Business practices (c) Micro Economics (d) Macro Economic
100. Which factor is included in business Economics? (a) Business Economics is an art (b) Interdisciplinary in nature (c) Normative in nature (d) All of the above

Solution :-

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

CHAPTER 2 - THEORY OF DEMAND & SUPPLY

1. Demand for a commodity refers to:
- (a) desire backed by ability to pay for the commodity.
 - (b) need for the commodity and willingness to pay for it
 - (c) the quantity demanded of that commodity at a certain price.
 - (d) the quantity of the commodity demanded at a certain price during any particular period of time.
2. Contraction of demand is the result of :
- (a) decrease in the number of consumers.
 - (b) increase in the price of the good concerned.
 - (c) increase in the prices of other goods.
 - (d) decrease in the income of purchasers.
3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
- (a) The preference of the individual.
 - (b) His monetary income.
 - (c) Price of the commodity
 - (d) Price of related goods.
4. Which of the following pairs of goods is an example of substitutes?
- (a) Tea and sugar (b) Tea and coffee.
 - (c) Pen and ink. (d) Shirt and trousers.
5. In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be:
- (a) 0 (b) 1
 - (c) 1.5 (d) 2
6. The Law of Demand, assuming other things to remain constant, establishes the relationship between:
- (a) income of the consumer and the quantity of a good demanded by him.
 - (b) price of a good and the quantity demanded.
 - (c) price of a good and the demand for its substitute.
 - (d) quantity demanded of a good and the relative prices of its complementary goods.
7. Identify the factor which generally keeps the price-elasticity of demand for a good low:
- (a) Variety of uses for that good.
 - (b) Very low price of a commodity
 - (c) Close substitutes for that good.
 - (d) High proportion of the consumer's income spent on it.
8. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:
- (a) Equal to one. (b) Greater than one.
 - (c) Less than one. (d) Zero
9. In the case of an inferior good, the income elasticity of demand is:
- (a) positive. (b) Zero.
 - (c) Negative. (d) infinite.
10. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:
- (a) Remain the same. (b) Increase.

(c) Decrease.	(d) Any of these.
11. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:	
(a) horizontal.	(b) Vertical.
(c) positively sloped.	(d) negatively sloped.
12. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:	
(a) Shift towards left since these are substitutes	
(b) Shift towards right since these are substitutes	
(c) Remain at the same level	
(d) None of the above	
13. All of the following are determinants of demand except:	
(a) Tastes and preferences.(b) Quantity supplied.	
(c)Income of the consumer (d) Price of related goods.	
14. A movement along the demand curve for soft drinks is best described as:	
(a) An increase in demand.	
(b) A decrease in demand.	
(c) A change in quantity demanded.	
(d) A change in demand.	
15. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is:	
(a) Elastic. (b) Inelastic.	
(c) Unitarily elastic. (d) Perfectly elastic.	
16. If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is	
(a) -0.25 (b) 0.25	
(c) -4 (d) 4	
17. Given the following four possibilities, which one results in an increase in total consumer expenditure?	
(a) Demand is unitary elastic and price falls.	
(b) Demand is elastic and price rises.	
(c) Demand is inelastic and price falls.	
(d) Demand is inelastic and prices rises	
18. Which of the following statements about price elasticity of supply is correct?	
(a) Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good	
(b) Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price	
(c) Price elasticity of supply in the long run would be different from that of the short run	
(d) All the above	
19. Which of the following is an incorrect statement?	
(a) When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes.	
(b) When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise	
(c) As the income of the consumer increases, the demand for the commodity increases always and vice versa.	

(d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases

20. Suppose the price of movies seen at a theatre rises from ` 120 per person to ` 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)

- (a) .5
- (b) .8
- (c) 1.0
- (d) 1.2

21. When the numerical value of cross elasticity between two goods is very high, it means

- (a) The goods are perfect complements and therefore have to be used together
- (b) The goods are perfect substitutes and can be used with ease in place of one another
- (c) There is a high degree of substitutability between the two goods
- (d) The goods are neutral and therefore cannot be considered as substitutes

22. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?

- (a) Quantity demanded will fall by a relatively large amount.
- (b) Quantity demanded will fall by a relatively small amount.
- (c) Quantity demanded will rise in the short run, but fall in the long run.
- (d) Quantity demanded will fall in the short run, but rise in the long run.

23. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:

- (a) Large fall in quantity demanded.
- (b) Large fall in demand.
- (c) Small fall in quantity demanded.
- (d) Small fall in demand.

24. Point elasticity is useful for which of the following situations?

- (a) The bookstore is considering doubling the price of notebooks.
- (b) A restaurant is considering lowering the price of its most expensive dishes by 50 percent.
- (c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by ` 100.
- (d) None of the above.

25. A decrease in price will result in an increase in total revenue if:

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

26. An increase in price will result in an increase in total revenue if:

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

27. Demand for a good will tend to be more elastic if it exhibits which of the following characteristics?

- (a) It represents a small part of the consumer's income.

- (b) The good has many substitutes available.
- (c) It is a necessity (as opposed to a luxury).
- (d) There is little time for the consumer to adjust to the price change.

28. Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?

- (a) The good has many substitutes.
- (b) The good is a luxury (as opposed to a necessity).
- (c) The good is a small part of the consumer's income.
- (d) There is a great deal of time for the consumer to adjust to the change in prices.

29. Total utility is maximum when:

- (a) Marginal utility is zero.
- (b) Marginal utility is at its highest point.
- (c) Marginal utility is negative
- (d) None of the above

30. Which one is not an assumption of the theory of demand based on analysis of indifference curves?

- (a) Given scale of preferences as between different combinations of two goods.
- (b) Diminishing marginal rate of substitution.
- (c) Diminishing marginal utility of money
- (d) Consumers would always prefer more of a particular good to less of it, other things remaining the same.

31. An indifference curve slopes down towards right since more of one commodity and less of another result in:

- (a) Same level of satisfaction.
- (b) Greater satisfaction.
- (c) Maximum satisfaction.
- (d) Any of the above

32. Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same?

- (a) Supply curve will shift to the left.
- (b) Supply curve will shift to the right.
- (c) Supply will not shift, but the quantity of cars produced per month will decrease.
- (d) Supply will not shift, but the quantity of cars produced per month will increase

33. Which of the following statements is incorrect?

- (a) An indifference curve must be downward-sloping to the right.
- (b) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
- (c) The income elasticity for inferior goods to a consumer is positive
- (d) The total effect of a change in the price of a good on its quantity demanded is called the price effect.

34. The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of

- (a) Operation of the law of demand.
- (b) Consumer surplus enjoyed in hobbies and rare collections
- (c) Exception to the law of diminishing utility.

(d) None of the above
35. What will happen in the rice market if buyers are expecting higher rice prices in the near future? (a) The demand for rice will increase and the demand curve will shift to the right (b) The demand for rice will decrease and the demand curve will shift to the left (c) The demand for rice will be unaffected as it is a necessity (d) The demand for wheat will increase and the demand curve will shift to the right
36. In the case of a Giffen good, the demand curve will usually be: (a) horizontal. (b) downward-sloping to the right. (c) vertical. (d) upward-sloping to the right.
37. By consumer surplus, economists mean (a) The area inside the budget line above the price of the commodity (b) The area between the average revenue and marginal revenue curves. (c) The difference between the maximum amount that a person is willing to pay for a good and its market price. (d) The difference between the market price and the supply curve
38. Which of the following is a property of an indifference curve? (a) It is convex to the origin due to diminishing marginal rate of substitution (b) The marginal rate of substitution is constant as you move along an indifference curve. (c) Marginal utility is constant as you move along an indifference curve. (d) Total utility is greatest where the budget line cuts the indifference curve.
39. When economists speak of the utility of a certain good, they are referring to (a) The demand for the good. (b) The usefulness of the good in consumption. (c) The expected satisfaction derived from consuming the good. (d) The rate at which consumers are willing to exchange one good for another
40. A vertical supply curve parallel to Y axis implies that the elasticity of supply is: (a) Zero (b) Infinity (c) Equal to one (d) Greater than zero but less than infinity.
41. For a normal good with a downward sloping demand curve: (a) The price elasticity of demand is negative; the income elasticity of demand is negative. (b) The price elasticity of demand is positive; the income elasticity of demand is negative. (c) The price elasticity of demand is positive; the income elasticity of demand is positive. (d) The price elasticity of demand is negative; the income elasticity of demand is positive.
42. An increase in the supply of a good is caused by : (a) Improvements in its production technology (b) Fall in the prices of other goods which can be produced using the same inputs. (c) Fall in the prices of factors of production used in its production. (d) all of the above.
43. Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its: (a) Demand. (b) Price. (c) Cost of production. (d) State of technology
44. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:

<p>(a) Zero. (b) Infinite. (c) Equal to one. (d) Greater than zero but less than one.</p>
<p>45. Conspicuous goods are also known as (a) Prestige goods (b) Snob goods (c) Veblen goods (d) All of the above</p>
<p>46. The quantity purchased remains constant irrespective of the change in income. This is known as (a) negative income elasticity of demand (b) income elasticity of demand less than one (c) zero income elasticity of demand (d) income elasticity of demand is greater than one</p>
<p>47. When income increases the money spent on necessities of life may not increase in the same proportion. This means (a) income elasticity of demand is zero (b) income elasticity of demand is one (c) income elasticity of demand is greater than one (d) income elasticity of demand is less than one</p>
<p>48. The luxury goods like jewellery and fancy articles will have (a) low income elasticity of demand (b) high income elasticity of demand (c) zero income elasticity of demand (d) none of the above</p>
<p>49. A good which cannot be consumed more than once is known as (a) Durable good (b) Non-durable good (c) Producer good (d) None of the above</p>
<p>50. A relative price is (a) price expressed in terms of money (b) what you get paid for babysitting your cousin (c) the ratio of one money price to another (d) equal to a money price</p>
<p>51. When both the price of a substitute and the price of a complement of commodity X rise, the demand for X: (a) Rises (b) falls (c) remains unchanged (d) all of the above are possible.</p>
<p>52. A consumer who is below the personal budget line (rather than on it): (a) is not spending all personal income (b) is spending all personal income (c) may or may not be spending all personal income (d) is in equilibrium.</p>
<p>53. depicts complete picture of consumer's tastes and preferences (a) Budget line (b) Average cost curve (c) Indifference map (d) Marginal revenue curve</p>
<p>54. The level of consumption at which marginal utility of a commodity reaches zero is called: (a) Point of Satiation (b) Point of Equilibrium (c) Point of breakeven (d) None of these</p>

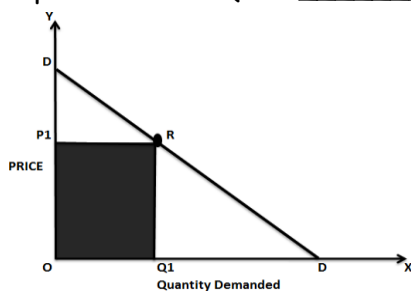
65. A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has _____.

- (a) more of one of the goods
- (b) less of at least one of the goods
- (c) more of at least one of the goods and less of the other good.
- (d) more of at least one of the goods and no less of the other good.

66. During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy _____ vegetables than/as her usual demand showing the demand of vegetables is _____.

- (a) more, inelastic demand
- (b) less, elastic demand
- (c) same, inelastic demand
- (d) same, elastic demand

67. In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion OP₁RQ₁ is _____.



- (a) Total Revenue (TR)
- (b) Marginal Revenue (MR)
- (c) Total Cost (TC)
- (d) None of these

68. The law of consumer surplus is based on:

- (a) indifferent curve analysis
- (b) revealed preference theory
- (c) law of substitution
- (d) the law of diminishing marginal utility

69. If the price of apples rises from ` 30 per kg to ` 40 per kg and the supply increases from 240 kg to ` 300 kg. Elasticity of supply is:

- (a) .77
- (b) .67
- (c) (-) .67
- (d) (-) .77

70. The producer is in equilibrium at a point where the cost line is:

- (a) above the isoquant
- (b) below the isoquant
- (c) cutting the isoquant
- (d) tangent to isoquant

71. Indifference Curve analysis is superior to utility analysis:

- (a) It dispenses with the assumption of measurability
- (b) It segregates income effect and substitution effect
- (c) It does not assume constancy of marginal utility of money
- (d) All of the above

72. Demand for complementary goods are:

- (a) Derived Demand
- (b) Autonomous demand
- (c) Aggregate Demand
- (d) None of these

73. Management of the firm factors.

- (a) Has
- (b) has no

(c) has partial (d) None of these

74. Which of the following statements is correct?

- (a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero.
- (b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite.
- (c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity.
- (d) None of these

75. Computers and computer software are_____.

- (a) Substitute goods (b) Complementary goods
- (c) Independent goods (d) Normal goods

76. Which of the following statement(s) is/are true about the slope of budget line?

- (a) The slope of budget line is determined by the relative prices of two goods.
- (b) The slope of budget line is equal to price ratio of two goods.
- (c) The slope of budget line measures the rate at which the consumer can trade one good for the other.
- (d) All of the above

77. Traditional approach of law of demand was propounded by_____.

- (a) Giffen (b) Paul A Samuelson
- (c) Alfred Marshall (d) Pique

78. Decrease in input demand_____ .

- (a) Doesn't affect inputs prices
- (b) Pushes inputs prices up
- (c) Pulls inputs prices down
- (d) Either (B) or (c)

79. If the quantity of a commodity demanded remains unchanged as its price changes, the coefficient of price elasticity of demand is:

- (a) >1 (b) $= 1$
- (c) < 1 (d) 0

80. The substitution effect for a fall in the price of a commodity (ceteris paribus) is given by:

- (a) a movement up a given IC
- (b) a movement from a higher to a lower IC
- (c) a movement down a given IC
- (d) any of the above

81. If a good has a price elasticity of demand greater than 1, it is considered:

- (a) Price inelastic (b) Price elastic
- (c) Unit price elastic (d) Price neutral

82. The income elasticity of demand measures:

- (a) The responsiveness of quantity demanded to change in price
- (b) The responsiveness of quantity demanded to change in income
- (c) The responsiveness of quantity supplied to change in price
- (d) The responsiveness of quantity supplied to change in income

83. Which of the following factors does NOT influence supply?

- (a) Production costs
- (b) Technological advancements

(c) Prices of inputs (d) Consumer preferences
84. Price Elasticity of Demand of a good is (-) 3. It shows that: (a) When price falls by 1%, demand rises by 3% (b) When price rises by 1%, demand falls by 3% (c) Either (a) or (b) (d) Neither (a) nor (b)
85. The demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively: (a) Proportionately large fall in quantity demanded (b) No change in quantity demanded (c) Proportionately small fall in quantity demanded (d) Infinite change in quantity demanded
86. Demand curve of a firm under monopoly is: (a) Downward sloping (b) Indeterminate (c) Upward sloping (d) Perfectly elastic
87. In a commodity market, excess demand exists when: (a) market price is greater than equilibrium price (b) equilibrium price is greater than market price (c) equilibrium price is not equal to market price (d) government fixes the price
88. Demand curve of perfectly competitive market form is a horizontal straight line parallel to X-Axis. It happens because: (a) Selling costs are zero (b) There is freedom of entry and exit (c) Firm is a price-taker (d) None of these
89. Being _____ utility varies with different persons: (a) Subjective (b) Absolute (c) Objective (d) None of these
90. In a Public good context, it is difficult to measure impact of real income because: (a) Public goods are generally free to the Public (b) They make up a small percentage of total GDP (c) It is hard to measure how people value to public good (d) Inflation decreases the value of the good
91. Availability of close substitute makes the demand: (a) more elastic (b) Less elastic (c) Parallel to X axis (d) None of these
92. The tendency for managers to operate a firm in a way that maximizes their personal utility rather than the firm's profits is referred to as the: (a) consumer utility incentive. (b) principal-agent problem. (c) hidden agenda scenario. (d) Modigliani hypothesis.
93. If we assume the following scenario: as the average income of the consumer increases the demand for "fast" food decreases, then we can assume that "fast" food is:

- (a) a normal good.
- (b) an inferior good.
- (c) None of the above is correct.
- (d) Either of these

94. The price elasticity of demand for a good will tend to be more elastic if:

- (a) the good is broadly defined (e.g., the demand for food as opposed to the demand for carrots).
- (b) the good has relatively few substitutes.
- (c) a long period of time is required to fully adjust to a price change in the good.
- (d) None of the above is true.

95. If cross-price elasticity between goods A and B is determined to be exactly zero, which of the following statements is correct?

- (a) Goods A and B are substitutes
- (b) Goods A and B are complements
- (c) Goods A and B are comparatives
- (d) Goods A and B are independent

96. If supply increases while demand decreases:

- (a) the equilibrium price will definitely increase.
- (b) the equilibrium quantity will definitely increase.
- (c) the equilibrium price will definitely decrease.
- (d) the equilibrium quantity will definitely decrease.

97. By using computers to design and manufacture products, firms are able to:

- (a) reduce production costs.
- (b) reduce the optimal lot size.
- (c) reduce the time required to introduce new products.
- (d) All of the above are correct.

98. Demand curve in case of Monopolistic competition is more elastic as compared to demand curve under Monopoly due to:

- (a) Huge Selling Costs
- (b) Freedom of Entry and Exit
- (c) Presence of Close Substitutes
- (d) Large Number of Firms

99. Marginal Utility is _____ when total utility diminishes.

- (a) Positive (b) Negative
- (c) Zero (d) Infinit

100. Budget Line indicates:

- (a) Income Ratio (b) Price Ratio
- (c) Cost Ratio (d) None of these

Solution :-

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

c	b	a	c	b	a	b	c	a	c
31	32	33	34	35	36	37	38	39	40
a	a	c	c	a	d	c	a	c	a
41	42	43	44	45	46	47	48	49	50
d	d	b	b	d	c	d	b	b	c
51	52	53	54	55	56	57	58	59	60
D	A	C	A	B	A	A	C	C	D
61	62	63	64	65	66	67	68	69	70
B	B	C	B	D	C	A	D	A	D
71	72	73	74	75	76	77	78	79	80
D	A	B	A	B	D	C	C	D	C
81	82	83	84	85	86	87	88	89	90
B	B	D	C	A	A	B	C	A	C
91	92	93	94	95	96	97	98	99	100
A	B	B	D	D	C	D	C	A	B

CHAPTER 3 - THEORY OF PRODUCTION & COST

1. Which of the following is considered production in Economics?

- (a) Tilling of soil.
- (b) Singing a song before friends.
- (c) Preventing a child from falling into a manhole on the road.
- (d) Painting a picture for pleasure.

2. Identify the correct statement:

- (a) The average product is at its maximum when marginal product is equal to average product.
- (b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
- (c) Economies of scale arise only because of indivisibilities of factor proportions.
- (d) Internal economies of scale can accrue when industry expands beyond optimum.

3. Which of the following is not a characteristic of land?

- (a) Its supply for the economy is limited.
- (b) It is immobile.
- (c) Its usefulness depends on human efforts.
- (d) It is produced by our forefathers.

4. Which of the following statements is true?

- (a) Accumulation of capital depends solely on income of individuals.
- (b) Savings can be influenced by government policies.
- (c) External economies go with size and internal economies with location.
- (d) The supply curve of labour is an upward sloping curve.

5. The short run, as economists use the phrase, is characterized by:

- (a) at least one fixed factor of production and firms neither leaving nor entering the industry.
- (b) generally a period which is shorter than one year.
- (c) all factors of production are fixed and no variable inputs.
- (d) all inputs are variable and production is done in less than one year.

6. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:

- (a) when total product is rising, average and marginal product may be either rising or falling.
- (b) when marginal product is negative, total product and average product are falling.
- (c) when average product is at a maximum, marginal product equals average product, and total product is rising.
- (d) when marginal product is at a maximum, average product equals marginal product, and total product is rising.

7. To economists, the main difference between the short run and the long run is that:

- (a) In the short run all inputs are fixed, while in the long run all inputs are variable.
- (b) In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
- (c) In the short run, at least one of the firm's input levels is fixed.
- (d) In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.

8. Which of the following is the best definition of "production function"?

- (a) The relationship between market price and quantity supplied.
- (b) The relationship between the firm's total revenue and the cost of production.
- (c) The relationship between the quantities of inputs needed to produce a given level of output.
- (d) The relationship between the quantity of inputs and the firm's marginal cost of production.

9. Diminishing returns occur:

- (a) when units of a variable input are added to a fixed input and total product falls.
- (b) when units of a variable input are added to a fixed input and marginal product falls.
- (c) when the size of the plant is increased in the long run.
- (d) when the quantity of the fixed input is increased and returns to the variable input falls.

Use the following information to answer questions 14-16.

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

10. Which cost increases continuously with the increase in production?

- (a) Average cost. (b) Marginal cost.
- (c) Fixed cost. (d) Variable cost

11. Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?

- (a) Cost of raw materials.
- (b) Cost of equipment.
- (c) Interest payment on past borrowings.
- (d) Payment of rent on building.

12. If a firm moves from one point on a production isoquant to another, which of the following will not happen.

- (a) A change in the ratio in which the inputs are combined to produce output.
- (b) A change in the ratio of marginal products of the inputs.
- (c) A change in the marginal rate of technical substitution.
- (d) A change in the level of output.

13. With which of the following is the concept of marginal cost closely related?

- (a) Variable cost. (b) Fixed cost.
- (c) Opportunity cost. (d) Economic cost.

14. Which of the following statements is correct?

- (a) When the average cost is rising, the marginal cost must also be rising.
- (b) When the average cost is rising, the marginal cost must be falling.
- (c) When the average cost is rising, the marginal cost is above the average cost.
- (d) When the average cost is falling, the marginal cost must be rising.

15. Which of the following is an example of "explicit cost"?

- (a) The wages a proprietor could have made by working as an employee of a large firm.
- (b) The income that could have been earned in alternative uses by the resources owned by the firm.
- (c) The payment of wages by the firm.
- (d) The normal profit earned by a firm.

16. Which of the following is an example of an "implicit cost"?

- (a) Interest that could have been earned on retained earnings used by the firm to finance expansion.
- (b) The payment of rent by the firm for the building in which it is housed.
- (c) The interest payment made by the firm for funds borrowed from a bank.
- (d) The payment of wages by the firm.

Use the following data to answer questions 27-29.

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

17. The average fixed cost of 2 units of output is:

- (a) ` 80 (b) ` 85
 (c) ` 120 (d) ` 205

18. The marginal cost of the sixth unit of output is:

- (a) ` 133 (b) ` 75
 (c) ` 80 (d) ` 450

19. Diminishing marginal returns start to occur between units:

- (a) 2 and 3. (b) 3 and 4.
 (c) 4 and 5. (d) 5 and 6.

20. Marginal cost is defined as:

- (a) the change in total cost due to a one unit change in output.
 (b) total cost divided by output.
 (c) the change in output due to a one unit change in an input.
 (d) total product divided by the quantity of input.

21. Which of the following is true of the relationship between the marginal cost function and the average cost function?

- (a) If MC is greater than ATC, then ATC is falling.
 (b) The ATC curve intersects the MC curve at minimum MC.
 (c) The MC curve intersects the ATC curve at minimum ATC.
 (d) If MC is less than ATC, then ATC is increasing.

22. Which of the following statements is correct concerning the relationships among the firm's cost functions?

- (a) $TC = TFC - TVC$. (b) $TVC = TFC - TC$.
 (c) $TFC = TC - TVC$. (d) $TC = TVC - TFC$.

23. Suppose output increases in the short run. Total cost will:

- (a) increase due to an increase in fixed costs only.
 (b) increase due to an increase in variable costs only.
 (c) increase due to an increase in both fixed and variable costs.
 (d) decrease if the firm is in the region of diminishing returns.

24. Which of the following statements concerning the long-run average cost curve is false?

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

25. The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?

- (a) Dis-economies of scale.
- (b) Diminishing returns.
- (c) The difficulties encountered in coordinating the many activities of a large firm.
- (d) The increase in productivity that results from specialization.

26. The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?

- (a) Dis-economies of scale.
- (b) Increasing returns.
- (c) The firm being able to take advantage of large-scale production techniques as it expands its output.
- (d) The increase in productivity that results from specialization.

27. A firm's average total cost is ₹ 300 at 5 units of output and ₹ 320 at 6 units of output. The marginal cost of producing the 6th unit is:

- (a) ₹ 20 (b) ₹ 120
- (c) ₹ 320 (d) ₹ 420

28. A firm has a variable cost of ₹ 1000 at 5 units of output. If fixed costs are ₹ 400, what will be the average total cost at 5 units of output?

- (a) ₹ 280 (b) ₹ 60
- (c) ₹ 120 (d) ₹ 1400

29. A firm's average fixed cost is ₹ 20 at 6 units of output. What will it be at 4 units of output?

- (a) ₹ 60 (b) ₹ 30
- (c) ₹ 40 (d) ₹ 20

30. The average product of labour is maximized when marginal product of labour:

- (a) equals the average product of labour.
- (b) equals zero.
- (c) is maximized.
- (d) none of the above.

31. The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:

- (a) the technology is changing.
- (b) there must be some inputs whose quantity is kept fixed.
- (c) we consider only physical inputs and not economic profitability in monetary terms.
- (d) the technology is given and stable.

32. What is a production function?

- (a) Technical relationship between physical inputs and physical output.
- (b) Relationship between fixed factors of production and variable factors of production.
- (c) Relationship between a factor of production and the utility created by it.
- (d) Relationship between quantity of output produced and time taken to produce the output.

33. Laws of production does not include

- (a) returns to scale.
- (b) law of diminishing returns to a factor.
- (c) law of variable proportions.
- (d) least cost combination of factors.

34. An iso quant shows

- (a) All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.

- (b) All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- (c) All the alternative combinations of two inputs that yield the same total product.
- (d) Both (b) and (c).

35. Economies of scale exist because as a firm increases its size in the long run:

- (a) Labour and management can specialize in their activities more.
- (b) As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost.
- (c) The firm can afford to employ more sophisticated technology in production.
- (d) All of these.

36. The production process described below exhibits.

Number of Workers	Output
0	0
1	23
2	40
3	50

- (a) constant marginal product of labour.
- (b) diminishing marginal product of labour.
- (c) increasing return to scale.
- (d) increasing marginal product of labour.

37. Which of the following is a variable cost in the short run?

- (a) rent of the factory.
- (b) wages paid to the factory labour.
- (c) interest payments on borrowed financial capital.
- (d) payment on the lease for factory equipment.

38. The efficient scale of production is the quantity of output that minimizes

- (a) average fixed cost.
- (b) average total cost.
- (c) average variable cost.
- (d) marginal cost.

39. In the short run, the firm's product curves show that

- (a) Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.
- (b) When marginal product is equal to average product, average product is decreasing but at its highest.
- (c) When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.
- (d) In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.

40. A fixed input is defined as

- (a) That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
- (b) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
- (c) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
- (d) That input whose demand can be easily changed in response to the desire to increase or reduce

the level of production

41. Average product is defined as

- (a) total product divided by the total cost.
- (b) total product divided by marginal product.
- (c) total product divided by the number of units of variable input.
- (d) marginal product divided by the number of units of variable input.

42. Which of the following statements is true?

- (a) After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.
- (b) Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.
- (c) The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.
- (d) All the above.

43. Marginal product, mathematically, is the slope of the

- (a) total product curve. (b) average product curve.
- (c) marginal product curve. (d) implicit product curve.

44. Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:

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

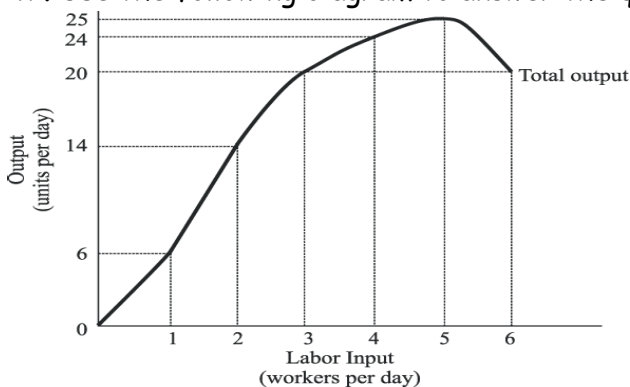
45. Which of the following statements is false in respect of fixed cost of a firm?

- (a) As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.
- (b) TFC continue to exist even when production is stopped in the short run, but they exist in the long run even when production is not stopped.
- (c) Total Fixed Costs (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with production in the short run.
- (d) In the short run, a firm's fixed cost cannot be escaped even when production is stopped.

46. Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence:

- (a) 50, 50, 50, 50 (b) 50, 110, 180, 260
- (c) 50, 100, 150, 200 (d) 50, 90, 120, 140

47. Use the following diagram to answer the question given below it



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

- (a) Six; fourth (b) Six; third
- (c) Six; fifth (d) Six; sixth

48. In the third of the three stages of production:

- (a) the marginal product curve has a positive slope.
- (b) the marginal product curve lies completely below the average product curve.
- (c) total product increases.
- (d) marginal product is positive.

49. When marginal costs are below average total costs,

- (a) average fixed costs are rising.
- (b) average total costs are falling.
- (c) average total costs are rising.
- (d) average total costs are minimized.

50. A firm's long-run average total cost curve is

- (a) Identical to its long-run marginal-cost curve.
- (b) Also its long-run supply curve because it explains the relationship between price and quantity supplied.
- (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
- (d) Tangent to all the curves of short-run average total cost.

51. In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience

- (a) an increase in pollution level.
- (b) diseconomies of scale.
- (c) economies of scale.
- (d) constant returns to scale.

52. Which of the following statements describes increasing returns to scale?

- (a) Doubling of all inputs used leads to doubling of the output.
- (b) Increasing the inputs by 50% leads to a 25% increase in output.
- (c) Increasing inputs by $1/4$ leads to an increase in output of $1/3$.
- (d) None of the above.

53. The marginal cost for a firm of producing the 9th unit of output is ` 20. Average cost at the same level of output is ` 15. Which of the following must be true?

- (a) marginal cost and average cost are both falling
- (b) marginal cost and average cost are both rising
- (c) marginal cost is rising and average cost is falling
- (d) it is impossible to tell if either of the curves are rising or falling

54. Implicit cost can be defined as

- (a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.
- (b) Money not paid out to the owners of the firm for the self-owned factors employed in a business and therefore not entered into books of accounts.
- (c) Money payments which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.
- (d) Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts.

55. Economic costs of production differ from accounting costs of production because

- (a) Economic costs include expenditures for hired resources while accounting costs do not.
- (b) Accounting costs include opportunity costs which are deducted later to find paid out costs.

<p>(c) Accounting costs include expenditures for hired resources while economic costs do not.</p> <p>(d) Economic costs add the opportunity cost of a firm which uses its own resources.</p>
<p>56. Diminishing returns are due to _____ and increasing returns are due to ____.</p> <p>(a) Internal diseconomies, Internal economies</p> <p>(b) Internal economies, Internal diseconomies</p> <p>(c) External diseconomies, Internal economies</p> <p>(d) Internal diseconomies, external economies</p>
<p>57. When the law of diminishing returns begins to operate, the TVC curve begins to:</p> <p>(a) fall at an increasing rate</p> <p>(b) rise at a decreasing rate</p> <p>(c) fall at a decreasing rate</p> <p>(d) rise at an increasing rate</p>
<p>58. _____ is an implicit cost of production.</p> <p>(a) Wages of the labour.</p> <p>(b) Charges for electricity.</p> <p>(c) Interest on owned money capital.</p> <p>(d) Payment for raw material.</p>
<p>59. Firm's supply curve is the _____ part of the _____ starting from above the _____ point minimum AVC.</p> <p>(a) rising; AC curve (b) falling; AC curve</p> <p>(c) rising; MC curve (d) falling; MC curve</p>
<p>60. Which of the following statements is false:</p> <p>(a) When MP rises, TVC increases at an increasing rate.</p> <p>(b) When MP rises, TVC increases at a diminishing rate.</p> <p>(c) When MP becomes constant, TVC increases at a constant rate.</p> <p>(d) When MP falls, TVC increases at a increasing rate.</p>
<p>61. Implicit cost added in _____ cost</p> <p>(a) Economic (b) Simple</p> <p>(c) Accounting (d) None of the above</p>
<p>62. Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns Where average product of variable factor is declining.</p> <p>Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.</p> <p>(a) (A) is true and (R) is false</p> <p>(b) Both (A) and (R) are true & (R) is the correct explanation of (A)</p> <p>(c) Both (A) and (R) are true & (R) is not the correct explanation of (A)</p> <p>(d) (A) is false and (R) is true</p>
<p>63. Which of the following is a FALSE statement?</p> <p>(a) The very long run focuses on the growth of productive capacity</p> <p>(b) In the very long run, the productive capacity is assumed to be given</p> <p>(c) In the very short run, shifts in aggregate demand determine how much output is produced</p> <p>(d) Fluctuations in the rates of inflation and unemployment are important long-run issues</p>
<p>64. Which of the following is a function of an entrepreneur?</p> <p>(a) Initiating a business enterprise</p> <p>(b) Risk bearing</p> <p>(c) Innovating</p>

(d) All of the above
65. Which of the following statements is true of the relationship among the average cost functions? (a) $ATC = AFC + AVC$ (b) $AVC = AFC + ATC$ (c) $AFC = ATC + AVC$ (d) $AFC = ATC - AVC$
66. For a Price taking firm: (a) Marginal revenue is less than Price (b) Marginal revenue is equal to Price (c) The relationship between behavior marginal revenue and Price is indeterminate (d) Marginal revenue is greater than price
67. Perfectly Competitive firm and industry are both in long run equilibrium when: (a) $P = MR = SMC = LMC$ (b) $P = MR =$ Lowest point on the LAC (c) $P = MR = SAC = LAC$ (d) All of the above
68. Given $TC = 2000 + 15Q - 6Q^2 + Q^3$. How much is TFC at $Q = 2000$? (a) 2000 (b) 975 (c) 30,000 (d) Can't be determined
69. Which of the following is not a determinant of the firm's cost function? (a) Taxes (b) The Production Function (c) The Price of the firm's output (d) Subsidies
70. Under the law of variable proportion, stage I is known as the stage of increasing returns because: (a) Marginal product of the variable factor increases throughout this stage (b) Average product of the variable factor increases throughout this stage (c) Marginal product increases at increasing rate throughout this stage (d) Total increases at increasing rate throughout this stage
71. Production function: $Q = 4L^{1/2}K^{2/3}$ exhibits: (a) increasing returns to scale (b) decreasing returns to scale (c) constant returns to scale (d) increasing returns to a factor
72. A mathematical relationship showing the maximum output that can be produced by each and every combination of inputs is called _____. (a) Production equation (b) Production function (c) Production schedule (d) Production identity
73. If the MRTSLK equals 2, then the MPK/MPL is: (a) 2 (b) 1 (c) 2 (d) 4
74. The MC curve reaches its minimum point before the AVC curve and the AC curve. In addition, the MC curve intersects the AVC curve and the AC curve at their lowest point. The above statements are both true: (a) Always (b) never (c) often (d) Sometimes

<p>75. At the shut-down point:</p> <p>(a) $P = AVC$ (b) $TR = TVC$ (c) the total losses of the firm equal TFC (d) all the above.</p>
<p>76. Which of the following is not a reason for operation of increasing returns to a factor?</p> <p>(a) Better utilisation of fixed factor (b) Limitation of fixed factor (c) Increase in efficiency of variable factor (d) Indivisibility of fixed factor</p>
<p>77. At the Point of Inflexion:</p> <p>(a) Total Product is maximum (b) Average Product is maximum (c) Marginal Product is maximum (d) Marginal Product is zero</p>
<p>78. Cost function _____ concept:</p> <p>(a) Economical (b) Functional (c) Financial (d) Technical</p>
<p>79. The cost curve, which is Inversely S-shaped is:</p> <p>(a) Average Cost Curve (b) Total Fixed Cost Curve (c) Total Variable Cost Curve (d) Marginal Cost Curve</p>
<p>80. The cost which is never zero even when production is stopped is known as:</p> <p>(a) Supplementary Cost (b) Prime Cost (c) Explicit cost (d) None of these</p>
<p>81. The Interest on own capital is:</p> <p>(a) Implicit Cost (b) Future Cost (c) Explicit Cost (d) None of these</p>
<p>82. Assertion (A): An iso-cost line is a straight line. Reason (R): The market rate of exchange between the two inputs is constant.</p> <p>(a) (A) is true and (R) is false (b) Both (A) and (R) are true & (R) is the correct explanation of (A) (c) Both (A) and (R) are true & (R) is not the correct explanation of (A) (d) (A) is false and (R) is true</p>
<p>83. Cost Incurred which has no relevance to future planning is called:</p> <p>(a) Marginal cost (b) Sunk cost (c) Average cost (d) None of these</p>
<p>84. Average revenue curve is also known as -</p> <p>(a) Indifference Curve (b) Demand Curve (c) Average Cost Curve (d) None of these</p>
<p>85. The IIInd Stage in Law of Returns to Scale is :</p> <p>(a) Positive Returns (b) Constant Return (c) Negative return (d) None of these</p>
<p>86. Inputs that cannot be easily varied during the time period under consideration are called:</p>

97. Which one of the following is not an internal economies of scale?

- (a) Technical economies
- (b) Financial economies
- (c) Economies due to localization of industries
- (d) Marketing economies

98. X, Y and Z are confused with the formula for defining TC:

- (a) X Says: $TC = TVC + TFC$
- (b) Y Says: $TC = AC \times \text{output}$
- (c) Z Says: $TC = ZMC + TFC$

Identify who amongst them is correct.

- (a) X
- (b) Y
- (c) Z
- (d) All of them

99. In the Cobb-Douglas production function given as: $Q = A L^a K^{1-a}$ the share of labour in total production is:

- (a) A
- (b) $1 - a$
- (c) $a \cdot L$
- (d) $a \cdot L$

100. A production function with constant returns to scale for capital alone implies that:

- (a) there are increasing returns to scale for all factors of production taken together
- (b) if all inputs are doubled then output will more than double
- (c) smaller firms are more efficient than larger firms
- (d) both (A) and (B)

Solution :-

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

A	B	C	A	D	B	C	B	C	A
81	82	83	84	85	86	87	88	89	90
A	B	B	B	B	C	A	A	D	A
91	92	93	94	95	96	97	98	99	100
A	A	B	A	A	C	C	A	A	D

CHAPTER 4 - PRICE DETERMINATION IN DIFFERENT MARKET

1. In the table below what will be equilibrium market price?

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

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

2. Assume that when price is ` 20, the quantity demanded is 9 units, and when price is ` 19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.

- (a) ` 20 (b) ` 19
 (c) ` 10 (d) ` 1

3. Marginal Revenue is equal to:

- (a) The change in price divided by the change in output.
 (b) The change in quantity divided by the change in price.
 (c) The change in $P \times Q$ due to a one unit change in output.
 (d) Price, but only if the firm is a price searcher.

4. Suppose that a sole proprietorship is earning total revenues of ` 1,00,000 and is incurring explicit costs of ` 75,000. If the owner could work for another company for ` 30,000 a year, we would conclude that :

- (a) The firm is incurring an economic loss.
 (b) Implicit costs are ` 25,000.
 (c) The total economic costs are ` 1,00,000.
 (d) The individual is earning an economic profit of ` 25,000

5. Which is the first order condition for the profit of a firm to be maximum?

- (a) $AC = MR$ (b) $MC = MR$
 (c) $MR = AR$ (d) $AC = AR$

6. Which of the following is not a characteristic of a "price-taker"?

- (a) $TR = P \times Q$
 (b) $AR = Price$
 (c) Negatively - sloped demand curve
 (d) $Marginal Revenue = Price$

7. It is assumed in economic theory that

- (a) decision making within the firm is usually undertaken by managers, but never by the owners.

- (b) the ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organisation.
- (c) as the firm's size increases, so do its goals.
- (d) the basic decision making unit of any firm is its owners.
8. Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:
- (a) price will increase. (b) price will decrease.
- (c) quantity will increase. (d) quantity will decrease.
9. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?
- (a) Price will increase; quantity cannot be determined.
- (b) Price will decrease; quantity cannot be determined.
- (c) Quantity will increase; price cannot be determined.
- (d) Quantity will decrease; price cannot be determined.
10. Which of the following is not a condition of perfect competition?
- (a) A large number of firms.
- (b) Perfect mobility of factors.
- (c) Informative advertising to ensure that consumers have good information.
- (d) Freedom of entry and exit into and out of the market.
11. Monopoly may arise in a product market because
- (a) A significantly important resource for the production of the commodity is owned by a single firm.
- (b) The government has given the firm patent right to produce the commodity.
- (c) The costs of production and economies of scale makes production by a single producer more efficient.
- (d) All the above.
12. Oligopolistic industries are characterized by:
- (a) a few dominant firms and substantial barriers to entry.
- (b) a few large firms and no entry barriers.
- (c) a large number of small firms and no entry barriers.
- (d) one dominant firm and low entry barriers.
13. Monopolistic competition differs from perfect competition primarily because
- (a) in monopolistic competition, firms can differentiate their products.
- (b) in perfect competition, firms can differentiate their products.
- (c) in monopolistic competition, entry into the industry is blocked.
- (d) in monopolistic competition, there are relatively few barriers to entry.
14. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures
- (a) the efficient output level will be produced in the long run.
- (b) firms will be producing at minimum average cost.
- (c) firms will only earn a normal profit.
- (d) firms realise all economies of scale.
15. Average revenue curve is also known as:
- (a) Profit Curve (b) Demand Curve
- (c) Average Cost Curve (d) Indifference Curve

<p>16. Under which of the following forms of market structure does a firm have no control over the price of its product?</p> <p>(a) Monopoly (b) Monopolistic competition (c) Oligopoly (d) Perfect competition</p>
<p>17. In the context of oligopoly, the kinked demand hypothesis is designed to explain</p> <p>(a) Price and output determination (b) Price rigidity (c) Price leadership (d) Collusion among rivals.</p>
<p>18. The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that -</p> <p>(a) the firm has some, but not complete, control over its product price. (b) there are so many buyers and sellers in the market that any individual firm cannot affect the market. (c) each firm produces a homogeneous product. (d) there is easy entry into or exit from the market place.</p>
<p>19. The kinked demand curve model of oligopoly assumes that</p> <p>(a) the response (of consumers) to a price increase is less than the response to a price decrease. (b) the response (of consumers) to a price increase is more than the response to a price decrease. (c) the elasticity of demand is constant regardless of whether price increases or decreases. (d) the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases.</p>
<p>20. A firm encounters its "shutdown point" when:</p> <p>(a) average total cost equals price at the profit-maximizing level of output. (b) average variable cost equals price at the profit-maximizing level of output. (c) average fixed cost equals price at the profit-maximizing level of output. (d) marginal cost equals price at the profit-maximizing level of output</p>
<p>21. A purely competitive firm's supply schedule in the short run is determined by</p> <p>(a) its average revenue. (b) its marginal revenue. (c) its marginal utility for money curve. (d) its marginal cost curve.</p>
<p>22. One characteristic not typical of oligopolistic industry is</p> <p>(a) horizontal demand curve. (b) too much importance to non-price competition. (c) price leadership. (d) a small number of firms in the industry.</p>
<p>23. Which of the following statements is incorrect?</p> <p>(a) Even a monopolistic firm can have losses. (b) Firms in a perfectly competitive market are price takers. (c) It is always beneficial for a firm in a perfectly competitive market to discriminate prices. (d) Kinked demand curve is related to an oligopolistic market.</p>
<p>24. Under perfect competition, in the long run, there will be no _____ .</p> <p>(a) normal profits (b) supernormal profits. (c) Production (d) costs.</p>

<p>25. When _____, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.</p> <p>(a) $MC = MR$ (b) $MC = AC$ (c) $MC = AR$ (d) $AR = MR$</p>
<p>26. Agricultural goods markets depict characteristics close to</p> <p>(a) perfect competition. (b) oligopoly. (c) monopoly. (d) monopolistic competition.</p>
<p>27. Which of the following statements is accurate regarding a perfectly competitive firm?</p> <p>(a) Demand curve is downward sloping (b) The demand curve always lies above the marginal revenue curve (c) Average revenue need not be equal to price (d) Price is given and is determined by the equilibrium in the entire market</p>
<p>28. The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as</p> <p>(a) Monopolistically competitive (b) a monopoly (b) an oligopoly (d) perfectly competitive</p>
<p>29. In the long-run equilibrium of a competitive market, firms operate at</p> <p>(a) the intersection of the marginal cost and marginal revenue (b) their efficient scale (c) zero economic profit (d) all of these answers are correct</p>
<p>30. Which of the following is not a characteristic of a monopolistically competitive market?</p> <p>(a) Free entry and exit (b) Abnormal profits in the long run (c) Many sellers (d) Differentiated products</p>
<p>31. Total revenue =</p> <p>(a) price \times quantity (b) price \times income (c) income \times quantity (d) none of the above</p>
<p>32. Average revenue is the revenue earned</p> <p>(a) per unit of input (b) per unit of output (c) different units of input (d) different units of output</p>
<p>33. Marginal revenue can be defined as the change in total revenue resulting from the:</p> <p>(a) purchase of an additional unit of a commodity (b) sales of an additional unit of a commodity (c) sale of subsequent units of a product (d) none of the above</p>
<p>34. When $e > 1$ then MR is</p> <p>(a) Zero (b) Negative (c) Positive (d) one</p>
<p>35. In Economics, the term 'market' refers to a:</p> <p>(a) place where buyer and seller bargain a product or service for a price (b) place where buyer does not bargain</p>

(c) place where seller does not bargain (d) none of the above
36. Under perfect competition a firm is the (a) price-maker and not price-taker (b) price-taker and not price-maker (c) neither price-maker nor price-taker (d) none of the above
37. Under monopoly, the degree of control over price is: (a) None (b) Some (c) very considerable (d) none of the above
38. Generally, perishable goods like butter, eggs, milk, vegetables etc., will have (a) regional market (b) local market (c) national market (d) none of the above
39. Stock exchange market is an example of (a) unregulated market (b) regulated market (c) spot market (d) none of the above
40. The market for the ultimate consumers is known as (a) whole sale market (b) regulated market (c) unregulated market (d) retail market
41. In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, Then it is called: (a) full oligopoly (b) collusive oligopoly (c) partial oligopoly (d) syndicated oligopoly
42. When the products are sold through a centralized body, oligopoly is known as (a) organized oligopoly (b) partial oligopoly (c) competitive oligopoly (d) syndicated oligopoly
43. Price discrimination is related to (a) Time (b) size of the purchase (c) Income (d) any of the above
44. The firm and the industry are one and the same in_ (a) Perfect competition (b) Monopolistic competition (c) Duopoly (d) Monopoly
45. Which of the following statements is correct? (a) Price rigidity is an important feature of monopoly. (b) Selling costs are possible under perfect competition. (c) Under perfect competition factors of production do not move freely as there are legal restrictions. (d) An industry consists of many firms.
46. Which of the following statements is incorrect? (a) Under monopoly there is no difference between a firm and an industry. (b) A monopolist may restrict the output and raise the price. (c) Commodities offered for sale under a perfect competition will be heterogeneous. (d) Product differentiation is peculiar to monopolistic competition.
47. Average revenue is equal to. (a) The change in P & Q due to a one unit change in output. (b) Nothing but price of one unit of output.

(c) The change in quantity divided by change in price. (d) Graphically it denotes the firm's supply curve.
48. Example of a commodity said to have an International Market. (a) Perishable Goods. (b) High Value and Small Bulk Commodities. (c) Product whose trading is restricted by government. (d) Bulky Articles.
49. Natural Monopoly arises when (a) There is enormous goodwill enjoyed by a firm. (b) There are stringent legal and regulatory requirement. (c) There are very large Economies of Scale. (d) There are Business Combinations and Cartels.
50. Price Discrimination cannot persist under the following market form: (a) Perfect Competition (b) Monopoly (c) Monopolistic (d) Oligopoly
51. The First Order Condition for the Profit of a firm to be maximum? (a) $AC = MR$ (b) $MC = MR$ (c) $MR = AR$ (d) $AC = AR$
52. In economics, generally the classification of the markets is made on the basis of: (a) Time (b) Geographic area (c) Both (a) and (b) (d) None of these
53. Under Monopoly, selling costs are incurred for: (a) Persuading customers for not buying competitor's product (b) Informative purpose (c) Promoting sales of the product (d) None of these
54. Which of the following is incorrect formula? (a) $TC = AC \times Q$ (b) $\sum MC = TC$ (c) $\sum MC = TVC$ (d) $\sum MC + TFC = TC$
55. The kinked demand curve theory explains that even when the demand conditions ____ the price ____ (a) Change, changes (b) Change, remains stable (c) Remain stable, changes (d) Remain stable, falls
56. A firm reaches a break-even point (normal profit position) where, (a) Marginal revenue curve cuts the horizontal axis. (b) Marginal cost curve intersects the average variable cost curve. (c) Total revenue equals total variable cost. (d) Total revenue and total cost are equal.
57. Firms cooperate with each other in determining price or output or both. It is a feature of: (a) Pure Oligopoly (b) Non-Collusive Oligopoly (c) Imperfect Oligopoly (d) Collusive Oligopoly
58. Which of the following is not an essential condition of pure competition? (a) large number of buyers and sellers (b) homogeneous product (c) freedom of entry (d) absence of transport cost

59. In both the Chamberlin and kinked demand curve models, the oligopolists (a) recognize their independence (b) do not collude (c) tend to keep prices constant (d) all the above
60. The degree of monopoly power is measured in terms of difference between: (a) Marginal cost and the price (b) Average cost and average revenue (c) Marginal cost and average cost (d) Marginal revenue and average cost
61. The MC curve cuts the AVC and ATC curves: (a) at different points (b) at the falling parts of each curve (c) at their respective minimas (d) at the rising parts of each curve
62. Under monopoly condition, the firm is able to sell more units of output _____. (a) at the same price (b) at higher price (c) at constant price (d) at constant price
63. Under monopoly condition, the firm is able to _____ sell more units of output (a) at the same price (b) at higher price (c) at constant price (d) at lower price
64. "A firm can earn only normal profits in long the run." It is an implication of following feature. (a) Large number of buyers & sellers. (b) Free entry and exit (c) Availability of substitutes (d) Full or partial control over price
65. Which of the following is true of an imperfect market structure? (a) Participants in the market have little or no control over outcome in the market. (b) Consumer surplus is maximized. (c) The maximization of producer surplus may lead to a loss of net benefit for society. (d) Imperfect market structures include monopolies but not cartels.
66. Marginal revenue of a firm is constant throughout under: (a) Perfect Competition (b) Monopolistic Competition (c) Oligopoly (d) All the above
67. Monopolistic competition constitutes: (a) Single firm producing close substitutes (b) Many firms producing close substitutes (c) Many firms producing differentiated substitutes (d) Few firms producing differentiated substitutes
68. 'Interdependence Between Firms' is a feature of which type of market form: (a) Oligopoly (b) Monopolistic Competition (c) Monopoly (d) Perfect Competition
69. A monopolist is able to maximize his profits when:

<p>(a) his output is maximum</p> <p>(b) he charges a high price</p> <p>(c) his average cost is minimum</p> <p>(d) his marginal cost is equal to marginal revenue</p>
<p>70. Agricultural goods markets depict characteristics close to:</p> <p>(a) Perfect competition (b) Oligopoly</p> <p>(b) Monopoly (d) Monopolistic competition</p>
<p>71. Price discrimination will be profitable only if the elasticity of demand indifferent markets in which the total market has been divided is:</p> <p>(a) Uniform (b) different</p> <p>(c) Less (d) Zero</p>
<p>72. Price discrimination will be profitable only if the elasticity of demand indifferent markets in which the total market has been divided is:</p> <p>(a) Uniform (b) different</p> <p>(c) Less (d) Zero</p>
<p>73. Price Rigidity explained by Sweezy's model is related to which market form:</p> <p>(a) Monopoly</p> <p>(b) Oligopoly</p> <p>(c) Monopolistic competition</p> <p>(d) Perfect Competition</p>
<p>74. Consumers get maximum variety of goods under:</p> <p>(a) Perfect Competition</p> <p>(b) Monopolistic Competition</p> <p>(c) Monopoly</p> <p>(d) None of these</p>
<p>75. In economics, generally the classification of the markets is made on the basis of:</p> <p>(a) Time (b) Geographic area</p> <p>(c) Volume of business (d) All of these</p>
<p>76. If the monopolist incurs losses in the short run, then in the long run:</p> <p>(a) the monopolist will go out of business</p> <p>(b) the monopolist will stay in business</p> <p>(c) the monopolist will break even</p> <p>(d) any of the above</p>
<p>77. In monopolistic competition, we have:</p> <p>(a) few firms selling a differentiated product</p> <p>(b) many firms selling a homogeneous product</p> <p>(c) few firms selling a homogeneous product</p> <p>(d) many firms selling a differentiated product</p>
<p>78. In both the Chamberlin and the kinked demand curve models, the oligopolists:</p> <p>(a) recognize their interdependence</p> <p>(b) do not collude</p> <p>(c) tend to keep prices constant</p> <p>(d) all the above.</p>
<p>79. Who gave the theory of price discrimination?</p> <p>(a) Marshall (b) Pigou</p> <p>(c) Cournot (d) Simon</p>

80. Demand curve under Oligopoly is: (a) Less elastic (b) Perfectly elastic (c) Highly elastic (d) Indeterminate
81. A few Big sellers is a Characteristics of: (a) Perfect Competition (b) Monopolistic Competition (c) Oligopoly (d) None of the above
82. Dynamic fare charged by Indian railways is an example of: (a) Pure Monopoly (b) Discriminating Monopoly (c) Perfect Competition (d) None of these
83. The Firm and Industry are same in: (a) Duopoly (b) Monopoly (c) Oligopoly (d) None of these
84. If increasing air fares increases revenues and decreasing them decreases revenues, then the demand for air travel has a price elasticity of: (a) 0 (b) > 0 but < 1 (c) 1 (d) > 1
85. In Oligopoly the firms may collude in order to: (a) Increase Competition (b) Prisoner dilemma for buyers (c) To raise the price of the good they offer (d) None of these
86. Secular Period is also known as: (a) long period (b) Short period (c) Very long period (d) None of these
87. An Industry comprised of a very large number of sellers producing a standardized product is known as: (a) Pure competition (b) Pure monopoly (c) Monopolistic competition (d) None of these
88. Kinked demand was propounded by? (a) Paup K. Sweezy (b) Marshall (c) Adam Smith (d) None of these.
89. Characteristic of Oligopoly market is ---- (a) Strategic Independence (b) Importance of Advertising and selling costs (c) Group Behaviour (d) All of above
90. When output increases from 10 units to 12 units and TR increases from 300 to 330 then MR will be: (a) 30 (b) 20 (c) 15 (d) None of these.
91. Huge selling costs are incurred in which form of market? (a) Monopolistic competition (b) Perfect competition (c) Monopoly

(d) None of these
92. Price discrimination is a situation when a producer: (a) Charge same price (b) Charges may prices (c) Charges different prices in different market (d) None of these.
93. Which type of market structure does not typically have a negatively sloped market demand curve? (a) Monopoly (b) Perfect competition (c) Oligopoly (d) All of the above typically have negatively sloped market demand curves.
94. The restaurant industry has a market structure that comes closest to: (a) monopolistic competition. (b) oligopoly. (c) perfect competition. (d) monopoly.
95. Which of the following markets comes close to satisfying the assumptions of a perfectly competitive market structure? (a) The stock market (b) The market for agricultural commodities such as wheat or corn (c) The market for petroleum and natural gas (d) All of the above come close to satisfying the assumptions of perfect competition.
96. Which of the following industries is most likely to be monopolistically competitive? (a) The automobile industry (b) The steel industry (c) The car repair industry (d) The electrical generating industry
97. Some economists have suggested that oligopolists tend to maintain stable prices when there are changes in the demand for their products or in their costs of production. Which of the following models provides an explanation for this type of behavior? (a) Price leadership (b) Centralized cartel (c) Prisoners' dilemma (d) Kinked demand curve
98. Which of the following is a FALSE statement? (a) the very long run focuses on the growth of productive capacity (b) in the very long run, the productive capacity is assumed to be given (c) in the very short run, shifts in aggregate demand determine how much output is produced (d) fluctuations in the rates of inflation and unemployment are important long-run issues
99. A seller cannot influence the market price under: (a) Perfect Competition (b) Monopoly (c) Monopolistic Competition (d) All of the above
100. Railways is an example of: (a) Perfect Competition (b) Monopolistic Competition (c) Monopoly (d) Oligopoly

Solution :-

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

CHAPTER 5 - BUSINESS CYCLE

1. The term business cycle refers to
 - (a) the ups and downs in production of commodities
 - (b) the fluctuating levels of economic activity over a period of time
 - (c) decline in economic activities over prolonged period of time
 - (d) increasing unemployment rate and diminishing rate of savings
2. A significant decline in general economic activity extending over a period of time is
 - (a) business cycle
 - (b) contraction phase
 - (c) Recession
 - (d) recovery
3. The trough of a business cycle occurs when _ _ hits its lowest point.
 - (a) inflation in the economy
 - (b) the money supply
 - (c) aggregate economic activity
 - (d) the unemployment rate
4. The lowest point in the business cycle is referred to as the
 - (a) Expansion.
 - (b) Boom.
 - (c) Peak.
 - (d) Trough.
5. A leading indicator is
 - (a) a variable that tends to move along with the level of economic activity
 - (b) a variable that tends to move in advance of aggregate economic activity
 - (c) a variable that tends to move consequent on the level of aggregate economic activity
 - (d) None of the above
6. A variable that tends to move later than aggregate economic activity is called
 - (a) a leading variable.
 - (b) a coincident variable.
 - (c) a lagging variable.
 - (d) a cyclical variable.
7. Industries that are extremely sensitive to the business cycle are the
 - (a) Durable goods and service sectors.
 - (b) Non-durable goods and service sectors.
 - (c) Capital goods and non-durable goods sectors.
 - (d) Capital goods and durable goods sectors.
8. A decrease in government spending would cause
 - (a) the aggregate demand curve to shift to the right.
 - (b) the aggregate demand curve to shift to the left.
 - (c) a movement down and to the right along the aggregate demand curve.
 - (d) a movement up and to the left along the aggregate demand curve.
9. Which of the following does not occur during an expansion?
 - (a) Consumer purchases of all types of goods tend to increase.
 - (b) Employment increases as demand for labour rises.
 - (c) Business profits and business confidence tend to increase
 - (d) None of the above.
10. Which of the following best describes a typical business cycle?
 - (a) Economic expansions are followed by economic contractions.
 - (b) Inflation is followed by rising income and unemployment.
 - (c) Economic expansions are followed by economic growth and development.

(d) Stagflation is followed by inflationary economic growth.
11. During recession, the unemployment rate _____ and output ____ (a) Rises; falls (b) Rises; rises (c) Falls; rises (d) Falls; falls
12. The four phases of the business cycle are (a) expansion, peak, contraction and trough (b) contraction, expansion, trough and boom (c) expansion contraction, peak, and trough (d) peak, depression, bust, and boom
13. Leading economic indicators (a) are used to forecast probable shifts in economic policies (b) are generally used to forecast economic fluctuations (c) are indicators of stock prices existing in an economy (d) are indicators of probable recession and depression
14. When aggregate economic activity is declining, the economy is said to be in (a) Contraction. (b) an expansion. (c) a trough. (d) a turning point.
15. Peaks and troughs of the business cycle are known collectively as (a) Volatility. (b) Turning points. (b) Equilibrium points. (d) Real business cycle events.
16. The most probable outcome of an increase in the money supply is (a) interest rates to rise, investment spending to rise, and aggregate demand to rise (b) interest rates to rise, investment spending to fall, and aggregate demand to fall (c) interest rates to fall, investment spending to rise, and aggregate demand to rise (d) interest rates to fall, investment spending to fall, and aggregate demand to fall
17. Which of the following is not a characteristic of business cycles? (a) Business cycles have serious consequences on the well-being of the society. (b) Business cycles occur periodically, although they do not exhibit the same regularity. (c) Business cycles have uniform characteristics and causes. (d) Business cycles are contagious and unpredictable.
18. Economic recession shares all of these characteristics except. (a) Fall in the levels of investment, employment (b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services (c) Investor confidence is adversely affected and new investments may not be forthcoming (d) Increase in the price of inputs due to increased demand for inputs
19. The different phases of a business cycle (a) do not have the same length and severity (b) expansion phase always last more than ten years (c) last many years and are difficult to get over in short periods (d) none of the above
20. Which of the following is not an example of coincident indicator? (a) Industrial production (b) Inflation (b) Retail sales(d) New orders for plant and equipment
21. According to _____ trade cycles occur due to onset of innovations.

- (a) Hawtrey (b) Adam Smith
(c) J M Keynes (d) Schumpeter

22. Economic indicators are -

- (a) A one stroke solution to check the phase of economy
(b) Indicators showing the movement of economy
(c) Some activities which predict the direction of economy
(d) Just an illusion

23. Which economic indicator is required to predict the turning point of business cycle?

- (a) Leading indicator (b) Lagging indicator
(c) Coincident (d) All of the above

24. Business cycle generally originates in free market economies, what is a free market economy?

- (a) The economy where government is in possession of major assets
(b) The economy where private firms control major assets
(c) The economy where decisions of productions are taken by public sector undertakings
(d) The economy where price is controlled by government.

25. Which of the following statements is correct?

- (a) The business cycle largely affects the agricultural sector
(b) The business cycle largely affects small employees
(c) The business cycle generally affects all sectors of economy but business sector in particular.
(d) The business cycle affects low wages workers

26. According to Keynes, fluctuations in Economic activities are due to-

- (a) Fluctuation in aggregate effective demand.
(b) Innovations
(c) Changes in money supply
(d) Fluctuation in agricultural output

27. Which of the following is the cause of business cycles?

- (a) Fluctuations in aggregate effective demand
(b) Fluctuations in investments
(c) Fluctuations in government spending
(d) All of the above

28. Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called _____

- (a) Signals (b) Indicators
(c) Barometer (d) Clues

29. If the growth rate of population is higher than the rate of economic growth, there will be _____ in the economy.

- (a) more savings (b) no effect on savings
(c) lesser savings (d) none of these

30. The cobweb theory was propounded by _____

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

31. During an expansion phase of the business cycle, which of the following is likely to occur?

- (a) Decrease in consumer spending.
(b) Increase in business bankruptcies.
(c) Increase in job opportunities.

(d) Decrease in government spending.

32. Which of the following phases of the business cycle is characterized by increasing economic activity, rising employment, and growing consumer spending?

- (a) Expansion. (b) Recession.
(c) Trough. (d) Recovery.

33. Post war reconstruction:

- (a) will push the economy to slow down because of excess external debts.
(b) will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.
(c) can cause boom or recession depending upon the policies for reconstruction adopted by govt.
(d) None of these

34. "If Americans today, for example were to content to live at the level of the Indian middle class people, all their wants would be fully satisfied with their available resources and capacity to produce."

On the basis of the above statement, which of the following conclusion can be made?

- (a) The possession of goods and services by USA has enormously increased to exceed their wants.
(b) The affluent and developed countries of USA and Western Europe face the problem of scarcity even today as their present wants to remain a head of their increased resources and capacity to produce.
(c) The affluent and developed countries are not facing the problem of scarcity.
(d) None of these

35. The industrial sector depends on the agricultural sector because:

- (a) the agricultural sector provides food and other products for the consumption purposes of industrial sector
(b) the agricultural sector provides raw materials for the development of agro-based industries of the economy
(c) the agricultural sector provides market for the industrial products
(d) all of the above

36. Coincident indicator is not indicated as:

- (a) Inflation
(b) Industrial Production
(c) Retail Sales
(d) New order for Plant and equipment

37. Economy's historical performance was reflected by:

- (a) Lagging indicating (b) Leading indicating
(c) Either (a) or (b) (d) None of these

38. Different business cycles ____ in duration and intensity.

- (a) Differ (b) similar
(c) Consistent (d) Can't say

39. During a recession, the economy experiences:

- (a) A decrease in prices and inflation
(b) High levels of economic growth and expansion
(c) A decline in employment and economic activity
(d) Increased business investments and consumer spending

40. Which of the following is a lagging economic indicator?

- (a) Consumer confidence Index
- (b) Stock market performance
- (c) Unemployment rate
- (d) New housing starts

41. According to Hawtrey trade cycle is a ____

- (a) Monetary phenomenon
- (b) Unplanned phenomenon
- (c) Fiscal phenomenon
- (d) All of the Above

42. Collectively peaks and troughs together is known as:

- (a) Turning Points
- (b) Contraction
- (c) Expansion
- (d) None of these

43. A recession is a decline in:

- (a) The unemployment rate that lasts six months or longer
- (b) Real GDP that lasts six months or longer
- (c) Potential GDP that lasts six months or longer
- (d) The inflation rate that lasts six months or longer

44. What are the Internal causes of Business Cycle?

- (a) Fluctuations in effective demand.
- (b) Macroeconomic Policies
- (c) Money Supply
- (d) All the above

45. Which of the following is not a variable in the index of leading indicators?

- (a) Prime rate
- (b) New building permits
- (c) Delayed deliveries
- (d) None of these

46. Which of the following describe a typical Business Cycle ?

- (a) Economic Expansions are followed by Contraction's
- (b) Inflation is followed by rising Income and Unemployment
- (c) Economic Expantion are followed by economic growth and development
- (d) Stagflation is followed by Inflationary growth.

47. Innovation theory is propounded by:

- (a) Schumpeter
- (b) Nicholas Kaldor
- (c) Keynes
- (d) None of these

48. Which is not the External Causes of business cycle:

- (a) Technology shock
- (b) Population Growth
- (c) Money Supply
- (d) Technology Shock

49. The concept of price rigidity in Sweezy's model is related to which market form:

- (a) oligopoly market
- (b) perfect competition market
- (c) monopoly market
- (d) monopolistic market

50. Peak is the _____ stage of expansion.

- (a) Later
- (b) Earlier
- (c) Either (A) or (B)
- (d) None of the above

51. Which of the following statements is correct regarding business cycles?

- (a) Business cycles are contagious and international in character.
(b) Business cycles begin in one country and spread to other countries through trade relations.
(c) Business cycles have serious consequences on well-being of the societies.
(d) All of the above

52. During depression, it is advisable to:

- (a) Lower Bank Rate and purchase securities in the market.
(b) Increase Bank Rate and purchase securities in the open market.
(c) Decrease Bank Rate and sell securities in the open market.
(d) Increase Bank Rate and sell securities in the open market.

53. Rampant unemployment is found in:

- (a) Boom (b) Recovery
(c) Contraction (d) Depression

54. According to which economist trade cycle is a purely monetary for phenomenon

- (a) Schumpeter (b) Pigou
(c) Hawtrey (d) Marshall

55. Greatest depression suffered by economy in which year.

- (a) 1924 (b) 1930
(c) 2008 (d) 2009

56. Last stage of recession is called:

- (a) Depression (b) Recovery
(c) Slowdown (d) All of these

57. In the long run, a reduction in labour supply would cause output to ___ and the aggregate price level to_____.

- (a) fall, rise (b) fall, fall
(c) rise, tall (d) rise, rise.

58. Which of the following macro-economic variables would you include in an index of leading economic indicators?

- (a) Employment (b) Inflation
(c) Real interest rates (d) Residential investment

59. An economic variable that moves in the opposite direction as aggregate economic activity down in expansions, up in contractions is called.

- (a) Pro cyclical (b) Counter cyclical
(c) A cyclical (d) A leading variable

60. How many phases are there in business cycle?

- (a) Four (b) Five
(c) One (d) Many

61. The world economy suffered the longest, deepest and most widespread depression of the 20th century during?

- (a) 1934 (b) 1928
(c) 1930 (d) 1932

62. Business cycle is contagious and _____ in character?

- (a) Local (b) Regional
(c) National (d) International

63. Which External Factor affects the business cycle?

- (a) Population growth

<p>(b) Variation in government spending (c) Money supply (d) Macro economic policies</p>
<p>64. Which internal factor affects the Business cycle? (a) Fluctuations in investment (b) Natural factors (c) Technology shocks (d) Population growth</p>
<p>65. Whose statement out of these is false? (a) Hawtrey "Trade cycle is purely Monetary phenomena" (b) Keynes "Fluctuations in aggregate Demand" (c) Pigou "Fluctuations in investment" (d) Schumpeter-"Innovations"</p>
<p>66. When once peak is reached, increase in demand is halted, then _____ phase begins? (a) Trough (b) Contraction (c) Expansion (d) Trend</p>
<p>67. Fashion Retailer is business of? (a) Cyclical business (b) Sun rise business (c) Sluggish business (d) None of these</p>
<p>68. Features of business cycles include? (a) Discuss periodically (b) Have four different phases (c) Originate in free Market Economy (d) All of the above.</p>
<p>69. Which of the following is true about leading indicators? (a) Measurable economic factors (b) Changes after real output (c) Both (a) and (b) (d) None</p>
<p>70. Business Cycle occurs (a) Periodically (b) In different phases (c) Both (a) and (b) (d) None of the above</p>
<p>71. According to some economists, _____ are the prime causes of business cycles. (a) Fluctuations in effective demand (b) Fluctuations in investments (c) Macroeconomic policies (d) All of the above</p>
<p>72. Which is not related to great depression of 1930? (a) It started in USA (b) John Maynard Keynes regarded lower aggregate expenditure as the cause (c) Excess Money Supply (d) Both (a) and (b)</p>
<p>73. Which of the following is not the phase of business cycles? (a) Prosperity (b) Upswing (c) Reconstruction (d) Depression</p>
<p>74. Boom and depression in business cycle are (a) Turning points (b) Equilibrium points</p>

(c) Both (a) and (b) (d) None of the above
75. Which is not the characteristic feature of expansion phase in business cycle ? (a) Increase in national output (b) Unemployment (c) Rise in price and costs (d) Boost in business confidence
76. Find the odd man out: Which of these is not a coincident factor? (a) Retail sale (b) Industrial production (c) Inflation (d) New orders for plant & machine
77. Excess capacity in capital industries leads to (a) Peak (b) Trough (c) Expansion (d) Recovery
78. Here, growth moves in reverse direction (a) Peak (b) Expansion (c) Contraction (d) Recovery
79. Frictional unemployment exists in (a) Peak (b) Contraction (c) Expansion (d) Recovery
80. In which stage maximum production occurs. (a) Peak (b) Expansion (c) Boom or Expansion (d) Tough or boom
81. Unemployment is caused due to structural changes is known as? (a) Ethnic unemployment (b) Involuntary unemployment (c) Structural (d) None
82. At trough production is? (a) High (b) Low (c) Negative (d) None
83. Stage at which actual demand is stagnated? (a) Expansion (b) Boom or Peak (c) Contraction (d) Tough
84. A change of reaction producer cancels their order in which, stage? (a) Peak (b) Contraction (c) Trough (d) None
85. Which of the following is true? (a) Depression is secure form trough (b) Depreciation causes fall in interest rate. (c) Both (a) and (b) (d) None
86. China's recent slovedow caused (a) Cycle of decline and panic across the world. (b) Countries across the globe were able to insulate themselves from the crisis. (c) Stock Markets in the emerging economics largely remained unaffected (d) Old technology fuelled the economic decline.

87. What of the following are not external causes?

- (a) Past war reconstruction
- (b) Population growth
- (c) Technology factors
- (d) Fluctuation in effective demand

88. The four phases of the business cycles are:

- (a) Peak, recession, trough and depression
- (b) Peak, recession, trough and boom
- (c) Peak, depression, trough and boom
- (d) Peak, depression, burst and boom

89. Great Depression occurred during:

- (a) 1930 (b) 1947
- (c) 1857 (d) 2000

90. Internal causes of depression include:

- (a) Fluctuation in investments (b) Money supply
- (c) Psychological factors (d) All of these

91. External factors for depression does not include:

- (a) Population growth
- (b) Technology shocks
- (c) Macro economic policies
- (d) Post war reconstruction

92. _____ is the measurable economic factorthat changes before economy starts to follow a particular pattern or trend:

- (a) Leading indicator (b) Lagging indicator
- (c) Concurrent indication (d) Coincident indicators

93. The Rhythmic fluctuations in aggregate economic activity over a period of time are called:

- (a) Business cycles (b) Trade cycles
- (c) Both (a) and (b) (d) None of these

94. According to _____ modern business activities are based on the anticipation of business communities and are affected by waves of optimism and pessimism:

- (a) Pigou (b) Hawtrey
- (c) Keynes (d) Schumpeter

95. Variables that change after real output changes are:

- (a) Leading indicators (b) Lagging indicators
- (c) Coincident indicators (d) None of these

96. Severe form of recession is called:

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

97. During recession output:

- (a) Falls (b) Rises
- (c) Expands (d) None of these.

98. Business cycles generally originate in:

- (a) Free market economies (b) Imperfect economies
- (c) Developed nations (d) Low growth economies

99. At the time of Great Depression of 1930, GDP fell around:

- (a) 14% (b) 15%
(c) 20% (d) 25%

100. The highest point of business cycle is known as:

- (a) Trough (b) Peak
(c) Trend (d) Boom

Solution :-

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

CHAPTER 6 - DETERMINATION OF NATIONAL INCOME

1. The concept of 'resident unit' involved in the definition of GDP denotes

- (a) A business enterprise which belongs to a citizen of India with production units solely situated in India
- (b) The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status
- (c) A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India
- (d) Households and business enterprises composed of citizens of India alone living in India during the accounting year

2. Read the following statements and answer the following question.

I. Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production,

II. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.

- (a) Only I is true
- (b) Both I and II are true
- (c) Only II is true
- (d) Neither I nor II is true

3. Gross Domestic Product (GDP) of any nation

- (a) Excludes capital consumption and intermediate consumption
- (b) is inclusive of capital consumption or depreciation
- (c) is inclusive of indirect taxes but excludes subsidies
- (d) None of the above

4. Read the following statements

I. 'Value added' refers to the difference between value of output and purchase of intermediate goods.

II. 'Value added' represents the contribution of labour and capital to the production process.

- (a) Statements I and II are incorrect
- (b) Statements I and II are correct
- (c) Statement I is correct and II is incorrect
- (d) Statement II is correct and I is incorrect

5. Non-economic activities are

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

6. Which of the following does not enter into the calculation of national income?

- (a) Exchange of previously produced goods
- (b) Exchange of second hand goods
- (c) Exchange of stocks and bonds
- (d) All the above

7. Which of the following enters into the calculation of national income?

- (a) The value of the services that accompany the sale
- (b) Additions to inventory stocks of final goods and materials
- (c) Stocks and bonds sold during the current year
- (d) (a) and (b) above

8. Gross National Product at market prices GNP_{MP} is

- (a) $GDP_{MP} + \text{Net Factor Income from Abroad}$
- (b) $GDP_{MP} - \text{Net Factor Income from Abroad}$
- (c) $GDP_{MP} - \text{Depreciation}$
- (d) $GDP_{MP} + \text{Net Indirect Taxes}$

9. Choose the correct statement

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

10. The basis of distinction between market price and factor cost is

- (a) net factor income from abroad
- (b) net indirect taxes (i.e., Indirect taxes - Subsidies)
- (c) net indirect taxes (i.e., Indirect taxes + Subsidies)
- (d) depreciation (consumption of fixed capital)

11. If net factor income from abroad is positive, then

- (a) national income will be greater than domestic factor incomes.
- (b) national income will be less than domestic factor incomes.
- (c) net exports will be negative
- (d) domestic factor incomes will be greater than national income

12. The GDP per capita is

- (a) a measure of a country's economic output per person
- (b) actual current income receipts of persons
- (c) national income divided by population
- (d) (a) and (c) above

13. Which of the following is an example of transfer payment?

- (a) Old age pensions and family pensions
- (b) Scholarships given to deserving diligent students.
- (c) Compensation given for loss of property due to floods
- (d) All the above

14. Mixed income of the self-employed means

- (a) net profits received by self-employed people
- (b) outside wages received by self-employed people
- (c) combined factor payments which are not distinguishable,
- (d) wages due to non-economic activities

15. Which of the following is added to national income while calculating personal income?

- (a) Transfer payments to individuals
- (b) Undistributed profits of corporate
- (c) Transfer payments made to foreigners
- (d) Mixed income of self-employed

16. In the Keynesian model, equilibrium aggregate output is determined by

- (a) aggregate demand
- (b) consumption function
- (c) the national demand for labor
- (d) the price level

17. Keynes believed that an economy may attain equilibrium level of output

- (a) only at the full-employment level of output
- (b) below the full-employment level of output
- (c) only if prices were inflexible
- (d) a) and c) above

18. According to Keynes, consumption expenditure is determined by

- (a) the level of interest rates
- (b) extent of government taxes and subsidies
- (c) disposable income
- (d) autonomous investment expenditure

19. The marginal propensity to consume (MPC) can be defined as

- (a) a change in spending due to a change in income
- (b) a change in income that is saved after consumption
- (c) part of income that is spent on consumption.
- (d) part of income that is not saved.

20. If the consumption function is expressed as $C = a + bY$ then b represents

- (a) autonomous consumer expenditure when income is zero
- (b) the marginal propensity to consume.
- (c) the expenditure multiplier when consumption is increased
- (d) part of disposable income

21. If the consumption function is expressed as $C = a + bY$ then a represents

- (a) autonomous consumer expenditure.
- (b) the marginal propensity to consume.
- (c) the consumption income relationship
- (d) Non-linear consumption function

22. If the consumption function is $C = 20 + 0.5Y_d$, then an increase in disposable income by ` 100 will result in an increase in consumer expenditure by ` ---

- (a) 25
- (b) 70
- (c) 50
- (d) 100

23. If the autonomous consumption equals ` 2,000 and the marginal propensity to consume equals 0.8. If disposable income equals ` 10,000, then total consumption will be ` _____

- (a) 8,000
- (b) 6,000
- (c) 10,000
- (d) None of the above

24. In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45-degree line indicates the

- (a) level of full employment income.
- (b) less than full employment level of income.
- (c) equilibrium level of income which may or may not be full employment level of income
- (d) autonomous level of income which may not be full employment level of income

25. In a closed economy, aggregate demand is the sum of

- (a) consumer expenditure, demand for exports and government spending.

- (b) consumer expenditure, planned investment spending and government spending.
 (c) consumer expenditure, actual investment spending, government spending and net exports.
 (d) consumer expenditure, planned investment spending, government spending, and net exports.

26. Under equation $C = a + by$, $b = 0.8$, what is the value of 2 sector expenditure multiplier?

- (a) 4 (b) 2
 (c) 5 (d) 1

27. If a farmer sells wheat to miller for ₹ 600 and miller sells flour to baker for ₹ 800. The baker sells bread to consumer for ₹ 1300, then the total value added in the process is:

- (a) ₹ 600 (b) ₹ 800
 (c) ₹ 700 (d) ₹ 1200

28. Which investment is made without any reference to level of income or profits?

- (a) Induced (b) Autonomous
 (c) Inventory (d) Gross

29. The Value of National Income adjusted for inflation is called?

- (a) Disposable income
 (b) Per capita income
 (c) Inflation adjusted income.
 (d) Real national Income

30. What is the value of Investment Multiplier when saving function is represented as $S = -60 + 0.2Y$?

- (a) 2 (b) 5
 (c) 4 (d) 0.2

31. "What could be the cause of the increase in Aggregate Demand within an economy?"

- (a) Increase in Imports
 (b) Decrease in Govt. Expenditure
 (c) Rise in Investment Expenditure
 (d) Decrease in Exports

32. Which of the following will cause a leakage in the National Income of an economy?

- (a) Decrease in Expenditure
 (b) Decrease in Taxation
 (c) Increase in Imports
 (d) Both a & c

33. The per capita income in country Y increased from ₹ 50,000 to ₹ 65,000 while the per capita consumption increased from ₹ 37,500 to ₹ 48,750. Calculate the spending multiplier for this economy.

- (a) 5 (b) 4
 (c) 2.5 (d) 8

34. Which organization is accountable for calculating the Gross Domestic Product of India?

- (a) Indian Statistical Institute
 (b) Reserve Bank of India
 (c) National Statistical Office
 (d) Ministry of Commerce and Industry

35. In an economy $C = 300 + 0.5Y$ and $I = ₹ 600$ (where C is consumption, Y is income or investment). The Equilibrium level of income will be:

- (a) 1800 (b) 1500
 (c) 1400 (d) None of these

36. When Investment in an economy increases from ` 10000 crores to ` 14000 crores and as a result of this national income rises ` 80000 to ` 92000 crores, Investment Multiplier will be:
 (a) 5 (b) 3
 (c) 2 (d) None of these

37. Calculate National Income from the following data:

Consumption	1000
Investment	500
Government Purchases	200
Exports	200
Imports	400

- (a) 1500 (b) 1800
 (c) 600 (d) None of these

38. Microeconomics deals primarily with:

- (a) comparative statics, general equilibrium, and positive economics
 (b) comparative statics, partial equilibrium, and normative economics
 (c) dynamics, partial equilibrium, and positive economics
 (d) comparative statics, partial equilibrium, and positive economics.

39. Which one makes GDP an improper index of welfare?

- (a) Non-monetary transaction
 (b) Externalities
 (c) Composition & distribution of GDP
 (d) All of these

40. Interest on national debt is treated as:

- (a) Transfer payment (b) Domestic payment
 (c) Govt. Payment (d) None of these

41. Parallel economy emerges because of what?

- (a) Tax Estimation (b) Tax Compliance
 (c) Tax Avoidance (d) Tax Evasion

42. Which of the following is a limitation of using GDP as a measure of economic well-being?

- (a) It includes only monetary transactions.
 (b) It does not account for income distribution.
 (c) It considers both market and non-market activities.
 (d) It is not affected by inflation.

43. If a country's Gross Domestic Product (GDP) is greater than its Gross National Product (GNP), it implies that the country:

- (a) Is a net exporter. (b) Is a net importer.
 (c) Has a trade surplus (d) Has a trade deficit

44. In the very long-run AD-AS model, if the AD-curve shifts to the left, then:

- (a) prices and output will both decrease
 (b) prices and output will both increase
 (c) prices will decrease but output will remain the same
 (d) output will decrease but prices will remain the same

45. Countries with higher saving rates may have higher equilibrium growth rates since:

- (a) people who save more also are more industrious

- (b) higher income allows for more savings
- (c) a higher saving rate allows for more investment in human capital which ultimately enhances economic growth
- (d) having more capital equipment is more important than having better capital equipment

46. Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?

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

47. The expenditure multiplier is used to calculate the change in:

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

48. What is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach?

- (a) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$
- (b) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$
- (c) $GDP = \text{Consumption} + \text{Investment}$
- (d) $GDP = \text{Consumption} + \text{Net Exports}$

49. Which component of National Income represents the income earned by individuals and businesses before taxes and other deductions?

- (a) Personal Income
- (b) Disposable Income
- (c) Gross National Product (GNP)
- (d) Gross Domestic Product (GDP)

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

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

51. The concept of the "multiplier effect" in Keynesian economics refers to:

- (a) The impact of interest rates on investment
- (b) The magnification of an initial change in spending throughout the economy
- (c) The impact of taxes on consumer spending
- (d) The role of exports in economic growth

52. According to Keynes, what can cause involuntary unemployment in an economy?

- (a) High interest rates
- (b) Insufficient aggregate demand
- (c) Government intervention
- (d) Excessive savings

53. The concept of "animal spirits" in Keynesian theory refers to:

- (a) The unpredictable behavior of financial markets
- (b) Psychological factors influencing economic decisions

(c) Government regulations affecting business confidence

(d) The impact of interest rates on investment

54. Which of the following is a factor income?

(a) Profits (b) Transfer payments

(c) Subsidies (d) Indirect taxes

55. The nominal and real GDP respectively of a country in a particular year are ` 3000 cr. and ` 4500 cr respectively. The GDP deflator will be:

(a) 55.55 (b) 66.66

(c) 44.45 (d) None of these.

56. An increase in investment by 600 cr leads to increase in national income by 1800 cr. The MPC will be -

(a) 3 (b) 4

(c) 5 (d) None of these

57. Consumption expenditure according to Keynes is determined by:

(a) Disposable income

(b) Level of interest rate

(c) Extent of government taxes and subsidies

(d) None of these

58. Macro- economic stability is said to exist when:

(a) When inflation is low and stable

(b) The economy's total spending matches its total output

(c) The economy's labour resources are fully exposed

(d) All the above

59. Suppose in a country investment increases by ` 100 crores and consumption is given by $C = 10 + 0.6Y$. How much increase will there take place in income?

(a) 250 (b) 200

(c) 150 (d) None of these

60. Which of the following is NOT an example of a transfer payment in the sense of the national income accounts?

(a) Government family allowances

(b) Public unemployment insurance benefits

(c) Dividends paid by corporations to stockholders

(d) Disability pensions paid from the social insurance system

61. The difference between real and nominal GDP is...

(a) Nominal GDP only accounts for citizens.

(b) Nominal GDP uses price-levels of some base year.

(c) Nominal GDP uses actual price-levels.

(d) Real GDP also includes services, whereas nominal GDP only takes goods into account.

62. For a person to keep his real income steady at a certain level from one year to the next, his nominal income must:

(a) Stay the same as the price index rises

(b) Rise as fast as the price index

(c) Fall if the price index rises

(d) Rise if the price index falls

63. If the GDP is positive, then :

(a) The inflation rate is falling

(b) A actual GDP is greater than Potential GDP

(c) Potential GDP is greater than actual GDP

(d) The unemployment rate is rising

64. Which of the following parameter consist of interest, dividend, fees and other receipts for services of the government:

(a) Non-tax expenses (b) Tax expenses

(c) Non-tax revenue (d) Tax revenue

65. A nation's gross domestic product (GDP):

(a) can be found by summing $C + I + G + X_n$.

(b) is the dollar value of the total output produced by its citizens, regardless of where they are living.

(c) can be found by summing $C + S + G + X_n$.

(d) is always some amount less than its NDP.

66. Gross investment refers to:

(a) private investment minus public investment.

(b) net investment plus replacement investment.

(c) net investment after it has been "inflated" for changes in the price level.

(d) net investment plus net exports.

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

(a) Consumption (b) Investment

(c) Government Spending (d) Imports

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

(a) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$

(b) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Exports} - \text{Imports}$

(c) $GDP = \text{Consumption} + \text{Investment} + \text{Net Exports}$

(d) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Exports}$

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

(a) The total value of all goods and services produced within a country's borders in a specific period.

(b) The total value of all goods and services produced by a country's residents, both domestically and abroad, in a specific period.

(c) The total value of all goods and services sold by a country to other countries in a specific period.

(d) The total value of all goods and services produced by a country's domestic companies in a specific period.

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

(a) The total value of all goods and services produced within a country's borders in a specific period.

(b) The total value of all final goods and services produced within a country's borders in a specific period.

(c) The total value of all goods and services produced within a country's borders minus depreciation in a specific period.

(d) The total value of all goods and services produced by a country's residents, both domestically and abroad, in a specific period.

71. What does GNP stand for in national income accounting?

(a) Gross National Product

(b) Gross Net Profit

(c) Government National Payment

(d) General National Practice

72. In national income accounting, what does the term "disposable income" refer to?

- (a) The total income earned by a nation's residents.
- (b) The income that individuals have after paying taxes.
- (c) The total income earned by a nation's residents minus government spending.
- (d) The income earned from foreign sources.

73. Which of the following is used to measure the total income earned by a country's residents, regardless of their location?

- (a) Gross National Product (GNP)
- (b) Gross Domestic Product (GDP)
- (c) Net National Product (NNP)
- (d) Net Domestic Product (NDP)

74. In National Income Accounting, depreciation of capital refers to:

- (a) The decrease in the value of a nation's currency
- (b) The decrease in the value of physical assets over time
- (c) The decrease in the government's budget deficit
- (d) The decrease in consumer spending on durable goods

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

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

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

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

77. National Income estimates are essential for:

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

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

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

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

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

80. National Income estimates help in identifying:

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

<p>81. The difference between Gross National Product (GNP) and Gross Domestic Product (GDP) is mainly due to.</p> <p>(a) Imports and exports (b) Government spending (c) Foreign aid received (d) Remittances from citizens working abroad</p>
<p>82. Which of the following is a usefulness of National Income estimates in economic planning?</p> <p>(a) Estimating the number of people in poverty (b) Determining the cost of living for citizens (c) Assessing the impact of monetary policy (d) Identifying the distribution of wealth in society</p>
<p>83. Which of the following is NOT a significance of National Income estimates?</p> <p>(a) Comparing the economic performance of different countries (b) Guiding businesses in profit maximization strategies (c) Formulating fiscal policies and taxation rates (d) Predicting short-term fluctuations in the stock market</p>
<p>84. The concept of "per capita income" derived from National Income estimates is used to:</p> <p>(a) Determine the total output of an economy (b) Measure the average income of individuals in the country (c) Assess the level of government debt (d) Calculate the value of imports and exports</p>
<p>85. National Income estimates help in identifying:</p> <p>(a) The number of foreign tourists visiting the country (b) The contribution of different sectors to the economy (c) The literacy rate and educational attainment of citizens (d) The availability of natural resources within the country</p>
<p>86. National Income estimates are essential for:</p> <p>(a) Calculating individual income taxes (b) Assessing the overall health of an economy (c) Measuring inflation and unemployment rates (d) Determining exchange rates between currencies</p>
<p>87. National Income estimates are essential because they help in:</p> <p>(a) Calculating the total population of a country (b) Measuring the total value of goods and services produced in a country (c) Determining the exchange rate of the country's currency (d) Evaluating the literacy rate of the country</p>
<p>88. The significance of National Income estimates lies in:</p> <p>(a) Assessing the distribution of income among different income groups (b) Determining the number of unemployed individuals in the country (c) Estimating the total national debt of the country (d) Analyzing the birth and death rates in the country</p>
<p>89. Which of the following is NOT a usefulness of National Income estimates?</p> <p>(a) Assessing the standard of living in a country (b) Formulating economic policies (c) Calculating the inflation rate (d) Comparing the economic performance of different countries</p>

90. National Income estimates help in international comparisons of countries' economies because they:

- (a) Provide information about the military strength of the countries
- (b) Show the total exports and imports of the countries
- (c) Indicate the level of technological advancement in the countries
- (d) Offer a common measure to compare economic performance

91. Which of the following statements is true regarding the usefulness of National Income estimates?

- (a) It helps in predicting the stock market trends.
- (b) It assists in identifying the environmental challenges faced by a country.
- (c) It is only relevant for developed countries, not for developing countries.
- (d) It aids in assessing the contribution of different sectors to the economy.

92. Gross Domestic Product (GDP) measures:

- (a) The total value of goods and services produced within a country's borders, including net income from abroad.
- (b) The total value of goods and services produced by a country's residents, regardless of their location.
- (c) The total value of goods and services produced within a country's borders, excluding net income from abroad.
- (d) The total value of goods and services consumed within a country's borders.

93. Gross National Product (GNP) is defined as:

- (a) The total value of goods and services produced within a country's borders, excluding depreciation.
- (b) The total value of goods and services produced by a country's residents, regardless of their location.
- (c) The total value of goods and services produced within a country's borders, including indirect taxes.
- (d) The total value of goods and services produced by a country's residents, excluding net income from abroad.

94. Personal Income (PI) is calculated as:

- (a) National Disposable Income (NDI) minus corporate profits and social insurance contributions.
- (b) National Income (NI) minus indirect taxes.
- (c) Gross Domestic Product (GDP) minus depreciation.
- (d) Gross National Product (GNP) minus net income from abroad.

95. Gross Domestic Product (GDP) is defined as the total:

- (a) Income earned by a country's residents, regardless of their location
- (b) Value of goods and services produced within a country's borders
- (c) Income earned by foreign residents within the country
- (d) Value of goods and services produced by a country's residents abroad

96. Net National Product (NNP) is derived by deducting:

- (a) Depreciation from GDP
- (b) Depreciation from GNP
- (c) Net indirect taxes from GDP
- (d) Net indirect taxes from GNP

97. Personal Income (PI) is derived from National Income (NI) by:

- (a) Adding transfer payments and deducting undistributed corporate profits

- (b) Adding corporate profits and deducting net interest and rent
- (c) Deducting direct taxes and adding transfer payments
- (d) Deducting retained earnings and adding social security contributions

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

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

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

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

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

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

Solution :-

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

A	B	A	B	B	D	C	B	D	B
81	82	83	84	85	86	87	88	89	90
D	C	D	B	B	B	B	A	C	D
91	92	93	94	95	96	97	98	99	100
D	C	B	A	B	B	A	C	A	C

CHAPTER 7 - PUBLIC FINANCE

1. Redistribution policies are likely to have efficiency costs because

- (a) They will reduce the efficiency of governments
- (b) They may create disincentives to work and save
- (c) Governments have to forego taxes
- (d) They are likely to make the poor people dependent on the rich

2. Macroeconomic stabilization may be achieved through

- (a) Free market economy
- (b) Fiscal policy
- (c) Monetary policy
- (d) (b) and (c) above

3. Choose the correct statement

- (a) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of price and profit controls.
- (b) Fiscal policy involves the use of price and profit controls; while monetary policy involves the use of taxation and government spending.
- (c) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of changes in the supply of money and interest rates.
- (d) Fiscal policy involves the use of changes in the supply of money and interest rates; while monetary policy involves the use of changes in taxation and government spending.

4. The justification for government intervention is best described by

- (a) The need to prevent recession and inflation in the economy
- (b) The need to modify the outcomes of private market actions
- (c) The need to bring in justice in distribution of income and wealth
- (d) All the above

5. When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?

- (a) It is trying to establish stability in an economy
- (b) It is trying to redistribute income and wealth
- (c) It is trying to allocate resources to their most efficient use
- (d) It is creating a source of market failure

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

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

7. Which of the following is true in respect of centre and state government finances?

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

8. GST compensation is given to

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

9. In a federal set up, the stabilization function can be effectively performed by

- (a) Respective state governments

<p>(b) Ministry of taxes (c) The government at the centre (d) None of the above</p>
<p>10. Which of the following is concerned with division of economic responsibilities between the central and state Government of India? (a) NITI Aayog (b) central bank (c) Finance Commission (d) Parliament</p>
<p>11. Which one of the following taxes is levied by the state government only? (a) Corporation tax (b) Wealth tax (b) Income tax (d) None of the above</p>
<p>12. The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is (a) 38 percent (b) 41 percent (c) 42 percent (d) The commission has not submitted its report</p>
<p>13. As per the supreme court verdict in May 2022 (a) The union has greater powers than the states for enacting GST laws (b) The union and state legislatures have "equal, simultaneous powers "to make lawson Goods and Services Tax (c) The union legislature's enactments will prevail in case of a conflict between those of union and states (d) The state legislatures can make rules only with the permission of central government</p>
<p>14. Providing social sector services such as health and education is (a) the responsibility of the central government (b) the responsibility of the respective state governments (c) the responsibility of local administrative bodies (d) none of the above</p>
<p>15. Which of the following is an example of market failure? (a) Prices of goods tend to rise because of shortages (b) Merit goods are not sufficiently produced and supplied (c) Prices fall leading to fall in profits and closure of firms (d) None of the above</p>
<p>16. Which of the following is an outcome of market power? (a) makes price equal to marginal cost and produce a positive external benefit on others (b) can cause markets to be efficient due to reduction in costs (c) makes the firms price makers and restrict output so as to make allocation inefficient (d) (b) and(c) above</p>
<p>17. Which of the following is the right argument for provision of public good by government? (a) Governments have huge resources at their disposal (b) Public goods will never cause any type of externality (c) Markets are unlikely to produce sufficient quantity of public goods (d) Provision of public goods are very profitable for any government</p>
<p>18. Adequate amount of a pure public good will not be provided by the private market because of (a) the possibility of free riding (b) the existence of very low prices and low profits</p>

- (c) governments would anyway produce them, so there will be overproduction
- (d) there are restrictions as well as taxes on production of public goods

19. A chemical factory has full information regarding the risks of a product, but continues to sell it. This is possible because of

- (a) asymmetric information
- (b) moral hazard
- (c) free riding
- (d) (a) and (c) above

20. If an individual tends to drive his car in a dangerously high speed because he has a comprehensive insurance cover, it is a case of

- (a) free riding
- (b) moral hazard
- (c) poor upbringing
- (d) Inefficiency

21. Read the following statements

I. The market-based approaches to control externalities operate through price mechanism

II. When externalities are present, the welfare loss would be eliminated

III. The key to internalizing an externality is to ensure that those who create the externalities include them while making decisions

Of the above statements

- (a) II and III are correct
- (b) I only is correct
- (c) II only is correct
- (d) I and III are correct

22. Which of the following statements is false?

- (a) Tradable permits provide incentive to innovate and reduce negative externalities
- (b) A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower
- (c) Substantial negative externalities are involved in the consumption of merit goods.
- (d) Merit goods are likely to be under-produced and under consumed through the market mechanism

23. A Pigouvian subsidy

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

24. If governments make it compulsory to avail insurance protection, it is because

- (a) Insurance companies need to be running profitably
- (b) Insurance will generate moral hazard and adverse selection
- (c) Insurance is a merit good and government wants people to consume it
- (d) None of the above

25. Rules regarding product labelling

- (a) Seeks to correct market failure due to externalities
- (b) Is a method of solving the problem of public good
- (c) May help solve market failure due to information failure
- (d) Reduce the problem of monopolies in the product market

26. Identify the incorrect statement

- (a) A minimum support price for agricultural goods is a market intervention method to guarantee steady and assured incomes to farmers.
- (b) An externality is internalised if the ones that generated the externality incorporate them into their private cost-benefit analysis
- (c) The production and consumption of demerit goods are likely to be less than optimal under free markets

<p>(d) Compared to pollution taxes, the cap and trade method is administratively cheap and simple to implement and ensures that pollution is minimised in the most cost-effective way.</p>
<p>27. A government subsidy</p> <p>(a) is a market-based policy</p> <p>(b) involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities</p> <p>(c) is generally provided for merit goods</p> <p>(d) all the above</p>
<p>28. The production and consumption of demerit goods are</p> <p>(a) likely to be more than optimal under free markets.</p> <p>(b) likely to be less than optimal under free markets</p> <p>(c) likely to be subjected to price intervention by government</p> <p>(d) a) and c) above</p>
<p>29. Read the following statements</p> <p>I. Social costs are the total costs incurred by the society when a good is consumed or produced.</p> <p>II. The external costs are not included in firms' income statements or consumers' decisions</p> <p>III. Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs</p> <p>IV. Production and consumption decisions are efficient only when private costs are considered</p> <p>Of the above</p> <p>(a) Statements I and III are correct</p> <p>(b) Statements I,II and III are correct</p> <p>(c) Statement I only is correct</p> <p>(d) All the above are correct</p>
<p>30. Government failure occurs when</p> <p>(a) Government fails to implement its election promises on policies</p> <p>(b) A government is unable to get reelected</p> <p>(c) Government intervention is ineffective and produces fresh and more serious problems</p> <p>(d) None of the above</p>
<p>31. The revenue deficit for country A is</p> <p>(a) 5,000 (b) 24,000</p> <p>(c) 4,500 (d) None of the above</p>
<p>32. Fiscal deficit of country A is</p> <p>(a) 14,000 (b) 24,000</p> <p>(c) 23,500 (d) None of the above</p>
<p>33. In NITI Aayog, NITI stands for</p> <p>(a) National Initiative for Transforming India</p> <p>(b) National Institution for Transforming India</p> <p>(c) National Institute for Technology and Innovation</p> <p>(d) None of the above</p>
<p>34. The Appropriation Bill is intended to</p> <p>(a) reduce unnecessary expenditure on the part of the government</p> <p>(b) give authority to government to incur expenditure from and out of the Consolidated Fund of India</p> <p>(c) give authority to government to incur expenditure from the revenue receipts only</p> <p>(d) be passed before the budget is taken for discussion</p>

35. The railway budget is

- (a) Part of the general budget, but is presented by the railway minister
- (b) Part of the general budget from the budget for financial year 2017 -18.
- (c) Part of the general budget from the budget for financial year 2021 -22
- (d) Part of the general budget but presented on the next day of the general budget

36. Outcome budgeting

- (a) shares information about the money allocated for various purposes in a budget
- (b) establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators
- (c) establishes a direct link between budgetary performance targets and public account disbursements
- (d) shares information about public policies and programmes under the budget

37. Government borrowings from foreign governments and institutions

- (a) Capital receipt
- (b) Revenue receipt
- (c) Accounts for fiscal deficit
- (d) Any of the above depending on the purpose of borrowing

The following table relates to the revenue and expenditure figures of a hypothetical economy
In ` lakh Crores

(a)	Recovery of loans	5.1
(b)	Salaries of govt. servants	41.1
(c)	Capital Expenditure	45.0
(d)	Interest payments	1.3
(e)	Payments towards subsidies	3.2
(f)	Other receipts (mainly from disinvestment)	11.6
(g)	Tax revenue (net of states' share)	26.3
(h)	Non-tax revenue	12.3
(i)	Borrowings and other liabilities	6.8
(j)	States' share in tax revenue	11.9

38. The capital receipts are

- (a) 23.5
- (b) 19.7
- (c) 11.3
- (d) None of the above

39. The non-debt capital receipts of this country is

- (a) 45.1
- (b) 16.7
- (c) 15.8
- (d) None of the above

40. A budget is said to be unbalanced when

- (a) when government's revenue exceeds government's expenditure
- (b) when government's expenditure exceeds government's revenue
- (c) either budget surplus or budget deficit occurs
- (d) All the above

41. Budget of the government generally impacts

- (a) the resource allocation in the economy
- (b) redistribution of income and enhance equity
- (c) stability in the economy by measures to control price fluctuations

(d) all the above
<p>42. Which of the following is a statement submitted along with the budget as a requirement of FRBM Act</p> <p>(a) Annual Financial Statement (b) Macro -Economic Framework Statement (c) Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement (d) (b) and (c) above</p>
<p>43. 'Retail Direct 'scheme is</p> <p>(a) Initiated by the Reserve Bank of India (b) facilitate investment in government securities by individual investors. (c) Direct sale of goods and services by government departments (d) Both (a) and (b) are correct</p>
<p>44. Non-debt capital receipts</p> <p>(a) do not add to the assets of the government and therefore not treated as capital receipts (b) are those that do not create any future repayment burden for the government (c) are those that create future liabilities for the government (d) facilitate capital investments at low cost</p>
<p>45. Grants given by the central government to state governments is</p> <p>(a) A revenue expenditure as it is meant to meet the current expenditure of the states (b) A revenue expenditure as it does neither creates any asset, nor reduces any liability of the government (c) A capital expenditure because it increase the capital base of the states (d) It is a grant and so does not come under revenue expenditure or capital expenditure.</p>
<p>46. Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as</p> <p>(a) RBI credit to states (b) Commercial credit of RBI (c) Ways and Means Advances (WMA) (d) Short term facility</p>
<p>47. If real GDP is continuously declining and the rate of unemployment in the economy is increasing, the appropriate policy should be to</p> <p>(a) Increase taxes and decrease government spending (b) Decrease both taxes and government spending (c) Decrease taxes and increase government spending (d) Either (a) or (c)</p>
<p>48. Which of the following are likely to occur when an economy is in an expansionary phase of a business cycle?</p> <p>I. Rising unemployment rate II. Falling unemployment rate III. Rising inflation rate IV. Deflation V. Falling or stagnant wage for workers VI. Increasing tax revenue VII. Falling tax revenue</p> <p>(a) A, B and F are most likely to occur (b) B, C and F are most likely to occur</p>

(c) D, E and F are most likely to occur

(d) A, E and G are most likely to occur

49. According to Keynesian economics, when we have inflation an effective fiscal policy should not include

(a) increase corporate taxes.

(b) decrease aggregate demand.

(c) Increase government purchases.

(d) None of the above is correct

50. Keynesian economists believe that

(a) fiscal policy can have very powerful effects in altering aggregate demand, employment and output in an economy

(b) when the economy is operating at less than full employment levels and when there is a need to offer stimulus to demand fiscal policy is of great use

(c) Wages are flexible and therefore business fluctuations would be automatically adjusted

(d) (a) and (b) above

51. Which of the following fiscal policy measures would be suitable for addressing a deflationary gap or deficient demand?

(a) Reduction in Taxes

(b) Increase in Govt. Expenditure

(c) Reduction in Public Debt

(d) All of these

52. The Government adopting Progressive taxation system to tax people on the level of their income is an example of which function of public finance?

(a) Redistribution Function

(b) Allocation Function

(c) Normative Function

(d) Stabilization

53. The increase in cost of food, fuel and fertilizers in countries due to production of weapons in the war between Russia & Ukraine results in which type of externality?

(a) Positive Production Externality

(b) Negative Production Externality

(c) Positive Consumption Externality

(d) Negative Consumption Externality

54. Mr. Amit, a stock market trader through inside information, comes to know that share price of X Ltd is likely to go up in future, so he purchases the shares to make a gain by selling them later at higher price. It is a case of:

(a) Moral Hazard

(b) Asymmetric Information

(c) Free Riding

(d) None of the above

55. Which of the following is not true regarding The Minimum Support Price (MSP) mechanism in India?

(a) MSP works on the principle of Price Ceiling

(b) MSP works on the principle of Price Flooring

(c) At the price fixed, there exists excess supply

(d) Govt. procures the excess supply of farmers.
56. Which concept involves a one-shot injection of government expenditure into a depressed economy with the aim of boosting business confidence and encouraging larger private investment? (a) Pump Priming (b) Deficit Financing (c) Compensatory Spending (d) Public Spending
57. Which of the following is used to counter recession as part of Expansionary Fiscal Policy? (a) Increase in interest rate. (b) Decrease in Taxes (c) Deficit Financing (d) Both b & c
58. The share of concessional debt in total external debt of India has: (a) remained the same (b) doubled (c) Reduced (d) Increased
59. Budgetary deficit can be expressed as: (a) the excess of public expenditure over public revenue (b) the sum of deficit on revenue account and deficit on capital account (c) that portion of government expenditure which is financed through the sale of 91 days Treasury Bills and drawing down of cash balances (d) all the above
60. Are fiscal & monetary policies opposite of each other? (a) Yes, they are opposite to each other (b) Fiscal policy is superior to monetary policy. (c) No, these policies are complementary to each other. (d) None of these
61. The Government accounts are maintained namely in : (a) Consolidated fund of India (b) Contingency fund of India (c) Public Account (d) All of these
62. By convention in an election year the budget may be presented: (a) Twice (b) Once (c) Thrice (d) Quarterly
63. Primary deficit means: (a) Fiscal deficit -- interest payment (b) Fiscal deficit + revenue deficit (c) Budgetary deficit (d) Revenue deficit -- interest payments
64. The most important aim of fiscal policy in a developing country is : (a) economic stability (b) economic development (c) regional balance (D) None of these
65. What was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003?

<p>(a) Achieve Fiscal Surplus (b) Stop Money Laundering (c) Eliminate Fiscal Deficit (d) Eliminate Revenue deficit</p>
<p>66. Contractionary fiscal policy can involve: (a) Increasing consumption and investment and taxes. (b) Decreasing government spending and increasing taxes. (c) Increasing government spending and increasing taxes. (d) None of the above.</p>
<p>67. 'Who gave 'The Theory of Public Finance (1959)? (a) Adam Smith (b) Richard Musgrave (c) A.C. Pigou (d) Alfred Marshall</p>
<p>68. The stabilization function is concerned with the performance of the aggregate economy in the term of- (a) Overall output & income (b) General price level (c) Balance of international payments (d) All of these</p>
<p>69. Which of the following is an example of market failure? (a) Externalities (b) Low prices (c) Excess supply (d) Excludable and rival goods</p>
<p>70. Which of the following is NOT a conclusion about market allocations of commodities causing pollution externalities? (a) The prices of products responsible for pollution are too high. (b) The output of the commodity is too large. (c) Recycling and reuse of the polluting substances are discouraged since release into the environment is so inefficiently cheap. (d) Too much pollution is produced.</p>
<p>71. Which of the following is not an example of a policy designed to encourage competition? (a) Deregulation (b) Trade liberalisation (c) Reducing income tax (d) Anti-monopoly regulations</p>
<p>72. Which of the following is an example of an automatic stabilizer in the budget? (a) Discretionary spending (b) Progressive taxation (c) Infrastructure investment (d) Unemployment benefits</p>
<p>73. Which of the following is an example of an automatic stabilizer in the budget? (a) Discretionary spending (b) Progressive taxation (c) Infrastructure investment</p>

(d) Unemployment benefits
74. Public goods are characterized by: (a) Excludability and rivalry (b) Excludability and non-rivalry (c) Non-excludability and rivalry (d) Non-excludability and non-rivalry
75. Which of the following is a common solution to the problem of common resources being overused? (a) Government regulation (b) Privatization (c) Subsidies (d) Free-market competition
76. Which of the following policy measures is typically used by central banks to manage the business cycle? (a) Fiscal policy (b) Monetary policy (c) Trade policy (d) Industrial policy
77. Fiscal deficit can be remedied by: (a) Borrowing money (b) Printing Currency (c) Both (a) and (b) (d) Neither (a) nor (b)
78. Which of the following is not the mandatory Statement under FRBM Act 2003? (a) Macro Economic Framework Statement (b) Medium Term Fiscal Policy Statement (c) Debt Statement (d) None of these
79. Which one is not a tool of Fiscal Policy: (a) Taxation (b) Public Expenditure (c) Interest Rate (d) Public Debt
80. Statutory Grants in aid from the Union to certain states is based on the constitutional provisions as: (a) Article 275 (b) Article 282 (c) Article 293 (d) Article 270
81. Government failure occurs when - (a) Government intervention is ineffective and produces fresh and more serious problem (b) A government is unable to get re-elected (c) Both (a) and (b) (d) None of these
82. What is 'price ceiling'? (a) Minimum price that can be charged for a good (b) Maximum price that can be charged for a good (c) Minimum support price (d) Both (a) and (b)
83. A chemical factory has full information regarding the risks of a product but continues to sell it. This is possible because of: (a) moral hazard (b) Free riding (c) asymmetric information (d) None of these
84. When rent control is imposed above the current market price it will: (a) increase the quantity of rental housing demanded. (b) reduce the quality of rental housing.

<p>(c) create a shortage of rental housing. (d) create no impact on the market.</p>
<p>85. The government makes the provision of which goods those cannot be provided through the market:</p> <p>(a) private and public goods (b) public and merit goods (c) public and necessary goods (d) Giffen and merit goods</p>
<p>86. A good taxation system should be used to:</p> <p>(a) finance public services (b) follow higher taxation (c) no taxation (d) finance private services</p>
<p>87. Primary deficit is obtained by deducting interest payments from the:</p> <p>(a) Fiscal deficit (b) Revenue deficit (c) Budgetary deficit (d) Monetized deficit</p>
<p>88. Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?</p> <p>(a) National debt (b) Budget surplus (c) Fiscal deficit (d) None of these</p>
<p>89. What is the primary goal of countercyclical fiscal policy in budgeting?</p> <p>(a) Maximizing government revenue. (b) Stabilizing the economy during economic downturns. (c) Minimizing government intervention. (d) None of these</p>
<p>90. Mr Amit, a stock market trader through inside information, comes to know that share price of X Ltd is likely to go up in future, so he purchases the shares to make a gain by selling them later at higher price. It is a case of:</p> <p>(a) Moral Hazard (b) Asymmetric Information (c) Free Riding (d) None of the above</p>
<p>91. First mover advantage theory is related to:</p> <p>(a) Absolute advantage theory (b) Comparative cost advantage theory. (c) New trade theory (d) None of these</p>
<p>92. A firm makes an investment in unrelated business then it is called:</p> <p>(a) Horizontal investment (b) Vertical investment (c) Conglomerate (d) None of these</p>
<p>93. Deficient demand leads to:</p> <p>(a) inflationary gap (b) deflationary gap (c) both (a) and (b) (d) None of these</p>
<p>94. Which of the following are capital receipts of the government?</p> <p>(a) Recovery of loans (b) Disinvestment (c) Borrowing (d) All of the above</p>

95. Among the following canons of taxation which one has been given by Adam Smith?
 (a) Canon of Uniformity (b) Canon of productivity
 (c) canon of diversity (d) canon of equity
96. The Government offer minimum assured price to the farmers to purchase their output is called:
 (a) market Price (b) support Price
 (c) equilibrium Price (d) ceiling Price
97. Under which system Freedom of choice is an advantage:
 (a) Capitalism (b) Mixed economy
 (c) Socialism (d) None of these
98. Which of the following is/are the components of the Fiscal Deficit?
 1. Budgetary Deficit
 2. Market Borrowings
 3. Expenditure made from Pradhan Mantri Rahat Kosh
 (a) Only 1 (b) Only 2
 (c) Only 3 (d) All 1, 2 and 3
99. Which of the following is key operational target in a Budget?
 (a) Fiscal Deficit
 (b) Revenue Deficit
 (c) The General Government Debt
 (d) The Central Government Debt
100. If a Ministry falls short of approved budget in a scheme, what is the process to get additional budget through Parliament?
 (a) Supplementary (b) Re-appropriation
 (c) Transfer of balances (d) Vote on account

Solution:-

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

D	A	A	B	C	B	B	D	A	A
71	72	73	74	75	76	77	78	79	80
C	D	D	D	A	B	C	D	C	A
81	82	83	84	85	86	87	88	89	90
A	B	C	C	B	A	A	A	B	B
91	92	93	94	95	96	97	98	99	100
C	C	B	D	D	B	A	D	A	A

CHAPTER 8 - MONEY MARKET

1. Choose the incorrect statement

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

2. Money performs all of the three functions mentioned below, namely

- (a) medium of exchange, price control, store of value
- (b) unit of account, store of value, provide yields
- (c) medium of exchange, unit of account, store of value
- (d) medium of exchange, unit of account, income distribution

3. Demand for money is

- (a) Derived demand
- (b) Direct demand
- (c) Real income demand
- (d) Inverse demand

4. Higher the _____, higher would be _____ of holding cash and lower will be the _____

- (a) demand for money, opportunity cost, interest rate
- (b) price level, opportunity cost, interest rate
- (c) real income, opportunity cost, demand for money
- (d) interest rate, opportunity cost, demand for money

5. The quantity theory of money holds that

- (a) changes in the general level of commodity prices are caused by changes in the quantity of money
- (b) there is strong relationship between money and price level and the quantity of money is the main determinant of the price
- (c) changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation
- (d) All the above

6. The Cambridge approach to quantity theory is also known as

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

7. Fisher's approach and the Cambridge approach to demand for money consider

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

8. Real money is

- (a) nominal money adjusted to the price level
- (b) real national income

- (c) money demanded at given rate of interest
- (d) nominal GNP divided by price level

9. The precautionary money balances people want to hold

- (a) as income elastic and not very sensitive to rate of interest
- (b) as income inelastic and very sensitive to rate of interest
- (c) are determined primarily by the level of transactions they expect to make in the future.
- (d) are determined primarily by the current level of transactions

10. Speculative demand for money

- (a) is not determined by interest rates
- (b) is positively related to interest rates
- (c) is negatively related to interest rates
- (d) is determined by general price level

11. According to Keynes, if the current interest rate is high

- (a) people will demand more money because the capital gain on bonds would be less than return on money
- (b) people will expect the interest rate to rise and bond price to fall in the future.
- (c) people will expect the interest rate to fall and bond price to rise in the future.
- (d) Either a) or b) will happen

12. The inventory-theoretic approach to the transactions demand for money

- (a) explains the negative relationship between money demand and the interest rate.
- (b) explains the positive relationship between money demand and the interest rate.
- (c) explains the positive relationship between money demand and general price level
- (d) explains the nature of expectations of people with respect to interest rates and bond prices

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

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

14. _____ considered demand for money is as an application of a more general theory of demand for capital assets

- (a) Baumol
- (b) James Tobin
- (c) J M Keynes
- (d) Milton Friedman

15. The nominal demand for money rises if

- (a) the opportunity costs of money holdings - i.e. bonds and stock returns, r_B and r_E , respectively - decline and vice versa
- (b) the opportunity costs of money holdings - i.e. bonds and stock returns, r_B and r_E , respectively - rises and vice versa
- (c) the opportunity costs of money holdings - i.e. bonds and stock returns, r_B and r_E , respectively remain constant
- (d) b) and c) above

16. Reserve money is also known as

- (a) central bank money
- (b) base money

- (c) high powered money
- (d) all the above

17. Choose the correct statement from the following

- (a) Money is deemed as something held by the public and therefore only currency held by the public is included in money supply.
- (b) Money is deemed as something held by the public and therefore inter-bank deposits are included in money supply.
- (c) Since inter-bank deposits are not held by the public, therefore inter-bank deposits are excluded from the measure of money supply.
- (d) Both (a) and (c) above.

18. Reserve Money is composed of

- (a) currency in circulation + demand deposits of banks (Current and Saving accounts) + Other deposits with the RBI.
- (b) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI.
- (c) currency in circulation + demand deposits of banks + Other deposits with the RBI.
- (d) currency in circulation + demand and time deposits of banks + Other deposits with the RBI.

19. M1 is the sum of

- (a) currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.
- (b) currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.
- (c) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI
- (d) none of the above

20. Under the 'minimum reserve system' the central bank is

- (a) empowered to issue currency to any extent by keeping an equivalent reserve of gold and foreign securities.
- (b) empowered to issue currency to any extent by keeping only a certain minimum reserve of gold and foreign securities.
- (c) empowered to issue currency in proportion to the reserve money by keeping only a minimum reserve of gold and foreign securities.
- (d) empowered to issue currency to any extent by keeping a reserve of gold and foreign securities to the extent of ` 350 crores

21. The primary source of money supply in all countries is

- (a) the Reserve Bank of India
- (b) the Central bank of the country
- (c) the Bank of England
- (d) the Federal Reserve

22. The supply of money in an economy depends on

- (a) the decision of the central bank based on the authority conferred on it.
- (b) the decision of the central bank and the supply responses of the commercial banking system.
- (c) the decision of the central bank in respect of high powered money.
- (d) both a) and c) above.

23. Banks in the country are required to maintain deposits with the central bank

- (a) to provide the necessary reserves for the functioning of the central bank
- (b) to meet the demand for money by the banking system
- (c) to meet the central bank prescribed reserve requirements and to meet settlement obligations.

(d) to meet the money needs for the day to day working of the commercial banks

24. If the behaviour of the public and the commercial banks is constant, then

(a) the total supply of nominal money in the economy will vary directly with the supply of the nominal high-powered money issued by the central bank

(b) the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money

(c) the total supply of nominal money in the economy will vary inversely with the supply of high powered money

(d) all the above are possible

25. Under the fractional reserve system

(a) the money supply is an increasing function of reserve money (or high powered money) and the money multiplier.

(b) the money supply is an decreasing function of reserve money (or high powered money) and the money multiplier.

(c) the money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier.

(d) none of the above as the determinants of money supply are different

26. The money multiplier and the money supply are

(a) positively related to the excess reserves ratio e .

(b) negatively related to the excess reserves ratio e .

(c) not related to the excess reserves ratio e .

(d) proportional to the excess reserves ratio e .

27. The currency ratio represents

(a) the behaviour of central bank in the issue of currency.

(b) the behaviour of central bank in respect cash reserve ratio.

(c) the behaviour of the public.

(d) the behaviour of commercial banks in the country.

28. The size of the money multiplier is determined by

(a) the currency ratio (c) of the public,

(b) the required reserve ratio (r) at the central bank, and

(c) the excess reserve ratio (e) of commercial banks.

(d) all the above

29. _____ tells us how much new money will be created by the banking system for a given increase in the high-powered money.

(a) The currency ratio

(b) The excess reserve ratio e

(c) The credit multiplier

(d) The currency ratio (c)

30. The money multiplier will be large

(a) for higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)

(b) for constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)

(c) for lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)

(d) None of the above

31. The ratio that relates the change in the money supply to a given change in the monetary base is called the

- (a) required reserve ratio.
- (b) money multiplier.
- (c) deposit ratio.
- (d) discount rate.

32. For a given level of the monetary base, an increase in the required reserve ratio will denote

- (a) a decrease in the money supply.
- (b) an increase in the money supply.
- (c) an increase in demand deposits.
- (d) Nothing precise can be said

33. For a given level of the monetary base, an increase in the currency ratio causes the money multiplier to _ and the money supply to _____.

- (a) decrease; increase
- (b) increase; decrease
- (c) decrease; decrease
- (d) increase; increase

34. If commercial banks reduce their holdings of excess reserves

- (a) the monetary base increases.
- (b) the monetary base falls.
- (c) the money supply increases.
- (d) the money supply falls.

35. Which of the following is the function of monetary policy?

- (a) regulate the exchange rate and keep it stable
- (b) regulate the movement of credit to the corporate sector
- (c) regulate the level of production and prices
- (d) regulate the availability, cost and use of money and credit

36. The main objective of monetary policy in India is _____:

- (a) reduce food shortages to achieve stability
- (b) economic growth with price stability
- (c) overall monetary stability in the banking system
- (d) reduction of poverty and unemployment

37. The monetary transmission mechanism refers to

- (a) how money gets circulated in different sectors of the economy post monetary policy
- (b) the ratio of nominal interest and real interest rates consequent on a monetary policy
- (c) the process or channels through which the evolution of monetary aggregates affects the level of product and prices
- (d) none of the above

38. A contractionary monetary policy-induced increase in interest rates

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

39. During deflation

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

(c) the RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy

(d) the RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy

40. Which of the following statements is correct?

(a) The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same

(b) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself

(c) When repo rates increase, it means that banks can now borrow money through open market operations (OMO)

(d) None of the above

41. RBI provides financial accommodation to the commercial banks through repos/reverse repos under

(a) Market Stabilisation Scheme (MSS)

(b) The Marginal Standing Facility (MSF)

(c) Liquidity Adjustment Facility (LAF).

(d) Statutory Liquidity Ratio (SLR)

42. _____ is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.

(a) OMO

(b) CRR

(c) SLR

(d) Repo

43. In India, the term 'Policy rate' refers to

(a) The bank rate prescribed by the RBI in its half yearly monetary policy statement

(b) The CRR and SLR prescribed by RBI in its monetary policy statement

(c) the fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)

(d) the fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)

44. Reverse repo operation takes place when

(a) RBI borrows money from banks by giving them securities

(b) banks borrow money from RBI by giving them securities

(c) banks borrow money in the overnight segment of the money market

(d) RBI borrows money from the central government

45. The Monetary Policy Framework Agreement is on

(a) the maximum repo rate that RBI can charge from government

(b) the maximum tolerable inflation rate that RBI should target to achieve price stability.

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

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

46. An open market operation is an instrument of monetary policy which involves buying or selling of _____ from or to the public and banks

(a) bonds and bills of exchange

(b) debentures and shares

(c) government securities

(d) none of these

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

I. The Reserve Bank of India (RBI) Act, 1934 was amended on June 27, 2016, for giving a statutory backing to the Monetary Policy Framework Agreement and for setting up a Monetary Policy Committee

II. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of experts required to achieve the inflation target.

III. The Monetary Policy Committee shall determine the policy rate through consensus from the governor of RBI

IV. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of bankers chosen for eth purpose

(a) I only

(b) I and II only

(c) III and IV

(d) III only

48. Mr. A, who is self-employed decided to keep more money in his savings account, considering the prevailing economic & political conditions. What is the motive for such a move by A?

(a) Transactions Motive

(b) Speculative Motive

(c) Precautionary Motive

(d) Conservative Motive

49. Which of the following is true with regards to Liquidity Trap?

(a) Speculative Demand is parallel to X-Axis.

(b) Desire to hold bond is infinity.

(c) Ineffective Monetary Policy

(d) Both a & c

50. Among the following identified by Friedman, which one is not one of the four determinants of demand for money?

(a) Average return on five asset classes

(b) Price level in the economy

(c) Inflation Rate

(d) Forex Trade

51. According to whom, rational behaviour induces individuals to hold an optimally structured wealth portfolio which is comprised of both bonds and money?

(a) Tobin

(b) Baumol

(c) Keynes

(d) Alfred Marshall

52. Which of the following monetary instruments are indirect instruments of Monetary Policy?

(a) Cash Reserve Ratio

(b) Open Market Operations

(c) Repo Rate

(d) Both (b) & (c)

53. The central bank of a country is concerned about the high level of household debt and its potential impact on the economy. Which of the following actions can it take to address the

issue?

- (a) Increase the reserve requirement ratio to reduce lending.
- (b) Decrease the reserve requirement ratio to increase lending.
- (c) Increase the interest rate on loans to discourage borrowing.
- (d) Decrease the interest rate on loans to encourage borrowing.

54. Interest Rate Policy is a part of:

- (a) Fiscal Policy
- (b) Industrial Policy
- (c) Monetary Policy
- (d) None of the above

55. _____ refers to that portion of total deposits that a commercial bank is required to keep with RBI in the forms of reserves.

- (a) Compulsory Reserve Ratio
- (b) Statutory Liquid Ratio
- (c) Legal Reserve Ratio
- (d) Cash Reserve Ratio

56. Calculate M1 from the following money aggregates:

Information	Amount in crores
Currency with Public	5,02,738
Other deposits with the RBI	7016
Banker's deposits with the RBI	202,508
Demand deposits	423,120
Time deposits	23,73636

- (a) 9,32,874 Cr
- (b) 3,306,510 Cr
- (c) 9,25,858 Cr
- (d) 7,05,246Cr

57. Banks earn a profit on the difference between:

- (a) Interest charged to depositors and interest offered to borrowers.
- (b) Interest charged on loans and interest paid on deposits.
- (c) Deposit and loan balances
- (d) Liabilities and deposits

58. Under which union they have or follow a common monetary policy and fiscal policy:

- (a) Economic Union
- (b) Custom Union
- (c) Perfect Competition
- (d) None of these

59. Measure of fiscal reforms includes:

- (a) Ensuring better tax compliance
- (b) Encouraging private sector participation
- (c) Reduction in subsidies and abolition of unnecessary subsidies
- (d) All of these

60. Quantitative casing is the common name for?

<p>(a) Asset selling by a Central Bank</p> <p>(b) Asset purchasing by a Central Bank</p> <p>(c) Lowering at the interest rate for commercial bank lending</p> <p>(d) None of these</p>
<p>61. Which among the following shows a correct descending order of liquidity of M1, M2, M3?</p> <p>(a) M1 \square M2, \square M3</p> <p>(b) M2 \square M1 \square M3</p> <p>(c) M3 \square M2 \square M1</p> <p>(d) M1 \square M3 \square M2</p>
<p>62. Which of the following is not a money market instrument?</p> <p>(a) Treasury bills</p> <p>(b) Commercial Paper</p> <p>(c) Certificate of Deposit</p> <p>(d) Equity Share</p>
<p>63. Deficit financing includes:</p> <p>(a) Borrowing from the central bank</p> <p>(b) Issues of new currency by the Government</p> <p>(c) Withdrawal of past accumulated cash balance by the Government</p> <p>(d) All the above</p>
<p>64. If the central bank conducts an open market purchase of government securities, what is the likely impact on the money supply?</p> <p>(a) Increase</p> <p>(b) Decrease</p> <p>(c) No change</p> <p>(d) Variable, depending on other factors.</p>
<p>65. Which of the following is included in M2, a broader measure of money supply compared to M1?</p> <p>(a) Currency in circulation</p> <p>(b) Savings deposits</p> <p>(c) Demand deposits</p> <p>(d) Travellers' checks</p>
<p>66. Which of the following policy measures is typically used by central banks to manage the business cycle?</p> <p>(a) Fiscal policy.</p> <p>(b) Monetary policy.</p> <p>(c) Trade policy.</p> <p>(d) Industrial policy.</p>
<p>67. A central bank that wants to stabilize the economy in the short run should try to:</p> <p>(a) establish a clear inflation target and stick to it no matter what</p> <p>(b) affect aggregate supply through open market operations</p> <p>(c) affect aggregate demand through open market operations</p> <p>(d) concentrate only on long-run goals</p>
<p>68. Inflation occurs whenever:</p> <p>(a) aggregate demand rises.</p> <p>(b) the price of any given commodity rises.</p>

(c) the average price of most goods and services rises.

(d) the tax rate is lower than the government spending rate.

69. In modern fiat money systems, the value of money is primarily based on:

(a) Gold reserves

(b) Government authority and public trust

(c) Exchange rates

(d) Digital transactions

70. What is the "liquidity trap" in Keynesian theory?

(a) A situation where interest rates are very high.

(b) A situation where interest rates are very low, and savings are hoarded.

(c) A situation of hyperinflation

(d) A situation of excessive government spending

71. What is the primary goal of countercyclical fiscal policy in budgeting?

(a) Maximizing government revenue.

(b) Stabilizing the economy during economic downturns.

(c) Minimizing government intervention.

(d) Reducing public debt.

72. If the reserve requirement is 20%, what is the potential maximum expansion of the money supply when a new deposit of \$1,000 is made?

(a) \$5,000

(b) \$2,000

(c) \$1,000

(d) \$500

73. The Institution responsible for management of external debt is:

(a) RBI

(b) Ministry of Finance

(c) SEBI

(d) All of above

74. The Cambridge approach to quantity theory is also known as:

(a) Classical approach

(b) Cash balance approach

(c) Fisher's theory of money

(d) None of these

75. _____ considered demand for money is an application of a more general theory of demand for capital assets.

(a) Baumol

(b) Milton Friedman

(c) J M Keynes

(d) None of these

76. If commercial banks reduce their holdings of excess reserves:

(a) The money supply increases

(b) The money base falls

(c) The money supply falls

(d) None of these

77. RBI provides financial accommodation to the commercial banks through repos/ reverse repos under:

- (a) Statutory Liquidity Ratio (SLR)
- (b) Market stabilisation scheme (MSC)
- (c) Liquidity adjustment facility (LAF)
- (d) None of these

78. Which of the following does not cause inflation:

- (a) Easy finance facility
- (b) Growth of Black Money
- (c) Decrease in public i.e. government expenditure
- (d) High growth rate of population

79. Which of the following Policy instruments RBI normally resorts to for managing inflation in the economy

- (a) Bank Rate
- (b) Cash Reserve Ratio
- (c) Statutory liquidity Ratio
- (d) Repo rate

80. Which of the following is not a criterion for determining distribution of Central taxes among the states for 2021-2026 period:

- (a) Infrastructure performance
- (b) Forest and ecology
- (c) Tax and fiscal efforts
- (d) Demographic performance

81. According to Cambridge equation, the value of money depends upon:

- (a) Demand for money
- (b) Supply of money
- (c) Demand for goods and services
- (d) All of the above

82. The quantity demanded of money rises:

- (a) As the repo rate increases
- (b) As the repo rate falls
- (c) As the supply of money falls
- (d) As the number of banks rises

83. When the Central Bank intends to expand the credit, it should:

- (a) Raise the margin requirements
- (b) Raise the variable reserve ratio
- (c) Lower the bank rate
- (d) Purchase government securities in the open market

84. Which of the following is not an instrument of selective credit control?

- (a) Margin requirements
- (b) Open market operation
- (c) Credit rationing.
- (d) None of the above

85. Which among the following is called the rate of interest charged by RBI for lending money to various commercial banks by rediscounting of the bills in India?

- (a) Bank rate
- (b) Discount window.
- (c) Marginal Standing facility
- (d) Overnight rate

86. What will be the value of Credit Multiplier when the Required Reserve ratio is 50%?

- (a) 4
- (b) 2
- (c) 3
- (d) 1

87. Money cost is considered by:

- (a) Modern theory of trade
- (b) Comparative cost advantage
- (c) New Trade theory
- (d) None of these

88. The Reverse repo rate is:

- (a) RBI borrows from the government.
- (b) Commercial banks lends money to RBI
- (c) Commercial banks rediscount the bills of exchange with RBI
- (d) None of these

89. Money Supply is directly proportional to:

- (a) Cash reserve ratio \otimes
- (b) Monetary base (H)
- (c) currency deposit ratio (k)
- (d) Money Multiplier (m)

90. Reserve money is supplied by:

- (a) RBI
- (b) Government
- (c) Commercial banks
- (d) World bank

91. Consumer Price Index is calculated:

- (a) Once in 45 days
- (b) Once in 3 months
- (c) Once in fortnight
- (d) Once in a month

92. Indian financial system is skewed towards Commercial Banks with no interdependence on NBFCs:

- (a) Yes
- (b) No
- (c) Partly Right
- (d) None of the above

93. According to Cambridge equation, the value of money depends upon:

- (a) Demand for money
- (b) Supply of money
- (c) Demand for goods and services
- (d) All of the above

94. Short -term credit from the Reserve bank to state government:

- (a) RBI credit to states
- (b) Commercial credit of RBI
- (c) Ways and Means Advances
- (d) Short term facility

95. Which of the following is/are the components of Public Debt?

- 1. Market Loans
 - 2. External Loans
 - 3. Outstanding against saving schemes/ provident funds
- (a) only 1
 - (b) only 2
 - (c) Both 1 and 2
 - (d) only 3

96. The External Debt has been shown at the exchange rate applicable at the time of:

- (a) Contracting the debt.
- (b) Expanding the debt.
- (c) Both a & b
- (d) None of the above

97. Broad money refers to:

- (a) M1
- (b) M2
- (c) M3
- (d) M4

98. The effect of increase CRR will be reduced or nullified if:

- (a) Bank rate is reduced.
- (b) Securities are sold in the open market.
- (c) SLR is increased.
- (d) People do not borrow from non-banking institutions

99. Under which union they have or follow a common monetary policy and fiscal policy:

- (a) Economic Union
- (b) Custom Union
- (c) Common market
- (d) All the above

100. Open Market Operations imply:

- (a) Buying and selling securities by RBI
- (b) Buying and selling securities by commercial banks
- (c) Buying and selling securities by Investors
- (d) Buying and selling securities by government

Solution :-

1	2	3	4	5	6	7	8	9	10
A	C	A	D	D	A	C	A	A	C
11	12	13	14	15	16	17	18	19	20
C	A	D	D	A	D	C	B	A	B

21	22	23	24	25	26	27	28	29	30
B	B	C	A	A	B	C	D	C	C
31	32	33	34	35	36	37	38	39	40
B	A	C	C	D	B	C	B	A	B
41	42	43	44	45	46	47	48	49	50
C	D	C	A	B	C	B	C	D	D
51	52	53	54	55	56	57	58	59	60
A	D	A	C	D	B	B	A	D	B
61	62	63	64	65	66	67	68	69	70
A	D	D	A	B	B	C	C	B	B
71	72	73	74	75	76	77	78	79	80
B	A	A	B	B	A	C	C	D	C
81	82	83	84	85	86	87	88	89	90
A	B	D	B	A	B	A	B	B	A
91	92	93	94	95	96	97	98	99	100
D	B	A	C	C	A	C	A	A	A

CHAPTER 9 - INTERNATIONAL TRADE

1. Which of the following does not represent a difference between internal trade and international trade?

- (a) transactions in multiple currencies
- (b) homogeneity of customers and currencies
- (c) differences in legal systems
- (d) none of the above

2. The theory of absolute advantage states that

- (a) national wealth and power are best served by increasing exports and decreasing imports
- (b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
- (c) that the value or price of a commodity depends exclusively on the amount of labour going into its production and therefore factor prices will be the same
- (d) differences in absolute advantage explains differences in factor endowments in different countries

3. Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage?

- (a) Modern theory of international trade
- (b) The factor endowment theory
- (c) The Heckscher-Ohlin Theory
- (d) None of the above

4. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports

- (a) Capitalism
- (b) Socialism
- (c) Mercantilism
- (d) Laissez faire

5. Given the number of labour hours to produce cloth and grain in two countries, which country should produce grain?

Labour cost (hours) for production of one unit

	<i>Country A</i>	<i>Country B</i>
<i>Cloth</i>	40	80
<i>Grain</i>	80	40

- (a) Country A
- (b) Country B
- (c) Neither A nor B
- (d) Both A and B

6. According to the theory of comparative advantage

- (a) trade is a zero-sum game so that the net change in wealth or benefits among the participants is zero.
- (b) trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive
- (c) nothing definite can be said about the gains from trade
- (d) gains from trade depends upon factor endowment and utilization

7. Given the number of labour hours to produce wheat and rice in two countries and that these countries specialise and engage in trade at a relative price of 1:1 what will be the gain of country X?

Labour cost (hours) for production of one unit

	<i>Wheat</i>	<i>Rice</i>
<i>Country X</i>	10	20
<i>Country Y</i>	20	10

- (a) 20 labour hours (b) 10 labour hours
 (c) 30 labour hours (d) Does not gain anything

8. Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:

Labour cost (hours) for production of one unit

	<i>India</i>	<i>Bangladesh</i>
<i>Tables</i>	3	8
<i>Mats</i>	2	1

- (a) Bangladesh has a comparative advantage in mats
 (b) India has a comparative advantage in tables
 (c) Bangladesh has an absolute advantage in mats
 (d) All the above are true

9. Comparative advantage refers to

- (a) a country's ability to produce some good or service at the lowest possible cost compared to other countries
 (b) a country's ability to produce some good or service at a lower opportunity cost than other countries.
 (c) Choosing a productive method which uses minimum of the abundant factor
 (d) (a) and (b) above

10. Ricardo explained the law of comparative advantage on the basis of

- (a) opportunity costs
 (b) the law of diminishing returns
 (c) economies of scale
 (d) the labour theory of value

11. A specific tariff is

- (a) a tax on a set of specified imported good
 (b) an import tax that is common to all goods imported during a given period
 (c) a specified fraction of the economic value of an imported good
 (d) a tax on imports defined as an amount of currency per unit of the good

12. A tariff on imports is beneficial to domestic producers of the imported good because

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

13. A tax applied as a percentage of the value of an imported good is known as

- (a) preferential tariff (b) ad valorem tariff
 (c) specific tariff (d) mixed or compound tariff

14. Escalated tariff refers to

- (a) nominal tariff rates on raw materials which are greater than tariffs on manufactured products
- (b) nominal tariff rates on manufactured products which are greater than tariffs on raw materials
- (c) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries
- (d) none of the above

15. Voluntary export restraints involve:

- (a) an importing country voluntarily restraining the quantity of goods that can be exported into the country during a specified period of time
- (b) domestic firms agreeing to limit the quantity foreign products sold in their domestic markets
- (c) an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time
- (d) quantitative restrictions imposed by the importing country's government.

16. Anti-dumping duties are

- (a) additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.
- (b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government
- (c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market
- (d) Both (a) and (c) above

17. A countervailing duty is

- (a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country
- (b) charged by importing countries to ensure fair and market-oriented pricing of imported products
- (c) charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies
- (d) All the above

18. Which of the following is an outcome of tariff?

- (a) create obstacles to trade and increase the volume of imports and exports
- (b) domestic consumers enjoy consumer surplus because consumers must now pay only a lower price for the good
- (c) discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes
- (d) increase government revenues of the importing country by more than value of the total tariff it charges

19. SPS measures and TBTs are

- (a) permissible under WTO to protect the interests of countries
- (b) may result in loss of competitive advantage of developing countries
- (c) increases the costs of compliance to the exporting countries
- (d) All the above

20. Which of the following is not a non-tariff barrier.

- (a) Complex documentation requirements
- (b) Import quotas on specific goods
- (c) Countervailing duties charged by importing country
- (d) Pre shipment product inspection and certification requirements

21. Under tariff rate quota
(a) countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement
(b) a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate
(c) lower tariff is charged from goods imported from a country which is given preferential treatment
(d) none of the above

22. Non -tariff barriers (NTBs) include all of the following except:
(a) import quotas
(b) Tariffs
(c) export subsidies
(d) technical standards of products

23. Which of the following culminated in the establishment of the World Trade Organization?
(a) The Doha Round (b) The Tokyo Round
(c) The Uruguay Round (d) The Kennedy Round

24. Choose the correct statement
(a) The GATT was meant to prevent exploitation of poor countries by richer countries
(b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.
(c) All members of the World Trade Organization are required to avoid tariffs of all types
(d) All the above

25. The 'National treatment' principle stands for
(a) the procedures within the WTO for resolving disagreements about trade policy among countries
(b) the principle that imported products are to be treated no worse in the domestic market than the local ones
(c) exported products are to be treated no worse in the domestic market than the local ones
(d) imported products should have the same tariff, no matter where they are imported from

26. 'Bound tariff' refers to
(a) clubbing of tariffs of different commodities into one common measure
(b) the lower limit of the tariff below which a nation cannot be taxing its imports
(c) the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.
(d) the limit within which the country's export duty should fall so that there are cheaper exports

27. The essence of 'MFN principle' is
(a) equality of treatment of all member countries of WTO in respect of matters related to trade
(b) favour one, country, you need to favour all in the same manner
(c) every WTO member will treat all its trading partners equally without any prejudice and discrimination
(d) all the above

28. The World Trade Organization (WTO)
(a) has now been replaced by the GATT
(b) has an inbuilt mechanism to settle disputes among members
(c) was established to ensure free and fair trade internationally.
(d) (b) and c) above

29. The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments

- (a) on increasing agricultural productivity and rural development
- (b) market access and agricultural credit support
- (c) market access, domestic support and export subsidies
- (d) market access, import subsidies and export subsidies

30. The Agreement on Textiles and Clothing

- (a) provides that textile trade should be deregulated gradually and the tariffs should be increased
- (b) replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974
- (c) granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries
- (d) stipulated that tariffs in all countries should be the same

31. The Agreement on Trade-Related Aspects of Intellectual Property Rights

- (a) stipulates to administer a system of enforcement of intellectual property rights.
- (b) provides for most-favoured-nation treatment and national treatment for intellectual properties
- (c) mandates to maintain high levels of intellectual property protection by all members
- (d) all the above

32. The most controversial topic in the yet to conclude Doha Agenda is

- (a) trade in manufactured goods
- (b) trade in intellectual property rights-based goods
- (c) trade in agricultural goods
- (d) market access to goods from developed countries

33. The WTO commitments

- (a) affect developed countries adversely because they have comparatively less agricultural goods
- (b) affect developing countries more because they need to make radical adjustments
- (c) affect both developed and developing countries equally
- (d) affect none as they increase world trade and ensure prosperity to all

34. Based on the supply and demand model of determination of exchange rate, which of the following ought to cause the domestic currency of Country X to appreciate against dollar?

- (a) The US decides not to import from Country X
- (b) An increase in remittances from the employees who are employed abroad to their families in the home country
- (c) Increased imports by consumers of Country X
- (d) Repayment of foreign debts by Country X

35. All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?

- (a) The demand curve for dollars shifts to the right and Indian Rupee appreciates
- (b) The supply of US dollars shrinks and, therefore, import prices decrease
- (c) The demand curve for dollars shifts to the right and Indian Rupee depreciates
- (d) The demand curve for dollars shifts to the left and leads to an increase in exchange rate

36. 'The nominal exchange rate is expressed in units of one currency per unit of the other currency. A real exchange rate adjusts this for changes in price levels'. The statements are

- (a) wholly correct
- (b) partially correct
- (c) wholly incorrect
- (d) None of the above

37. Match the following by choosing the term which has the same meaning

- | | |
|---------------------------|---------------------------|
| I. floating exchange rate | a. fixed exchange rate |
| II. pegged exchange rate | b. depreciation |
| III. Devaluation | c. revaluation |
| IV. Appreciation | d. flexible exchange rate |

(a) (i c); (ii d); (iii b); (iv a))

(b) (i b); (ii a); (iii d); (iv c)

(c) (i a); (ii d) ; (iii b); (iv c)

(d) (i d); (ii a); (iii b); (iv c)

38. Choose the correct statement

(a) An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency

(b) the fixed exchange rate regime is said to be efficient and highly transparent.

(c) A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency

(d) Exchange rates are generally fixed by the central bank of the country

39. Which of the following statements is true?

(a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency

(b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency

(c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.

(d) All the above

40. An increase in the supply of foreign exchange

(a) shifts the supply curve to the right and as a consequence, the exchange rate declines

(b) shifts the supply curve to the right and as a consequence, the exchange rate increases

(c) more units of domestic currency are required to buy a unit of foreign exchange

(d) the domestic currency depreciates and the foreign currency appreciates

41. Currency devaluation

(a) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries

(b) may reduce export prices and increase the international competitiveness of domestic industries

(c) may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services

(d) (a) and (c) above

42. At any point of time, all markets tend to have the same exchange rate for a given currency due to

(a) Hedging (b) Speculation

(c) Arbitrage (d) Currency futures

43. Vehicle Currency' refers to

(a) a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties

(b) a currency that is traded internationally and, therefore, is in high demand

(c) a type of currency used in euro area for synchronization of exchange rates

(d) a currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties

44. Which of the following statements is incorrect?
(a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.
(b) Foreign portfolio investments involve flow of 'financial capital'.
(c) Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services.
(d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.

45. Which of the following is a component of foreign capital?
(a) Direct inter government loans
(b) Loans from international institutions (e.g. World Bank, IMF, ADB)
(c) Soft loans for e.g. from affiliates of World Bank such as IDA
(d) All the above

46. Which of the following would be an example of foreign direct investment from Country X?
(a) A firm in Country X buys bonds issued by a Chinese computer manufacturer.
(b) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors
(c) Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm
(d) None of the above

47. Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?
(a) Brownfield investment (b) Merger and acquisition
(c) Greenfield investment (d) Strategic alliances

48. Which is the leading country in respect of inflow of FDI to India?
(a) Mauritius (b) USA
(c) Japan (d) USA

49. An argument in favour of direct foreign investment is that it tends to
(a) promote rural development
(b) increase access to modern technology
(c) protect domestic industries
(d) keep inflation under control

50. Which of the following is a reason for foreign direct investment?
(a) secure access to minerals or raw materials
(b) desire to capture of large and rapidly growing emerging markets
(c) desire to influence home country industries
(d) (a) and (b) above

51. Which of the following is a disadvantage of international trade?
(a) Increased choice for consumers
(b) Risk of dependence on imports
(c) Increased specialization
(d) None of the above

52. Which of the following is an example of a local content requirement?
(a) A limit on the quantity of imports
(b) A subsidy for domestic producers
(c) A requirement that a certain percentage of a product be produced domestically.
(d) All of these

53. Which of the following measures involve total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period?

- (a) Import Quotas
- (b) Anti-Dumping Duties
- (c) Escalated Tariffs
- (d) Embargos

54. ONGC Videsh Limited has been incorporated by its parent entity ONGC for oil and gas acreages, involving exploration, development and production of oil and gas outside India. Which type of foreign investment is it?

- (a) Joint Venture
- (b) Brownfield Investment
- (c) Greenfield Investment
- (d) Licensin

55. Which of the following is not one of the features of New Trade Theory by Paul Krugman?

- (a) Countries which trade in similar goods are natural trade partners.
- (b) It is based on labour theory of value
- (c) Network effect as means of engaging in international trade.
- (d) It focuses more on economies of scale.

56. Export led growth strategy does not include:

- (a) outward oriented growth
- (b) export promotion
- (c) import restrictions
- (d) emphasising comparative advantage

57. What is hedging?

- (a) Protection against extreme weather condition
- (b) Protection against risk related to variation in Price movement in an asset.
- (c) When exchange rate is unlocked for future supplies of foreign exchange
- (d) None of these

58. One of the reasons mentioned below doesn't justify imposition of tariffs:

- (a) It will enhance consumer sovereignty
- (b) It helps in curbing BoP deficit.
- (c) It raises government revenue.
- (d) It is used to protect domestic industry from subsidized imports.

59. Who Propounded the Price Equalization Theorem?

- (a) Paul Samuelson
- (b) Alfred Marshall
- (c) Irving Fisher
- (d) Marx

60. What is the purpose of a voluntary export restraint (VER)?

- (a) To limit the quantity of exports.
- (b) To encourage foreign producers to export more
- (c) To reduce the cost of imports.
- (d) To comply with international trade agreements.

61. The quantity of dollars supplied will decrease if:

- (a) imports into the United States increase.
- (b) the expected future exchange rate falls.
- (c) the interest rate in the United States falls.
- (d) fewer U.S. residents travel abroad.

62. Quantitative restrictions refer to limits set by countries to curb:

- (a) Imports
- (b) Exports
- (c) Imports & exports
- (d) None of the above

63. Theory of Mercantilism propagates:

- (a) Encourage exports and imports
- (b) Encourage exports and discourage imports
- (c) Discourage exports and imports
- (d) Discourage exports and encourage imports

64. Which of the following is more sensitive to short-term changes in economic conditions?

- (a) FDI
- (b) FPI
- (c) Both FDI and FPI
- (d) Neither FDI nor FPI

65. Which type of investment is more influenced by government regulations and policies?

- (a) FDI
- (b) FPI
- (c) Both FDI and FPI equally
- (d) Neither FDI nor FPI

66. Which international organization is responsible for facilitating trade negotiations and resolving trade disputes among member countries?

- (a) World Health Organization (WHO)
- (b) International Monetary Fund (IMF)
- (c) World Trade Organization (WTO)
- (d) United Nations Educational, Scientific and Cultural Organization (UNESCO)

67. Which trade policy tool is designed to directly support domestic producers by reducing the cost of exporting goods?

- (a) Export subsidy
- (b) Import quota
- (c) Voluntary export restraint
- (d) Export tariff

68. Ricardo explained the law of comparative advantage on the basis of-

- (a) Economies of scale
- (b) The labour theory of value
- (c) Opportunity costs
- (d) None of these

69. Escalated tariffs refer to:

- (a) Nominal tariff rate on raw materials which are greater than tariffs on mfg. Product
- (b) A tariff which is escalated to prohibit imports of a particular good to protect domestic Industries
- (c) Normal tariff rate on mfg. products which are greater than tariffs on raw material
- (d) None of these

70. The most controversial topic in the yet to conclude Doha Agenda is:

- (a) Trade in agricultural goods
- (b) Trade in manufactured goods
- (c) market access to goods from developed countries
- (d) None of these

<p>71. "Vehicle currency" refer to</p> <p>(a) A currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties.</p> <p>(b) a currency that is traded internationally and therefore is in high demand</p> <p>(c) either a or b</p> <p>(d) None of these</p>
<p>72. Creation of fresh assets and production are included in which type of FDI:</p> <p>(a) Strategic Alliance</p> <p>(b) Merger and Acquisition</p> <p>(c) Brownfield Investment</p> <p>(d) Greenfield Investment</p>
<p>73. Nationalization means:</p> <p>(a) Selling of government stake to private sector</p> <p>(b) Selling of government companies to private sector</p> <p>(c) Government purchasing 26% shares in private companies</p> <p>(d) Taking of full control and management from Private Sector by the Government</p>
<p>74. Who are the normal residents of the country?</p> <p>(a) A resident who has own house in that country</p> <p>(b) A resident with a bank account in that country</p> <p>(c) Ordinary residents with economic interest lying in that country</p> <p>(d) None of these</p>
<p>75. Which of the following is a zero-sum game?</p> <p>(a) Prisoners dilemma</p> <p>(b) Competition for market share</p> <p>(c) Pricing strategy</p> <p>(d) None of the above is correct</p>
<p>76. The process of selling of the products at a price less than on going price inthe market is known as:</p> <p>(a) Quota (b) Tariff</p> <p>(c) Subsidies (d) Dumpin</p>
<p>77. Comparative advantage is determined by:</p> <p>(a) the amount of resources needed to produce a good</p> <p>(b) the money cost of producing any good</p> <p>(c) The opportunity cost of producing any good</p> <p>(d) Absolute advantage and production possibilities combined.</p>
<p>78. A lumps sum tax per unit on imports is known as:</p> <p>(a) A specific tariff (b) An effective tariff</p> <p>(c) An effective quota (d) A specific quota</p>
<p>79. A key effect of devaluation is that it:</p> <p>(a) Makes the domestic currency cheaper relative to other currencies</p> <p>(b) Makes the domestic currency dearer relative to other currencies</p> <p>(c) Makes the foreign currency Cheaper relative to other currencies</p> <p>(d) Leaves the relative value unchanged</p>
<p>80. Central Government can impose the safeguard duty if it is satisfied that:</p>

- (a) Any article is imported into India in increased quantities
- (b) Such increased importation is causing or threatening to cause serious injury to domestic industry
- (c) Either A or B
- (d) Both A & B

81. Countervailing duty shall not be levied unless it is determined that:

- (a) The subsidy relates to export performance.
- (b) The subsidy relates to the use of domestic goods over imported goods in the export article
- (c) The subsidy has been conferred on a limited number of persons engaged in the manufacture, production or export of articles.
- (d) All the above

82. Terms of trade in developing countries are generally unfavorable because:

- (a) They export manufacturing products.
- (b) They export primary products.
- (c) They export few goods.
- (d) Both A and C

83. Most tariffs have:

- (a) only revenue effects
- (b) only protective effects
- (c) both protective and revenue effects
- (d) neither protective or revenue effects

84. Which of the following statements is/are correct regarding FDI under automatic route?

- a. FDI in India under the automatic route does not require prior approval either by the Government of India or the Reserve Bank of India.
- b. Investors are only required to notify the concerned regional office of the RBI before receipt of inward remittances and file required documents with that office before the issue of shares to foreign investors.

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

85. What is a Global Depository Receipt?

- (a) It is a receipt issued by multinational banks on deposit of money.
- (b) It is a receipt issued by stock exchange to bank clearing mechanism.
- (c) It is a receipt issued by an overseas bank in lieu of shares of a domestic company.
- (d) It is a receipt issued by stock exchange on investment by foreign portfolio investor.

86. Any act of interference by a Central Bank like the RBI in influencing the exchange rate is referred to as which of the following in India?

- (a) Dirty Floats
- (b) Managed Floats
- (c) Fixed Floats
- (d) Market Stabilization Floats

87. Which type of investment is more susceptible to capital flight during times of economic instability?

- (a) FDI
- (b) FPI
- (c) Both FDI and FPI equally
- (d) Neither FDI nor FPI

<p>88. Which of the following measures involve total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period?</p> <p>(a) Import Quotas (b) Anti-Dumping Duties (c) Escalated Tariffs (d) Embargos</p>
<p>89. Which of the following is not one of the features of New Trade Theory by Paul Krugman?</p> <p>(a) Countries which trade in similar goods are natural trade partners (b) It is based on labour theory of value (c) Network effect as means of engaging in international trade (d) It focuses more on economies of scale</p>
<p>90. The Three component of FDI is:</p> <p>(a) equity capital (b) reinvested earnings (c) Intra company loans (d) All the above</p>
<p>91. Which of the following tariff is charged on imports on most-favoured nation(MFN) basis:</p> <p>(a) bound tariff (b) applied tariff (c) prohibitive tariff (d) None of these</p>
<p>92. Under which union they have or follow a common monetary policy and fiscal policy:</p> <p>(a) Economic Union (b) Custom Union (c) Common market (d) None of these</p>
<p>93. The WTO comprises majorly:</p> <p>(a) developed countries (b) under developed countries (c) developing countries (d) None of these.</p>
<p>94. Dirty Floating is related to:</p> <p>(a) Flexible system of exchange rate (b) fixed system of exchange rate (c) Either of these (d) None of these</p>
<p>95. Globalization indicate rapid _____ between Countries:</p> <p>(e) Competition (b) Investment (f) Integration (d) None of these</p>
<p>96. The quantity of dollars supplied will decrease if:</p> <p>(a) imports into the United States increase. (b) the expected future exchange rate falls. (c) the interest rate in the United States falls. (d) fewer U.S. residents travel abroad.</p>
<p>97. Theory of Mercantilism propagates:</p> <p>(a) Encourage exports and imports (b) Encourage exports and discourage imports (c) Discourage exports and imports (d) Discourage exports and encourage imports</p>
<p>98. A key effect of devaluation is that it:</p> <p>(a) Makes the domestic currency cheaper relative to other currencies (b) Makes the domestic currency dearer relative to other currencies (c) Makes the foreign currency Cheaper relative to other currencies (d) Leaves the relative value unchanged</p>

99. Most tariffs have:

- (a) only revenue effects
- (b) only protective effects
- (c) both protective and revenue effects
- (d) neither protective or revenue effects

100. Foreign Portfolio Investment (FPI) involves:

- (a) Investment in tangible assets in a foreign country
- (b) Investment in financial assets such as stocks and bonds of foreign companies
- (c) Establishing subsidiaries or acquiring stakes in foreign companies
- (d) Long-term commitment to a foreign market

Solution :-

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

CHAPTER 10 - INDIAN ECONOMY

1. The Indian industry stagnated under the colonial rule because

- (a) Indians were keen on building huge structures and monuments only
- (b) Deterioration was caused by high prices of inputs due to draught
- (c) The Indian manufactures could not compete with the imports of cheap machine made goods
- (d) None of the above

2. The first wave of liberalization starts in India

- (a) In 1951
- (b) In 1980's
- (c) In 1990
- (d) In 1966

3. The sequence of growth and structural change in Indian economy is characterized by

- (a) The historical pattern of prominence of sectors as agriculture, industry, services
- (b) The historical pattern of prominence of sectors as industry, services, agriculture
- (c) Unique experience of the sequence as agriculture, services, industry
- (d) All the above are correct

4. Merchandise Exports from India Scheme was replaced by -

- (a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021
- (b) National Logistics Policy (NLP) in 2020
- (c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019
- (d) None of the above

5. The Foreign Investment Promotion Board (FIPB)

- (a) a government entity through which inward investment proposals were routed to obtain required government approvals
- (b) no more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal
- (c) no more exists as all inward investments are through automatic route and need no approval
- (d) is the body which connects different ministries in respect of foreign portfolio investments

6. FAME-India Scheme aims to

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

7. In terms of Ease of Doing Business in 2020 India ranks

- (a) 63
- (b) 77
- (c) 45
- (d) None of the above

8. E-NAM is -

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

9. Which of the following is not a policy reform included in the new economic policy of 1991 -

- (a) removing licensing requirements for all industries
- (b) Foreign investment was liberalized
- (c) Liberalisation of international trade

(d) The disinvestment of government holdings of equity share capital of public sector enterprises
10. Imports of foreign goods and entry of foreign investments were restricted in India because - (a) The government wanted people to follow the policy of 'Be Indian; Buy Indian' (b) Because foreign goods were costly and meant loss of precious foreign exchange (c) Government policy was directed towards protection of domestic industries from foreign competition (d) Government wanted to preserve Indian culture and to avoid influence of foreign culture
11. The 'Hindu growth rate' is a term used to refer to - (a) the high rate of growth achieved after the new economic policy of 1991 (b) the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year (c) the low growth of the economy during British period marked by an average of 3.5 percent (d) the growth rate of the country because India is referred to as 'Hindustan'
12. In the context of the new economic policy of 1991, the term 'disinvestment' stands for - (a) A policy whereby government investments are reduced to correct fiscal deficit (b) The policy of sale of portion of the government shareholding of a public sector enterprise (c) The policy of public partnership in private enterprise (d) A policy of opening up government monopoly to the privates sector
13. The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was - (a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few (b) to provide for the control of monopolies (c) to prohibit monopolistic and restrictive trade practice (d) all the above
14. Which one of the following is a feature of green revolution - (a) use of soil friendly green manure to preserve fertility of soil (b) grow more crops by redistributing land to landless people (c) High yielding varieties of seeds and scientific cultivation (d) Diversification to horticulture
15. The strategy of agricultural development in India before green revolution was - (a) High yielding varieties of seeds and chemical fertilizers to boost productivity (b) Institutional reforms such as land reforms (c) Technological up gradation of agriculture (d) All the above
16. The Industrial Policy Resolution (1948) aimed at - (a) Market oriented economic reforms and opening up of economy (b) A shift from state led industrialization to private sector led industrialisation (c) an expanded role for the public sector and licensing to the private sector (d) an expanded role of private sector a limited role of public sector
17. The new economic policy of 1991 manifest in - (a) State led industrialization and import substitution (b) Rethinking the role of markets versus the state (c) Emphasized the role of good governance (d) Bringing about reduction in poverty and redistributive justice
18. The post independence economic policy was rooted in -

- (a) A capitalist mode of production with heavy industrialization
- (b) social and economic redistribution and industrialization directed by the state
- (c) social and economic redistribution through private sector initiatives
- (d) Industrialization led by private entrepreneurs and redistribution by state

19. The survival and success of any business depends on sound_____

- (a) Mind
- (b) Environment
- (c) Decisions
- (d) None of these

20. The Indian industry faced the process of retrogression and deceleration because of:

- (b) unsatisfactory performance of agriculture
- (c) slackening of real investment in public sector
- (d) narrow market for industrial goods, especially in rural areas
- (e) all the above.

21. What is economic planning?

- (a) It refers to Central planning authority.
- (b) It refers the planning of agricultural production.
- (c) It means development in the seller's market.
- (d) A process through which targets are being achieved as per need & means of the economy

22. Agrarian reforms in Agriculture brought:

- (a) Institutional reforms
- (b) Technical reforms
- (c) Land reforms
- (d) All the three mentioned

23. What is the expansion of the term NITI in NITI Aayog?

- (a) National Institution for Transforming India
- (b) National Institution for Total Improvement
- (c) National Institution for Technological Improvement
- (d) None of these

24. New Industrial Policy was announced on _____.

- (a) 24th July 1991
- (b) 15th August 1990
- (c) 10th January 1995
- (d) None of these

25. As per the economic survey 2023-24 the contribution of service sector is _____.

- (a) 55%
- (b) 60%
- (c) 45%
- (d) None of these

26. Dumping Refers to:

- (a) Reducing tariffs
- (b) Sale of goods abroad at a lower price below their cost and price in their home market
- (c) Buying goods at low prices abroad and selling at higher price locally
- (d) Expenditure goods selling for low prices

27. Which of the following theories suggests that firms seek to penetrate new markets over time?

- (a) Theory of comparative advantage
- (b) Product Market theory
- (c) Imperfect Market theory
- (d) None of these

<p>28. The World Trade Organization (WTO) was established to implement the final act of round agreement of GATT.</p> <p>(a) Geneva (b) Uruguay (c) okyo (d) None of these</p>
<p>29. Government of India recently launched 'Make in India' programme. What will be its impact on Aggregate Demand of India?</p> <p>(a) Likely to increase (b) Likely to fall (c) No impact (d) None of these</p>
<p>30. PSUs are mainly driven by:</p> <p>(a) Profit (b) Industrialization (c) Social welfare (d) None of these</p>
<p>31. The concept of "animal spirits" in Keynesian theory refers to:</p> <p>(a) The unpredictable behaviour of financial markets (b) psychological factors influencing economic decisions. (c) Government regulations affecting business confidence. (d) The impact of interest rates on investment</p>
<p>32. We can say Indian agriculture has become modern since:</p> <p>(a) there has been an increase in the use of high yielding varieties of seeds, fertilizers pesticides etc. (b) there has been noticeable positive change in the attitude of farmers towards new techniques of production (c) farmers are increasingly resorting to intensive cultivation, multiple cropping, scientific water management (d) all of the above.</p>
<p>33. What is meant by the "institutional framework" of an economy?</p> <p>(a) The maximum capacity of the economy in the production process (b) The level of investment in human capital (c) The system of formal laws, regulations and procedures that shape economic activity in the economy (d) Subsidies and tax concessions used to improve employment opportunities in assisted areas of the economy</p>
<p>34. E - NAM is -</p> <p>(a) a pan -India electronic trading portal which networks the existing APMCmandis (b) with the objective of creating a unified national market for agriculturalcommodities (c) Both a & b (d) None of these</p>
<p>35. India's Rank in Ease of Doing Business is:</p> <p>(a) 45 (b) 54 (c) 63 (d) None of these</p>
<p>36. Niti Aayog will work towards the objective:</p> <p>(a) To evolve a shared vision of national development priorities, sectors and strategies with active involvement of states (b) To foster cooperative federalism (c) To develop mechanisms to formulate credible plans at the village level (d) All the above</p>
<p>37. SEBI was given statutory recognition in :</p>

(a) 1985	(b) 1990
(c) 1992	(d) None of these
38. The share of agriculture in India's national income has _____ over the years.	
(a) Remained constant.	
(b) Decreased.	
(c) Increased.	
(d) First decreased and then increased.	
39. FEMA stands for:	
(a) Foreign Exchange Management Act.	
(b) Founds Exchange Management Act.	
(c) Finance Enhancement Monetary Act.	
(d) Future Exchange Management Act.	
40. The pre-condition for privatization to be successful requires:	
(a) Liberalization and de-regulation of the economy.	
(b) Capital markets should be sufficiently developed.	
(c) None of the above.	
(d) (a) & (b) both	
41. India is the largest economy of the ancient and the medieval world. It controlled _____ of the world's wealth.	
(a) One third to one fourth	
(b) One fifth to one sixth	
(c) Entire	
(d) One fourth to one fifth	
42. The Indian Economy was the hub of _____	
(a) Pilgrimage	(b) Administration
(c) Statecraft	(d) All of the above
43. When was the book Arthashastra prevalent?	
(a) 296 AD to 321 AD	(b) 1967 to 1991
(c) 321 BCE to 296 BCE	(d) Post independence
44. 'Arthashastra' is the pioneering work attributed to _	
(a) Chandra gupt Moury	(b) Chanakya
(c) Birbal	(d) Adam Smith
(e) Gandhi Ji	(f) Nehru
45. The founder/s of Mauryan empire is/are _____	
(a) Samudragupt Maurya	(b) Bhimsingh Maurya
(c) Chandragupt Maurya	(d) Ashoka
46. The major focus of the work in the Arthashastra Book was on _____	
(a) Wealth	(b) Land
(c) Both	(d) None
47. What is the meaning of the word "Artha"?	
(a) Wealth	(b) Land
(c) Both	(d) Economy
48. What are the seven vital elements true kingship?	
(a) King, Fortress, Ministers, Farmland, Military, Allies and Treasury	
(b) King, Fortress, Ministers, sports, Military, Allies and Treasury	

(c) King, Fortress, Ministers, Farmland, Military, war and Treasury (d) Military, King, Taxation, Fortress, Allies, Ministers, Allies
49. Kautilya emphasizes importance of _____ (a) Robust Agriculture (b) Taxation Policy (c) Improving Treasury (d) Equality and Justice
50. What were the two phases of British rule? (a) 1657 to 1758 and 1858 to 1947 (b) 1757 to 1858 and 1858 to 1947 (c) 1767 to 1858 and 1859 to 1947 (d) 1757 to 1885 and 1885 to 1947
51. India became an exporter of raw material instead of finish goods. This statement is (a) True (b) false (c) Partially true (d) Can't Comment
52. Which of the following is not included in East India Company's rule? (a) Reversal of Indian Market from Exporter of Finished goods to exporters of Raw materials (b) Tariff Discrimination (c) Indian inclination towards western goods (d) Power in hands in Indian Only
53. How many spindles did Indian Cotton Mills have at the time of Colonial rule? (a) 7 Million (b) 8 Million (c) 9 Million (d) 6 Million
54. In which area did jute mills started growing, specifically during the time of colonial rule? (a) East India, especially Calcutta (b) West India, especially Gujarat (c) Central India, especially Madhya Pradesh (d) North India, especially Punjab
55. What was the position of cotton mills in 1930 globally? (a) 2nd (b) 3rd (c) 4th (d) 5th
56. What was the rank of the India's iron industry in the whole world in 1930? (a) 8th (b) 7th (c) 6th (d) 5 th
57. What was India's ranking in manufacturing before the great depression? (a) 12th (b) 2nd (c) 3rd (d) 10 th
58. India majorly had rural inhabited, mostly illiterate & exceedingly poor population. The statement is (a) True (b) False (c) Can't Say (d) Wasn't born so can't say
59. In 1951, India's literacy rate was ___ percent and life expectancy was ___ years (a) 32, 18 (b) 18, 32 (c) 50, 50 (d) 100, 100 (e) 35, 18 (f) 16, 32
60. Which model did India Adopt after independence? (a) Nehruvian Model (b) Gandhian Model

(c) British Model	(d) American Model
61. The Nehruvian Model supported ____ and ____	
(a) Social , economic redistribution and industrialization	
(d) Live and Let live	
(c) Small scale and cottage industry	
(d) Robust agricultural initiatives and Taxation Policy	
62. Who had the powers at the time of Nehruvian Model?	
(a) Private Sector	(b) Public sector
(c) Jawaharlal Nehru	(d) Mahatma Gandhi
63. Which of the following economic philosophy emerged in 1950?	
(a) Nehru's visualization - emphasis on heavy industry	
(b) Gandhian philosophy - small scale and cottage industry and village republics.	
(c) Both	
(d) None	
64. In which years, did severe and consecutive droughts struck in India?	
(a) 1956, 1957	(b) 1966, 1967
(c) 1958, 1959	(d) 1962, 1963
65. At the time of severe and consecutive droughts, India depended on ____ for food needs.	
(a) China	(b) Russia
(c) USA	(d) Britishers
66. Green revolution known as	
(a) Wheat Revolution	(b) Brown revolution
(c) Pink Revolution	(d) Grain Revolution
67. The government nationalized ____ banks in 1969	
(a) 15	(b) 14
(c) 13	(d) 17
68. The government nationalized ____ banks in 1980	
(a) 4	(b) 5
(c) 6	(d) 7
69. What is the full form of MRTP Act?	
(a) Monopoly and Restrictive Trade Practice act	
(b) Many goods restrictive trade practice act	
(c) Monopoly and Right to Trade Practice act	
(d) Multiple Restrictions Trade Practice act	
70. How many broad categories of industries were delicensed before 1991?	
(a) 20	(b) 22
(c) 24	(d) 25
71. Meaning of "broad-banding" is/are _____	
(a) firms may switch production between different production lines	
(b) firms may switch production to military	
(c) firms may switch production to telecommunication	
(d) All of the above	
72. The ceiling limit for application of MRTP regulations have been increased form__ to ____	
(a) 5 cr to 10 cr	(b) 10 cr to 20 cr
(c) 20 cr to 50 cr	(d) 20 cr to 100 cr

73. During the period of 1981 to 1989, the early liberalization was useless. This statement is (a) True (b) False (c) Both (d) None
74. The Indian Economic Reforms in 1991 were made during the government of ____ (a) Atal Bihari Vajpayee (b) Manmohan Singh (c) P V Narsimha rao (d) Jawaharlal Nehru
75. How much and for how many weeks of forex reserve did India have? (a) 1.2 Bn \$ and 2 Weeks (b) 2.1 Bn \$ and 5 Weeks (c) 1.4 Bn \$ and 2 Weeks (d) 2.5 Bn \$ and 5 Weeks
76. At the time of economy reforms, India depended on ____ for external borrowings. (a) USA (b) IMF (c) World Bank (d) International Banks
77. Which of the following measures did India bring in 1991 India policy reform? (a) Liberalization (b) Privatization (c) Globalization (d) All
78. Which of the following were measures focused in 1991? (a) Reorientation of the economy from a centrally directed and highly controlled one to a 'market friendly' or market oriented economy. (b) Macroeconomic stabilization by substantial reduction in fiscal deficit. (c) Both (d) None
79. Which of the following is the meaning of liberalization? (a) Liberalization refers to tightening of previous Government restrictions usually in areas of social and economic policies (b) Liberalization refers to relaxation of previous Government restrictions usually in areas of social and economic policies (c) Liberalization refers to the transfer of ownership, property or business from the government to the private sector (d) Liberalization refers to free export and import between nations without any trade Barrier
80. ____ is/are the main area of liberalization (a) Industry (b) Trade (c) Tax (d) All
81. What was India's growth rate during the period of 1950 to 1980? (a) 1.5 % (b) 2.5 % (c) 3.5 % Hindu Growth Rate (d) 4.5 %
82. Which of the following is/are included in fiscal reforms? (a) Government Tax, Budget, Spending and Borrowings (b) RBI Monetary Policy (c) Both (d) None
83. Full Form of SEBI (a) Securities and Exchange Board of India (b) Securities and ETF Board of India (c) Shares and Exchange Board of India (d) Stability Exchange Board of India

<p>84. In which year did SEBI Come?</p> <p>(a) 1992 (b) 1991 (c) 1990 (d) 1988</p>
<p>85. When did the new industrial policy come?</p> <p>(a) 24 June 1991 (b) 24 July 1991 (c) 24 January 1991 (d) 24 June 1990</p>
<p>86. How many sectors were under the control of government after the new industrial policy?</p> <p>(a) 14 (b) 18 (c) 19 (d) 20</p>
<p>87. Which of the following sectors remained in the new industrial policy?</p> <p>(a) 6, namely, arms and ammunition, coal, atomic substances, narcotic drugs and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes and cigar. (b) 5, namely, arms and ammunition, atomic substances, narcotic drugs and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes and cigar. (c) 5, namely, arms and ammunition, atomic substances, narcotic drugs and hazardous chemicals, distillation and brewing of alcoholic drinks and health and safety. (d) 6, namely, arms and ammunition, atomic substances, narcotic drugs and hazardous chemicals, Railway, distillation and brewing of alcoholic drinks and cigarettes and cigar.</p>
<p>88. In which of the following area/s, FDI is prohibited?</p> <p>(a) Atomic energy (b) Farming and agriculture (c) Nidhi company and chit fund (d) All</p>
<p>89. Which approach did India adopt after the introduction of industrial policy?</p> <p>(a) Green List Approach (b) Red List Approach (c) Yellow List Approach (d) Negative list approach</p>
<p>90. At a time of new industrial policy, rupee was devalued by ___ percentage against the dollar.</p> <p>(a) 18 % (b) 19 % (c) 20 % (d) 21 %</p>
<p>91. How many months of foreign reserve does India have after trade policy reforms?</p> <p>(a) 2 Month (b) 3 Month (c) 4 Month (d) 8 Month</p>
<p>92. Full Form of (NITI) Aayog</p> <p>(a) Nodal Institution for Transforming India (b) National Institution for Transforming India (c) National Institution for Transferring India (d) New Institution for Trade India</p>
<p>93. Which of the following was replaced by NITI Aayog?</p> <p>(a) Planning Congress (b) Planning Control (c) Planning Commission (d) New Economic Policy</p>
<p>94. When did NITI Aayog come in effect?</p> <p>(a) 1 January 2014 (b) 1 January 2015 (c) 1 January 2016 (d) 1 January 2017</p>
<p>95. NITI Ayog is expected to serve as ___ of the government</p> <p>(a) Think Tank (b) Think Machine (c) Suggestion Tank (d) Decisin Tank</p>
<p>96. Which of the following is/are objective/s of the NITI Ayog?</p>

- (a) To evolve a shared vision
- (b) Formulate credible plans at the village level
- (c) A platform for the resolution of inter-sectoral and inter departmental issues
- (d) All of the above

97. Who is the chairman of NITI Ayog?

- (a) PM of Country
- (b) CM of state
- (c) President
- (d) IAS officers

98. Which of the following is/are the meaning of co-operative federalism?

- (a) Coordination between PM and CM
- (b) Coordination between PM and President
- (c) Coordination between Center, State and Local Body
- (d) All

99. With whom does NITI Ayog consult?

- (a) Consulting with PM
- (b) Consulting with Shareholders
- (c) Consulting with stakeholders
- (d) Consulting with members

100. __is the meaning of "state-of-art-resources" centre

- (a) Same as old
- (b) Same as Competitor
- (c) Best in class
- (d) All of the above

Solution :-

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

81	82	83	84	85	86	87	88	89	90
C	A	A	D	B	B	C	D	D	A
91	92	93	94	95	96	97	98	99	100
D	B	C	B	A	D	A	C	C	C