

## CHAPTER 6 DETERMINATION OF NATIONAL INCOME

### UNIT – 1 NATIONAL INCOME

1. 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)  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Exports}$

**Solution:- B**

2. 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.

**Solution:- B**

3. 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.

**Solution:- C**

4. 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.

**Solution:- B**

5. 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)

**Solution:- A**

6. 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

**Solution:- B**

7. 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

**Solution:- C**

8. 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

**Solution:- D**

9. Which of the following is NOT a significance of National Income estimates?

- (a) Comparing the economic performance of different countries
- (b) Guiding businesses in profit maximization strategies
- (c) Formulating fiscal policies and taxation rates
- (d) Predicting short-term fluctuations in the stock market

**Solution:- D**

10. National Income estimates are essential for:

- (a) Calculating individual income taxes
- (b) Assessing the overall health of an economy
- (c) Measuring inflation and unemployment rates
- (d) Determining exchange rates between currencies

**Solution:- B**

11. 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.

**Solution:- B**

12. 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.

**Solution:- A**

13. 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

**Solution:- B**

14. 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

**Solution:- A**

15. 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:- C**

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

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

(d) Gross Value Added (GVA)

**Solution:- D**

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

- (a) 90.0
- (b) 100.0
- (c) 111.11
- (d) 125.0

**Solution:- B**

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

- (a) Prices have increased by 20% compared to the base year.
- (b) Prices have decreased by 20% compared to the base year.
- (c) Prices have remained the same as the base year.
- (d) Prices have doubled compared to the base year.

**Solution:- A**

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

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

**Solution:- B**

20. In a country, the Personal Income (PI) for the year 2021 is ₹ 800 billion. The direct taxes are ₹ 100 billion, and the social security contributions are ₹ 50 billion. Calculate the Disposable Personal Income (DI) for the year 2021.

- (a) ₹650billion

(b) ₹ 750 billion

(c) ₹700billion

(d) ₹ 600 billion

**Solution:- A**

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

- (a) Reserve Bank of India (RBI)
- (b) Central Statistical Office (CSO)
- (c) Ministry of Finance
- (d) World Bank

**Solution:- B**

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

- (a) Expenditure approach
- (b) Consumer Price Index method
- (c) Profit and Loss method
- (d) Balance of Payments approach

**Solution:- A**

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

- (a) Wages of factory workers
- (b) Dividends received by shareholders from a domestic company
- (c) Profits earned by a foreign company from its operations in India
- (d) Government grants given to a state for infrastructure development

**Solution:- D**

24. Which base year is currently used for calculating the real Gross Domestic Product (GDP) in India?

- (a) 2010-2011
- (b) 2004-2005
- (c) 2015-2016
- (d) 2008-2009

**Solution:- A**

25. OMIT

26. Which method is used to estimate National Income in India?

- (a) Expenditure approach
- (b) Production approach
- (c) income approach
- (d) All of the above

**Solution:- D**

27. The base year for computing the Gross Domestic Product (GDP) in India is generally revised after every:

- (a) 5 years
- (b) 8 years
- (c) 10 years
- (d) 15 years

**Solution:- C**

28. Which of the following sectors is NOT included in the sectoral classification used for estimating National Income in India?

- (a) Agriculture and allied activities
- (b) Manufacturing
- (c) Services
- (d) Foreign Trade

**Solution:- D**

29. Which factor-based method is used for calculating Gross Domestic Product (GDP) in India?

- (a) Production Approach
- (b) Expenditure Approach
- (c) Income Approach
- (d) Value Added Approach

**Solution:- C**

30. Which of the following is NOT a primary purpose of the System of Regional Accounts in India?

- (a) Facilitating inter-state economic

comparisons

(b) Informing state-level economic planning and policy formulation

(c) Identifying regional disparities and inequalities

(d) Regulating regional fiscal policies

**Solution:- D**

31. Which statistical yearbook published by the CSO includes the data and analysis on the System of Regional Accounts in India?

- (a) Economic Survey of India
- (b) Indian Financial Yearbook
- (c) India in Figures
- (d) National Accounts Statistics

**Solution:- D**

32. What is the primary purpose of the System of Regional Accounts in India?

- (a) To estimate the national income of the country
- (b) To measure the economic growth of different states
- (c) To calculate the GDP of individual cities
- (d) To track the inflation rate at the regional level

**Solution:- B**

33. Which method is used for estimating the Gross State Domestic Product (GSDP) in India?

- (a) Production Approach
- (b) Income Approach
- (c) Expenditure Approach
- (d) Value Added Approach

**Solution:- C**

34. Which of the following statements is true regarding the relationship between GDP and welfare?

- (a) Higher GDP always leads to higher welfare for all citizens.
- (b) Higher GDP guarantees improved living standards for all citizens.

(c) GDP is a comprehensive measure of societal well-being.

(d) GDP per capita is a useful but incomplete indicator of welfare. Answer:

(d) GDP per capita is a useful but incomplete indicator of welfare.

**Solution:- D**

35. Which of the following situations can lead to a discrepancy between GDP growth and citizens' well-being?

(a) When inflation is high, and GDP growth is low

(b) When income inequality increases during a period of economic expansion

(c) When a country's exports decrease, and GDP growth slows down

(d) When government spending increases to fund public services and welfare programs

**Solution:- B**

36. Which of the following is a limitation of using GDP as a measure of welfare?

(a) GDP does not account for the value of goods and services produced in the informal sector.

(b) GDP does not consider government spending on defense and - security.

(c) GDP does not take into account changes in the trade balance.

(d) GDP does not capture the impact of technological advancements on productivity.

**Solution:- A**

37. Which of the following is an example of a limitation of using GDP as a measure of welfare?

(a) GDP includes the value of illegal activities, such as drug trafficking.

(b) GDP accounts for environmental degradation and pollution.

(c) GDP reflects the level of education and healthcare in a country.

(d) GDP considers the distribution of income among different income groups.

**Solution:- D**

38. Which term refers to the total GDP adjusted for inflation or changes in price levels?

(a) Real GDP

(b) Nominal GDP

(c) Per capita GDP

(d) Gross National Product (GNP)

**Solution:- A**

39. Which factor can lead to an overestimation of a country's GDP?

(a) Inclusion of government transfer payments

(b) Exclusion of household consumption

(c) Exclusion of exports of goods and services

(d) Inclusion of imports of goods and services

**Solution:- A**

40. Which aspect is not adequately captured by GDP, making it an incomplete measure of economic performance?

(a) Economic growth rate

(b) Inflation rate

(c) Income distribution

(d) Unemployment rate

**Solution:- C**

41. Which challenge arises due to the existence of the informal or underground economy?

(a) Difficulty in measuring the overall economic output accurately

(b) The inclusion of illegal activities in the GDP calculation

(c) Inflationary pressure on the economy

(d) Increased government expenditure

**Solution:- A**

42. Which challenge arises due to the constant changes in the structure of the economy and the introduction of new goods and services?

(a) Difficulty in calculating inflation rate

(b) Changes in government policies

(c) Difficulty in measuring real GDP

(d) Difficulty in estimating the savings rate

**Solution:- C**

43. Real GDP differs from Nominal GDP in that:

(a) Real GDP accounts for inflation, while Nominal GDP does not

(b) Real GDP includes government spending, while Nominal GDP does not

(c) Real GDP is measured in current market prices, while Nominal GDP is adjusted for inflation

(d) Real GDP considers only the value of goods, while Nominal GDP includes services as well

**Solution:- A**

44 . Which of the following is a component of Gross Domestic Product (GDP)?

(a) Money supply in the economy

(b) Unemployment rate

(c) Government budget deficit

(d) Investment spending by businesses

**Solution:- D**

45. The primary use of national income estimates is to:

(a) Measure the overall happiness and well-being of citizens

(b) Determine the economic growth rate of the country

(c) Calculate the total value of imports and exports

(d) Evaluate the effectiveness of foreign aid programs

**Solution:- B**

46. Why is it important to calculate Gross Domestic Product (GDP)?

(a) To understand the unemployment rate in the country

(b) To analyze the overall debt of the government

(c) To determine the total value of all goods and

services produced in the economy

(d) To evaluate the efficiency of the banking sector

**Solution:- C**

47. National income estimates help in comparing the economic performance of different countries by:

(a) Converting all currencies to a common unit of measurement

(b) Focusing solely on the GDP growth rate

(c) Ignoring the impact of inflation on the economy

(d) Excluding the service sector from the calculations

**Solution:- B**

48. The per capita income, derived from national income estimates, is useful for:

(a) Understanding the total population of a country

(b) Analysing the average income of individuals in the country

(c) Measuring the total number of employed people

(d) Evaluating the performance of the agricultural sector

**Solution:- B**

49 . One of the limitations of using national income estimates is that they:

(a) Cannot account for the underground economy

(b) Overstate the value of intermediate goods

(c) Ignore the impact of international trade on the economy

(d) Focus excessively on government spending

**Solution:- A**

50. In times of economic downturn, national income estimates can be used to:

(a) Encourage more foreign investments

(b) Identify the sectors that require government bailouts

(c) Increase taxes on businesses and individuals

(d) Decrease government spending on infrastructure

**Solution:- B**

51 . Personal Income (PI) is the total income received by:

(a) Individuals before paying personal taxes

(b) Individuals after paying personal taxes

(c) Households before paying personal taxes

(d) Households after paying personal taxes

**Solution:- C**

52. Disposable Income (DI) is calculated by:

(a) Adding personal taxes to personal income

(b) Subtracting personal taxes from personal income

(c) Adding corporate taxes to personal income

(d) Subtracting corporate taxes from personal income

**Solution:- B**

53. Which of the following represents the broadest measure of a country's national income?

(a) GDP

(b) GNP

(c) NNP

(d) PI

**Solution:- B**

54. Gross National Income (GNI) is defined as:

(a) The total value of all goods and services produced by a country's companies, regardless of their ownership

(b) The total value of all goods and services produced by a country's citizens, regardless of their location

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

(d) The total value of all goods and services

produced within a country's borders, excluding foreign factors of production

**Solution:- B**

55. OMIT

56. Which of the following methods is primarily used to estimate national income in India?

(a) Production approach

(b) Expenditure approach

(c) Income approach

(d) All of the above

**Solution:- D**

57. The System of Regional Accounts (SRA) in India aims to:

(a) Calculate the national income of India

(b) Measure the economic performance of different states and regions within India

(c) Assess the exchange rates between different Indian states

(d) Determine the total imports and exports of each Indian state

**Solution:- B**

58. The regional accounts data in India provides insights into:

(a) The inflation rate in each state

(b) The fiscal deficit of the central government

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

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

**Solution:- C**

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

(a) Annual reports of different state governments

(b) Survey data collected by private agencies

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

(d) Data from various government departments

and surveys conducted by the Central Statistical Office (CSO)

**Solution:- D**

60. The challenge of accurately measuring national income arises due to:

- (a) Difficulties in collecting data on government spending
- (b) Limited availability of data on international trade
- (c) The constantly changing structure of the economy
- (d) The exclusion of the financial sector from the calculations

**Solution:- C**

61. National income computation may not accurately reflect the economic well-being of:

- (a) The government sector
- (b) The manufacturing sector
- (c) The agricultural sector
- (d) Different income groups within the population

**Solution:- D**

## CHAPTER 6 DETERMINATION OF NATIONAL INCOME

### Unit:2 The Keynesian Theory of Determination of National Income

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

- (a) National income is determined by aggregate supply.
- (b) National income is determined by aggregate demand.
- (c) National income is determined by both aggregate supply and aggregate demand.
- (d) National income is determined by the government's fiscal policy.

**Solution:- C**

63. During a recession, Keynesian economists recommend which of the following policies to

stimulate economic growth and increase national income?

- (a) Decreasing government spending and raising taxes.
- (b) Decreasing the money supply to control inflation.
- (c) Increasing government spending and lowering taxes.
- (d) Reducing exports to protect domestic industries.

**Solution:- C**

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

- (a) Private investment has no impact on national income.
- (b) Private investment solely determines national income.
- (c) Private investment is a component of aggregate demand affecting national income.
- (d) Private investment only affects the inflation rate, not national income.

**Solution:- C**

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

- (a) When aggregate demand exceeds aggregate supply.
- (b) When aggregate supply exceeds aggregate demand.
- (c) When there is full employment in the economy.
- (d) When aggregate demand is insufficient to create full employment.

**Solution:- D**

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

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



(d) Exchange rate policy.

**Solution:- B**

67. The central idea of the Keynesian theory is that:

- (a) Government intervention is necessary to stabilize the economy
- (b) The market forces alone can ensure full employment and economic stability
- (c) Tax cuts are the most effective tool for economic growth
- (d) Private investment is the primary driver of economic prosperity

**Solution:- A**

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

- (a) Austerity measures to reduce public debt
- (b) Supply-side policies to boost production
- (c) Contractionary monetary policies to control inflation
- (d) Expansionary fiscal policies to increase spending

**Solution:- D**

69. The concept of "Multiplier Effect" in the Keynesian theory suggests that:

- (a) Changes in government spending have a larger impact on National Income than changes in taxes.
- (b) A change in investment leads to a proportionate change in National Income.
- (c) Increases in exports result in higher economic growth and employment.
- (d) Changes in consumption have a direct and immediate impact on investment.

**Solution:- A**

70. According to Keynes, in situations of insufficient aggregate demand, the economy may experience:

- (a) Demand-pull inflation
- (b) Cost-push inflation

(c) Deflation and unemployment

(d) Stagflation

**Solution:- C**

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

- (a) Sellers of goods and services and buyers of factors of production
- (b) Buyers of goods and services and sellers of factors of production
- (c) Buyers of goods and services and buyers of factors of production
- (d) Sellers of goods and services and sellers of factors of production

**Solution:- B**

72. In the circular flow model, the total value of goods and services produced in the economy is measured by:

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

**Solution:- A**

73. In the circular flow model, households receive income in the form of:

- (a) Profits
- (b) Taxes
- (c) Wages, rent, and interest
- (d) Government transfers

**Solution:- C**

74. In the two-sector circular flow model, savings by households are equal to:

- (a) Consumption expenditure
- (b) Taxes paid to the government
- (c) Investment by firms
- (d) Government spending

**Solution:- C**

75. In economics, the study of how individuals

and societies allocate limited resources to satisfy their unlimited wants is known as:

- (a) Microeconomics
- (b) Macroeconomics
- (c) Economic planning
- (d) Economics

**Solution:- A**

76. The price at which the quantity demanded of a good or service equals the quantity supplied is known as:

- (a) Equilibrium price
- (b) Market price
- (c) Maximum price
- (d) Minimum price

**Solution:- A**

77. The study of how individuals and firms make decisions and interact in markets is known as:

- (a) Macroeconomics
- (b) Microeconomics
- (c) Economic planning
- (d) Econometrics

**Solution:- B**

78. The Consumer Price Index (CPI) is a measure of:

- (a) The overall level of prices in an economy
- (b) The total output produced in an economy
- (c) The unemployment rate in an economy
- (d) The government's budget deficit

**Solution:- A**

79. Which type of unemployment occurs when there is a temporary mismatch between job seekers and available job vacancies?

- (a) Cyclical unemployment
- (b) Frictional unemployment
- (c) Structural unemployment
- (d) Seasonal unemployment

**Solution:- B**

80. The interest rate at which a central bank lends money to commercial banks is known as:

- (a) Prime rate
- (b) Discount rate
- (c) Federal funds rate
- (d) LIBOR rate

**Solution:- B**

81. In an economy, the aggregate demand (AD) function is represented as  $AD = 2,000 - 100P$ , where  $P$  is the price level. Calculate the equilibrium level of aggregate demand when the price level ( $P$ ) is ₹ 15.

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

**Solution:- D**

82. In an economy, the consumption function is represented as  $C = 500 + 0.8Y$ , where  $C$  is consumption and  $Y$  is disposable income. Calculate the level of consumption when disposable income ( $Y$ ) is ₹ 1,000

- (a) ₹ 1,200
- (b) ₹ 1,300
- (c) ₹ 1,400
- (d) ₹ 1,500

**Solution:- B**

83. In an economy, the consumption function is represented as  $C = 1,000 + 0.8Y$ , where  $C$  is the consumption and  $Y$  is the disposable income. Calculate the level of consumption when the disposable income ( $Y$ ) is ₹ 5,000.

- (a) ₹ 1,800
- (b) ₹ 3,800
- (c) ₹ 4,000
- (d) ₹ 5,000

**Solution:- D**

84. If total consumption in the two-sector model is greater than total income, the economy will experience:

- (a) An increase in inventories
- (b) An increase in investment
- (c) An increase in National Income
- (d) A decrease in National Income

**Solution:- C**

85. OMIT

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

- (a)  $Y = C - S$
- (b)  $Y = C + S$
- (c)  $Y = C + I$
- (d)  $Y = C - I$

**Solution:- B & C**

87. In an economy, the aggregate demand (A(d) function is represented as  $AD = 2,000 - 100P$ , and the short-run aggregate supply (SRAS) function is represented as  $SRAS = 1,000 + 150P$ . Calculate the equilibrium price level (P) and output level when the economy is at equilibrium.

- (a)  $P = ₹ 6, Y = 1,400$
- (b)  $P = ₹ 8, Y = 1,200$
- (c)  $P = ₹ 10, Y = 1,000$
- (d)  $P = ₹ 12, Y = 800$

**Solution:- A**

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

- (a) Equilibrium price level = ₹ 8; Equilibrium output level = 1,200 units
- (b) Equilibrium price level = ₹ 10; Equilibrium output level = 1,000 units
- (c) Equilibrium price level = ₹ 12; Equilibrium output level = 800 units
- (d) Equilibrium price level = ₹ 14; Equilibrium

output level = 600 units

**Solution:- B**

89. The formula to calculate the investment multiplier is:

- (a) Investment Multiplier =  $1 / \text{Marginal Propensity to Consume (MPC)}$
- (b) Investment Multiplier =  $1 / \text{Marginal Propensity to Save (MPS)}$
- (c) Investment Multiplier =  $1 + \text{Marginal Propensity to Consume (MPC)}$
- (d) Investment Multiplier =  $1 + \text{Marginal Propensity to Save (MPS)}$

**Solution:- B**

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

- (a) Smaller increase in national income
- (b) Equal decrease in national income
- (c) Larger increase in national income
- (d) No change in national income

**Solution:- C**

91. The investment multiplier measures the:

- (a) Increase in government spending due to an increase in investment
- (b) Increase in investment due to an increase in government spending
- (c) Total change in national income resulting from a change in investment
- (d) Total change in investment resulting from a change in national income

**Solution:- C**

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

- (a) Directly affects consumption spending by households.
- (b) Indirectly affects consumption and investment spending through changes in interest rates.
- (c) Indirectly affects consumption spending by households.

(d) Directly affects government spending

**Solution:- C**

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

- (a) Total consumption equals total savings
- (b) Total income equals total consumption
- (c) Total income equals total expenditure
- (d) Total savings equals total investment

**Solution:- C**

94. in a three-sector model, the equilibrium condition occurs when:

- (a) Aggregate savings equal aggregate investment
- (b) Aggregate consumption equals aggregate income
- (c) Total exports equal total imports
- (d) Total government spending equals total tax revenue

**Solution:- B**

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

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

**Solution:- C**

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

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

by ₹ 100 billion.

(c) The equilibrium level of income will increase by ₹ 500 billion.

(d) The equilibrium level of income will decrease by ₹ 500 billion.

**Solution:- C**

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

- (a) Total consumption equals total income
- (b) Total savings equal total investment
- (c) Total consumption plus total taxes equal total income
- (d) Total exports equal total imports

**Solution:- C**

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

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

**Solution:- D**

99. According to the Keynesian theory, during an economic recession, the government should:

- (a) Decrease government spending to reduce budget deficits.
- (b) Increase taxes to control inflation.
- (c) Increase government spending to stimulate aggregate demand.
- (d) Decrease interest rates to encourage private investment.

**Solution:- C**

100. The concept of the "Multiplier Effect" in the Keynesian theory suggests that:

- (a) Government spending has a larger impact on national income than changes in taxes.
- (b) A change in investment leads to a proportionate change in national income.
- (c) Increases in exports result in higher

economic growth and employment.

(d) Changes in consumption have a direct and immediate impact on investment.

**Solution:- B**

101. According to the Keynesian theory, during periods of high inflation, the government should focus on:

(a) Increasing government spending to boost aggregate demand.

(b) Reducing taxes to encourage consumption.

(c) Decreasing money supply and raising interest rates to control spending.

(d) Encouraging private investment through tax incentives.

**Solution:- C**

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

(a) The exchange rate.

(b) Interest rates.

(c) Unemployment and inflation.

(d) Stock market prices

**Solution:- C**

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

(a) Long-term economic growth.

(b) Achieving price stability.

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

(d) Increasing international trade.

**Solution:- C**

104. According to the Keynesian theory, the level of national income is primarily determined by:

(a) Aggregate demand in the economy

(b) Aggregate supply in the economy

(c) The government's fiscal policy

(d) The central bank's monetary policy

**Solution:- A**

105. Keynesian policies are designed to address:

(a) Short-run fluctuations in the business cycle

(b) Long-run structural issues in the economy

(c) Inflationary pressures in the economy

(d) Excessive government debt and deficits

**Solution:- A**

106. The circular flow model illustrates the flow of:

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

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

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

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

**Solution:- A**

107. Leakage in the circular flow model refers to:

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

(b) Money flowing into the economy due to exports

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

(d) Government spending that increases the flow of income

**Solution:- C**

108. The production possibilities frontier (PPF) represents:

(a) The maximum quantity of goods and services that a country can produce using all available resources efficiently

(b) The minimum level of production a country must achieve to meet its basic needs

(c) The total output of a country's economy in a given time period

(d) The income distribution among different income groups in an economy

**Solution:- A**

109. The investment multiplier is calculated as the:

- (a) Change in investment divided by the change in national income
- (b) Change in national income divided by the change in investment
- (c) Change in consumption divided by the change in investment
- (d) Change in government spending divided by the change in investment

**Solution:- B**

110. A higher investment multiplier implies that:

- (a) Changes in investment have a larger impact on the overall economy
- (b) Changes in investment have a smaller impact on the overall economy
- (c) The economy is in a recessionary phase
- (d) The economy is in an inflationary phase

**Solution:- A**

111. In an economy with a high investment multiplier, a decrease in investment can lead to:

- (a) A significant decrease in national income and output
- (b) An increase in consumer spending to compensate for the decrease in investment
- (c) An increase in government spending to compensate for the decrease in investment
- (d) No significant impact on the overall economy

**Solution:- A**

112. Equilibrium income in the three-sector model is achieved when:

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

**Solution:- C**

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

- (a) A surplus in the economy
- (b) An increase in government borrowing
- (c) Inflationary pressures in the economy
- (d) A decrease in national income

**Solution:- C**

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

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

**Solution:- B**

115. The Keynesian theory emphasizes the role of \_\_\_\_\_ in influencing national income.

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

**Solution:- B**



- ◆ Net National Product at Factor Cost ( $NNP_{FC}$ ) or National Income  
 $NNP_{FC} = \text{National Income} = \text{FID (factor income earned in domestic territory)} + \text{NFIA}$ .
- ◆ Personal income is a measure of the actual current income receipt of persons from all sources. Disposable Personal Income (DI) that is available for their consumption or savings  $DI = PI - \text{Personal Income Taxes}$
- ◆ Circular flow of income refers to the continuous interlinked phases in circulation of production, income generation and expenditure involving different sectors of the economy.
- ◆ Product Method or Value Added Method is also called Industrial Origin Method or Net Output Method and entails the consolidation of the production of each industry less intermediate purchases from all other industries.
- ◆ Under income method, national income is calculated by summation of factor incomes paid out by all production units within the domestic territory of a country as wages and salaries, rent, interest, and profit. Transfer incomes are excluded.
- ◆ Under the expenditure approach, also called Income Disposal Approach, national income is the aggregate final expenditure in an economy during an accounting year composed of final consumption expenditure (private & government), gross domestic capital formation and net exports.

## TEST YOUR KNOWLEDGE

### Multiple Choice Type Questions

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.
  1. 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)  $NNP_{FC} = \text{National Income} = \text{FID (factor income earned in domestic territory)} - \text{NFIA}$ .
- (c) Capital goods and inventory investment are excluded from computation of GDP
- (d)  $NDP_{MP} = GDP_{MP} + \text{Depreciation}$
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*

**ANSWERS**

1.	<b>(b)</b>	2.	<b>(b)</b>	3.	<b>(b)</b>	4.	<b>(b)</b>	5.	<b>(b)</b>
6.	<b>(d)</b>	7.	<b>(d)</b>	8.	<b>(a)</b>	9.	<b>(a)</b>	10.	<b>(b)</b>
11.	<b>(a)</b>	12.	<b>(d)</b>	13.	<b>(d)</b>	14.	<b>(c)</b>	15.	<b>(a)</b>

- ◆ Taxes act as leakage from the economic system. Thus, tax multiplier when,  $T = \bar{T} - tY$ , is  $\frac{1}{1-b(1-t)} < \frac{1}{(1-b)}$
- ◆ The four sector model includes all four macroeconomic sectors, the household sector, the business sector, the government sector, and the foreign sector and in equilibrium, we have  $Y = C + I + G + (X-M)$
- ◆ The domestic economy trades goods with the foreign sector through exports and imports.
- ◆ Imports are subtracted from exports to derive net exports, which is the foreign sector's contribution to aggregate expenditures. If net exports are positive ( $X > M$ ), there is net injection and national income increases. Conversely, if  $X < M$ , there is net withdrawal and national income decreases.
- ◆ The autonomous expenditure multiplier in a four sector model includes the effects of foreign transactions and is stated as  $\frac{1}{(1-b+m)}$  against  $\frac{1}{(1-b)}$  in a closed economy.
- ◆ The greater the value of  $m$ , the lower will be the autonomous expenditure multiplier.
- ◆ An increase in the demand for exports of a country is an increase in aggregate demand for domestically produced output and will increase equilibrium income just as would an increase in government spending or an autonomous increase in investment.

## TEST YOUR KNOWLEDGE

### Multiple Choice Questions

1. 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
2. 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

3. 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
4. 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.
5. 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
6. 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
7. 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
8. 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
9. 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
10. 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.
11. 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

## ANSWERS

1.	(a)	2.	(b)	3.	(c)	4.	(a)	5.	(b)	6.	(a)
7.	(c)	8.	(c)	9.	(c)	10.	(b)	11.	(c)		

## CHAPTER 7 PUBLIC FINANCE

### Unit:1 Fiscal Functions: An Overview, Centre and State Finance

#### Multiple Choice Questions

1. What does fiscal policy refer to?

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

**Solution:-A**

2. What is the primary objective of fiscal policy?

- (a) Controlling inflation
- (b) Achieving trade surplus
- (c) Reducing income inequality
- (d) Stabilizing financial markets

**Solution:-A**

3. Which level of government is responsible for formulating and implementing fiscal policy in a federal system?

- (a) Local government
- (b) State government
- (c) Central government
- (d) Municipal government

**Solution:-C**

4. What is the role of the state government in fiscal policy?

- (a) Implementing monetary policy
- (b) Controlling inflation
- (c) Managing the country's foreign exchange reserves
- (d) Implementing certain tax and expenditure policies within the state

**Solution:-D**

5. Which of the following is an example of an expansionary fiscal policy?

- (a) Increasing taxes to reduce inflation
- (b) Reducing government spending to control budget deficit
- (c) Increasing government spending and cutting taxes to stimulate economic growth
- (d) Implementing austerity measures to address recession

**Solution:-C**

6. In a market economy, the primary role of the government is to:

- (a) Own and control all the means of production.
- (b) Set prices and allocate resources.
- (c) Provide goods and services directly to consumers.
- (d) Ensure the functioning of markets and enforce property rights.

**Solution:-D**

7. The concept of "market failure" refers to:

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

**Solution:-C**

8. In a market economy, the role of the government is mostly:

- (a) To control all aspects of production and distribution.
- (b) To centralize economic decision-making in the hands of a few authorities.
- (c) To provide goods and services directly to the public.
- (d) To intervene selectively to correct market failures and ensure fair competition.

**Solution:-D**

9. An example of a government's

microeconomic role is:

- (a) Implementing monetary policy to control inflation.
- (b) Managing the country's balance of trade and current account.
- (c) Regulating the labor market and setting minimum wages.
- (d) Setting targets for economic growth and GDP expansion.

**Solution:-C**

10. The allocation function in economics refers to:

- (a) The government's role in distributing subsidies to various industries.
- (b) The process of allocating resources among different uses to satisfy unlimited wants.
- (c) The role of financial institutions in allocating credit to the public.
- (d) The process of allocating goods and services among different regions of the country.

**Solution:-B**

11. The allocation function in an economic system refers to:

- (a) How the government allocates its budget for different sectors.
- (b) How resources are distributed among households and firms.
- (c) How the central bank allocates credit to commercial banks.
- (d) How foreign trade is regulated and controlled.

**Solution:-B**

12. Economic efficiency is achieved when:

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

**Solution:-D**

13. Which of the following is an example of a redistributive policy?

- (a) Providing subsidies to domestic industries to boost exports.
- (b) Implementing tax cuts to stimulate economic growth.
- (c) Introducing progressive income tax rates to tax higher incomes at a higher rate.
- (d) Reducing government spending to control budget deficits.

**Solution:-C**

14. A "means-tested" welfare program refers to a program that:

- (a) Provides benefits to all individuals regardless of their income level.
- (b) Is funded through progressive taxation.
- (c) Targets benefits to individuals based on their income or financial need.
- (d) Supports specific industries to boost economic growth.

**Solution:-C**

15. The government's main tool for achieving redistribution is through:

- (a) Fiscal policy, involving taxation and government spending.
- (b) Monetary policy, involving controlling the money supply and interest rates.
- (c) Exchange rate policies to promote international trade.
- (d) Industrial policies to support specific industries.

**Solution:-A**

16. Universal basic income (UBI) is an example of:

- (a) An anti-inflationary measure.
- (b) A regressive tax policy.
- (c) A redistribution policy
- (d) A trade promotion policy.

**Solution:-C**

17. The primary goal of the stabilization



function is to achieve:

- (a) A balanced budget for the government.
- (b) Maximum economic growth and expansion.
- (c) Full employment and price stability.
- (d) Increased international trade and exports.

**Solution:-C**

18. Automatic stabilizers in the economy refer to:

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

**Solution:-B**

19. Inflation targeting is an example of:

- (a) Fiscal policy to stabilize the economy.
- (b) An exchange rate policy to control imports.
- (c) A monetary policy to achieve price stability.
- (d) Industrial policy to support the manufacturing sector.

**Solution:-C**

20. Which of the following best defines fiscal functions?

- (a) The management of public debt
- (b) The management of private debt
- (c) The management of monetary policy
- (d) The management of government finances

**Solution:-D**

21. In India, who is responsible for the collection of most direct taxes?

- (a) State Governments

(b) Local Governments (Panchayats)

(c) Central Board of Direct Taxes (CBDT)

(d) Reserve Bank of India (RBI)

**Solution:-C**

22. Which of the following is an example of a fiscal policy measure undertaken by the government during an economic downturn?

- (a) Reducing interest rates to encourage borrowing and spending.
- (b) Decreasing the money supply to control inflation.
- (c) Implementing free trade agreements to promote international trade.
- (d) Privatizing state-owned enterprises to boost competition.

**Solution:-A**

23. The primary goal of the redistribution function is to:

- (a) Maximize profits for businesses
- (b) Promote economic growth and development
- (c) Reduce income inequality and poverty
- (d) Encourage consumer spending and investment

**Solution:-C**

24. In a progressive income tax system:

- (a) The tax rate decreases as income increases
- (b) The tax rate remains constant regardless of income levels
- (c) The tax rate increases as income increases
- (d) There are no taxes imposed on personal income

**Solution:-C**

25. The redistribution function is often a subject of debate due to:

- (a) Its potential impact on economic growth and investment
- (b) Its positive impact on reducing inflation and unemployment
- (c) The ease of implementing progressive

taxation

(d) Its association with increased government spending on public goods

**Solution:-A**

26. In the context of the stabilization function, "price stability" refers to:

(a) The constant level of prices for goods and services

(b) A situation where prices are increasing moderately over time

(c) The absence of inflation or deflation in the economy

(d) A situation where prices are determined by market forces without government Intervention

**Solution:-B**

## CHAPTER 7 PUBLIC FINANCE

### Unit:2Market

### Failure/Government Intervention to Correct Market Failure

27. Market failure occurs when:

(a) The government intervenes in the market to regulate prices.

(b) Demand for a product exceeds its supply in the market.

(c) The market fails to allocate resources efficiently.

(d) The government imposes taxes on goods and services.

**Solution:-C**

28. Externalities refer to:

(a) The costs and benefits that affect only the producers in the market.

(b) The costs and benefits that affect both producers and consumers in the market.

(c) The costs and benefits that affect only the consumers in the market.

(d) The costs and benefits that have no impact on the market.

**Solution:-B**

29. Government intervention to correct market failure may involve:

(a) Reducing taxes to encourage investment.

(b) Providing subsidies to producers to

lower costs.

(c) Imposing price controls to regulate market prices.

(d) Correcting externalities through taxes or subsidies

**Solution:-D**

30. A public good is characterized by:

(a) Rivalry in consumption and excludability.

(b) Non-rivalry in consumption and excludability.

(c) Rivalry in consumption and non-excludability.

(d) Non-rivalry in consumption and non-excludability.

**Solution:-D**

31. When a market is characterized by information asymmetry, it means that:

(a) Consumers have more information than producers.

(b) Producers have more information than consumers.

(c) Both consumers and producers have equal access to information.

(d) The market is perfectly efficient with no information gaps.

**Solution:-B**

32. Which of the following is a reason why markets fail?

(a) Perfect competition among firms.

(b) Absence of externalities.

(c) Adequate provision of public goods.

(d) Information asymmetry.

**Solution:-D**

33. When external costs are not accounted for in the market price of a good, it leads to:

(a) Overproduction of the good.

(b) Underproduction of the good.

(c) Optimal production of the good.

(d) Equilibrium production of the good.

**Solution:-A**

34. Which of the following is a market failure caused by incomplete information?

- (a) Perfect competition.
- (b) Monopoly power.
- (c) Moral hazard in insurance markets.
- (d) Efficient allocation of resources.

**Solution:-C**

35. Monopolies can lead to market failure because:

- (a) They produce goods efficiently at lower prices.
- (b) They have a larger market share.
- (c) They restrict output and charge higher prices.
- (d) They promote competition.

**Solution:-C**

36. What is the most effective way to internalize externalities?

- (a) Government intervention through regulations and taxes
- (b) Imposing price ceilings on goods and services
- (c) Encouraging monopolies to dominate the market
- (d) Allowing markets to reach equilibrium naturally

**Solution:-A**

37. Which market structure is most likely to neglect externalities?

- (a) Perfect competition
- (b) Monopoly
- (c) Oligopoly
- (d) Monopolistic competition

**Solution:-A**

38. Which of the following statements is true about public goods?

- (a) Public goods can be easily provided by private firms for a profit.
- (b) The free-rider problem is not a concern for public goods.

(c) Public goods have a competitive market price.

(d) Public goods are typically provided by the government or public sector.

**Solution:-D**

39. The free-rider problem associated with public goods refers to:

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

**Solution:-A**

40. Incomplete information in a market refers to:

- (a) The lack of government regulations in the market.
- (b) The presence of externalities in the market.
- (c) The absence of competition among firms in the market.
- (d) Situations where one party in a transaction has more information than the other.

**Solution:-D**

41. Moral hazard is an example of incomplete information in:

- (a) Insurance markets.
- (b) Perfectly competitive markets.
- (c) Monopoly markets.
- (d) Labor markets.

**Solution:-A**

42. Adverse selection is a situation where:

- (a) Buyers and sellers have equal knowledge about a product.
- (b) High-quality goods dominate the market.
- (c) Low-quality goods are more likely to be

traded.

(d) The market is characterized by perfect competition.

**Solution:-C**

43. Which of the following is an example of asymmetric information in the used car market?

(a) All used cars having the same market price

(b) Buyers and sellers having access to the same car history reports

(c) A seller knowing the true condition of a used car, but the buyer does not

(d) Buyers and sellers negotiating the price of used cars in an open market

**Solution:-C**

44. Antitrust laws are designed to:

(a) Protect firms with dominant market positions from competition.

(b) Encourage collusion among competing firms.

(c) Promote mergers and acquisitions in the market.

(d) Prevent monopolistic practices and promote competition

**Solution:-D**

45. Government intervention to minimize market power can include:

(a) Imposing price floors to protect producers.

(b) Providing subsidies to encourage higher production.

(c) Breaking up monopolies or regulating their behavior.

(d) Implementing import tariffs to promote domestic industries.

**Solution:-C**

46. Market power refers to the ability of a firm or a group of firms to:

(a) Minimize production costs and maximize profits.

(b) Influence market prices and control the quantity of goods produced.

(c) Compete fairly in the market and offer

high-quality products.

(d) Participate in international trade and expand their market share.

**Solution:-B**

47. A natural monopoly occurs when:

(a) There is only one firm in the market with significant market power.

(b) The government regulates the prices and operations of all firms.

(c) Multiple firms compete in the market without any dominance.

(d) Economies of scale make it more efficient for one firm to serve the entire market.

**Solution:-D**

48. Merit goods are goods that:

(a) Have high market demand and limited supply.

(b) Are provided by the government without any cost to consumers.

(c) Are considered to have positive externalities and are underprovided by the market.

(d) Are characterized by rivalry in consumption and excludability.

**Solution:-C**

49. Which of the following is an example of a merit good?

(a) Fast food and soft drinks.

(b) Private luxury cars.

(c) Education and vaccinations.

(d) High-end fashion products.

**Solution:-C**

50. The government's intervention in the case of merit goods is primarily aimed at:

(a) Restricting the consumption of these goods.

(b) Ensuring equitable distribution of these goods.

(c) Encouraging the consumption of these goods.

(d) Eliminating the production of these

goods .

**Solution:-C**

51. Demerit goods are goods that:

- (a) Have positive externalities and are underprovided in the free market.
- (b) Have negative externalities and are overproduced in the free market.
- (c) Are produced by government-owned firms.
- (d) Are provided by private firms but subsidized by the government.

**Solution:-B**

52. Why are demerit goods often overproduced in the free market?

- (a) Because they are produced by government-owned firms.
- (b) Because private firms find them profitable to produce.
- (c) Because consumers fully consider their negative externalities.
- (d) Because they are subject to price floors.

**Solution:-B**

53. Government intervention in the provision of public goods can involve:

- (a) Imposing high taxes on consumers who use public goods.
- (b) Restricting access to public goods to a selected group of individuals.
- (c) Privatizing the production and distribution of public goods.
- (d) Financing the provision of public goods through taxes and government spending.

**Solution:-D**

54. The concept of "crowding out" refers to:

- (a) The phenomenon where the demand for public goods exceeds the government's ability to provide them.
- (b) Government spending on public goods leading to reduced private sector investment.
- (c) The government's attempt to exclude certain individuals from accessing public goods.

(d) The competition between private firms in providing public goods.

**Solution:-B**

55. Which of the following is an example of non-market pricing?

- (a) A competitive market where prices are determined by supply and demand.
- (b) Government-controlled price ceilings on rent in certain areas.
- (c) Pricing strategy based on product differentiation.
- (d) Dynamic pricing used by online retailers.

**Solution:-B**

56. Price floors imposed by the government result in:

- (a) Higher prices and excess supply in the market.
- (b) Lower prices and excess demand in the market.
- (c) Higher prices and shortage of goods in the market.
- (d) Lower prices and increased competition among producers.

**Solution:-C**

57. Non-market pricing is often used by the government to:

- (a) Encourage competition and innovation among firms.
- (b) Allow market forces to determine prices freely.
- (c) Correct market failures and ensure equitable distribution.
- (d) Eliminate the role of prices in resource allocation.

**Solution:-C**

58. Which of the following is a potential consequence of information failure?

- (a) Increased competition and lower prices for consumers.
- (b) Higher quality products and improved customer service.
- (c) Limited choices and higher prices for

consumers.

(d) Increased innovation and technological advancements.

**Solution:-C**

59. Which of the following is an example of government intervention to correct information failure?

(a) Requiring businesses to disclose nutritional information on food labels.

(b) Allowing businesses to keep their product information confidential.

(c) Imposing price ceilings to control inflation.

(d) Allowing businesses to mislead consumers with false advertisements.

**Solution:-A**

60. Government intervention for equitable distribution can include:

(a) Implementing price controls to regulate resource allocation.

(b) Promoting competition among firms to increase efficiency.

(c) Providing social welfare programs to support vulnerable populations.

(d) Limiting the availability of resources to maintain scarcity.

**Solution:-C**

61. National defense is an example of a public good because<sup>1</sup>:

(a) It is provided by private firms in the market

(b) It is non-excludable, and consumption, and one person's does not diminish its availability to others

(c) It is rivalrous in consumption, and one person's consumption reduces its availability to others

(d) It can be selectively provided to certain individual Is based on their willingness to pay

**Solution:-B**

## CHAPTER 7 PUBLIC FINANCE

### Unit:3 The Process of Budget Making: Sources of Revenue,

## Expenditure Management and Management of Public Debt

62. What is the primary purpose of the government budget?

(a) To maximize government revenue through taxes.

(b) To allocate resources efficiently in the economy.

(c) To manage public debt and reduce fiscal deficits.

(d) To outline the government's financial plans and policies for the fiscal year.

**Solution:-D**

63. What is revenue expenditure in the government budget?

(a) Investment in long-term assets like infrastructure.

(b) Day-to-day expenses like salaries and subsidies.

(c) Transferring funds to other levels of government.

(d) Borrowing money from foreign countries.

**Solution:-B**

64. Why is the government budget subject to public debate and scrutiny?

(a) To determine the profitability of government projects.

(b) To assess the performance of government employees.

(c) To evaluate the effectiveness of government policies.

(d) To promote competition among different government agencies

**Solution:-C**

65. What is the difference between capital expenditure and revenue expenditure?

(a) Capital expenditure relates to expenses on public infrastructure, while revenue expenditure relates to interest payments on public debt.

(b) Capital expenditure includes investments in long-term assets, while revenue expenditure includes day-to-day expenses like salaries and subsidies.

(c) Capital expenditure is funded through taxes, while revenue expenditure is funded through borrowing.

(d) Capital expenditure is decided by the central bank, while revenue expenditure is decided by the finance ministry.

**Solution:-B**

66. What is the first step in the process of budget making?

(a) Setting financial goals and objectives.

(b) Estimating government revenue for the fiscal year.

(c) Allocating funds to various ministries and departments.

(d) Presenting the budget to the public.

**Solution:-B**

67. Which government agency is responsible for preparing the budget in most countries?

(a) The central bank.

(b) The finance ministry or treasury department.

(c) The department of taxation.

(d) The ministry of economic planning.

**Solution:-B**

68. After the budget is prepared by the finance ministry, it is presented to:

(a) The president or prime minister.

(b) The central bank governor.

(c) The parliament or legislature.

(d) The ministry of economic planning.

**Solution:-C**

69. Which government official is responsible for presenting the budget to the parliament or legislature?

(a) The Prime Minister

(b) The Finance Minister

(c) The President

(d) The Governor of the Central Bank

**Solution:-B**

70. The "Budget Speech" usually includes:

(a) A detailed breakdown of individual

taxpayers' contributions.

(b) Economic statistics of the previous fiscal year.

(c) A list of government employees and their salaries.

(d) Policy recommendations from opposition parties.

**Solution:-B**

71. After the budget is presented, it is usually sent to:

(a) The President for approval.

(b) The Supreme Court for review.

(c) The Central Bank for implementation.

(d) The Parliament or Legislature for approval and debate.

**Solution:-D**

72. Which of the following is an example of capital expenditure?

(a) Payment of salaries to government employees.

(b) Investment in building new schools and hospitals.

(c) Subsidies provided to low-income families.

(d) Interest payments on public debt.

**Solution:-B**

73. What is the role of the legislature in public expenditure management?

(a) The legislature sets monetary policy to control government spending

(b) The legislature approves the national budget and oversees government spending

(c) The legislature controls the prices of public goods and services

(d) The legislature regulates international trade and tariffs

**Solution:-B**

74. Why is revenue expenditure important for a government's financial planning?

(a) It provides funds for long-term investments and development projects

(b) It helps the government repay long-term

loans and debts

(c) It ensures efficient delivery of public services and day-to-day operations

(d) It enables the government to increase tax revenue

**Solution:-C**

75. Budgetary deficit is also known as:

(a) Revenue deficit

(b) Trade deficit i

(c) Fiscal deficit

(d) Capital deficit

**Solution:-A**

76. Fiscal deficit includes:

(a) Only revenue deficit

(b) Only capital deficit

(c) Both revenue deficit and capital deficit

(d) Neither revenue deficit nor capital deficit

**Solution:-C**

77. The formula to calculate budgetary deficit is:

(a) Budgetary Deficit = Total Revenue - Total Expenditure

(b) Budgetary Deficit = Revenue Receipts - Revenue Expenditure

(c) Budgetary Deficit = Capital Receipts - Capital Expenditure

(d) Budgetary Deficit = Fiscal Receipts - Fiscal Expenditure

**Solution:-B**

78. Revenue deficit occurs when:

(a) Total revenue is greater than total expenditure

(b) Capital receipts are greater than capital expenditure

(c) Total revenue is less than total expenditure

(d) Capital receipts are less than capital expenditure

**Solution:-C**

79. How is revenue deficit different from fiscal deficit?

(a) Revenue deficit considers only revenue

receipts and expenditure, while fiscal deficit considers both revenue and capital receipts and expenditure.

(b) Revenue deficit is calculated annually, while fiscal deficit is calculated monthly.

(c) Revenue deficit is the same as fiscal deficit.

(d) Revenue deficit is a type of fiscal deficit .

**Solution:-A**

80. What is the Finance Bill?

(a) A bill introduced in the parliament to allocate funds for various government projects

(b) A bill introduced by the Ministry of Finance to propose new tax laws and make amendments to existing ones

(c) A bill introduced to regulate the financial sector and banking activities

(d) A bill introduced to control government expenditure and reduce fiscal deficit

**Solution:-B**

81. The Finance Bill is discussed and debated in which house of parliament?

(a) The Lok Sabha

(b) The Rajya Sabha

(c) Both the Lok Sabha and Rajya Sabha

(d) The State Assemblies

**Solution:-C**

82. What is the Outcome Budget?

(a) A budget prepared by the Ministry of Finance to allocate funds for various government projects

(b) A budget presented in the parliament that includes proposals related to new taxes and financial matters

(c) A budget that focuses on the outcomes and results achieved by various government schemes and programs

(d) A budget that outlines the government's revenue and expenditure plans for the upcoming financial year

**Solution:-C**



83. What is the Guillotine in the context of the parliamentary budget process?

- (a) A device used for capital punishment in some countries
- (b) A method to close debates and allocate time for discussions during the budget session
- (c) A parliamentary committee responsible for reviewing the budget proposals
- (d) A tool used by the finance minister to present the budget in the parliament

**Solution:-B**

84. What are Cut Motions in the context of parliamentary procedures?

- (a) Motions to cut short the duration of parliamentary sessions
- (b) Motions to reduce the salaries of government officials
- (c) Motions to reduce the amount of a demand for grant presented in the budget
- (d) Motions to cut off funding for a specific government project

**Solution:-C**

85. What is the purpose of a Cut Motion?

- (a) To propose a reduction in the total budget allocation
- (b) To criticize the functioning of the opposition parties
- (c) To express disapproval of a specific policy or expenditure
- (d) To delay the passage of the budget

**Solution:-C**

86. What is the Consolidated Fund of India?

- (a) A fund managed by the Reserve Bank of India for foreign exchange transactions
- (b) A fund maintained by the government to finance development projects
- (c) A fund that holds all revenues received and loans raised by the government
- (d) A fund created to support the defense and security expenses of the country

**Solution:-C**

87. Which article of the Indian Constitution deals with the Consolidated Fund of India?

- (a) Article 110
- (b) Article 280
- (c) Article 266
- (d) Article 360

**Solution:-C**

88. All government revenues and receipts are credited to which fund?

- (a) Public Account
- (b) Contingency Fund
- (c) Consolidated Fund of India
- (d) Development Fund

**Solution:-C**

89. Which fund is audited by the Comptroller and Auditor General (CAG) of India?

- (a) Public Account
- (b) Contingency Fund
- (c) Consolidated Fund of India
- (d) Development Fund

**Solution:-C**

90. What is the Contingency Fund of India?

- (a) A fund managed by the Reserve Bank of India for foreign exchange transactions
- (b) A fund maintained by the government to finance development projects
- (c) A fund that holds all revenues received and loans raised by the government
- (d) A fund created to meet urgent and unforeseen expenditure of the government

**Solution:-D**



- (b) The government can borrow from international financial institutions.
- (c) The expenditure remains pending until the parliament approves additional funds.
- (d) The President can use personal funds to cover the shortfall.

471. The Contingency Fund of India is audited by:

- (a) The President of India
- (b) The Comptroller and Auditor General (CAG) of India
- (c) The Finance Minister of India
- (d) The Reserve Bank of India

472. What is the Public Account of India?

- (a) A fund managed by the Reserve Bank of India for foreign exchange transactions
- (b) A fund maintained by the government to finance development projects

473. 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

474. Macroeconomic stabilization may be achieved through

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

475. Which of the following policies of the government fulfils the redistribution function

- (a) Parking the army on the northern borders of the country
- (b) Supply of food grains at subsidized prices to the poor people
- (c) Controlling the supply of money through monetary policy
- (d) All of the above

476. 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.

477. 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

478. Read the following statements:

1. The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy

2. Market failures can at all times be corrected through government intervention

3. Public goods will not be produced in sufficient quantities in a market economy

Of the three statements above:

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

479. 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

480. 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

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

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

482. 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

483. 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

484. Which of the following is true in respect of the role of Finance Commissions in India?

- I. The distribution between the union and the states of the net proceeds of taxes
- II. Allocation between the states of the respective shares of such proceeds.
- III. Make Recommendations on integrated GST on inter-state movement of goods and services
- IV. To recommend expenditure decentralization among different states

- (a) I and II are correct

- (b) II and III are correct
- (c) I, II and III are correct
- (d) All the above are correct

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

- (a) Respective state governments
- (b) Ministry of taxes
- (c) The government at the centre
- (d) None of the above

486. 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

487. Fiscal Federalism refers to \_.

- (a) Organizing and implementing development plans
- (b) Sharing of political power between centers and states
- (c) The management of fiscal policy by a nation
- (d) Division of economic functions and resources among different layers of the government

488. Which one of the following taxes is levied by the state government only?

- (a) Corporation tax
- (b) Wealth tax
- (c) Income tax
- (d) None of the above

489. 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

490. Which of the following is not a criterion for determining distribution of central taxes among states for 2021-26 period

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

491. As per the supreme court verdict in May 2022

- (a) The union has greater powers than the states for enacting GST laws
- (b) The union and state legislatures have “equal, simultaneous powers” to make laws on Goods and Services Tax
- (c) The union legislature’s enactments will prevail in case of a conflict between those of union and states
- (d) The state legislatures can make rules only with the permission of central government

492. 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

493. ‘Market failure’ is a situation which occurs when

- (a) private goods are not sufficiently provided by the market
- (b) public goods are not sufficiently provided by public sector
- (c) The market fail to form or they allocate resources efficiently
- (d) (b) and (c) above

494. 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

495. 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

496. Markets do not exist

- (a) for goods which have positive externalities
- (b) for pure public goods
- (c) for goods which have negative externalities
- (d) none of the above

497. 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

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

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

499. The free rider problem arises because of

- (a) ability of participants to produce goods at zero marginal cost

- (b) marginal benefit cannot be calculated due to externalities present
- (c) the good or service is non excludable
- (d) general poverty and unemployment of people

500. 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

501. 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

502. Smoking in public is a case of

- (a) Negative consumption externality
- (b) Negative production externality
- (c) Internalising externality
- (d) None of the above

503. 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 is 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

504. 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

505. Which one of the following would you suggest for reducing negative externality?

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

506. 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

507. 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

508. The Competition Act, 2002 aims to -

- (a) protect monopoly positions of firms that have developed unique innovations
- (b) to promote and sustain competition in markets
- (c) to determine pricing under natural monopoly.
- (d) None of the above

509. 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

510. 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
- (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.

511. The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual

- (a) Is a case of negative externality
- (b) Is a case of market efficiency
- (c) Is a case of free riding
- (d) Is inappropriate and warrant action

512. A government subsidy

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

513. The production and consumption of demerit goods are

- (a) likely to be more than optimal under free markets.
- (b) likely to be less than optimal under free markets
- (c) likely to be subjected to price intervention by government
- (d) a) and c) above

514. The argument for education subsidy is based on

- (a) Education is costly
- (b) the ground that education is merit good
- (c) education creates positive externalities
- (d) b) and c) above

515. Read the following statements

I. Social costs are the total costs incurred by the society when a good is consumed or produced.

II The external costs are not included in firms' income statements or consumers' decisions

III. Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs

IV. Production and consumption decisions are efficient only when private costs are Considered Of the above

- (a) Statements I and III are correct
- (b) Statements I,II and III are correct
- (c) Statement I only is correct
- (d) All the above are correct

516. Government failure occurs when

- (a) Government fails to implement its election promises on policies

- (b) A government is unable to get re-elected
- (c) Government intervention is ineffective and produces fresh and more serious problems
- (d) None of the above.

517. The difference between the budget deficit of a government and its debt service payments is

- (a) Fiscal deficit
- (b) Budget deficit
- (c) Primary deficit
- (d) None of the above

The following hypothetical figures relate to country A

Revenue receipts	20,000
Recovery of loans	1,500
Borrowing	15,000
Other Receipts	5,000
Expenditure on revenue account	24,500
Expenditure on capital account	26,000
Interest payments	2,000

518. The revenue deficit for country A is

- (a) 5,000
- (b) 24,000
- (c) 4,500
- (d) None of the above

519. Fiscal deficit of country A is

- (a) 14,000
- (b) 24,000
- (c) 23,500
- (d) None of the above

520. Primary deficit of Country A is

- (a) 26,000
- (b) 26,500
- (c) 22,000
- (d) 24,500

521. In NITI Aayog, NITI stands for

- (a) National Initiative for

Transforming India

- (b) National Institution for Transforming India
- (c) National Institute for Technology and Innovation
- (d) None of the above

522. The Appropriation Bill is intended to

- (a) reduce unnecessary expenditure on the part of the government
- (b) give authority to government to incur expenditure from and out of the Consolidated Fund of India
- (c) give authority to government to incur expenditure from the revenue receipts only
- (d) be passed before the budget is taken for discussion

523. Public debt management aims at

- (a) An efficient budgetary policy to avail of domestic debt facilities
- (b) Raising loans from international agencies at lower rates of interest
- (c) Raising the required amount of funding at the desired risk and cost levels
- (d) Management of public expenditure to reduce public debt

524. 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

525. 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.

526 . Corporate tax

- is collected by the union government and can be a capital receipt or revenue receipt
- may be collected by the respective states and fall under revenue receipts
- may be collected either by the centre or states and fall under revenue receipts
- is collected by the union government and is a revenue receipt

527. Government borrowings from foreign governments and institutions

- Capital receipt
- Revenue receipt
- Accounts for fiscal deficit
- 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

528. The capital receipts are

- 23.5
- 19.7
- 11.3
- None of the above

529. Revenue deficit is

- 23.6
- 13.0
- 7.0
- 2.6

530. The non-debt capital receipts

of this country is

- 45.1
- 16.7
- 15.8
- None of the above

531. A budget is said to be unbalanced when

- when government's revenue exceeds government's expenditure
- when government's expenditure exceeds government's revenue
- either budget surplus or budget deficit occurs
- All the above

532. Fiscal deficit refers to

- the excess of government's revenue expenditure over revenue receipts
- The excess of total expenditure over total receipts excluding borrowings
- Primary deficit - interest payments
- None of these

533. Budget of the government generally impacts

- the resource allocation in the economy
- redistribution of income and enhance equity
- stability in the economy by measures to control price fluctuations
- all the above

534. Which of the following is a statement submitted along with the budget as a requirement of FRBM Act

- Annual Financial Statement
- Macro -Economic Framework Statement
- Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement
- (b) and (c) above

535. Government borrowing is treated as capital receipt because

- It is mainly used for creating assets by government
- It creates a liability for the government
- Both a) and b) above are correct
- None of the above is correct

536. 'Retail Direct' scheme is

- (a) Initiated by the Reserve Bank of India
- (b) facilitate investment in government securities by individual investors.
- (c) Direct sale of goods and services by government departments
- (d) Both (a) and (b) are correct

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

537. Non-debt capital receipts

- (a) do not add to the assets of the government and therefore not treated as capital receipts
- (b) are those that do not create any future repayment burden for the government
- (c) are those that create future liabilities for the government
- (d) facilitate capital investments at low cost

542. If real GDP is continuously declining and the rate of unemployment in the economy is increasing, the appropriate policy should be to

- (a) Increase taxes and decrease government spending
- (b) Decrease both taxes and government spending
- (c) Decrease taxes and increase government spending
- (d) Either (a) or (c)

538. Which of the following is a capital receipt?

- (a) License fee received
- (b) Sale proceeds from disinvestment
- (c) Assistance from Japan for covid vaccine
- (d) Dividend from a public sector enterprise

543 Which of the following are likely to occur when an economy is in an expansionary phase of a business cycle?

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

539. Grants given by the central government to state governments is

- (a) A revenue expenditure as it is meant to meet the current expenditure of the states
- (b) A revenue expenditure as it does neither create any asset, nor reduces any liability of the government
- (c) A capital expenditure because it increases the capital base of the states
- (d) It is a grant and so does not come under revenue expenditure or capital expenditure.

540.

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

544. During recession the fiscal policy of the government should be directed towards

- (a) Increasing the taxes and reducing the aggregate demand
- (b) Decreasing taxes to ensure higher disposable income
- (c) Increasing government expenditure and increasing taxes

541. Fiscal policy refers to the

- (a) use of government spending, taxation and borrowing to influence the level of economic activity

(d) None of the above

545. 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

546. 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

547. Which of the following may ensure a decrease in aggregate demand during inflation?

- (a) decrease in all types of government spending and/ or an increase in taxes
- (b) increase in government spending and/ or a decrease in taxes
- (c) decrease in government spending and/ or a decrease in taxes
- (d) All the above

548. A recession is characterized by

- (a) Declining prices and rising employment
- (b) Declining unemployment and rising prices
- (c) Declining real income and rising unemployment.
- (d) Rising real income and rising prices

549. Which one of the following is an example of fiscal policy?

- (a) A tax cut aimed at increasing the disposable income and spending
- (b) A reduction in government expenditure to contain inflation
- (c) An increase in taxes and decrease in government expenditure to control inflation
- (d) All the above

550. Which of the following would illustrate a recognition lag?

- (a) The time required to identify the appropriate policy
- (b) The time required to identify to pass a legislation
- (c) The time required to identify the need for a policy change
- (d) The time required to establish the outcomes of fiscal policy

551. An expansionary fiscal policy, taking everything else constant, would in the short-run have the effect of

- (a) a relative large increase in GDP and a smaller increase in price
- (b) a relative large increase in price, a relatively smaller increase in GDP
- (c) both GDP and price will be increasing in the same proportion
- (d) both GDP and price will be increasing in a smaller proportion

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

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

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

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553. Which of the following policies is likely to shift an economy's aggregate demand curve to the right?

- (a) Increase in government spending
- (b) Decrease in taxes
- (c) A tax cut along with increase in public expenditure
- (d) All the above

---

554. Identify the incorrect statement

- (a) A progressive direct tax system ensures economic growth with stability because it distributes the burden of taxes unequally
- (b) A carefully planned policy of public expenditure helps in redistributing income from the rich to the poorer sections of the society.
- (c) There are possible conflicts between different objectives of fiscal policy such that a policy designed to achieve one goal may adversely affect another
- (d) An increase in the size of government spending during recessions may possibly 'crowd-out' private spending in an economy.

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555. Read the following statements

- I. Fiscal policy is said to be contractionary when revenue is higher than spending i.e., the government budget is in surplus
- II. Other things constant, a fiscal expansion will raise interest rates and "crowd out" some private investment
- III. During inflation new taxes can be levied and the rates of existing taxes are raised to reduce disposable incomes
- IV. Classical economists advocated contractionary fiscal policy to solve the problem of inflation

Of the above statements

- (a) I and II are correct
- (b) I, II and III are correct
- (c) Only III is correct
- (d) All are correct

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556. While resorting to expansionary fiscal policy

- (a) the government may possibly have a budget surplus as increased expenditure will bring more output and more tax revenue
- (b) the government may run into budget deficits because tax cuts reduce government income and the government expenditures exceed tax revenues in a given year
- (c) it is important to have a balanced budget to avoid inflation and bring in stability
- (d) None of the above will happen

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557. Contractionary fiscal policy

- (a) is resorted to when government expenditure is greater than tax revenues of any particular year
- (b) increase the aggregate demand to sustain the economy
- (c) to increase the disposable income of people through tax cuts and to enable greater demand
- (d) is designed to restrain the levels of economic activity of the economy during an inflationary phase

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558. When government spending is deliberately reduced to bring in stability

- (a) the government is resorting to contractionary fiscal policy
- (b) the government is resorting to expansionary fiscal policy
- (c) trying to limit aggregate demand to sustainable levels
- (d) (a) and c) above

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559. An increase in personal income taxes

- (a) reduces disposable incomes leading to fall in consumption spending and aggregate demand

- (b) is desirable during inflation or when there is excessive levels of aggregate demand
- (c) is to compensate the deficiency in effective demand by boosting aggregate spending
- (d) both a) and b) are correct

560. While the government resorts to deliberate fiscal policy it may not attempt to manipulate

- (a) Government expenditures on public works
- (b) The rates of personal income taxes and corporate taxes
- (c) Government expenditures on goods and services purchased by government
- (d) The rate of interest prevailing in the economy

561. Which of the following fiscal remedy would you advice when an economy is facing recession

- (a) the government may cut interest rates to encourage consumption and investm
- (b) the government may cut taxes to increase aggregate demand
- (c) the government may follow a policy of balanced the budget.

- (d) None of the above will work

562 .While if governments compete with the private sector to borrow money for securingresources for expansionary fiscal policy

- (a) it is likely that interest rates will go up and firms may not be willing to invest
- (b) it is likely that interest rates will go up and the individuals too may be reluctant to borrow and spend
- (c) it is likely that interest rates will go up and the desired increase in aggregate demand may not be realized
- (d) All the above are possible.

## Chapter – 8 Money Market

### Unit : 1 The concept of money Demand : Important theories

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.

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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

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3. Demand for money is
  - (a) Derived demand
  - (b) Direct demand
  - (c) Real income demand
  - (d) Inverse demand

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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

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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

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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

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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

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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

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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
- (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 a 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
- the currency ratio (c) of the public,
  - the required reserve ratio (r) at the central bank, and
  - the excess reserve ratio (e) of commercial banks.
  - 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.
- The currency ratio
  - The excess reserve ratio (e)
  - The credit multiplier
  - The currency ratio (c)

30. The money multiplier will be large
- for higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
  - for constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)
  - for lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
  - 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
- required reserve ratio.
  - money multiplier.
  - deposit ratio.
  - discount rate

32. For a given level of the monetary base, an increase in the required reserve ratio will denote
- a decrease in the money supply.
  - an increase in the money supply.
  - an increase in demand deposits.
  - 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  $\_$ .
- decrease; increase
  - increase; decrease
  - decrease; decrease
  - increase; increase

34. If commercial banks reduce their holdings of excess reserves
- the monetary base increases.
  - the monetary base falls.
  - the money supply increases.
  - the money supply falls.

35. Which of the following is the function of monetary policy?
- regulate the exchange rate and keep it stable
  - regulate the movement of credit to the corporate sector
  - regulate the level of production and prices
  - regulate the availability, cost and use of money and credit

36. The main objective of monetary policy in India is :
- reduce food shortages to achieve stability
  - economic growth with price stability
  - overall monetary stability in the banking system
  - reduction of poverty and unemployment

37. The monetary transmission mechanism refers to
- how money gets circulated in different sectors of the economy post monetary policy
  - the ratio of nominal interest and real interest rates consequent on a monetary policy
  - the process or channels through which the evolution of monetary aggregates affects the level of product and prices
  - none of the above

38. A contractionary monetary policy-induced increase in interest rates
- increases the cost of capital and the real cost of borrowing for firms
  - 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

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

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

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

Answer

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

## Chapter 9 : International Trade

1. Which of the following does not represent a difference between internal trade and international trade?
- Transactions in multiple currencies
  - homogeneity of customers and currencies
  - differences in legal systems
  - none of the above

2. The theory of absolute advantage states that

- national wealth and power are best served by increasing exports and decreasing imports
- nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
- 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
- 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?

- Modern theory of international trade
- The factor endowment theory
- The Heckscher-Ohlin Theory
- None of the above

4. Which of the following holds

that a country can increase its wealth by encouraging exports and discouraging imports

- Capitalism
- Socialism
- Mercantilism
- 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

	Country A	Country B
Cloth	40	80
Grain	80	40

- Country A
- Country B
- Neither A nor B
- Both A and B

6. According to the theory of comparative advantage

- trade is a zero-sum game so that the net change in wealth or benefits among the participants is zero.
- trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive
- nothing definite can be said about the gains from trade
- 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

	Wheat	Rice
Country X	10	20
Country Y	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**

	India	Bangladesh
Tables	3	8
Mats	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
- (a) domestic firms agreeing to limit the quantity foreign products sold in their domestic markets
- (b) an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time
- (c) 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

- (c) The Uruguay Round
- (d) The Kennedy Round

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

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

22. Non -tariff barriers (NTBs) include all of the following except:

- (a) import quotas
- (b) tariffs
- (c) export subsidies
- (d) technical standards of products

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

23. Which of the following culminated in the establishment of the World Trade Organization?

- (a) The Doha Round
- (b) The Tokyo Round

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

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

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

- i) floating exchange rate  
ii) fixed exchange rate  
iii) pegged exchange rate  
iv) devaluation  
v) appreciation  
a. Depreciation  
b. Revolution  
c. 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 market 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. A foreign direct investor

- a. May enter India only through automatic route
- b. May enter India only through government route
- c. May enter India only through equity in domestic enterprises
- d. Any of the above

52. Foreign investment are prohibited in

- a. Power generation and distribution
- b. Highways and waterways
- c. Chit funds and Nidhi company
- d. Airports and air transport

53. Which of the following statement is false in respect of FPI?

- a. portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments
- b. is effected largely by individuals and institutions through the mechanism of capital market
- c. is difficult to recover as it involves purely long-term investments and the investors have controlling interest
- d. investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.

## Answer

<b>Que</b>	<b>Ans</b>	<b>Que</b>	<b>Ans</b>	<b>Que</b>	<b>Ans</b>	<b>Que</b>	<b>Ans</b>	<b>Que</b>	<b>Ans</b>
1	<b>B</b>	13	<b>B</b>	25	<b>B</b>	37	<b>D</b>	49	<b>B</b>
2	<b>B</b>	14	<b>B</b>	26	<b>C</b>	38	<b>C</b>	50	<b>D</b>
3	<b>B</b>	15	<b>C</b>	27	<b>D</b>	39	<b>D</b>	51	<b>D</b>
4	<b>C</b>	16	<b>D</b>	28	<b>D</b>	40	<b>A</b>	52	<b>C</b>
5	<b>B</b>	17	<b>D</b>	29	<b>C</b>	41	<b>B</b>	53	<b>C</b>
6	<b>B</b>	18	<b>C</b>	30	<b>B</b>	42	<b>C</b>		
7	<b>B</b>	19	<b>D</b>	31	<b>D</b>	43	<b>D</b>		
8	<b>D</b>	20	<b>C</b>	32	<b>C</b>	44	<b>C</b>		
9	<b>B</b>	21	<b>B</b>	33	<b>B</b>	45	<b>D</b>		
10	<b>D</b>	22	<b>B</b>	34	<b>B</b>	46	<b>C</b>		
11	<b>D</b>	23	<b>C</b>	35	<b>C</b>	47	<b>C</b>		
12	<b>B</b>	24	<b>B</b>	36	<b>A</b>	48	<b>A</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 private 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 capitalist mode of production with heavy industrialization
  - social and economic redistribution and industrialization directed by the state
  - social and economic redistribution through private sector initiatives
  - Industrialization led by private entrepreneurs and redistribution by state

19. In the Keynesian model, equilibrium aggregate output is determined by
- aggregate demand
  - consumption function
  - the national demand for labor
  - the price level

20. Keynes believed that an economy may attain equilibrium level of output
- only at the full-employment level of output
  - below the full-employment level of output
  - only if prices were inflexible
  - a) and c) above

21. According to Keynes, consumption expenditure is determined by
- the level of interest rates
  - extent of government taxes and subsidies
  - disposable income
  - autonomous investment expenditure

22. The marginal propensity to consume (MPC) can be defined as
- a change in spending due to a change in income
  - a change in income that is saved after consumption
  - part of income that is spent on consumption.
  - part of income that is not saved.

23. If the consumption function is expressed as  $C = a + bY$  then  $b$  represents
- autonomous consumer expenditure when income is zero
  - the marginal propensity to consume.
  - the expenditure multiplier when consumption is increased
  - part of disposable income

24. If the consumption function is expressed as  $C = a + bY$  then  $a$  represents
- autonomous consumer expenditure.
  - the marginal propensity to consume.
  - the consumption income relationship
  - Non- linear consumption function

25. 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 -----
- 25
  - 70
  - 50
  - 100

26. 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 ₹ \_\_\_\_\_
- 8,000
  - 6,000
  - 10,000
  - None of the above

27. In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45-degree line indicates the
- level of full employment income.
  - less than full employment level of income.
  - equilibrium level of income which may or may not be full employment level of income
  - autonomous level of income which may not be full employment level of income

28. 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.

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

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

### Answer

1)	<b>C</b>	11)	<b>B</b>	21)	<b>C</b>
2)	<b>B</b>	12)	<b>B</b>	22)	<b>A</b>
3)	<b>C</b>	13)	<b>D</b>	23)	<b>B</b>
4)	<b>A</b>	14)	<b>C</b>	24)	<b>A</b>
5)	<b>B</b>	15)	<b>B</b>	25)	<b>C</b>
6)	<b>B</b>	16)	<b>C</b>	26)	<b>C</b>
7)	<b>A</b>	17)	<b>B</b>	27)	<b>C</b>
8)	<b>D</b>	18)	<b>B</b>	28)	<b>B</b>
9)	<b>A</b>	19)	<b>A</b>	29)	<b>C</b>
10)	<b>C</b>	20)	<b>B</b>		



<p>1. India is the largest economy of the ancient and the medieval world. and have controlled between _____ of the world's wealth.</p> <p>a) One third to one fourth b) One fifth to one sixth c) On tenth to one twentieth d) entire</p>
<p>2. The Indian Economy was the hub of _____</p> <p>a) Pilgrimage b) Administration c) Statecraft d) All of the above</p>
<p>3. When was the book Arthashastra prevalent</p> <p>a) 296 AD to 321 AD b) 1967 to 1991 c) 321 BCE to 296 BCE d) Post independence</p>
<p>4. 'Arthashastra's' the pioneering work attributed to _____</p> <p>a) Chandragupt Mourya b) Chanakya c) Birbal d) Amit Shah</p>
<p>5. The founder of Maurya empire _____</p> <p>a) Samudragupt Mourya b) Bhimsingh Mourya c) Chandragupt Mourya d) All of the above</p>
<p>6. The major focus of the work in the Arthashastra Book _____ and _____</p> <p>a) Wealth b) Land c) Both d) None</p>
<p>7. What does the meaning of word Artha</p> <p>a) Wealth b) Land c) Both d) Sport</p>
<p>8. What are the seven vital elements true kingship</p> <p>a) King, Fortress, Ministers, Farmland, Military, Allies and Treasury b) King, Princess, Ministers, Farmland, Military, Allies and</p>

<p>Treasury</p> <p>c) King, Fortress, Ministers, sports, Military, Allies and Treasury d) King, Fortress, Ministers, Farmland, Military, war and Treasury</p>
<p>9. kautilya emphasizes important of _____</p> <p>a) Sports b) Marriages c) Robust Agriculture d) Attack strategy</p>
<p>10. What was the two phases of Britisher's rules</p> <p>a) 1657 to 1758 and 1858 to 1947 b) 1757 to 1858 and 1858 to 1947 c) 1757 to 1858 and 1858 to 1977 d) 1757 to 1947 and 1947 to 1991</p>
<p>11. India becomes an exporter of raw material instead of finish goods this statement is</p> <p>a) True b) false c) Partially true d) Can't Comment</p>
<p>12. which of the following is not included in east India company's rule</p> <p>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</p>
<p>13. How many spindles did Indian cotton Mills have at the time of britishers colonial rule</p> <p>a) 7 Million b) 8 Million c) 9 Million d) 6 Million</p>
<p>14. In Which area did jute mills start growing is specifically during the time of britisher colonial rule</p> <p>a) West India b) Central India c) North India d) East India, especially Calcutta</p>

<p>15. What was the position of cotton mills in 1930</p> <p>a) 2nd b) 3rd c) 4th d) th</p>	<p>—</p> <p>a) supporting social , economic redistribution and industrialization b) Rural Economy and love British c) Black and White d) Live and Let live</p>
<p>16. What was the ranking of the iron industry in the hole world in 1930 .</p> <p>a) 8th b) 7th c) 6th d) 5th</p>	<p>23. who had the powers at the time of nehruvian model</p> <p>a) Private Sector b) Public sector c) Both d) Only Britsih</p>
<p>17. What was the India's ranking in manufacturing before the great deperation</p> <p>a) 12th b) 2nd c) 3nd d) 1st</p>	<p>24. Which of the following economic philosophy emerge in 1950</p> <p>a) PM Nehru's visualization - emphasis on heavy industry, and b) The Gandhian philosophy - small scale and cottage industry and village republics. c) Both d) None</p>
<p>18. Which of the following was the causes of downturn in producers goods industries</p> <p>a) Reversal of Indian Market from Exporter of Finished goods to exporters of Raw materials b) Tariff Discrimination and Indian inclination towards western goods c) Hostile policy and competition with machine made goods d) All of the above</p>	<p>25. In which year India face to sever and consecutive droughts struck?</p> <p>a) 1956, 1957 b) 1966, 1967 c) 1999, 2000 d) 1947, 1948</p>
<p>19. India was majorly had rural inhabited mostly illiterate &amp; exceedingly poor population this statement is</p> <p>a) True b) False c) Can't Say d) Wasn't born so can't say</p>	<p>26. At the time of to severe and consecutive drought struck India depends on ___for food</p> <p>a) China b) Russia c) Ukraine d) USA</p>
<p>20. In 1951 India's literacy rate was ___and life expectancy was__ year</p> <p>a) 32, 18 b) 18,32 c) 50,50 d) 100,100</p>	<p>27. green revolution known as</p> <p>a) White Revolution b) Brown revolution c) Green Revolution d) Pink Revolution</p>
<p>21. Which model did India Adopted after independence</p> <p>a) <b>Nehruvian model</b> b) Patel Model c) Bose Model d) Modi Model</p>	<p>28. The government nationalized ___ banks in 1969</p> <p>a) 15 b) 14 c) 13 d) 17</p>
<p>22. The nehruvian model supporting ___and</p>	<p>29. The government nationalized banks in 1980_____</p>

<ul style="list-style-type: none"> <li>a) 4</li> <li>b) 5</li> <li>c) 6</li> <li>d) 7</li> </ul>	<ul style="list-style-type: none"> <li>d) P V Narsimha rao</li> </ul>
<p>30. Full Form of MRTP ACT</p> <ul style="list-style-type: none"> <li>a) Monopoly and restrictive trade practice act</li> <li>b) Maharaja and raja trade practice act</li> <li>c) Many goods restrictive trade practice act</li> <li>d) My goods no restriction practice act</li> </ul>	<p>36. How Much And For How Many Days Forex Reserve did India have</p> <ul style="list-style-type: none"> <li>a) 1.2 Bn \$ and 2 Weeks</li> <li>b) 2.1 Bn \$ and 5 Weeks</li> <li>c) 7 Bn \$ and 3 Weeks</li> <li>d) 9 Bn \$ and \$ Weeks</li> </ul>
<p>31. How many brood category of industry's delicensing before 1991</p> <ul style="list-style-type: none"> <li>a) 20</li> <li>b) 22</li> <li>c) 24</li> <li>d) 2</li> </ul>	<p>37. At the time of economy reform on whom was India depended for external borrowings</p> <ul style="list-style-type: none"> <li>a) China</li> <li>b) UA</li> <li>c) USA</li> <li>d) IMF</li> </ul>
<p>32. Which of the following is meaning of broad bonding</p> <ul style="list-style-type: none"> <li>a) firms may switch production between different production lines</li> <li>b) firms may switch production to military</li> <li>c) firms may switch production to telecommunication</li> <li>d) All of the above</li> </ul>	<p>38. Which of the following measures did India bring in 1991 India policy reform</p> <ul style="list-style-type: none"> <li>a) Liberalization</li> <li>b) Privatization</li> <li>c) Globalization</li> <li>d) All</li> </ul>
<p>33. The selling limit for application of MRTP Regulation have been increased form__ to __</p> <ul style="list-style-type: none"> <li>a) 5 cr to 10 cr</li> <li>b) 10 cr to 20 cr</li> <li>c) 20 cr to 50 cr</li> <li>d) 20 cr to 100 cr</li> </ul>	<p>39. Which of the following were measures focused in 1991</p> <ul style="list-style-type: none"> <li>a. <b>Reorientation of the economy</b> from a centrally directed and highly controlled one to a 'market friendly' or market oriented economy.</li> <li>b. <b>Macroeconomic stabilization</b> by substantial reduction in fiscal deficit.</li> <li>c. Both</li> <li>d. None</li> </ul>
<p>34. in the period of 1981 to 1989 the early liberalization was useless this statement is</p> <ul style="list-style-type: none"> <li>a) True</li> <li>b) False</li> <li>c) Both</li> <li>d) None</li> </ul>	<p>40. Which of the following is the meaning of liberalization</p> <ul style="list-style-type: none"> <li>a) Liberalisation refers to tightening of previous Government restrictions usually in areas of social and economic policies</li> <li>b) Liberalisation refers to relaxation of previous Government restrictions usually in areas of social and economic policies</li> <li>c) Liberalisation refers to relaxation of previous Government restrictions usually in areas of sports</li> <li>d) Liberalisation refers to</li> </ul>
<p>35. The Indian Economy Reforms In 1991 Under the government of</p> <ul style="list-style-type: none"> <li>a) Atal Bihari Vajpayee</li> <li>b) Jp Nadda</li> <li>c) Manmohan singh</li> </ul>	

neutral nature of previous Government restrictions usually in areas of social and economic policies
41. _____are the main area of liberalization a) Industry b) Trade c) Tax d) All
42. What was the India's growth rate during the period for , 1950 to 2080. a) 1.5 % b) 2.5 % c) 3.5 % d) 4.5 %
43. Which of the following is includes in fiscal reforms a) Government Tax, Budget, Spending and Borrowings b) RBI Monetary Policy c) Both d) None
44. Full Form of CRR a) Car Rent ratio b) Caste Right ratio c) Cash reserve ratio d) Coin return Ratio
45. Full Form of SLR a) Statutory liquid ratio b) Star Right ratio c) Statutory life ratio d) Statutory level ratio
46. 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) Securities and exchange board of Indonesia
47. In which years SEBI Come a) 1992 b) 1991 c) 1990

d) 1988
48. When did the new industrial policy come a) 24 June 1991 b) 24 July 1991 c) 24 January 1991 d) 24 June 1990
49. How many sectors where under the government after the new industrial policy? a) All except 14 b) All except 18 c) All except 19 d) All except 20
50. Which of the following sectors are remained in the new industrial policy <u>a.</u> 6,namely, arms and ammunition, coal, atomic substances, narcotic drugs and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes and cigar. <u>b.</u> 5,namely, food, clothing, shelter, water and electricity. <u>c.</u> 5,namely, arms and ammunition, atomic substances, narcotic drugs and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes and cigar. <u>d.</u> No Sector
51. Which of the following area FDI is prohibited a) Atomic energy b) Farming and agriculture c) Nidhi company and chit fund d) All
52. Which approach did India start adopting after the introduction of industrial policy a) Green List Approach b) Red List Approach c) Yellow List Approach d) Negative list approach

<p>53. At a time of new industrial policy , rupees was devalued by ____ percentage against the dollar .</p> <p>a) 18 % b) 19 % c) 20 % d) 21 %</p>	<p>60. Who was the chairman of NITI Ayog</p> <p>a) PM of Country b) CM of state c) President d) IAS officers</p>
<p>54. 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>61. Which of the following is a meaning of co-oprtative Federalism</p> <p>a) Coordination between PM and CM b) Coordination between PM and President c) Coordination between Center, State and Local Body d) All</p>
<p>55. 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>62. Does NITI Ayog do consulting work or non consulting work?</p> <p>a) Non Consulting b) Consulting with PM c) Consulting with Shareholders d) Consulting with stakeholders</p>
<p>56. Which of the following was replaced by NITI Aayog</p> <p>a) Planning Congress b) Planning Control c) Planning Commission d) None of the above</p>	<p>63. __is the meaning of state of art resources centre</p> <p>a) Same as old b) Same as Competitor c) Best in class d) All of the above</p>
<p>57. 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>64. What Does Life Focus On</p> <p>a) Use and Reuse b) Use and Dispose c) Replace d) Use and eat</p>
<p>58. NITI Ayog is expected to serve as ____of the government</p> <p>a) War tank b) Water Tank c) Think Tank d) Think Machine</p>	<p>65. What is the function of an NDAP</p> <p>a) facilitates and improves access to Indian government fund b) facilitates and improves access to Indian government office c) facilitates and improves access to Indian government passport d) facilitates and improves access to Indian government data</p>
<p>59. Which of the Following is a objective of the NITI Ayog</p> <p>a) <b>To evolve a shared vision</b> b) <b>Formulate credible plans at the village level</b> c) <b>A platform for the resolution of inter-sectoral and inter departmental issues</b> d) All of the above</p>	<p>66. which is The Primary goal of Shoonya campaign</p> <p>a) aims to improve air quality in India by accelerating the deployment of</p>

<p>electric vehicles</p> <p>b) aims to improve water quality in India by accelerating the deployment of electric vehicles</p> <p>c) aims to improve air quality in India by accelerating the deployment of solar panel</p> <p>d) aims to improve air quality in India by accelerating the deployment of highway</p>	<p>71. India is among that ___ exporters of agriculture product in the world at a time primary sector</p> <p>a) Top 3</p> <p>b) Top 5</p> <p>c) Top 7</p> <p>d) Top 10</p>
<p>67. Which of the following best describes E-Amrit focus</p> <p>a) is a one-stop destination for all information on electric vehicles</p> <p>b) is a one-stop destination for all information on solar Panel</p> <p>c) Both of the above</p> <p>d) None of the above</p>	<p>72. What is MSP ?</p> <p>a) Minimum selling price</p> <p>b) Maximum Selling Price</p> <p>c) Minimum support Price</p> <p>d) Maximum Support Price</p>
<p>68. Full form of IPI</p> <p>a) Indian Police agency</p> <p>b) Indian Private agency</p> <p>c) India Policy Insights</p> <p>d) All of the above</p>	<p>73. The government of India has allowed ___ percentage of FDI in Marketing of food product.</p> <p>a) 100 %</p> <p>b) 75 %</p> <p>c) 74 %</p> <p>d) 25 %</p>
<p>69. Which of following is a weakness of NITI Ayog?</p> <p>a) NITI has a <b>limited role</b></p> <p>b) It <b>does not produce National Plans, Control Expenditures, or Review state plans</b></p> <p>c) The major shortcoming of NITI is its <b>exclusion from the Budgeting Process</b></p> <p>d) All of the above</p>	<p>74. what is APEDA</p> <p>a) Agricultural and Processed Food Export Development Authority (APEDA) is entrusted with the responsibility of export promotion of agri products</p> <p>b) Agricultural, Plant and Forest Export Development Authority (APEDA) is entrusted with the responsibility of export promotion of agri products</p> <p>c) Animal and Processed Food Export Development Authority (APEDA) is entrusted with the responsibility of export promotion of agri product</p> <p>d) Animal, Plant and Fish Food Export Development Authority (APEDA) is entrusted with the responsibility of export promotion of agri products</p>
<p>70. Which of the following statement is true regarding the agriculture in India at a time of Primary sector</p> <p>a) <b>47 per cent of India's population is directly dependent</b> on agriculture for living.</p> <p>b) India has the <b>world's largest cattle herd (buffaloes)</b></p> <p>c) Gross Value Added by the agriculture and allied sector <b>was 18.8% in 2021 -22 (until 31 January, 2022).</b></p> <p>d) All of the above</p>	<p>75. Full form of PMFBY</p> <p>a) <b>Pradhan Mantri Fasal Bima Yojana</b></p> <p>b) <b>Pashu Mantri Fasal Bima Yojana</b></p> <p>c) <b>Pradhan Mantri Forest Bima Yojana</b></p> <p>d) All of the above</p>

<p>76. Full form of MIDH</p> <ol style="list-style-type: none"> <li>Mission for Integrated Development of Hostel</li> <li>Mission for Integrated Development of Housewives</li> <li>Mission for Integrated Development of Horticulture</li> <li>Mission for Integrated Development of Herds</li> </ol>
<p>77. Full form of PKVY</p> <ol style="list-style-type: none"> <li>Parampara at Krishi Vikas Yojana (PKVY)</li> <li>Pradhan Mantri at Krishi Vikas Yojana (PKVY)</li> <li>President at Krishi Vikas Yojana (PKVY)</li> <li>Parampara at Krishi Village Yojana (PKVY)</li> </ol>
<p>78. Parampara at krishivikesyojna focus on _____</p> <ol style="list-style-type: none"> <li>Forest farming</li> <li>Hybrid Farming</li> <li>Organic farming</li> <li>All of the above</li> </ol>
<p>79. Which of the following is the objective of farmer producer organisations</p> <ol style="list-style-type: none"> <li>to ensure better income for the producers through an organization of their own.</li> <li>to ensure better house for the producers through an organization of their own.</li> <li>to ensure better life quality for the producers through an organization of their own.</li> <li>to ensure better literacy for the producers through an organization of their own.</li> </ol>
<p>80. Per drop more crop aims to</p> <ol style="list-style-type: none"> <li>scheme to increase water use efficiency at the farm level</li> <li>scheme to decrease water use efficiency at the farm level</li> <li>scheme to increase water use efficiency at the city level</li> <li>None of the Above</li> </ol>

<p>81. E-NAM is ____</p> <ol style="list-style-type: none"> <li>a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities.</li> <li>Electronic name given to farmer</li> <li>Aadhar card for framers</li> <li>Free Chatting Facility for Farmer without displaying their name</li> </ol>
<p>82. What did you bring for the improvement of the farm Logistics</p> <ol style="list-style-type: none"> <li>Kisan Rail</li> <li>Kisan Jam</li> <li>Kisan Bus</li> <li>Kisan Metro</li> </ol>
<p>83. Which of the following statements accurately reflects the significance of the Indian industry in terms of gross value added and employment?</p> <ol style="list-style-type: none"> <li>The Indian industry contributes about 30 % of total GVA</li> <li>Employing over 12.1 crores</li> <li>Both</li> <li>None</li> </ol>
<p>84. The following is the not example of a secondary sector</p> <ol style="list-style-type: none"> <li>Manufacturing</li> <li>Processing</li> <li>Defense Equipment</li> <li>Travel and Tourism</li> </ol>
<p>85. Eight core industries are</p> <ol style="list-style-type: none"> <li></li> <li></li> <li></li> <li></li> </ol>
<p>86. When goods and service tax are introduce in India</p> <ol style="list-style-type: none"> <li>1 July 2016</li> <li>1 July 2017</li> <li>1 July 2018</li> <li>1 July 2019</li> </ol>

<p>87. Which of the following statements accurately describes the option provided to domestic companies regarding corporate tax reduction?</p> <p>a) Reduction of corporate tax to domestic companies giving an option to pay income-tax at the rate of 43%.</p> <p>b) Reduction of corporate tax to domestic companies giving an option to pay income-tax at the rate of 22% with all exemptions too</p> <p>c) Reduction of corporate tax to domestic companies giving an option to pay income-tax at the rate of 22% with leaving all exemptions</p> <p>d) India abolished corporate tax already</p>	<p>Electric Vehicles</p> <p>b) Faster Abolition and Manufacturing of Hybrid and Electric Vehicles</p> <p>c) Faster Adoption and Manufacturing of Hybrid and Electric Rail</p> <p>d) All of the above are same</p>
<p>88. The national single window system is a__ for investor realted approval and service</p> <p>a) one-stop-shop</p> <p>b) three tier</p> <p>c) one and only</p> <p>d) brain child</p>	<p>93. Udyami bharat aims to</p> <p>a) NEET</p> <p>b) MBBS</p> <p>c) MSME</p> <p>d) CAs and IAS</p>
<p>89. What does PM Gati Shakti focused on —</p> <p>a) reducing distance</p> <p>b) reducing logistics cost</p> <p>c) Both</p> <p>d) None</p>	<p>94. What is the full form is PM MITRA</p> <p>a) President Mega Integrated Textile Region and Apparel</p> <p>b) PM Mega International tour Region and Apparel</p> <p>c) PM Mega India Region and Apparel</p> <p>d) PM Mega Integrated Textile Region and Apparel</p>
<p>90. What is the full form of NLP</p> <p>a)</p> <p>b)</p> <p>c)</p> <p>d)</p>	<p>95. In May 2017 Forgin Investment Promotion Board was abaished by</p> <p>a) FIFP</p> <p>b) FII</p> <p>c) FDI</p> <p>d) FAME</p>
<p>91. What Is the Full Form of PLI</p> <p>a) National Luggage Policy</p> <p>b) National Long Policy</p> <p>c) National Life Policy</p> <p>d) National Logistics Policy</p>	<p>96. In __ year Remission of dudies and taxes on export product form to replace the existing Merchandise exportsfrom India scheme to boost exports</p> <p>a) 2019</p> <p>b) 2020</p> <p>c) 2021</p> <p>d) 2022</p>
<p>92. What is the full form of fame</p> <p>a) Faster Adoption and Manufacturing of Hybrid and</p>	<p>97. What is the full form of DPIIT</p> <p>a) Department for Production in Industry and Internal Trade</p> <p>b) Department for Promotion of Industry and Internal Trade</p> <p>c) Department for Promotion of Industry and international Trade</p> <p>d) Department for Promotion of Industry and Internal Transport</p>
	<p>98. Which of The Following is not the</p>



Challenges of The Industrial Sector

- a) **Shortage of efficient infrastructure and manpower.**
- b) **Reliance on imports, exchange rate volatility** and associated time and cost overruns
- c) The **MSME sector is relatively less favorably placed**
- d) None of the above

99. Who all come under the tertiary sector

- a) Agriculture
- b) Processing
- c) Service
- d) Both B and C

100. What the meaning of Tertiary sector

- a) Agriculture
- b) Intangibles
- c) Service
- d) Both B and C

101. What the share of Tertiary sector of total India's gross value added

- a) 18.18 %
- b) 30 %
- c) 53.89 %
- d) 47.473 %

102. \_\_\_ is the rank in world trade organisation member in service export and import of india

- a) 5th
- b) 7th
- c) 9th
- d) 10th

103. The government has permitted \_\_\_% Foreign participation in telecommunication service

- a) 25 %
- b) 49 %
- c) 51 %
- d) 100 %

104. the FDI ceiling in Insurance company

- 
- a) 49 %
  - b) 74 %
  - c) 100 %
  - d) 21 %