

INTRODUCTION TO BUSINESS ECONOMICS

1. What is the primary purpose of any economic activity?
 - A) To produce goods
 - B) To employ labor
 - C) To create surplus or profit
 - D) To maintain balance between input and output
2. Which of the following is not considered an economic input?
 - A) Land
 - B) Labor
 - C) Time
 - D) Capital
3. Non-profit organizations aim primarily at which of the following?
 - A) Private profits
 - B) Social benefits
 - C) Cost reduction
 - D) Market dominance
4. The term 'Economics' originates from which Greek word?
 - A) Oikonomia
 - B) Politia
 - C) Agora
 - D) Nomos
5. Who is considered the author of the first modern work of economics, "The Wealth of Nations"?
 - A) Karl Marx
 - B) John Maynard Keynes
 - C) Adam Smith
 - D) David Ricardo
6. Economics primarily deals with:
 - A) Unlimited wants and unlimited resources
 - B) Unlimited wants and relatively scarce resources
 - C) Limited wants and unlimited resources
 - D) Limited wants and limited resources
7. Which of the following is considered a durable good?
 - A) Bread
 - B) Toothpaste
 - C) Car
 - D) Cigarettes
8. The economic study of allocating scarce resources to satisfy competing wants is called:
 - A) Business administration
 - B) Political economy
 - C) Economic planning
 - D) Economics
9. Business Economics is also known as:
 - A) Financial Economics
 - B) Microeconomics
 - C) Managerial Economics
 - D) Corporate Economics
10. Which of the following is a concern of Business Economics?
 - A) Optimal utilization of resources
 - B) National debt reduction

- C) International trade relations
 - D) Consumer protection laws
- 11. Microeconomics is the study of:**
- A) The behavior of the overall economy
 - B) The behavior of individual consumers and firms
 - C) Government policies
 - D) International markets
- 12. Macro Economics studies:**
- A) Product pricing
 - B) Consumer behavior
 - C) Total national output and employment
 - D) Location of industries
- 13. Which of the following is a key area studied under Microeconomics?**
- A) Unemployment rates
 - B) National inflation
 - C) Consumer behavior
 - D) Government spending
- 14. Which of the following is not part of the decision-making process in business economics?**
- A) What to produce
 - B) How much to produce
 - C) Why to produce
 - D) How to generate demand
- 15. Which of the following tools is not commonly used in Business Economics?**
- A) Linear programming
 - B) Regression analysis
 - C) Cost-benefit analysis
 - D) Quantum mechanics
- 16. Business Economics helps managers to:**
- A) Increase national GDP
 - B) Formulate strategic, tactical, and operational decisions
 - C) Determine national interest rates
 - D) Formulate international trade policies
- 17. The two main branches of economics are:**
- A) Micro and Financial Economics
 - B) Business and Corporate Economics
 - C) Micro and Macro Economics
 - D) Managerial and Consumer Economics
- 18. A key factor in Business Economics is:**
- A) Creating social harmony
 - B) Optimal allocation of resources
 - C) Identifying political trends
 - D) Minimizing labor costs
- 19. Business Economics integrates which two disciplines?**
- A) Economic theory and business practice
 - B) Marketing and finance
 - C) Human resources and operations research
 - D) Political science and economics
- 20. In Business Economics, decision-making often occurs under conditions of:**
- A) Perfect knowledge

- B) Complete certainty
 - C) Imperfect knowledge and uncertainty
 - D) Total transparency
- 21. What is the primary focus of Business Economics?**
- A) Global trade analysis
 - B) Decision-making in business
 - C) Studying government policies
 - D) Analyzing historical economic events
- 22. Which of the following is NOT a category of business issues in Business Economics?**
- A) Internal or operational issues
 - B) External or environmental issues
 - C) Scientific research issues
 - D) Technological advancement issues
- 23. Business Economics is based largely on which type of economics?**
- A) Microeconomics
 - B) Macroeconomics
 - C) Behavioral Economics
 - D) International Economic
- 24. What does 'Demand Analysis' in Business Economics focus on?**
- A) Behavior of competitors in the market
 - B) Consumers' preferences and demand factors
 - C) National output and income
 - D) Government policies
- 25. Which tool is used in Business Economics to analyze the most efficient allocation of resources?**
- A) Regression analysis
 - B) Capital budgeting
 - C) Linear programming
 - D) Game theory
- 26. Business Economics is considered a combination of which two fields?**
- A) Science and Art
 - B) Politics and Science
 - C) History and Art
 - D) Business and Sociology
- 27. Which of the following factors is NOT typically considered in the external or macroeconomic environment of a business?**
- A) National income
 - B) Pricing strategies
 - C) Employment levels
 - D) Government policies
- 28. Profit analysis in Business Economics primarily helps in:**
- A) Forecasting market demand
 - B) Understanding profit levels under uncertainty
 - C) Estimating government taxes
 - D) Setting employee salaries
- 29. What is the main purpose of inventory management in a business?**
- A) To minimize inventory levels
 - B) To reduce costs associated with maintaining inventory
 - C) To increase inventory levels for future use
 - D) To buy goods in bulk for cost reduction

30. Which theory explains how prices are determined under different market conditions?

- A) Production theory
- B) Capital theory
- C) Price theory
- D) Demand theory

31. Business Economics integrates which of the following?

- A) Environmental and social studies
- B) Economic theory and business practice
- C) Historical analysis and government policies
- D) Marketing strategies and corporate governance

32. Which of the following best describes Business Economics' approach to problems?

- A) Theoretical
- B) Historical
- C) Pragmatic
- D) Philosophical

33. Risk and uncertainty analysis in Business Economics helps businesses to:

- A) Maximize investment returns
- B) Predict stock market trends
- C) Make informed decisions under uncertain conditions
- D) Ensure no risks are taken

34. What is the nature of Business Economics?

- A) Descriptive and Positive
- B) Normative and prescriptive
- C) Theoretical and Philosophical
- D) Historical and Observational

35. The concept of opportunity cost is closely related to:

- A) Production analysis
- B) Resource allocation
- C) Price determination
- D) Inventory management

36. Macroeconomic factors that influence Business Economics include all except:

- A) Interest rates
- B) Consumer preferences
- C) Inflation
- D) Unemployment

37. Business Economics is interdisciplinary because it incorporates tools from which of the following?

- A) Mathematics and Sociology
- B) Physics and Chemistry
- C) Mathematics, Statistics, and Econometrics
- D) Literature and Arts

38. What type of science is Business Economics considered?

- A) Positive science only
- B) Normative science only
- C) A blend of both positive and normative sciences
- D) Neither positive nor normative

39. Which of the following areas in Business Economics deals with finding the optimal level of production?

- A) Inventory management
- B) Demand forecasting
- C) Production and cost analysis
- D) Risk analysis

40. Which of the following is a key external or macroeconomic issue that affects businesses?

- A) Production methods
- B) Employment levels
- C) Pricing policies
- D) Product promotion strategies

41. What is the central economic problem faced by all economies?

- A) Unlimited resources
- B) Scarcity of resources
- C) No consumer demand
- D) Full employment of resources

42. Which of the following is NOT one of the basic economic problems?

- A) What to produce?
- B) How to produce?
- C) When to produce?
- D) For whom to produce?

43. What determines how much of each good is produced in an economy?

- A) Resource availability
- B) Consumer demand
- C) Government regulations
- D) Climate

44. If resources are used only for current consumption, what is the likely long-term effect on the economy?

- A) Economic growth
- B) Decline in future production capacity
- C) Increased standards of living
- D) Unlimited supply of resources

45. In a capitalist economy, who owns the means of production?

- A) Government
- B) Private individuals
- C) Workers' unions
- D) Local communities

46. What is "consumer sovereignty" in a capitalist economy?

- A) Consumers control the production of goods
- B) Producers determine what consumers will buy
- C) Consumers decide which goods are produced based on their preferences
- D) Governments dictate consumer behavior

47. Which of the following is a characteristic of a purely capitalist economy?

- A) Central government planning
- B) Competition
- C) Absence of private property
- D) Government subsidies

48. What mechanism solves the central problems of a capitalist economy?

- A) Government intervention
- B) Price mechanism
- C) Central planning
- D) International trade agreements

49. Which factor primarily decides "how to produce" in a capitalist economy?

- A) The cost of production
- B) Government guidelines
- C) International trade policies
- D) Environmental regulations

50. **Why is it important for an economy to make provisions for future production?**
- A) To maximize current consumption
 - B) To increase current resource use
 - C) To maintain and improve future standards of living
 - D) To reduce savings
51. **Which of the following is considered an investment in economic terms?**
- A) Spending on luxury goods
 - B) Saving money in a bank
 - C) Building new factories
 - D) Paying taxes
52. **What is one key advantage of capitalism?**
- A) Centralized control of resources
 - B) Maximum economic freedom for individuals
 - C) Equal distribution of wealth
 - D) Strong government intervention
53. **Capitalism is said to result in which of the following?**
- A) High economic efficiency
 - B) Complete equality
 - C) Unlimited government control
 - D) Full employment for everyone
54. **How does competition benefit consumers in a capitalist economy?**
- A) By driving prices up
 - B) By encouraging the production of high-quality goods at reasonable prices
 - C) By reducing innovation
 - D) By reducing consumer choice
55. **What encourages innovation and technological progress in a capitalist system?**
- A) Government regulation
 - B) Profit motive
 - C) Income equality
 - D) Central planning
56. **Which is a major criticism of capitalism?**
- A) It ensures equal wealth distribution
 - B) It promotes economic inequality
 - C) It completely eradicates poverty
 - D) It avoids environmental degradation
57. **Under capitalism, which class conflict tends to arise?**
- A) Industrialists vs. Government
 - B) 'Haves' vs. 'Have-nots'
 - C) Workers vs. Consumers
 - D) Producers vs. Environmentalists
58. **Which of the following is a result of unplanned production in a capitalist system?**
- A) Equal distribution of resources
 - B) Economic instability
 - C) Full employment
 - D) Elimination of competition
59. **What is one environmental consequence of capitalism?**
- A) Sustainable production practices
 - B) Excessive materialism and degradation
 - C) Government-enforced conservation
 - D) Preservation of natural resources

60. In a mixed economy, who owns the means of production?
- A) Only private individuals
 - B) Only the government
 - C) Both private individuals and the government
 - D) Foreign corporations
61. Which system combines the features of both capitalism and socialism?
- A) Laissez-faire economy
 - B) Mixed economy
 - C) Traditional economy
 - D) Command economy
62. What is a labour-intensive production technique?
- A) Using more machines than labor
 - B) Using a lot of labor relative to capital
 - C) Using automated systems for production
 - D) Reducing employment in production
63. If a country has an abundance of cheap labor, which production technique is it more likely to use?
- A) Capital-intensive
 - B) Labour-intensive
 - C) Automated-intensive
 - D) None of the above
64. What role does the profit motive play in a capitalist economy?
- A) It discourages production
 - B) It incentivizes producers to meet consumer demands
 - C) It reduces competition among businesses
 - D) It limits innovation
65. How does the profit motive encourage efficient use of resources?
- A) By allocating resources to the most profitable industries
 - B) By lowering wages
 - C) By increasing the demand for luxury goods
 - D) By discouraging competition
66. What does the price mechanism determine in a capitalist economy?
- A) Wages for workers
 - B) The distribution of resources
 - C) Government expenditure
 - D) Political decisions
67. In a capitalist economy, how are goods distributed among members of society?
- A) Based on their needs
 - B) Based on their wealth and income
 - C) Based on government regulations
 - D) Equally among all individuals
68. What determines the choice between labour-intensive and capital-intensive production?
- A) Availability and relative prices of labour and capital
 - B) Government policies
 - C) Consumer preferences
 - D) International competition
69. How does the rate of interest affect savings in a capitalist economy?
- A) Higher interest rates discourage savings
 - B) Higher interest rates encourage more savings
 - C) Interest rates do not affect savings
 - D) Low interest rates increase savings

70. What is the central economic problem faced by every economy?
- a) Overproduction
 - b) Scarcity of resources
 - c) Unlimited labor supply
 - d) Efficient allocation of resources
71. Which of the following is *not* one of the basic economic problems faced by a society?
- a) What to produce?
 - b) How to produce?
 - c) Where to produce?
 - d) For whom to produce?
72. In a society, decisions regarding 'how to produce' depend on:
- a) The available resources and their prices
 - b) Consumer preferences
 - c) Government regulations only
 - d) The population size
73. In the context of economic problems, what does 'for whom to produce' refer to?
- a) Allocating resources based on availability
 - b) Distribution of goods among different sections of society
 - c) Identifying production techniques
 - d) Determining which countries should be involved in trade
74. The economic problem of 'what provision to make for economic growth' deals
- a) Allocating all resources for current consumption
 - b) Balancing current consumption with saving and investment for future growth
 - c) Producing only luxury goods
 - d) Reducing taxation to encourage spending
75. In a capitalist economy, which of the following is a characteristic?
- a) Collective ownership of resources
 - b) Government planning of production
 - c) Profit motive
 - d) No private property
76. Which of the following is a key driving force in a capitalist economy?
- a) Social equality
 - b) Profit motive
 - c) Government subsidies
 - d) Central planning
77. In a capitalist economy, how are resources typically allocated?
- a) By a central planning authority
 - b) Based on market demand and supply
 - c) According to the needs of the government
 - d) Equally among all citizens
78. What is consumer sovereignty in a capitalist economy?
- a) The government decides which goods consumers should buy
 - b) Producers dictate what consumers must purchase
 - c) Consumers determine which goods will be produced through their choices
 - d) Workers have the right to choose their employer
79. Which of the following is a demerit of capitalism?
- a) Equal income distribution
 - b) Economic inequality and exploitation of labor
 - c) Centralized control over production
 - d) Fixed prices for all goods

80. What is a key feature of a socialist economy?
- a) Private ownership of production
 - b) Collective ownership of resources
 - c) Absence of government intervention
 - d) Market-driven prices
81. In a socialist economy, who makes major economic decisions such as what to produce?
- a) Private entrepreneurs
 - b) Central planning authority
 - c) Consumers
 - d) International organizations
82. Which of the following is *not* a feature of socialism?
- a) Economic planning
 - b) Private ownership of large industries
 - c) Absence of competition
 - d) Equal distribution of income
83. In a socialist economy, price mechanism plays what kind of role?
- a) Primary role
 - b) Secondary role
 - c) No role
 - d) Temporary role
84. Which country was a prominent example of a socialist economy?
- a) United States
 - b) Germany
 - c) USSR (1917-1990)
 - d) Japan
85. Which of the following is a demerit of socialism?
- a) Economic equality
 - b) Corruption and bureaucratic inefficiencies
 - c) Lack of social justice
 - d) High competition in markets
86. What is a mixed economy?
- a) An economy entirely controlled by the state
 - b) An economy that depends solely on the market mechanism
 - c) An economy that incorporates elements of both capitalism and socialism
 - d) An economy where only public sector businesses operate
87. Which of the following sectors exists in a mixed economy?
- a) Only private sector
 - b) Only public sector
 - c) Both private and public sectors
 - d) Only foreign sector
88. In a mixed economy, which sector is typically motivated by welfare rather than profit?
- a) Private sector
 - b) Public sector
 - c) Foreign sector
 - d) Informal sector
89. Which of the following is a merit of a mixed economy?
- a) Complete freedom from government intervention
 - b) Balance between economic freedom and state intervention
 - c) Absence of private property
 - d) Elimination of markets and competition

90. A common demerit of mixed economies is:
- a) Over-regulation by the state, leading to inefficiencies
 - b) Complete economic equality
 - c) Lack of technological progress
 - d) Elimination of private enterprises
91. Which of the following economies is characterized by government ownership of all resources?
- a) Capitalist economy
 - b) Socialist economy
 - c) Mixed economy
 - d) Free-market economy
92. Under which system do individuals have the freedom to choose their occupation?
- a) Socialism
 - b) Capitalism
 - c) Command economy
 - d) Centralized economy
93. Which of the following economies strives for equal income distribution?
- a) Capitalist economy
 - b) Socialist economy
 - c) Mixed economy
 - d) Free-market economy
94. In a mixed economy, who plays a key role in regulating private sector activities?
- a) Consumers
 - b) Central banks
 - c) Government
 - d) Private corporations
95. A system where both public and private sectors operate but the government has control over certain industries is called:
- a) Capitalist economy
 - b) Socialist economy
 - c) Mixed economy
 - d) Command economy
96. Which type of economy tends to foster innovation and technological progress due to competition?
- a) Capitalist economy
 - b) Socialist economy
 - c) Mixed economy
 - d) Command economy
97. What is the primary goal of production in a socialist economy?
- a) Maximizing profits
 - b) Maximizing social welfare
 - c) Increasing competition
 - d) Encouraging private ownership
98. Which economy might see less of merit goods like healthcare and education being produced due to lower profitability?
- a) Socialist economy
 - b) Capitalist economy
 - c) Mixed economy
 - d) Command economy
99. Which feature of a capitalist economy could lead to economic inequalities?
- a) Central planning
 - b) Profit motive and private ownership
 - c) Collective ownership of resources
 - d) Public sector employment
100. Which of the following is the main driving force in a capitalist economy?
- A) Social welfare
 - B) Profit motive
 - C) Government intervention
 - D) Environmental conservation

Economics

Economics
Science &
Art

Micro

Macro

Individuals

Whole

Economic problems

- what
- how
- with whom
- what provision

Types of economic system

- capitalist
- socialist
- Mixed

→ further of class - Adam Smith

& Greenwood " economics "

Chapter - 2
THEORY OF DEMAND

1. What is demand in economics?

- a) The quantity of goods people desire to purchase
- b) The quantity of goods buyers are willing and able to purchase
- c) The quantity of goods sellers want to sell
- d) The supply of goods available in the market

2. Which of the following is NOT a necessary condition for effective demand?

- a) Desire
- b) Means to purchase
- c) Willingness to use means
- d) Availability of credit

3. Demand for a commodity is always expressed:

- a) At a given price
- b) Over a period of time
- c) Both a and b
- d) None of the above

4. The demand for complementary goods has what type of relationship?

- a) Direct relationship
- b) Inverse relationship
- c) No relationship
- d) None of the above

5. If the price of coffee rises, what happens to the demand for tea (a substitute)?

- a) Increases
- b) Decreases
- c) Stays the same
- d) Eliminates

6. When disposable income increases, the demand for normal goods:

- a) Increases
- b) Decreases
- c) Remains the same
- d) None of the above

7. What are inferior goods?

- a) Goods demanded less when income increases
- b) Goods demanded more when income increases
- c) Luxurious goods
- d) Goods of lower quality

8. Which of the following goods are considered complementary?

- a) Tea and coffee
- b) Computers and software
- c) Ball pen and ink pen
- d) TV and refrigerator

9. The bandwagon effect increases demand because:

- a) People want to differentiate themselves
- b) People desire to emulate others
- c) Goods become obsolete
- d) Prices of the goods increase

10. Which term refers to the desire to dissociate from common consumption?

- a) Bandwagon effect
- b) Demonstration effect
- c) Veblen effect
- d) Snob effect

11. Which of the following refers to conspicuous consumption of highly priced goods?

- a) Snob effect
- b) Bandwagon effect
- c) Veblen effect
- d) Demonstration effect

12. Consumers' expectations about future prices can cause:

- a) Higher demand if prices are expected to rise
- b) Lower demand if prices are expected to rise
- c) No change in demand
- d) A decrease in demand for necessities

13. A change in tastes and preferences over time affects:

- a) Only the price of a product
- b) The demand for a product
- c) The supply of a product
- d) The cost of production

14. The demand for a good depends on:

- a) Population size
- b) Price of the good
- c) Income of the consumers
- d) All of the above

15. Which of the following factors does NOT directly affect demand?

- a) Weather conditions
- b) National income
- c) Number of suppliers
- d) Tastes and preferences

16. If the government increases taxes on luxury goods, demand for such goods will:

- a) Increase
- b) Fluctuate randomly
- c) Remain the same
- d) Decrease

17. Which term refers to the inverse relationship between price and quantity demanded?

- a) Law of Supply
- b) Law of Demand
- c) Elasticity of Demand
- d) Equilibrium

18. The demand curve is generally:

- a) Upward sloping
- b) Vertical
- c) Horizontal
- d) Downward sloping

19. What does the demand schedule show?

- a) Supply at different prices
- b) Quantities demanded at different prices
- c) Quantity supplied at various costs
- d) Income levels and demand

20. If the price of a good falls, the quantity demanded:

- a) Decreases
- b) Increases
- c) Stays the same
- d) Becomes uncertain

21. What does a demand function express?

- a) Relationship between demand and price

- b) Relationship between demand and supply
 - c) Relationship between price and income
 - d) Relationship between supply and costs
- 22. In the demand function, $Q_x = f(P_X, Y, P_r)$, what does Y represent?**
- a) Price of the commodity
 - b) Income of the consumer
 - c) Quantity demanded
 - d) Price of related goods
- 23. The concept of 'ceteris paribus' means:**
- a) Prices remain the same
 - b) Quantity demanded is variable
 - c) All other factors remain constant
 - d) There are no changes in demand
- 24. A non-linear demand curve indicates:**
- a) A constant slope
 - b) A varying slope
 - c) No relationship between price and quantity
 - d) Both supply and demand are constant
- 25. Which effect refers to a product's demand increasing because others are buying it?**
- a) Snob effect
 - b) Veblen effect
 - c) Bandwagon effect
 - d) Demonstration effect
- 26. If the price of a complementary good increases, the demand for the related good:**
- a) Increases
 - b) Decreases
 - c) Stays the same
 - d) Becomes zero
- 27. Which of the following goods is an example of an inferior good?**
- a) Luxury cars
 - b) Generic grocery brands
 - c) Designer clothing
 - d) Branded electronics
- 28. The law of demand holds when:**
- a) Prices and income change together
 - b) Supply decreases significantly
 - c) Consumers' tastes constantly change
 - d) Only the price changes, and other factors remain constant
- 29. What does the slope of the demand curve represent?**
- a) The change in price over time
 - b) The relationship between price and quantity demanded
 - c) The cost of production
 - d) The total revenue of producers
- 30. If national income rises, the demand for normal goods typically:**
- a) Increases
 - b) Decreases
 - c) Stays constant
 - d) Disappears
- 31. What does the market demand schedule represent?**
- a) The quantity demanded by one buyer at different prices
 - b) The total quantity demanded by all buyers at different prices
 - c) The supply of a commodity at different prices
 - d) The price of a commodity per time period

32. All of the following are determinants of demand except:

- (a) Tastes and preferences.
- (b) Quantity supplied.
- (c) Income of the consumer
- (d) Price of related goods.

33. According to the market demand curve, when price increases:

- a) Quantity demanded increases
- b) Quantity demanded fluctuates
- c) Quantity demanded stays the same
- d) Quantity demanded decreases

34. How is the market demand curve obtained?

- a) By vertical summation of all individual demand curves
- b) By horizontal summation of all individual demand curves
- c) By multiplying individual demand curves
- d) By averaging all individual demand curves

35. The demand equation $Q = a - bP$ represents:

- a) Supply function
- b) Market demand
- c) Linear demand function
- d) Income effect

36. What does 'a' represent in the demand equation $Q = a - bP$?

- a) The slope of the demand curve
- b) The horizontal intercept
- c) The vertical intercept
- d) The price of the good

37. What is the income effect?

- a) When the price of a good falls, its demand decreases
- b) When the price of a good falls, consumers buy less of it
- c) When the price of a good falls, consumers' real income increases
- d) When the price of a good increases, the supply increases

38. Which effect causes consumers to substitute a cheaper good for more expensive ones?

- a) Income effect
- b) Substitution effect
- c) Price effect
- d) Utility effect

39. What does the substitution effect depend on?

- a) The real income of the consumer
- b) The availability of complementary goods
- c) The closeness of substitutes
- d) The elasticity of supply

40. Which of the following causes a downward-sloping demand curve?

- a) Diminishing marginal utility
- b) Increasing marginal utility
- c) Rising prices of other goods
- d) Consumer's ignorance of market conditions

41. Which of the following is an exception to the law of demand?

a) **Conspicuous goods**

b) Normal goods

c) Substitute goods

d) Complementary goods

42. What effect is associated with conspicuous goods?

a) Giffen effect

b) Income effect

c) **Veblen effect**

d) Substitution effect

43. Which goods show increased demand when their prices rise, according to Robert Giffen?

a) Normal goods

b) Inferior goods

c) **Giffen goods**

d) Conspicuous goods

44. What kind of goods are Giffen goods?

a) Necessities

b) **Inferior goods**

c) Normal goods

d) Luxury goods

45. What happens to the demand for speculative goods when prices rise?

a) Demand decreases

b) **Demand increases**

c) Demand stays constant

d) Demand becomes perfectly elastic

46. What is 'expansion of demand'?

a) When price increases and demand decreases

b) When income decreases and demand increases

c) When income increases and demand decreases

d) **When price decreases and demand increases**

47. What does 'contraction of demand' signify?

a) Increase in demand when prices fall

b) **Decrease in demand when prices rise**

c) Increase in demand due to higher income

d) Decrease in demand due to lower income

48. When income increases, what happens to the demand curve for normal goods?

a) It shifts to the left

b) It becomes perfectly elastic

c) It stays constant

d) **It shifts to the right**

49. What happens to the demand for a good if the price of its substitute increases?

a) **Demand for the good increases**

b) Demand for the good decreases

c) Demand for the good stays constant

d) Demand for the good fluctuates

50. Which factor leads to a rightward shift in the demand curve?

a) Decrease in consumer income

b) Fall in the price of a substitute

c) **Increase in wealth**

d) Rise in the price of a complement

51. What causes a leftward shift in the demand curve?

a) **Fall in price expectations**

b) Rise in consumer income

- c) Increased number of buyers
- d) Government subsidies

52. Movements along the demand curve occur due to:

- a) **Changes in price**
- b) Changes in income
- c) Changes in consumer preferences
- d) Changes in expectations

53. A rightward shift in the demand curve signifies:

- a) **Increase in demand**
- b) Decrease in demand
- c) Contraction of demand
- d) Expansion of demand

54. A leftward shift in the demand curve signifies:

- a) Increase in demand
- b) **Decrease in demand**
- c) Contraction of demand
- d) Expansion of demand

55. What results from a change in non-price factors like income or tastes?

- a) Movement along the demand curve
- b) **Shift in the demand curve**
- c) Contraction of demand
- d) Expansion of demand

56. If price changes but other factors remain constant, what happens?

- a) Shift of the demand curve
- b) Decrease in demand
- c) Increase in demand
- d) **Expansion or contraction of demand**

57. What does advertising aim to achieve concerning demand?

- a) Increase elasticity of demand
- b) Decrease revenue
- c) **Shift the demand curve to the right**
- d) Shift the supply curve

58. Which goods tend to have inelastic demand despite rising prices?

- a) Normal goods
- b) **Conspicuous necessities**
- c) Inferior goods
- d) Complementary goods

59. Which effect is stronger for close substitutes?

- a) Income effect
- b) Utility maximization
- c) Price effect
- d) **Substitution effect**

60. What happens to the demand curve if the number of buyers increases?

- a) It shifts leftward
- b) **It shifts rightward**
- c) It moves upwards
- d) It remains constant

ELASTICITY OF DEMAND

1. What does the term "elasticity of demand" measure?

- A. The direction of change in demand
- B. The responsiveness of demand to changes in its determinants
- C. The amount of supply for a commodity
- D. The fixed quantity of demand

2. Price elasticity of demand is defined as:

- A. Percentage change in income divided by percentage change in demand
- B. Percentage change in price divided by percentage change in quantity demanded
- C. Percentage change in quantity demanded divided by percentage change in price
- D. Percentage change in quantity demanded divided by percentage change in income

3. If the price elasticity of demand for a product is greater than 1, the demand is:

- A. Perfectly inelastic
- B. Elastic
- C. Inelastic
- D. Unit elastic

4. In case of perfectly inelastic demand, the price elasticity coefficient is:

- A. 1
- B. 0
- C. Infinity
- D. -1

5. When a 5% price decrease results in a 10% increase in quantity demanded, the demand is:

- A. Inelastic
- B. Unit elastic
- C. Elastic
- D. Perfectly inelastic

6. Which of the following is NOT a determinant of price elasticity of demand?

- A. Availability of substitutes
- B. Price of the good itself
- C. Consumer preferences
- D. Number of sellers in the market

7. In which of the following situations is the demand likely to be elastic?

- A. For essential goods like salt
- B. For luxury goods like smartphones
- C. For staple foods like wheat
- D. For goods with no close substitutes

8. If the demand curve is perfectly vertical, the elasticity of demand is:

- A. Elastic
- B. Inelastic
- C. Perfectly elastic
- D. Perfectly inelastic

9. If the price of a commodity increases by 10% and the quantity demanded decreases by 5%, the price elasticity of demand is:

$$5/10 = .5$$

A. 0.5

B. 2

C. 1

D. 0

10. In which situation will a firm likely lower prices to increase total revenue?

A. When demand is unit elastic

B. When demand is perfectly inelastic

C. When demand is elastic

D. When demand is inelastic

11. When the price of a product decreases from ₹6 to ₹4 and the quantity demanded increases from 10 to 15 units, the price elasticity of demand is:

A. 2.0

B. 1.5

C. 0.75

D. 3.0

$$8/2 \times 6/10 = .5$$

12. A 10% rise in price leads to a 10% fall in quantity demanded. The price elasticity of demand is:

A. 1 (Unit elastic)

B. 0.5

C. 2

D. 0

13. Which of the following goods is likely to have an inelastic demand?

A. Luxury watches

B. Smartphones

C. Medicine for a rare disease

D. Airline tickets

14. The arc elasticity method calculates elasticity:

A. At a specific point on the demand curve

B. Over a range of prices on the demand curve

C. Using the total revenue test

D. By averaging the price and quantity

15. If the price of headphones falls from ₹500 to ₹400 and the quantity demanded increases from 100 to 150, the price elasticity of demand is:

A. 1.8

B. 0.5

C. 2.5

D. 1.2

$$50/100 \times 500/100 = 2.5$$

16. If demand is perfectly elastic, the demand curve is:

A. Vertical

B. Upward sloping

C. Downward sloping

D. Horizontal

17. The formula for point elasticity of demand involves the use of:

A. Total revenue

B. Finite price changes

C. Derivatives

D. The midpoint formula

18. If a 5% price decrease leads to a 15% rise in demand, the price elasticity is:

- A. 0.5
- B. 3.0**
- C. 1.5
- D. 2.0

19. The midpoint formula is used in calculating:

- A. Point elasticity
- B. Arc elasticity**
- C. Cross elasticity
- D. Income elasticity

20. If the price of salt decreases and there is no noticeable increase in quantity demanded, the elasticity of salt is likely to be:

- A. Elastic
- B. Perfectly elastic
- C. Unit elastic
- D. Inelastic**

21. If the price of a good decreases by 20% and the quantity demanded rises by 30%, the price elasticity of demand is:

- A. 0.67
- B. 1.5**
- C. 2.5
- D. 3.0

22. Which of the following goods is more likely to have a perfectly elastic demand?

- A. Branded products
- B. Generic commodities in a highly competitive market**
- C. Basic food staples
- D. Luxury cars

23. Which of the following is likely to have the most elastic demand?

- A. Luxury cars**
- B. Salt
- C. Insulin
- D. Electricity

24. For a good with unitary elasticity, when price increases, total revenue:

- A. Increases
- B. Decreases
- C. Remains the same**
- D. First increases, then decreases

25. Cross elasticity of demand measures the responsiveness of demand for a good to changes in:

- A. Its own price
- B. The price of a related good**
- C. Consumer income
- D. Advertising expenditure

26. If a product has a price elasticity of 0.5, it means:

- A. The product is elastic
- B. The product is inelastic**

- C. The product is unit elastic
- D. The product is perfectly elastic

27. In the case of elastic demand, a fall in price will:

- A. Increase total revenue
- B. Decrease total revenue
- C. Leave total revenue unchanged
- D. First increase, then decrease total revenue

28. What is the price elasticity of demand if a 25% fall in price leads to a 20% increase in quantity demanded?

- A. 0.8
- B. 1.2
- C. 2.0
- D. 0.5

$$20/25 = .8$$

29. When demand is perfectly inelastic, the demand curve is:

- A. Upward sloping
- B. A rectangular hyperbola
- C. A straight vertical line
- D. A straight horizontal line

30. Which type of good is most likely to have a price elasticity greater than 1?

- A. Necessities
- B. Goods with few substitutes
- C. Luxury goods
- D. Public services

31. What does price elasticity of demand measure?

- a) The responsiveness of quantity demanded to changes in price
- b) The responsiveness of price to changes in quantity demanded
- c) The responsiveness of income to changes in demand
- d) The responsiveness of demand to changes in supply

32. If the total expenditure on a good remains unchanged when the price changes, what is the elasticity of demand?

- a) Greater than 1
- b) Less than 1
- c) Equal to 1
- d) Zero

33. Which of the following indicates elastic demand?

- a) A price increase raises total revenue
- b) A price decrease raises total revenue
- c) A price increase leaves total revenue unchanged
- d) A price increase reduces quantity demanded proportionally less than the price increase

34. If a 10% increase in price results in a 5% decrease in quantity demanded, what is the price elasticity?

- a) 0.5
- b) 1.5
- c) 2.0
- d) 1.0

35. For inelastic demand, how does an increase in price affect total revenue?

- a) Total revenue decreases
- b) Total revenue remains the same

c) Total revenue increases

d) Total revenue first increases, then decreases

36. Which of the following is a determinant of price elasticity of demand?

a) Price effect

b) Availability of substitutes

c) Quantity effect

d) Demand effect

37. Which type of good tends to have inelastic demand?

a) Luxury goods

b) Goods with many substitutes

c) Necessities

d) Goods with high-income elasticity

38. When the price elasticity of demand is greater than 1, how is the demand described?

a) Inelastic

b) Elastic

c) Unit elastic

d) Perfectly inelastic

39. How is total revenue calculated?

a) Price \times Quantity supplied

b) Price \times Quantity demanded

c) Price \times Income

d) Quantity demanded \times Income

40. In the case of unitary elastic demand, how does an increase in price affect total revenue?

a) Total revenue decreases

b) Total revenue fluctuates

c) Total revenue increases

d) Total revenue remains the same

41. What happens to the demand for an inferior good when consumer incomes rise?

a) Demand increases

b) Price increases

c) Demand remains unchanged

d) Demand decreases

42. If a 15% increase in income leads to a 30% increase in demand for a luxury good, what is the income elasticity of demand?

a) 0.5

b) 1

c) 2

d) 3

43. A good with an income elasticity of demand less than 1 is considered to be:

a) A luxury

b) A necessity

c) An inferior good

d) Perfectly elastic

44. If the price of wheat decreases from 20/kg to 18/kg and the total revenue decreases, what is the elasticity of demand for wheat?

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

45. Which of the following will cause demand to be more elastic?

- a) Few available substitutes
- b) The good is a necessity
- c) A large proportion of consumer income is spent on the good
- d) A small proportion of income is spent on the good

46. What is the formula for income elasticity of demand?

- a) $(\Delta Q/Q) \div (\Delta P/P)$
- b) $(\Delta Q/Q) \div (\Delta Y/Y)$
- c) $(\Delta P/P) \div (\Delta Y/Y)$
- d) $(\Delta P/Q) \div (\Delta Y/Q)$

47. If a 10% increase in price leads to a 10% decrease in quantity demanded, what is the elasticity?

- a) 1
- b) Greater than 1
- c) Less than 1
- d) Zero

48. The demand for a good with several substitutes is generally:

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

49. How does a longer time period affect the elasticity of demand for a good?

- a) It becomes more elastic
- b) It becomes less elastic
- c) It remains the same
- d) It becomes perfectly inelastic

50. What type of good has an income elasticity of demand greater than 1?

- a) Normal good
- b) Inferior good
- c) Luxury good
- d) Necessity

51. What is cross-price elasticity of demand?

- a) The responsiveness of demand to changes in the price of the same good
- b) The responsiveness of demand to changes in the price of a related good
- c) The responsiveness of supply to changes in the price of a related good
- d) The responsiveness of supply to changes in demand

52. If the cross-price elasticity of two goods is positive, these goods are:

- a) Complements
- b) Inferior goods
- c) Unrelated
- d) Substitutes

53. If the price of tea increases and the demand for sugar decreases, the goods are:

- a) Substitutes
- b) Complements
- c) Unrelated
- d) Luxury goods

54. The formula for calculating cross-price elasticity of demand is:

- a) Percentage change in price of good X ÷ Percentage change in quantity demanded of good Y
- b) Percentage change in quantity demanded of good X ÷ Percentage change in price of good Y
- c) Percentage change in demand of good X ÷ Percentage change in demand of good Y
- d) None of the above

55. Cross-price elasticity of demand for two goods is -1.2. This indicates:

- a) The goods are strong substitutes
- b) The goods are weak substitutes
- c) The goods are complements
- d) The goods are unrelated

56. In the case of perfect substitutes, the cross-price elasticity of demand is:

- a) Zero
- b) Positive and less than 1
- c) Infinite
- d) Negative

57. Two goods have a cross-price elasticity of +2. What does this indicate?

- a) They are complements with weak complementarity
- b) They are close substitutes
- c) They are unrelated goods
- d) They are inferior goods

58. Which of the following is an example of complementary goods?

- a) Tea and coffee
- b) Bread and butter
- c) Pen and pencil
- d) Coke and Pepsi

59. If the cross-price elasticity between two goods is zero, the goods are:

- a) Complements
- b) Substitutes
- c) Unrelated
- d) Inferior

60. When the cross-price elasticity between two goods is negative, a rise in the price of one good will:

- a) Increase demand for the other
- b) Decrease demand for the other
- c) Not affect demand for the other
- d) Increase supply for the other

61. What does a cross-price elasticity of +1.5 for two goods indicate?

- a) The goods are substitutes
- b) The goods are unrelated
- c) The goods are complements
- d) The goods are inferior goods

62. If a 10% increase in the price of good A leads to a 15% increase in the quantity demanded of good B, what is the cross-price elasticity?

- a) +1.5
- b) -1.5
- c) 0.67
- d) -0.67

63. Which of the following will have a positive cross-price elasticity?

- a) Cars and gasoline
- b) Tea and sugar
- c) Butter and margarine
- d) Computers and software

64. Cross-price elasticity of demand is most likely negative for:

- a) Two substitute goods
- b) Two complementary goods
- c) Two unrelated goods
- d) Two inferior goods

65. If the price of a substitute increases, what will happen to the demand for the original product?

- a) Increase
- b) Decrease
- c) Stay the same
- d) Uncertain

66. The formula for advertisement elasticity of demand is:

- a) Percentage change in quantity demanded ÷ Percentage change in advertisement spending
- b) Percentage change in price ÷ Percentage change in advertisement spending
- c) Percentage change in advertisement spending ÷ Percentage change in quantity demanded
- d) None of the above

67. If advertising elasticity is 1.2, what does this indicate?

- a) Demand increases less than proportionally to advertising expenditure
- b) Demand increases more than proportionally to advertising expenditure
- c) Demand increases proportionally to advertising expenditure
- d) Demand does not respond to advertising expenditure

68. What does it mean if the advertisement elasticity of demand is zero?

- a) Demand does not respond to changes in advertising
- b) Demand increases at the same rate as advertising
- c) Demand decreases when advertising increases
- d) Advertising is highly effective

69. A cross-price elasticity of demand of +0.8 between two goods indicates:

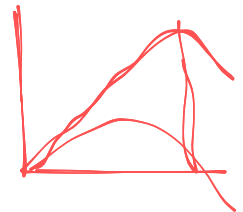
- a) They are weak substitutes
- b) They are strong complements
- c) They are unrelated goods
- d) They are luxury goods

70. If a firm's advertising elasticity is 0.5, how should it interpret this?

- a) Advertising is highly effective in increasing demand
- b) Advertising has no effect on demand
- c) Advertising increases demand, but less than proportionally
- d) Advertising decreases demand

Theory of Consumer Behaviour

1. **What does the term "want" refer to in economics?**
 - a) A legal obligation to purchase goods
 - b) A wish, desire, or motive to own or use goods and services that give satisfaction
 - c) An investment in capital goods
 - d) A guarantee of financial stability
2. **Which of the following is NOT a characteristic of human wants?**
 - a) Wants are limited in number
 - b) Wants vary with time and place
 - c) Wants differ in intensity
 - d) Wants are competitive
3. **In economics, what is meant by "utility"?**
 - a) A measure of moral values
 - b) Satisfaction derived from the consumption of goods
 - c) The financial cost of a commodity
 - d) The durability of a good
4. **What happens when total utility (TU) reaches its maximum?**
 - a) Marginal utility is at its peak
 - b) Marginal utility becomes negative
 - c) Marginal utility equals zero
 - d) Total utility decreases
5. **What does the law of diminishing marginal utility state?**
 - a) Utility increases as more units are consumed
 - b) Total utility decreases with each additional unit consumed
 - c) Marginal utility decreases as more units of a good are consumed
 - d) Marginal utility remains constant as consumption increases
6. **Which of the following is classified as a "necessity"?**
 - a) Vintage cars
 - b) Education
 - c) Expensive clothing
 - d) Luxury furniture
7. **What is "consumer surplus"?**
 - a) The excess of the price over the marginal cost
 - b) The difference between what a consumer is willing to pay and what they actually pay
 - c) The total utility derived from consuming a good
 - d) The difference between total cost and total revenue
8. **How is "marginal utility" defined?**
 - a) The sum of all utilities derived from the consumption of all units
 - b) The utility derived from the consumption of an additional unit
 - c) The average utility per unit consumed



- d) The utility derived from the first unit consumed
9. **Which of the following causes consumer surplus to decrease?**
- a) A fall in the price of a good
 - b) An increase in consumer income
 - c) **An increase in the price of a good**
 - d) A shift in consumer preferences toward the good
10. **What happens to marginal utility when the consumption of a good reaches the point of saturation?**
- a) It increases
 - b) **It becomes zero**
 - c) It stays constant
 - d) It becomes infinite
11. **What does "ordinal utility" mean?**
- a) Utility can be measured in exact numbers
 - b) **Utility is ranked or ordered in terms of preference**
 - c) Utility is associated with income levels
 - d) Utility is calculated based on total consumption
12. **Which type of want is associated with making life comfortable?**
- a) Necessaries
 - b) **Comforts**
 - c) Luxuries
 - d) Essentials
13. **When does a consumer reach equilibrium in terms of utility?**
- a) When marginal utility is greater than the price
 - b) When total utility equals the price
 - c) **When marginal utility equals the price**
 - d) When marginal utility becomes negative
14. **If the price of a good falls, what happens to consumer surplus?**
- a) It decreases
 - b) **It increases**
 - c) It remains unchanged
 - d) It becomes zero
15. **What is the main limitation of measuring consumer surplus?**
- a) It can only be applied to luxury goods
 - b) **It does not account for changes in the marginal utility of money**
 - c) It is only useful for calculating total utility
 - d) It assumes that all consumers have identical preferences
16. **Which of the following is NOT an assumption of the indifference curve approach?**
- a) **Utility can be measured in monetary terms**
 - b) Consumer choices are consistent
 - c) Consumers have complete information

- d) More of a commodity is preferred to less
17. **What does an indifference curve represent?**
- The level of consumer income
 - Combinations of two goods that provide equal satisfaction
 - The price ratio of two goods
 - The marginal utility derived from a single good
18. **What is meant by "transitive" preferences in the context of consumer behavior?**
- Preferences remain unchanged over time
 - If A is preferred over B and B over C, then A is preferred over C
 - Preferences are based solely on income levels
 - More units of a good are always preferred
19. **Which of the following illustrates the law of diminishing marginal utility?**
- The more tea a person drinks, the less additional satisfaction they get from each cup
 - The more a person works, the higher their wages
 - The more a person saves, the more interest they earn
 - The more a person spends, the higher their total expenditure
20. **What does a downward-sloping marginal utility curve indicate?**
- Utility is constant
 - Utility increases as consumption increases
 - Marginal utility decreases as more units are consumed
 - Total utility decreases as consumption increases
21. • **What does an indifference curve represent?**
- A single level of satisfaction from different goods
 - Different levels of satisfaction from different goods
 - The cost of goods
 - The utility function of a consumer
22. • **The concept of the indifference curve was developed by which economists?**
- Adam Smith and Karl Marx
 - Hicks and Allen
 - John Keynes and Alfred Marshall
 - Paul Samuelson and Milton Friedman
23. • **Why are indifference curves downward sloping?**
- Because of the law of diminishing marginal utility
 - To show that both goods provide the same utility
 - Because increasing one good requires reducing the other to maintain the same satisfaction level
 - To represent a budget constraint
24. • **What does a higher indifference curve signify?**
- Lower satisfaction level
 - Same level of satisfaction as a lower curve
 - Higher satisfaction level

- d. None of the above
25. • **Indifference curves are typically convex to the origin because of:**
- Constant marginal utility
 - Increasing marginal rate of substitution
 - Diminishing marginal rate of substitution
 - Perfect complementarity of goods
26. • **What happens to the marginal rate of substitution as we move down an indifference curve?**
- It increases
 - It remains constant
 - It decreases
 - It fluctuates
27. • **If two goods are perfect substitutes, the indifference curve will be:**
- Convex to the origin
 - Concave to the origin
 - A straight line with a constant slope
 - L-shaped
28. • **For perfect complementary goods, the shape of the indifference curve is:**
- Convex
 - Concave
 - Straight line
 - L-shaped
29. • **Why can't indifference curves intersect?**
- Because it would imply inconsistent preferences
 - Because higher indifference curves always provide more satisfaction
 - Both a and b
 - None of the above
30. • **The marginal rate of substitution is defined as the:**
- Ratio of total utility to marginal utility
 - Rate at which a consumer is willing to substitute one good for another while maintaining the same level of satisfaction
 - Utility gained from consuming one more unit of a good
 - Cost ratio of two goods
31. • **The budget line represents:**
- Different combinations of goods that can be bought with a fixed income
 - The indifference curve of a consumer
 - The marginal utility of goods
 - The income level of a consumer
32. • **What determines the slope of a budget line?**
- The utility of goods
 - The prices of the two goods
 - The consumer's income

- d. The marginal rate of substitution
33. • **If the price of one good decreases, the budget line will:**
- a. Shift inward
 - b. Shift outward
 - c. Become steeper
 - d. Become flatter
34. • **At the point of consumer equilibrium, the:**
- a. Indifference curve is tangent to the budget line
 - b. Budget line intersects the origin
 - c. Marginal utility of one good equals the marginal utility of the other
 - d. Consumer reaches the highest point on the budget line
35. • **When MRS equals the price ratio of two goods, the consumer is:**
- a. Not maximizing utility
 - b. At a point of disequilibrium
 - c. In equilibrium
 - d. Unable to trade goods
36. • **Indifference curves that are farther from the origin represent:**
- a. Lower levels of satisfaction
 - b. Higher levels of satisfaction
 - c. Unattainable combinations of goods
 - d. Equal levels of satisfaction to closer curves
37. • **If income increases, the budget line will:**
- a. Shift outward
 - b. Shift inward
 - c. Remain unchanged
 - d. Rotate around one of the axes
38. • **Which property of indifference curves is NOT true?**
- a. They slope downward
 - b. They intersect each other
 - c. They are convex to the origin
 - d. They represent different levels of utility
39. • **When two goods are perfect substitutes, MRS is:**
- a. Constant
 - b. Increasing
 - c. Decreasing
 - d. Undefined
40. • **The indifference curve analysis avoids the assumption of:**
- a. Rational behavior
 - b. Measurability of utility
 - c. Budget constraints
 - d. Consumer preferences

41. • If the price of good X doubles, the slope of the budget line will:
- Double
 - Halve
 - Remain the same
 - Become steeper
42. • A point inside the budget line represents:
- An unattainable combination
 - Efficient allocation of income
 - Under-spending by the consumer
 - The equilibrium point
43. • If two goods are consumed in fixed proportions, their indifference curve will be:
- A straight line
 - Convex
 - L-shaped
 - Downward sloping but not convex
44. • The marginal rate of substitution can be defined as:
- The slope of the budget line
 - The slope of the indifference curve
 - The point where two indifference curves intersect
 - The ratio of the prices of two goods
45. • An increase in the price of one good will:
- Shift the budget line outward
 - Rotate the budget line inward
 - Shift the budget line inward
 - Leave the budget line unchanged

budget line
Slope = MRE

SUPPLY

1. What does the term 'supply' refer to in a market economy?

- A) The willingness of consumers to buy goods
- B) The amount of goods producers are willing and able to offer at different prices
- C) The total quantity of goods produced
- D) The demand for a particular good

2. Which of the following is true about supply?

- A) It refers to the quantity sold, not the quantity offered for sale
- B) It is not influenced by the price of factors of production
- C) It is unrelated to production costs
- D) It requires both willingness and ability to supply

3. What is the relationship between supply and time?

- A) Supply is always constant regardless of time
- B) Supply is identified for a specified time period
- C) Supply does not change with the time period
- D) Supply is only relevant in the short term

4. Which of the following does NOT affect the supply of a product?

- A) Price of the good
- B) Prices of related goods
- C) Consumer preferences
- D) State of technology

5. According to the law of supply, what happens when the price of a good increases?

- A) Quantity supplied decreases
- B) Quantity supplied remains the same
- C) Quantity supplied increases
- D) Supply curve shifts left

6. If the price of wheat rises, farmers may shift their land from producing corn to wheat. This is an example of:

- A) A change in the quantity supplied
- B) A shift in the supply curve
- C) A decrease in supply
- D) A shift in demand

7. Which of the following is an example of a determinant of supply?

- A) Consumer income
- B) Consumer preferences
- C) Population size
- D) Price of related goods

8. If the cost of labor increases, what happens to the supply of a product?

- A) The supply increases
- B) The supply decreases
- C) The supply remains constant
- D) The supply curve shifts to the left

9. How does technology influence supply?

- A) It makes production more costly
- B) It makes the cost of production higher

C) It reduces the ability to supply goods

D) It increases production efficiency

10. A rise in the price of inputs such as raw materials and wages generally leads to:

A) An increase in supply

B) A decrease in supply

C) An increase in demand

D) No change in supply

11. If the government imposes taxes on a product, how is supply affected?

A) Supply decreases

B) Supply increases

C) Supply remains unchanged

D) The supply curve shifts to the right

12. What is meant by an increase in supply?

A) The supply curve shifts to the left

B) More goods are offered for sale at each price

C) The price of the good increases

D) The quantity supplied decreases at all price levels

13. What would cause a decrease in supply?

A) An increase in the number of firms in the market

B) A reduction in the cost of raw materials

C) A new technology that reduces production costs

D) A rise in taxes imposed on the product

14. If producers expect the price of a good to fall in the future, what happens to supply?

A) Supply increases now

B) Supply decreases now

C) Supply remains unchanged

D) Supply becomes more elastic

15. The supply curve typically slopes:

A) Downwards from left to right

B) Vertically upwards

C) Horizontally

D) Upwards from left to right

16. Which of the following will NOT shift the supply curve?

A) A change in the price of the good

B) A change in input prices

C) A change in government regulations

D) A change in the number of producers

17. If the number of sellers in a market increases, what happens to supply?

A) Supply decreases

B) Supply increases

C) Supply stays the same

D) Supply becomes more elastic

18. What does a movement along the supply curve represent?

A) A change in the supply of the product

B) A change in the quantity supplied

C) A shift in the supply curve

D) A change in the demand for the product

19. An increase in supply is depicted by:

- A) A leftward shift of the supply curve
- B) A rightward shift of the supply curve
- C) A movement upwards along the supply curve
- D) A movement downwards along the supply curve

20. If the price of a product decreases, what happens to the quantity supplied?

- A) The quantity supplied increases
- B) The quantity supplied remains the same
- C) The quantity supplied decreases
- D) The supply curve shifts left

21. The supply curve is derived from:

- A) The total quantity demanded at various prices
- B) The total quantity supplied by all firms at different prices
- C) The demand curve
- D) The preferences of consumers

22. What happens when there is an increase in supply due to improved technology?

- A) The supply curve shifts to the left
- B) The supply curve becomes steeper
- C) The supply curve shifts to the right
- D) The supply curve becomes flatter

23. If a firm expects prices to increase in the future, what is likely to happen?

- A) The firm will supply more now
- B) The firm will supply less now
- C) The firm will reduce production
- D) The firm will stop producing the good

24. What does the law of supply state?

- A) Price and supply have an inverse relationship
- B) The quantity supplied increases when the price decreases
- C) The quantity supplied increases when the price increases
- D) Supply does not depend on the price

25. If there is an increase in the price of a substitute good, what is likely to happen to the supply of a good?

- A) The supply of the good will increase
- B) The supply of the good will decrease
- C) The supply of the good will remain unchanged
- D) The demand for the good will increase

26. What is meant by a change in supply?

- A) A movement along the supply curve due to a price change
- B) A shift in the supply curve caused by factors other than price
- C) A decrease in the price of the good
- D) An increase in the price of the good

27. Which of the following is a factor that could cause a decrease in supply?

- A) A decrease in wages
- B) An improvement in technology
- C) A decrease in government subsidies
- D) A decrease in input prices

28. If a firm reduces its output due to higher production costs, it is experiencing:

- A) An increase in supply
- B) A decrease in supply
- C) An increase in quantity supplied
- D) A decrease in quantity supplied

29. What does the supply curve represent?

- A) The relationship between quantity demanded and price
- B) The relationship between quantity supplied and price
- C) The total demand in the market
- D) The total supply in the market

30. Which of the following will cause a shift in the supply curve for a good?

- A) A change in the price of the good
- B) A change in consumer preferences
- C) A change in production costs
- D) A change in the quantity of the good demanded

31. What does the elasticity of supply measure?

- a) The responsiveness of quantity demanded to a change in price
- b) The responsiveness of quantity supplied to a change in price
- c) The change in price due to a change in demand
- d) None of the above

32. Which of the following is the formula for elasticity of supply?

- a) $E = (\text{Percentage change in price}) / (\text{Percentage change in quantity demanded})$
- b) $E = (\text{Quantity demanded}) / (\text{Price})$
- c) $E = (\text{Price}) / (\text{Quantity supplied})$
- d) $E = (\text{Percentage change in quantity supplied}) / (\text{Percentage change in price})$

33. If the price of a commodity increases from ₹2000 to ₹2100 and the quantity supplied increases from 2500 units to 3000 units, what is the elasticity of supply?

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

34. What type of elasticity of supply exists when quantity supplied remains unchanged regardless of price changes?

- a) Perfectly inelastic supply
- b) Relatively less-elastic supply
- c) Relatively greater-elastic supply
- d) Perfectly elastic supply

35. Which of the following describes a perfectly elastic supply?

- a) $E = 0$
- b) $E = 1$
- c) $E = \infty$
- d) $E = -1$

36. In which case is the elasticity of supply equal to one?

- a) Perfectly elastic supply
- b) Perfectly inelastic supply
- c) Unit-elastic supply
- d) Relatively less-elastic supply

37. When is supply considered to be elastic?

- a) When a small change in price results in a large change in quantity supplied
- b) When a large change in price results in a small change in quantity supplied
- c) When quantity supplied remains unchanged with price change
- d) None of the above

38. Which of the following is a determinant of elasticity of supply?

- a) The availability of spare production capacity
- b) The availability of substitutes
- c) The number of consumers in the market
- d) None of the above

39. Which supply curve represents a perfectly inelastic supply?

a) Vertical line

b) Horizontal line

c) Upward sloping curve

d) Downward sloping curve

40. What happens if price rises above the equilibrium price?

a) There is excess demand

b) There is excess supply

c) Quantity demanded equals quantity supplied

d) Both quantity demanded and quantity supplied decrease

41. What is the equilibrium price?

a) The price at which quantity demanded exceeds quantity supplied

b) The price at which quantity supplied exceeds quantity demanded

c) The price at which quantity demanded equals quantity supplied

d) The price at which producers earn maximum profit

42. At equilibrium, what is true about the market?

a) There is no tendency for price to change

b) The quantity demanded is less than the quantity supplied

c) Producers are unable to sell their goods

d) Consumers are unwilling to purchase goods

43. When the price is set above the equilibrium price, the result will be:

a) Surplus

b) Shortage

c) Equilibrium

d) No effect on supply and demand

44. If the price is below equilibrium, there will be:

a) Excess supply

b) No change in price

c) No change in quantity supplied

d) Excess demand

45. What is the concept of social efficiency in a market?

a) Total profit earned by firms in the market

b) Net gains to society from all exchanges

c) Government regulation to set prices

d) The balance between supply and demand

46. Consumer surplus is defined as:

a) The benefit to producers from selling a good

b) The total quantity demanded at the market price

c) The total cost of production

d) The difference b/w the price consumers are willing to pay and the price they actually pay

47. Producer surplus refers to:

a) The price consumers are willing to pay

b) The benefit producers receive from selling at a price above their cost of production

c) The cost of producing a good

d) The total amount of goods produced in the market

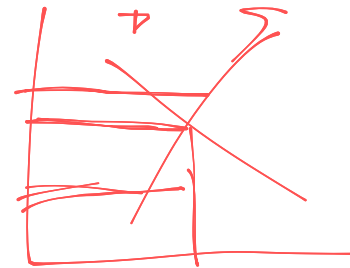
48. What does the arc elasticity formula measure?

a) Elasticity at a specific point on the supply curve

b) The average elasticity between two points on the supply curve

c) The rate of change in price

d) The change in quantity demanded



49. In the context of the supply curve, which of the following would make supply more elastic?

- a) High production costs
- b) No spare capacity for production
- c) Easily available raw materials
- d) Limited number of firms in the market

50. When price changes significantly affect supply, the supply is said to be:

- a) Perfectly inelastic
- b) Unit-elastic
- c) Perfectly elastic
- d) Relatively elastic

51. What does a perfectly elastic supply curve look like?

- a) Horizontal line
- b) Vertical line
- c) Upward sloping line
- d) Downward sloping line

52. Which of the following best describes a relatively inelastic supply curve?

- a) A large change in quantity supplied with a small change in price
- b) A small change in quantity supplied with a large change in price
- c) A vertical line where quantity supplied does not change with price
- d) A flat line with a zero slope

53. If both capital and labor are occupationally mobile, the elasticity of supply for a product is:

- a) High
- b) Low
- c) Zero
- d) Unitary

54. Which of the following is most likely to have an elastic supply?

- a) Aircrafts
- b) Vegetables
- c) Cruise ships
- d) Mining equipment

55. In the long run, firms have greater elasticity of supply because they can:

- a) Change their production methods
- b) Enter or exit the market
- c) Adjust to price changes by changing capacity
- d) All of the above

56. A good with a short production period is likely to have:

- a) Inelastic supply
- b) Elastic supply
- c) No supply
- d) Unitary elasticity

57. Which of the following statements is true about the equilibrium price?

- a) It is the price at which quantity demanded equals quantity supplied
- b) It is set by the government
- c) It leads to a shortage of goods
- d) It is the highest price in the market

58. When price is above equilibrium, firms will:

- a) Raise prices further
- b) Lower prices to clear excess supply

- c) Keep prices unchanged
- d) Increase production without changing prices

59. If the quantity supplied increases as a result of an increase in price, the supply curve is:

- a) Horizontal
- b) Vertical
- c) Upward sloping
- d) Downward sloping

60. Which factor contributes to a decrease in elasticity of supply?

- a) Increase in production capacity
- b) Shortage of resources
- c) High competition among firms
- d) Short time period for adjusting production

Chapter – 3
PRODUCTION

1. What is the primary concern of business managers in production?

- a) Maximizing revenue
- b) Achieving optimum efficiency in production
- c) Increasing the number of workers
- d) Reducing the number of competitors

2. In economics, what does the term 'production' refer to?

- a) Making only physical goods
- b) Buying goods for personal use
- c) Creation of matter
- d) Any activity that transforms inputs into outputs that satisfy human wants

3. Which of the following is NOT an example of production in economics?

- a) A factory producing cars
- b) A doctor providing medical services
- c) A person cooking a meal for their family
- d) A lawyer offering legal advice for a fee

4. What is the main goal of the production process in economics?

- a) To create new raw materials
- b) To satisfy human wants through goods and services
- c) To consume resources
- d) To reduce costs in production

5. Which of the following best describes the term 'utility' in economics?

- a) The creation of money
- b) The transformation of resources into products that satisfy human needs
- c) The use of services for entertainment
- d) The physical consumption of goods

6. What type of utility is created by changing the form of a natural resource?

- a) Utility of place
- b) Utility of time
- c) Utility of form
- d) Personal utility

7. Which of the following is an example of creating utility of place?

- a) Harvesting seasonal crops and storing them
- b) Turning raw materials into finished products
- c) Transporting apples from orchards to cities for sale
- d) Offering professional services to clients

8. The term 'land' in economics includes all of the following EXCEPT:

- a) Fertility of soil
- b) Natural vegetation
- c) The active efforts of workers
- d) Air, water, and sunlight

9. Which of the following characteristics of land makes it unique in economics?

- a) It is mobile
- b) It is a free gift of nature

- c) It is always created by human effort
- d) It can be easily reproduced

10. Which factor of production is described as 'perishable' and 'inseparable from the labourer'?

- a) Capital
- b) Land
- c) Entrepreneurship
- d) Labour

11. Which of the following is a characteristic of labour?

- a) Labour is a passive factor
- b) Labour can be stored
- c) Labour is inseparable from the labourer
- d) Labour is not affected by human effort

12. What is a key difference between 'labour' and 'land' in economics?

- a) Labour is not required in the production process
- b) Labour is perishable, while land is permanent
- c) Labour is a free gift of nature
- d) Land cannot be moved, while labour is mobile

13. Which factor of production is referred to as 'the human endeavor required to produce goods and services'?

- a) Land
- b) Labour
- c) Capital
- d) Entrepreneurial ability

14. What is an example of an intangible form of production?

- a) Manufacturing of shoes
- b) Providing legal advice
- c) Growing crops
- d) Building a house

15. Which of the following activities is considered 'not production' in economics?

- a) A lawyer offering legal advice
- b) A teacher providing lessons to students
- c) A carpenter making a chair
- d) A person cleaning their own house for free

16. According to the provided text, the 'cost of production' refers to:

- a) The total amount of profit a business generates
- b) The money expenses incurred in the process of transforming resources into finished products
- c) The wage paid to workers only
- d) The price of raw materials only

17. Which of the following is NOT a characteristic of land in economics?

- a) It is immobile
- b) It has multiple uses
- c) It is limited in supply
- d) It is created by human effort

18. Which of the following is an example of 'utility of time'?

- a) Transporting goods to a place where they are more needed
- b) Harvesting crops during a specific season for future use

- c) Transforming raw materials into finished goods
- d) Using skills to provide services

19. What does the term 'capital' refer to in the production process?

- a) The natural resources available for production
- b) The money invested by the government
- c) The financial and physical resources used in production, like machinery
- d) The ability to organize and manage the production process

20. The 'supply of labour' curve is typically backward bending because:

- a) Labourers prefer to work more as wages increase
- b) As wages increase beyond a certain point, workers prefer leisure over additional income
- c) Labour supply increases when the demand for goods rises
- d) Workers reduce their hours of work if wages are low

21. What is the main difference between capital and wealth?

- a) Capital refers to all goods and services useful in production, while wealth refers only to money.
- b) Capital is a stock concept used for production, whereas wealth includes all goods, whether used for production or not.
- c) Wealth is more productive than capital.
- d) Capital is a type of wealth used for future consumption.

22. Which of the following is an example of fixed capital?

- a) Raw materials
- b) Seeds
- c) Machines
- d) Fuel

23. What does human capital refer to?

- a) Money invested in an individual's development.
- b) The skills, knowledge, and abilities of a person that contribute to productivity.
- c) Tangible assets like buildings and equipment.
- d) Financial capital invested in education.

24. Which type of capital refers to rights and benefits that cannot be perceived by the senses?

- a) Tangible capital
- b) Fixed capital
- c) Real capital
- d) Intangible capital

25. What is the first stage of capital formation?

- a) Investment
- b) Mobilisation of savings
- c) Savings
- d) Government intervention

26. What is the main function of an entrepreneur?

- a) To organize resources and initiate production.
- b) To supervise workers and manage operations.
- c) To ensure fixed profits and prevent losses.
- d) To coordinate between managers and workers.

27. Which of the following is NOT a risk an entrepreneur faces?

- a) Financial risks
- b) Technological risks
- c) Marketing risks
- d) Insurable risks like fire and theft

28. According to Schumpeter, what is the primary function of an entrepreneur?

- a) To bear risks
- b) To manage the workforce
- c) To introduce innovations
- d) To coordinate the production process

29. What does the process of capital formation ultimately require?

- a) Reduction in savings and consumption
- b) Mobilisation of financial institutions
- c) Investment in consumer goods
- d) Investment in new capital goods like machines and tools

30. What determines an individual's ability to save?

- a) Government policy
- b) The income level of the individual
- c) The number of dependents in the household
- d) The amount of taxes paid

31. What is the primary objective of an enterprise according to traditional assumptions?

- a) Profit maximization
- b) Social responsibility
- c) Employee welfare
- d) Environmental protection

32. Which objective focuses on the basic minimum goal of survival in an enterprise?

- a) Economic objectives
- b) Organic objectives
- c) National objectives
- d) Social objectives

33. According to R.L. Marris, what do managers primarily aim to maximize in a corporate firm?

- a) Profit
- b) Balanced growth rate
- c) Market share
- d) Employee welfare

34. Which of the following is NOT a conflict that can arise from multiple objectives in an enterprise?

- a) Profit maximization vs. market share expansion
- b) Social responsibility vs. technological advancement
- c) Employee welfare vs. increasing sales
- d) Profit maximization vs. increasing sales revenue

35. The concept of economic profit differs from accounting profit by including:

- a) Opportunity costs
- b) Fixed costs
- c) Tax liabilities
- d) Revenue from sales

36. What is the economic profit considered by economists?

- a) The difference between total revenue and accounting costs
- b) The difference between total revenue and total costs, including implicit costs
- c) The difference between market price and production costs
- d) The net profit after tax

37. Which theory suggests that firms may not aim to maximize profits but instead maximize sales revenue?

- a) Baumol's theory of sales maximization
- b) Marris's theory of balanced growth
- c) Cyert and March's utility maximization theory
- d) Williamson's theory of managerial utility

38. According to Cyert and March, what is an additional functional goal for firms besides profit maximization?

- a) Market share goal
- b) Salary maximization goal
- c) Tax minimization goal
- d) Government compliance goal

39. What is the key human objective in an enterprise?

- a) Maximizing profit
- b) Ensuring a fair deal to employees
- c) Minimizing labor costs
- d) Maximizing market share

40. Which of the following is NOT a key social objective of an enterprise?

- a) Maintaining a sufficient supply of unadulterated goods
- b) Avoiding anti-social practices
- c) Maximizing shareholder dividends
- d) Preventing pollution

41. The term "national objectives" for an enterprise refers to:

- a) Maximizing profits for shareholders
- b) Contributing to national economic growth and self-reliance
- c) Reducing government regulations
- d) Focus on local market dominance

42. Which of the following constraints is related to the lack of accurate information in an enterprise?

- a) Financial constraints
- b) Knowledge and information constraints

- c) Legal constraints
- d) Technological constraints

43. What is a constraint imposed by trade unions in an enterprise?

- a) Lack of managerial expertise
- b) Environmental regulations
- c) Supply chain bottlenecks
- d)) Restrictions on labor mobility

44. Which of the following can be an external constraint on an enterprise's ability to maximize profits?

- a) Inflation
- b) Internal leadership conflicts
- c) Production costs
- d) Employee dissatisfaction

45. What is a key problem when deciding the size of an enterprise?

- a) Deciding on raw material suppliers
- b) Evaluating financial risk and return
- c) Selecting marketing strategies
- d) Predicting consumer demand

46. The decision regarding the physical facilities of an enterprise primarily includes:

- a) Location selection
- b) Deciding the managerial hierarchy
- c) Financial forecasting
- d) Setting company policies

47. What does financial planning for an enterprise NOT typically include?

- a) Estimating the required capital
- b) Determining product pricing strategies
- c) Comparing expected profits with existing firms
- d) Assessing the cost of products and services

48. Which of the following is NOT part of the marketing mix?

- a) Price
- b) Product
- c) Promotion
- d) Organizational structure

4PS = price, place, product, promotion

49. Legal formalities for an enterprise typically involve:

- a) Designing the company logo
- b) Submitting tax returns
- c) Developing marketing campaigns
- d) Selecting suppliers

50. Industrial relations in an enterprise refers to the management of:

- a) Marketing strategies
- b) Workers' cooperation and discipline
- c) Financial investments
- d) Product innovation

51. A conflict may arise between profit maximization and:

- a) Employee participation in decision-making
- b) Increasing automation
- c) Developing managerial skills
- d) Price control regulation

52. The main goal of an enterprise's social objectives is to:

- a) Maximize sales and profits
- b) Contribute to the well-being of society
- c) Increase shareholder value
- d) Secure market dominance

53. What is meant by 'supernormal profit'?

- a) Profit after all explicit and implicit costs are accounted for
- b) The minimum amount of profit required to stay in business
- c) Profit exceeding the normal profit
- d) Profit from a monopoly

54. The problem of deciding whether to locate a plant near raw materials or the market is related to:

- a) Financial planning
- b) Legal constraints
- c) Location and size of the plant
- d) Human resource development

55. Which of the following is an example of a managerial constraint?

- a) Government regulations
- b) The availability of skilled labor
- c) Availability of capital
- d) Manager's utility maximization

56. What is a production function?

- a) A mathematical equation showing the relationship between input and output
- b) A process used to minimize costs
- c) A method for calculating profit
- d) None of the above

57. Which of the following is NOT a factor of production?

- a) Land
- b) Labour
- c) Capital
- d) Marketing

58. What does the term 'Q' represent in the production function equation?

- a) Quantity of input
- b) Quantity of output
- c) Quality of output
- d) None of the above

59. In the production function $Q = f(L, K)$, what do L and K represent?

- a) Labour and Knowledge
- b) Labour and Capital
- c) Land and Knowledge
- d) Land and Capital

60. Which of the following assumptions is true for a production function?

- a) The relationship between inputs and outputs is not fixed
- b) Technology is assumed to remain unchanged
- c) Inputs are not maximized
- d) All of the above

61. The production function shows the relationship between input and output for which of the following?

- a) All industries
- b) A single firm
- c) The economy as a whole
- d) A particular product

62. What is a key characteristic of the short-run production function?

- a) All inputs are variable
- b) Only some inputs are variable
- c) Inputs cannot be changed
- d) Capital is variable

63. Which of the following statements is true about the long-run production function?

- a) All factors are variable
- b) Only labour is variable
- c) Only capital is variable
- d) None of the above

64. What is the main difference between short-run and long-run production functions?

- a) The time period involved
- b) The level of capital employed
- c) The flexibility of input quantities
- d) The type of output produced

65. What does the Cobb-Douglas production function assume about the contributions of labour and capital?

- a) Both labour and capital contribute equally to output
- b) Labour contributes three-fourths and capital contributes one-fourth to output
- c) Capital contributes more than labour
- d) None of the above

66. What form does the Cobb-Douglas production function take?

- a) $Q = KL^\alpha C^\beta$
- b) $Q = aL + bK$
- c) $Q = L^a + K^b$
- d) None of the above

67. The Law of Variable Proportions deals with which of the following?

- a) Varying capital while keeping labour constant
- b) Varying labour while keeping capital constant
- c) Changing both capital and labour
- d) Changing only fixed costs

68. What happens to marginal product as more units of a variable input are added, according to the Law of Variable Proportions?

- a) It increases continuously
- b) It eventually decreases
- c) It remains constant
- d) None of the above

69. When marginal product starts to decline, which of the following happens to average product?

- a) It continues to rise
- b) It falls
- c) It remains constant
- d) It initially rises, then falls

70. In the context of the Law of Variable Proportions, what is the total product (TP)?

- a) The total input used in production
- b) The output produced per unit of input
- c) The total output produced from all inputs
- d) The cost of producing output

71. What is the formula for calculating average product (AP)?

- a) $AP = \text{Total Product} / \text{Number of units of variable factors}$
- b) $AP = \text{Marginal Product} / \text{Total Product}$
- c) $AP = \text{Total Product} * \text{Number of units of variable factors}$
- d) None of the above

72. What is marginal product (MP)?

- a) The total output divided by the number of inputs
- b) The change in total product as one more unit of variable input is added
- c) The total product divided by the number of units of the fixed input
- d) None of the above

73. When does the average product curve reach its maximum?

- a) When marginal product is zero
- b) When marginal product is equal to average product
- c) When total product is maximized
- d) None of the above

74. Which stage is described as the Stage of Increasing Returns?

- a) Stage 1
- b) Stage 2
- c) Stage 3
- d) None of the above

75. What happens in the Stage of Diminishing Returns?

- a) Total product increases at an increasing rate
- b) Both marginal product and average product fall
- c) Total product decreases
- d) Marginal product is negative



76. In which stage does the total product start declining?

- a) Stage 1
- b) Stage 2
- c) Stage 3
- d) None of the above

77. What is the main reason for diminishing returns in the second stage?

- a) More efficient use of fixed factors
- b) Excessive use of variable factors relative to fixed factors
- c) Both factors are used equally
- d) None of the above

78. A rational producer will avoid producing in which stage(s)?

- a) Stage 1 and Stage 3
- b) Stage 1 and Stage 2
- c) Stage 2 and Stage 3
- d) Stage 3 only

79. The law of negative returns applies to which stage of the production process?

- a) Stage 1
- b) Stage 2
- c) Stage 3
- d) None of the above

80. Which of the following is a feature of Stage 1 of the law of variable proportions?

- a) Marginal product is negative
- b) Total product increases at a diminishing rate
- c) Average product is increasing
- d) Average product is falling

81. The principle of marginalism helps to determine which of the following?

- a) The optimum level of production
- b) The average product
- c) The total product
- d) The marginal product of capital

82. What does the Cobb-Douglas production function imply about the elasticity of output?

- a) It is constant for all inputs
- b) It is proportional to the sum of the exponents of the inputs
- c) It is zero for capital
- d) None of the above

83. Which of the following would NOT result in an increase in the total product in the short run?

- a) Adding more labour while holding capital constant
- b) Increasing capital

- c) Adding more labour when it exceeds the optimal combination with capital
- d) None of the above

84. In the Cobb-Douglas production function, what does the constant 'a' represent?

- a) The contribution of capital
- b) The elasticity of labour with respect to output
- c) The contribution of labour
- d) The total output

85. Which of the following best explains why the marginal product of labour decreases in the law of diminishing returns?

- a) More units of labour are added to a fixed amount of capital, reducing its effectiveness
- b) More capital is added to the fixed amount of labour, making each additional worker less effective
- c) Capital becomes more scarce as labour increases
- d) None of the above

86. What does the concept of "Returns to Scale" refer to?

- a) Changes in output due to a change in the proportion of inputs used.
- b) Changes in output due to a proportional change in all inputs.
- c) The variation in output when one input is changed.
- d) The impact of technological advancements on output.

87. Which of the following is true about constant returns to scale?

- a) Output increases less than the increase in inputs.
- b) Output increases in the same proportion as the increase in inputs.
- c) Output increases more than the increase in inputs.
- d) Output remains unchanged with an increase in inputs.

88. If a production function exhibits increasing returns to scale, what happens when all inputs are doubled?

- a) Output doubles.
- b) Output more than doubles.
- c) Output less than doubles.
- d) Output remains unchanged.

89. Which of the following is a reason for increasing returns to scale?

- a) Fixed factor proportions.
- b) Technological obsolescence
- c) The law of diminishing returns.
- d) The indivisibility of factors.

90. Which of the following would result in decreasing returns to scale?

- a) Increased specialization of labor and machinery.
- b) Expanding production beyond a certain point leads to management difficulties.
- c) Doubling inputs leads to a doubling of output.
- d) The use of more capital leads to more than proportional output increases.

91. What does an isoquant represent?

- a) All combinations of outputs that a firm can produce.
- b) A budget line that shows the firm's cost constraints.

- c) A curve showing the optimal production costs for a given level of output.
- d) All combinations of inputs that result in the same level of output

92. Which of the following is true about isoquants?

- a) Isoquants are always positively sloped.
- b) Isoquants are convex to the origin due to diminishing marginal rate of technical substitution (MRTS).
- c) Isoquants can intersect with each other.
- d) The further right an isoquant is, the lower the level of output.

93. What is the main difference between isoquants and indifference curves?

- a) Isoquants represent combinations of output, while indifference curves represent combinations of input.
- b) Indifference curves show the preferences of a producer, while isoquants show output combinations.
- c) Isoquants can be quantified in terms of output, while indifference curves cannot be quantified.
- d) Isoquants are used for cost analysis, while indifference curves are used for profit maximization.

94. What is an isocost line?

- a) A curve showing the various possible combinations of inputs at different output levels.
- b) A budget line showing the various combinations of inputs a firm can purchase for a given cost.
- c) A line showing the optimal output for a given combination of inputs.
- d) A curve that depicts the total cost of production at different levels of output.

95. In the context of iso-cost lines, if a firm has \$1,000 to spend, and the price of factor X is \$10 and factor Y is \$20, how many units of factor X can the firm buy if it spends all its money on X?

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

96. What represents the least-cost combination of factors for producing a given output?

- a) The point where the isoquant intersects with the origin.
- b) The point where the isoquant is tangent to the iso-cost line.
- c) The point where the isoquant is steepest.
- d) The point where the firm uses equal amounts of all factors.

97. Which of the following is true about the relationship between an isoquant and an iso-cost line in production optimization?

- a) The iso-cost line represents the cost of producing multiple outputs, while the isoquant shows input combinations for one output.
- b) The iso-cost line shows combinations of inputs to maximize output.
- c) The iso-cost line shows the level of output the firm aims to achieve, while the isoquant represents the cost.
- d) The iso-cost line is tangent to the isoquant at the point that minimizes cost for a given output level.

98. If a Cobb-Douglas production function has exponents 'a' and 'b', and $a + b = 1$, what kind of returns to scale does the production function exhibit?

- a) Increasing returns to scale
- b) Constant returns to scale
- c) Decreasing returns to scale
- d) Varying returns to scale

99. Which of the following is NOT a characteristic of decreasing returns to scale?

- a) The firm experiences difficulty in managing a larger operation.
- b) The increase in output is less than proportional to the increase in inputs.
- c) Increased specialization leads to more efficient production.
- d) A firm faces challenges in coordination as it grows.

100. What does the Cobb-Douglas production function indicate when $a + b > 1$?

- a) The firm is operating under constant returns to scale.
- b) The firm is experiencing diminishing marginal returns.
- c) The firm is experiencing increasing returns to scale.
- d) The firm is experiencing decreasing returns to scale.

COSTS

1. What is the main difference between accounting costs and economic costs?

- a) Accounting costs include both explicit and implicit costs.
- b) Economic costs include implicit costs, while accounting costs only include explicit costs.
- c) Accounting costs are not recorded in financial statements.
- d) Economic costs are the costs involved in producing goods and services only.

2. What are implicit costs?

- a) Payments made to suppliers of resources.
- b) Costs related to taxes and fees.
- c) Only the wage paid to employees.
- d) The cost of resources used by the entrepreneur that could have been used elsewhere

3. What is the concept of opportunity cost?

- a) The cost of the next best alternative that is foregone.
- b) The cost that is directly recorded in accounting books.
- c) The amount of money spent on wages and raw materials.
- d) The cost incurred to maintain machinery.

4. Outlay costs are:

- a) The costs of resources owned by the firm.
- b) Costs that involve no actual expenditure.
- c) Costs that involve actual expenditure of funds.
- d) Costs that are not recorded in financial statements.

5. The opportunity cost concept is most useful in situations where:

- a) Resources are abundant and not scarce.
- b) There is no decision-making involved.
- c) Resources are scarce and there are alternative uses for them.
- d) The company is operating in a monopolistic market.

6. Direct costs are:

- a) Costs related to the business operations that cannot be traced to any particular product.
- b) Costs that are not recorded in accounting books.
- c) Costs that can be traced directly to a product, process, or department.
- d) The costs of fixed assets.

7. Indirect costs are also known as:

- a) Fixed costs.
- b) Non-traceable costs.
- c) Opportunity costs.
- d) Incremental costs.

8. Sunk costs are:

- a) Costs that can be avoided.
- b) Costs that are incurred in the past and cannot be recovered.
- c) Costs that can be easily traced to a product.
- d) Costs that vary with output.

9. Historical cost refers to:

- a) The current market value of assets.
- b) The cost of replacing an asset.
- c) The expected future cost of assets.
- d) The cost of acquiring assets in the past.

10. Replacement cost is:

- a) The original cost of purchasing an asset.
- b) The cost of replacing an asset with a similar one at current market prices.
- c) The cost of fixed assets used in the production process.
- d) The cost of depreciation.

11. Private costs are:

- a) Costs incurred by society due to a firm's operations.
- b) Costs borne by the firm itself and internalized in business decisions.
- c) Costs incurred by the government.
- d) Costs related to environmental damage.

12. Social costs include:

- a) Only private costs.
- b) Only external costs.
- c) Both private costs and external costs.
- d) Costs related to fixed assets.

13. Fixed costs:

- a) Vary with the level of output.
- b) Include only salaries paid to workers.
- c) Include only the cost of raw materials.
- d) Remain constant regardless of the level of output.

14. Variable costs:

- a) Do not change with output.
- b) Vary in direct proportion to changes in output.
- c) Are incurred only when the output is zero.
- d) Are fixed and do not change.

15. Semi-variable costs are:

- a) Costs that vary in a stair-step fashion with output.
- b) Costs that remain fixed at all levels of production.
- c) The sum of fixed and variable costs.
- d) Costs that remain constant even when production is scaled up.

16. A stair-step variable cost curve:

- a) Shows a straight upward trend.
- b) Rises gradually and consistently.
- c) Remains constant over time.
- d) Remains constant until it jumps to a higher level as output increases.

17. Total cost (TC) is calculated as:

- a) Total fixed cost (TFC) + Total variable cost (TVC).
- b) Total fixed cost (TFC) + Opportunity cost.
- c) Fixed cost only.
- d) Only variable cost.

18. The total fixed cost curve is:

- a) A straight line sloping upward.
- b) A curve that rises with increasing output.
- c) A horizontal straight line.
- d) A downward sloping line.

19. In the short run, which factor cannot be easily adjusted?

- a) Labour.
- b) Raw materials.
- c) Capital equipment.
- d) Wages.

20. In the short run, which of the following costs cannot be avoided?

- a) Variable costs.
- b) Fixed costs.
- c) Direct costs.
- d) Opportunity costs.

21. In the long run, a firm can:

- a) Only change variable factors.
- b) Only adjust its capital.
- c) Change both fixed and variable factors.
- d) Not change its production process.

22. A semi-variable cost includes:

- a) A fixed cost component and a variable cost component.
- b) Costs that are unaffected by the level of output.
- c) Only fixed costs.
- d) Only variable costs.

23. Incremental costs refer to:

- a) The costs that are incurred regardless of the decision made.
- b) The additional costs incurred when a business decision is made.
- c) Costs that are irrelevant to business decision-making.
- d) Costs incurred due to fixed assets.

24. The opportunity cost of using capital in a firm is:

- a) The amount spent on capital equipment.
- b) The potential earnings the capital could have generated if used elsewhere.
- c) The depreciation of the capital over time.
- d) The cost of raw materials used in production.

25. Which of the following costs are associated with a firm's long-term decisions?

- a) Sunk costs.
- b) Outlay costs.
- c) Fixed costs.
- d) Incremental costs.

26. What is the formula for calculating Average Fixed Cost (AFC)?

- a) $AFC = TVC/Q$
- b) $AFC = TFC/Q$
- c) $AFC = TC/Q$
- d) $AFC = AVC + MC$

27. What happens to Average Fixed Cost (AFC) as output increases?

- a) AFC increases
- b) AFC becomes zero
- c) AFC remains constant
- d) AFC decreases

28. Which of the following statements about Average Variable Cost (AVC) is correct?

- a) AVC decreases initially and then increases
- b) AVC remains constant at all levels of output
- c) AVC increases only
- d) AVC is always zero

29. Average Total Cost (ATC) is the sum of:

- a) AFC and MC
- b) AFC and AVC
- c) AVC and MC
- d) TFC and TVC

30. When does the Average Total Cost (ATC) curve first rise?

- a) After the AVC curve reaches its minimum
- b) When both AVC and AFC are rising
- c) When AFC starts to rise
- d) After the marginal cost curve starts to fall

31. What is the formula for calculating Marginal Cost (MC)?

- a) $MC = TC/Q$
- b) $MC = \Delta TVC / \Delta Q$
- c) $MC = \Delta TC / \Delta Q$
- d) $MC = AFC + AVC$

32. What happens to the Marginal Cost curve beyond a certain level of output?

- a) It falls continuously
- b) It rises after initially falling
- c) It remains constant
- d) It becomes horizontal

33. At which point does the Marginal Cost curve cut the Average Cost curve?

- a) At the minimum point of the AVC curve
- b) At the minimum point of the ATC curve
- c) At the point where the ATC starts to rise
- d) At the inflection point of the MC curve

34. In the long run, the firm can:

- a) Only increase variable inputs
- b) Produce at a constant scale
- c) Change all factors of production
- d) Change only fixed inputs

35. What does the long-run cost curve represent?

- a) The least possible cost of producing any given level of output
- b) The cost of production at a fixed scale
- c) The marginal cost of production
- d) The fixed cost of production

36. The Long Run Average Cost (LAC) curve is derived from:

- a) The total cost curve
- b) The average cost of each possible plant size
- c) The average fixed cost curve
- d) The marginal cost curve

37. The Long Run Average Cost curve is tangent to:

- a) The minimum points of each Short Run Average Cost curve
- b) The average fixed cost curve
- c) The total cost curve
- d) The marginal cost curve

38. What is the characteristic of the U-shaped curve in long-run cost analysis?

- a) It represents increasing returns to scale
- b) It reflects diminishing returns to scale

- c) It arises due to variable input ratios
- d) It is shaped due to economies and diseconomies of scale

39. What does the LAC curve show regarding the size of the plant?

- a) It shows the cost at the minimum point for all plant sizes
- b) It shows the least-cost scale for each level of output
- c) It is based only on short-run variables
- d) It assumes fixed technology

40. What happens when the firm operates beyond the optimum capacity, as shown in the LAC curve?

- a) It results in lower unit costs
- b) It minimizes long-run average costs
- c) It maximizes economies of scale
- d) It results in diseconomies of scale

41. When a firm is operating at its optimal plant size, it will be on:

- a) The falling portion of the LAC curve
- b) The rising portion of the LAC curve
- c) The inflection point of the LAC curve
- d) The point where SAC is tangent to the LAC

42. If Average Total Cost (ATC) is falling, which of the following is true about Marginal Cost (MC)?

- a) $MC > ATC$
- b) $MC < ATC$
- c) $MC = ATC$
- d) MC is irrelevant in this situation

43. Which of the following is NOT true about the Marginal Cost curve?

- a) It starts by falling
- b) It is U-shaped
- c) It intersects the AVC and ATC at their minimum points
- d) It remains constant as output increases

44. The firm will choose the plant size corresponding to the short-run average cost curve that results in:

- a) The highest total cost
- b) The lowest total cost for a given output
- c) The highest marginal cost
- d) The lowest fixed cost

45. In the short run, what causes the total fixed cost to remain unchanged?

- a) The quantity of output produced
- b) The level of variable costs
- c) The scale of production
- d) The fixed inputs used in production

46. Which of the following explains the U-shape of the Average Total Cost curve?

- a) Economies of scale followed by diseconomies of scale
- b) Increasing returns to scale
- c) Diminishing returns to variable inputs
- d) Fixed costs declining as output increases

47. What happens to Marginal Cost (MC) when Marginal Product is increasing?

- a) MC falls
- b) MC rises
- c) MC remains constant
- d) MC becomes zero

48. What is the shape of the Long Run Average Cost curve when the firm experiences increasing returns to scale?

- a) L-shaped
- b) U-shaped
- c) Horizontal
- d) Steeply rising

49. What is the effect on Average Fixed Cost (AFC) when the output doubles?

- a) AFC doubles
- b) AFC decreases by half
- c) AFC remains the same
- d) AFC becomes zero

50. In the long run, when does the firm experience increasing returns to scale?

- a) When the firm is operating on the falling portion of the LAC curve
- b) When the firm operates on the rising portion of the LAC curve
- c) When the firm exceeds its optimum capacity
- d) When the firm is at a constant returns to scale phase

51. What is the main benefit of large-scale production?

- a) Increased complexity of management
- b) Reduced cost of production
- c) Increased marketing costs
- d) Decreased risk-bearing capability

52. Which type of economies arises within the firm due to its expansion?

- a) External economies
- b) Commercial economies
- c) Managerial economies
- d) Internal economies

53. What is the primary cause of diseconomies of scale?

- a) Increased division of labour
- b) Difficulties in management coordination
- c) Bulk purchases of raw materials
- d) Technological advancements

54. Which of the following is NOT an example of technical economies of scale?

- a) Use of specialized machinery
- b) Introduction of mass production
- c) Reduction in labor specialization
- d) Composite technology in production

55. Managerial economies occur due to:

- a) Decrease in market size
- b) Specialization and division of labor in management
- c) Reduction in output
- d) Increased risk-bearing

56. At what point do diseconomies of scale begin to emerge?

- a) After the optimum scale is reached
- b) During the first phase of expansion
- c) Before any economies of scale are achieved

d) When the company introduces new technologies

57. Financial economies of scale result in:

- a) Reduced interest rates
- b) Greater borrowing capacity
- c) Lower input costs
- d) Increased capital investment

58. Which of the following is an example of external economies of scale?

- a) Bulk purchase of raw materials by a firm
- b) Decrease in advertising costs for an industry
- c) Specialization within the firm's management
- d) Increased control over the production process

59. External diseconomies can be caused by:

- a) Rise in the price of raw materials
- b) Increased technological advancements
- c) Greater efficiency in labor
- d) Reduction in the number of firms

60. What can result in higher transportation costs as an external diseconomy?

- a) Specialization of labor
- b) Expansion of the firm
- c) Overcrowding of firms in a single location
- d) Bulk purchasing of inputs

61. Which of the following can lower costs due to large-scale production?

- a) Increasing the size of the firm beyond the optimum level
- b) Expansion of industry leading to improved infrastructure
- c) Increasing the dependency on external financing
- d) Reducing the specialization of management

62. What happens when managerial diseconomies set in?

- a) Specialization within the workforce decreases
- b) Advertising costs decrease
- c) Labor productivity improves
- d) Control and coordination become more difficult

63. A firm enjoys which of the following financial benefits due to economies of scale?

- a) Lower transaction costs for raising capital
- b) Higher labor costs due to specialization
- c) Increased production cost
- d) Higher risk in the stock market

64. What is a characteristic of diseconomies of scale in a firm?

- a) Cost per unit decreases as output increases
- b) The firm becomes more competitive in the market
- c) The firm's management becomes less efficient
- d) The firm's advertising costs per unit decrease

65. External economies can result in:

- a) Increased transportation and storage costs
- b) Higher demand for raw materials
- c) Improved labor skill development
- d) Decreased product diversification

66. Commercial economies of scale are most related to:

- a) Bulk buying of raw materials
- b) Specialization of management
- c) Technological advancement
- d) Improved transportation networks

67. Which is a result of a large firm's ability to bear risks better?

- a) Increased market competition
- b) Economies of risk bearing
- c) Increased dependence on external suppliers
- d) Higher capital costs

68. What happens to marketing costs as a firm grows?

- a) They remain constant
- b) They decrease per unit of output
- c) They increase exponentially
- d) They become negligible

69. Which of the following is an external diseconomy?

- a) Development of skilled labor
- b) Lower transportation costs due to infrastructure improvements
- c) Increase in pollution control costs
- d) Expansion of ancillary industries

70. What is a benefit of technological external economies?

- a) Development of cheaper raw materials
- b) Enhanced firm-level management efficiency
- c) Use of better machinery and processes
- d) Reduction in competition within an industry

71. Which is an example of a firm's internal diseconomy of scale?

- a) Difficulty in managing large operations
- b) Technological improvements in the industry
- c) Availability of more skilled labor
- d) Lower transportation costs due to infrastructure development

72. What can cause diseconomies in financial economies of scale?

- a) Increased ability to raise capital at lower interest rates
- b) Higher dependence on external financing
- c) Reduced cost of borrowing
- d) Increased diversification of investment

73. What is the impact of external economies of scale on input prices?

- a) Prices rise due to increased competition
- b) Prices fall due to improved supply and competition
- c) Prices remain unchanged regardless of output expansion
- d) Input prices become unpredictable

74. Which of the following is a form of external diseconomy?

- a) Development of a trained labour force
- b) Improved access to capital
- c) Reduction in input prices
- d) Increased transportation and infrastructure costs

75. How does division of labour contribute to internal economies?

- a) By improving management efficiency
- b) By increasing production complexity
- c) By decreasing output per unit

d) By lowering labor productivity

76. A firm can reduce its financial risks due to economies of scale by:

a) Becoming smaller in size

b) Relying less on diversification

c) Spreading risks across diverse products and markets

d) Increasing market share in a single product

77. Which of the following is NOT an external economy of scale?

a) Improved technology

b) Lower transportation costs

c) Enhanced communication systems

d) Specialization within a firm's departments

78. Which of the following can lead to diseconomies of scale?

a) High degree of specialization

b) Increased production capacity beyond a point

c) Use of efficient machinery

d) Bulk buying of raw materials

79. What is a key feature of diseconomies of scale in terms of managerial control?

a) Managers can exercise greater control

b) Communication and coordination become difficult

c) Departments become highly interdependent

d) The firm experiences less bureaucracy

80. What could result from too many firms in an industry being located in the same place?

a) Decreased market competition

b) Economies of scale in production

c) Higher transportation and marketing costs

d) Better labour specialization

THEORY MARKET

- 1. Which of the following is NOT an element of a market?**
 - a) Buyers and sellers
 - b) Bargaining for a price
 - c) Uniform regulation across all products
 - d) Knowledge about market conditions
- 2. Which type of market is characterized by transactions being limited to a local area?**
 - a) National market
 - b) Regional market
 - c) Local market
 - d) International market
- 3. In which market structure is a firm known as a price taker?**
 - a) Monopoly
 - b) Perfect competition
 - c) Monopolistic competition
 - d) Oligopoly
- 4. What is a key feature of monopolistic competition?**
 - a) Homogeneous products
 - b) Single seller
 - c) Product differentiation
 - d) Barriers to entry
- 5. What is the shape of the demand curve in a perfectly competitive market?**
 - a) Downward sloping
 - b) Horizontal
 - c) Vertical
 - d) Kinked
- 6. Which market structure is associated with few dominant firms and mutual interdependence?**
 - a) Perfect competition
 - b) Monopoly
 - c) Monopolistic competition
 - d) Oligopoly
- 7. What does the term "MR" represent in revenue analysis?**
 - a) Maximum revenue
 - b) Marginal revenue
 - c) Minimum revenue
 - d) Market revenue
- 8. Under imperfect competition, if the price elasticity of demand (E_d) is less than 1, what happens to marginal revenue (MR)?**
 - a) MR is positive
 - b) MR is zero

- c) MR is negative
 - d) MR is equal to AR
9. **In a forward market, transactions involve:**
- a) Immediate payment and delivery of goods
 - b) Future payment and delivery of goods
 - c) Only government-regulated commodities
 - d) Barter exchanges
10. **Which of the following is an example of a very short-period market?**
- a) Market for furniture
 - b) Market for fresh vegetables
 - c) Stock market
 - d) Market for real estate
11. **What is the formula for calculating average revenue (AR)?**
- a) $AR = TR \times Q$
 - b) $AR = MR/Q$
 - c) $AR = TR/Q$
 - d) $AR = Q \times MR$
12. **When total revenue (TR) is increasing, what is the nature of marginal revenue (MR)?**
- a) MR is zero
 - b) MR is negative
 - c) MR is positive
 - d) MR is equal to TR
13. **If a firm has to cover its total variable costs to continue production, this aligns with which principle?**
- a) Profit maximization principle
 - b) Break-even principle
 - c) Minimum revenue principle
 - d) Variable cost coverage principle
14. **Which type of market involves many firms selling closely related but not identical products?**
- a) Oligopoly
 - b) Monopoly
 - c) Perfect competition
 - d) Monopolistic competition
15. **In the long-period market, what happens to the factors of production?**
- a) All factors are fixed
 - b) All factors become variable
 - c) Only labor becomes variable
 - d) Only capital becomes fixed

16. **What is the relationship between AR and price in a perfectly competitive market?**
a) $AR > Price$
b) $AR < Price$
c) $AR = Price$
d) $AR \neq Price$
17. **Which market form does NOT involve price discrimination?**
a) Monopoly
b) Oligopoly
c) Perfect competition
d) Monopolistic competition
18. **The income earned by a producer from selling output is referred to as:**
a) Cost
b) Profit
c) Revenue
d) Investment
19. **What is the nature of competition in an unregulated market?**
a) Government controls all prices
b) There are no stipulations on transactions
c) Transactions are monitored by authorities
d) Only specific goods are traded
20. **If the price elasticity of demand (E_d) is equal to 1, what happens to marginal revenue (MR)?**
a) MR is positive
b) MR is zero
c) MR is negative
d) MR is equal to AR
21. • **What does 'Equilibrium' mean in the context of a perfectly competitive market?**
a) Demand exceeds supply
b) Supply exceeds demand
c) Market demand equals market supply
d) Prices are always increasing
22. • **In a perfectly competitive market, what is the result when the market price is above the equilibrium price?**
a) Excess demand
b) Excess supply
c) Higher equilibrium quantity
d) Market shortage
23. • **When demand increases and supply remains constant, what happens to the equilibrium price and quantity?**
a) Both decrease

- b) Both increase
 - c) Price increases and quantity decreases
 - d) Price decreases and quantity increases
24. • **In a monopoly, what happens to the average revenue (AR) and marginal revenue (MR) curves?**
- a) Both are upward sloping
 - b) Both are horizontal
 - c) Both are downward sloping
 - d) AR is downward sloping and MR is upward sloping
25. • **Which of the following is NOT a reason for the existence of a monopoly?**
- a) Strategic control over scarce resources
 - b) Perfect competition in the market
 - c) Legal barriers such as patents
 - d) High startup costs
26. • **In a perfectly competitive market, a firm is in equilibrium when which conditions are met?**
- a) $MC = MR$ and MC cuts MR from above
 - b) $MC = MR$ and MC cuts MR from below
 - c) $TR = TC$ and $AR > AC$
 - d) $MR > AR$
27. • **What type of profit does a firm earn when average revenue equals average total cost?**
- a) Supernormal profit
 - b) Normal profit
 - c) Loss
 - d) Abnormal profit
28. • **What happens in the long run to firms in a perfectly competitive market?**
- a) Firms earn supernormal profits
 - b) Firms incur losses
 - c) Firms exit the industry
 - d) Firms earn only normal profit
29. • **Price discrimination is possible only when the seller is a:**
- a) Price-taker
 - b) Price-maker
 - c) Perfectly competitive firm
 - d) Market follower
30. • **In first-degree price discrimination, the monopolist:**
- a) Charges different prices based on consumer segments
 - b) Charges the same price for all units sold
 - c) Extracts the entire consumer surplus
 - d) Charges higher prices for bulk purchases
31. • **Which of the following situations would result in a downward impact on price?**
- a) Demand of 6 units and supply of 31 units

- b) Demand of 26 units and supply of 6 units
 - c) Demand of 19 units and supply of 19 units
 - d) Demand of 22 units and supply of 12 units
32. • **Which market condition results when market demand is greater than supply at a given price?**
- a) Excess supply
 - b) Excess demand
 - c) Market equilibrium
 - d) Price ceiling
33. • **In a monopoly, the slope of the MR curve is:**
- a) Twice as steep as the AR curve
 - b) Half as steep as the AR curve
 - c) Equal to the AR curve
 - d) Always upward sloping
34. • **Which factor does NOT contribute to the existence of a natural monopoly?**
- a) High startup costs
 - b) Strategic control over resources
 - c) Sophisticated technical know-how
 - d) Perfectly elastic demand curve
35. • **A firm incurs losses but remains in operation if:**
- a) $AR > AVC$ and $MR < MC$
 - b) It covers variable costs and part of the fixed costs
 - c) It meets both AVC and AFC
 - d) The MC curve is downward sloping
36. • **In the case of perfectly elastic demand and increased supply, what happens to the equilibrium price?**
- a) Increases
 - b) Decreases
 - c) Remains constant
 - d) Fluctuates
37. • **Third-degree price discrimination involves:**
- a) Charging the same price for all customers
 - b) Different prices based on location or customer segment
 - c) Charging a lower price for bulk purchases
 - d) Extracting the entire consumer surplus
38. • **If a monopolist faces a situation where $AC > AR$ in the short run, the firm will likely:**
- a) Earn supernormal profits
 - b) Break even
 - c) Incur losses
 - d) Experience perfect competition
39. • **Which of the following is an economic effect of monopoly?**
- a) Increases consumer surplus
 - b) Reduces aggregate economic welfare

- c) Enhances consumer sovereignty
- d) Increases production output

Answer: b) Reduces aggregate economic welfare

40. • **When both demand and supply decrease proportionately, what happens to the equilibrium price?**

- a) Increases
- b) Decreases
- c) Remains constant
- d) Becomes unpredictable

41. **What is the main characteristic that differentiates monopolistic competition from perfect competition?**

- A) Homogeneous products
- B) Large number of firms
- C) Product differentiation
- D) Single seller in the market

42. **Which of the following is an example of a market structure with a monopolistic competition?**

- A) Indian Railways
- B) Airlines industry
- C) Soft drinks
- D) Steel industry

43. **In a kinked demand curve model of oligopoly, what is the nature of the demand curve above the prevailing price?**

- A) Perfectly elastic
- B) Highly elastic
- C) Inelastic
- D) Unit elastic

44. **In an oligopoly, strategic interdependence means:**

- A) Each firm's output decision does not affect others.
- B) Firms can act independently without considering competitors.
- C) Each firm must consider the reactions of other firms to its decisions.
- D) Firms always cooperate to set prices and output.

45. **What type of oligopoly exists when firms produce differentiated products?**

- A) Perfect oligopoly
- B) Imperfect oligopoly
- C) Collusive oligopoly
- D) Syndicated oligopoly

46. **Under the Cournot model of oligopoly, the firms compete by:**

- A) Colluding to fix prices
- B) Setting output levels independently
- C) Following a price leader
- D) Setting prices independently

47. **Which of the following is NOT a characteristic of monopolistic competition?**

- A) High selling costs
- B) Freedom of entry and exit
- C) Price leadership
- D) Excess capacity

48. **In a market with price discrimination, which degree involves charging different prices based on customer segments or attributes?**

- A) First degree
- B) Second degree
- C) Third degree
- D) Fourth degree

49. In which type of market structure are advertising and selling costs particularly important?

- A) Perfect competition
- B) Monopoly
- C) Oligopoly
- D) Duopoly

50. What type of oligopoly involves firms setting prices and output together to maximize joint profits?

- A) Bertrand oligopoly
- B) Stackelberg oligopoly
- C) Collusive oligopoly
- D) Competitive oligopoly

BUSINESS CYCLE

1. What is the term used to describe the rhythmic fluctuations in aggregate economic activity?

- A) Inflation
- B) Business Cycle
- C) Depression
- D) Recovery

2. Which of the following is a characteristic of the expansion phase of the business cycle?

- A) High unemployment
- B) Decreased investment
- C) Rising stock prices
- D) Falling consumer demand

3. The phase where the economy experiences the highest level of economic activity is called:

- A) Expansion
- B) Peak
- C) Contraction
- D) Trough

4. During which phase do businesses often face overproduction, leading to a mismatch between demand and supply?

- A) Expansion
- B) Peak
- C) Contraction
- D) Trough

5. What is the name of the lowest point in the business cycle?

- A) Peak
- B) Trough
- C) Recovery
- D) Recession

6. What typically happens during the depression phase?

- A) Economic activities are at their highest levels
- B) National income and expenditure decline rapidly
- C) Unemployment reaches very low levels
- D) Demand for goods and services increases

7. The phase after a trough, characterized by economic revival, is called:

- A) Expansion
- B) Peak
- C) Contraction
- D) Recovery

8. Which of the following is NOT typically associated with the expansion phase of the business cycle?

- A) Rising profits
- B) Full employment
- C) Declining consumer confidence
- D) Increased demand

9. What happens to interest rates during a depression?

- A) They increase significantly

B) They remain the same

C) They fall to very low levels

D) They fluctuate unpredictably

10. What does a 'leading indicator' represent?

A) It reflects the economy's historical performance.

B) It signals future changes in the economy.

C) It confirms an economic trend after it occurs.

D) It coincides with economic changes.

11. Which of the following is an example of a leading indicator?

A) Unemployment rate

B) Stock prices

C) Corporate profits

D) Labour costs

12. What are lagging indicators used to confirm?

A) The beginning of a business cycle

B) The real output change

C) The historical performance of the economy

D) Predictions of future economic trends

13. Which of these is a coincident indicator?

A) Unemployment rate

B) Stock market prices

C) Gross Domestic Product (GDP)

D) Interest rates

14. What typically happens when the economy reaches its peak phase?

A) Input prices start to increase.

B) Consumer confidence rises dramatically.

C) Unemployment reaches its lowest point.

D) Supply exceeds demand in most sectors.

15. Which of the following is a major consequence of a recession?

A) High business confidence

B) Increased consumer spending

C) Decreased demand for goods and services

D) Rising wages across all sectors

16. During the contraction phase, producers may respond by:

A) Increasing investment

B) Expanding production

C) Reducing future investment plans

D) Raising prices

17. Which of the following is NOT typically associated with a depression?

A) High unemployment

B) Excess capacity in industries

C) Increased consumer spending

D) Falling stock prices

18. In the context of business cycles, 'structural unemployment' refers to:

A) Unemployment due to changes in technology

B) Unemployment caused by economic recessions

C) Unemployment caused by workers changing jobs

D) Unemployment due to changes in the economy's structure

19. What happens to consumer confidence during the contraction phase?

A) It rises significantly

- B) It stabilizes at a moderate level
- C) It declines as consumers expect further economic downturns
- D) It remains unaffected by the economy

20. What generally occurs during the recovery phase of the business cycle?

- A) Unemployment remains high
- B) Investment and production begin to rise again
- C) Inflation rates decrease significantly
- D) Consumer confidence remains at a low level

21. What was the primary cause of the Great Depression of the 1930s according to John Maynard Keynes?

- a) Decline in money supply
- b) Lower aggregate expenditures
- c) Over-indebtedness
- d) Overproduction

22. Which of the following best describes the "Dot-Com Bubble"?

- a) A financial collapse caused by over-investment in real estate.
- b) A period of rapid growth in internet-based companies during the late 1990s.
- c) A government-driven economic recovery after the 1997 Asian crisis.
- d) A technology-driven recession in 2001.

23. Which of the following is NOT a typical phase of a business cycle?

- a) Expansion
- b) Peak
- c) Recession
- d) Inflation

24. Which sector is most affected by business cycles?

- a) Agriculture
- b) Technology
- c) Capital goods industries
- d) Financial services

25. Which feature of business cycles makes them difficult to predict accurately?

- a) Regular duration and intensity
- b) Unpredictable fluctuations and complex causes
- c) Clear and smooth transitions between phases
- d) Complete isolation from external factors

26. What happens when aggregate demand exceeds aggregate supply?

- a) Economic contraction
- b) Inflation
- c) Economic expansion
- d) Recession

27. Which of the following is an example of an internal cause of business cycles?

- a) War
- b) Technological shock
- c) Fluctuations in investment
- d) Population growth

28. According to Hawtrey, what primarily causes business cycles?

- a) Fluctuations in investment
- b) Technological changes

- c) Variations in money supply
- d) Government spending

29. Which is NOT an example of an external cause of business cycles?

- a) Wars
- b) Population growth
- c) Technology shocks
- d) Natural factors

30. What is meant by "effective demand"?

- a) The total supply of goods in the economy
- b) The total expenditure by the government
- c) The willingness and ability of consumers to purchase goods
- d) The total available workforce in the economy

31. Which psychological factor can contribute to business cycles?

- a) Consumer preferences
- b) Pessimism and optimism in business community
- c) Technological advancements
- d) Government regulations

32. What type of businesses are most vulnerable to business cycles?

- a) Cyclical businesses
- b) Non-cyclical businesses
- c) Stable businesses
- d) Government businesses

33. Which of the following is an example of a cyclical business?

- a) Supermarkets
- b) Fashion retailers
- c) Utilities
- d) Healthcare

34. Which phase of the business cycle is characterized by high employment and increasing production?

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

35. What is the primary effect of recessions on businesses?

- a) Increased demand for products
- b) Increased government spending
- c) Reduced business opportunities and profits
- d) Increased international trade

36. During which phase of the business cycle is economic growth usually the fastest?

- a) Peak
- b) Contraction
- c) Expansion
- d) Trough

37. Which of the following is a potential consequence of business cycles on societal well-being?

- a) Increased government spending
- b) High inflation rates
- c) Widespread unemployment and income loss

d) Increased interest rates

38. What does the term "psychological factors" refer to in the context of business cycles?

- a) Technological advancements influencing business activity
- b) Entrepreneurs' optimism or pessimism impacting business decisions
- c) Consumer preferences shifting due to marketing strategies
- d) Political changes affecting business regulations

39. How does government spending affect business cycles?

- a) It has no impact on the business cycle.
- b) Increased government spending can stabilize the economy.
- c) Increased government spending can cause inflation and an economic boom.
- d) Government spending only affects the agricultural sector..

40. What is one key difference between cyclical and non-cyclical businesses?

- a) Cyclical businesses are more affected by economic changes.
- b) Non-cyclical businesses are always profitable.
- c) Cyclical businesses have stable demand year-round.
- d) Non-cyclical businesses do not respond to government regulations..

41. Which of the following is a cause of business cycle fluctuations according to Schumpeter's innovation theory?

- a) Fluctuations in money supply
- b) Innovation and technological advancements
- c) Variations in government spending
- d) Psychological states of businessmen

42. In the context of business cycles, what is the effect of a rise in interest rates?

- a) It causes economic expansion.
- b) It increases aggregate demand.
- c) It slows down investment and consumption.
- d) It leads to lower unemployment.

43. Which of the following is a key feature of business cycles?

- a) They always have the same duration.
- b) They have distinct phases of expansion, peak, contraction, and trough.
- c) They occur in only some sectors of the economy.
- d) They are not affected by external events.

44. What is the impact of a technological shock on a business cycle?

- a) It has no impact on the economy.
- b) It leads to economic contraction due to low demand.
- c) It can lead to an economic boom due to new investments and innovations.
- d) It causes a sudden increase in government spending.

45. Which of the following is an external cause of business cycles that is especially relevant to agrarian economies?

- a) Population growth
- b) Technology shocks
- c) War
- d) Natural factors like droughts or floods

46. What does "monetary policy" refer to in the context of business cycles?

- a) Government spending on infrastructure
- b) Adjustments in taxation to influence demand

- c) Control of the money supply and interest rates to stabilize the economy
- d) Laws governing international trade

47. Which of the following would typically occur during an economic downturn?

- a) Decrease in interest rates
- b) Increase in business investments
- c) Increase in unemployment and decrease in income
- d) Increased consumer spending

48. What is the effect of a population growth rate that exceeds economic growth?

- a) Increased savings and investment
- b) Decreased demand for goods and services
- c) Increased unemployment and reduced income
- d) Economic boom due to higher consumption

49. Which of the following would businesses benefit from during a recession?

- a) Increased demand for luxury goods
- b) Reduced competition
- c) A larger supply of labour at lower wages
- d) Increased investment in innovation

50. Why is it important for businesses to understand the business cycle?

- a) It helps predict government policy changes.
- b) It aids in preparing for market fluctuations and making strategic decisions.
- c) It allows businesses to control the economy.
- d) It helps businesses avoid any impact from economic changes.

Chapter 6
Determination of National Income

UNIT 1 : NATIONAL INCOME ACCOUNTING

1. Which of the following is included in the calculation of National Income?
 - A) Sale of second-hand goods
 - B) Transfer payments
 - C) Illegal income
 - **D) Income from production activities**
2. Which method calculates National Income by summing up the values added at each stage of production?
 - A) Income Method
 - B) Expenditure Method
 - **C) Value Added Method**
 - D) Capital Formation Method
3. Depreciation is subtracted from which of the following to arrive at NNP?
 - A) Gross Domestic Product (GDP)
 - **B) Gross National Product (GNP)**
 - C) Net Domestic Product (NDP)
 - D) Net National Income (NNI)
4. Which of the following is not a component of Gross Domestic Product (GDP)?
 - A) Private consumption expenditure
 - B) Gross domestic capital formation
 - C) Net exports
 - **D) Transfer payments**
5. The difference between GDP at market prices and GDP at factor cost is:
 - **A) Net Indirect Taxes**
 - B) Depreciation
 - C) Net Factor Income from Abroad
 - D) Gross National Product
6. Which of the following is subtracted from Gross National Product to get NNP?
 - A) Subsidy
 - B) Net Indirect Taxes
 - **C) Depreciation**
 - D) Net Factor Income from Abroad
7. Net Factor Income from Abroad (NFIA) is added to GDP to calculate:
 - A) Net Domestic Product
 - B) Gross Domestic Product
 - **C) Gross National Product**
 - D) Net National Product
8. The circular flow of income in an economy shows:
 - A) The flow of goods and services only
 - B) The flow of money only
 - **C) The flow of both money and real resources**
 - D) The flow of exports and imports
9. Per Capita Income is calculated by:
 - **A) Dividing GDP by the population**
 - B) Dividing National Income by the population
 - C) Dividing Gross National Product by the population

- D) Dividing Net National Product by the population
10. If the GDP deflator of a country is greater than 100, it implies that:
- A) Nominal GDP is less than Real GDP
 - B) Real GDP is greater than Nominal GDP
 - C) Nominal GDP is greater than Real GDP
 - D) Real GDP is equal to Nominal GDP
11. The income method of calculating National Income adds up which of the following?
- A) The value of all final goods and services
 - B) The sum of all wages, rent, interest, and profits
 - C) The total expenditures of households and firms
 - D) The total savings in the economy
12. Which of the following is an example of imputed income included in National Income?
- A) Income from illegal activities
 - B) Interest on national debt
 - C) Rental value of owner-occupied houses
 - D) Transfer payments
13. Which of the following would increase the Gross Domestic Product (GDP) of a country?
- A) An increase in the country's exports
 - B) An increase in transfer payments
 - C) An increase in imports
 - D) An increase in depreciation
14. If a country has a Net Factor Income from Abroad (NFIA) of (-)\$500 million, this means:
- A) The country has a trade surplus of \$500 million
 - B) The country's residents are receiving more income from abroad than they are sending out
 - C) The country's residents are sending more income abroad than they are receiving
 - D) The country has a budget deficit of \$500 million
15. In the expenditure method, which of the following components is subtracted to calculate GDP?
- A) Government expenditure
 - B) Private consumption expenditure
 - C) Net exports
 - D) Imports
16. The National Income concept which includes Net Factor Income from Abroad is:
- A) Gross Domestic Product
 - B) Net Domestic Product
 - C) Gross National Product
 - D) National Disposable Income
17. If NDP at market prices is given, which of the following adjustments is needed to calculate GDP at market prices?
- A) Add Depreciation
 - B) Subtract Net Factor Income from Abroad
 - C) Add Net Indirect Taxes
 - D) Subtract Subsidies
18. National Income does not include:
- A) Income from illegal activities

- B) Wages and salaries
 - C) Corporate profits
 - D) Rent received by landlords
19. 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
20. Read the following statements and answer the following question.
- I. Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production,
 - II. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.
- (a) Only I is true
 - (b) Both I and II are true
 - (c) Only II is true
 - (d) Neither I nor II is true
21. Which of the following is considered an economic "bad" in the calculation of GDP?
- A) Pollution
 - B) Public goods
 - C) Private consumption
 - D) Capital formation
22. Which of the following is deducted from Personal Income to arrive at Personal Disposable Income?
- A) Corporate tax
 - B) Direct taxes and Indirect tax
 - C) Direct taxes
 - D) National Debt Interest
23. Gross Domestic Product at fc (GDP_{fc}) 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
24. 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

25. Non-economic activities are
- those activities whose value is excluded from national income calculation as it will involve double counting
 - those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value
 - those which do not involve production of goods and services as they are meant to provide hobbies and leisure time activities
 - those which result in production for self consumption and therefore not included in national income calculation
26. Which of the following does not enter into the calculation of national income?
- Exchange of previously produced goods
 - Exchange of second hand goods
 - Exchange of stocks and bonds
 - All the above
27. Which of the following enters into the calculation of national income?
- The value of the services that accompany the sale
 - Additions to inventory stocks of final goods and materials
 - Stocks and bonds sold during the current year
 - (a) and (b) above
28. Gross National Product at market prices GNP MP is
- GDP MP + Net Factor Income from Abroad
 - GDP MP - Net Factor Income from Abroad
 - GDP MP - Depreciation
 - GDP MP + Net Indirect Taxes
29. Choose the correct statement
- GNP includes earnings of Indian corporations overseas and Indian residents working overseas; but GDP does not include these
 - NNPFC = National Income = FID (factor income earned in domestic territory) - NFIA.
 - Capital goods and inventory investment are excluded from computation of GDP
 - NDPMP = GDPMP + Depreciation
30. The basis of distinction between market price and factor cost is
- net factor income from abroad
 - net indirect taxes (i.e., Indirect taxes - Subsidies)
 - net indirect taxes (i.e., Indirect taxes + Subsidies)
 - depreciation (consumption of fixed capital)
31. If net factor income from abroad is positive, then
- national income will be greater than domestic factor incomes.
 - national income will be less than domestic factor incomes.
 - net exports will be negative
 - domestic factor incomes will be greater than national income
32. The GDP per capita is
- a measure of a country's economic output per person
 - actual current income receipts of persons
 - national income divided by population

- d) (a) and (c) above
33. Which of the following is an example of transfer payment?
- Old age pensions and family pensions
 - Scholarships given to deserving diligent students.
 - Compensation given for loss of property due to floods
 - All the above
34. Mixed income of the self-employed means
- net profits received by self-employed people
 - outside wages received by self-employed people
 - combined factor payments which are not distinguishable
 - wages due to non-economic activities
35. Which of the following is added to national income while calculating personal income?
- Transfer payments to individuals
 - Undistributed profits of corporate
 - Transfer payments made to foreigners
 - Mixed income of self-employed
36. Which of the following is NOT included in the calculation of Gross Domestic Product (GDP) of a country?
- Final consumption expenditure
 - Government spending
 - Intermediate goods
 - Gross fixed capital formation
37. Gross National Product (GNP) differs from Gross Domestic Product (GDP) by:
- Adding net factor income from abroad
 - Subtracting depreciation
 - Subtracting net factor income from abroad
 - Adding depreciation
38. Which of the following statements regarding Real GDP is TRUE?
- Real GDP accounts for changes in the population size.
 - Real GDP adjusts for price level changes over time.
 - Real GDP includes net factor income from abroad.
 - Real GDP excludes government expenditure.
39. Which of the following measures excludes depreciation from GDP?
- Gross Domestic Product (GDP)
 - Net Domestic Product (NDP)
 - Gross National Product (GNP)
 - Disposable Income
40. Which of the following is used to calculate the GDP Deflator?
- Nominal GDP divided by Real GDP multiplied by 100
 - Real GDP divided by Nominal GDP multiplied by 100
 - Gross National Product divided by Gross Domestic Product multiplied by 100
 - Nominal GDP divided by Net National Product multiplied by 100
41. What is the GDP deflator in a year where Nominal GDP is ₹1200 billion and Real GDP is ₹1000 billion?
- 100
 - 120
 - 80
 - 150
42. Which of the following best defines Net National Product (NNP) at Factor Cost?
- GDP at market prices minus depreciation
 - GNP at factor cost minus depreciation
 - GNP minus indirect taxes
 - GNP minus net factor income from abroad
43. If India's GDP Deflator increases from 150 to 160 between two years, which of the following has most likely occurred?

- a) Deflation b) Decrease in Real GDP
 c) Inflation d) Increase in Real GDP
44. If Net Factor Income from Abroad (NFIA) is negative, which of the following will be TRUE?
 a) GNP will be less than GDP.
 b) GDP will be less than GNP.
 c) GNP and GDP will be equal.
 d) The country has a trade surplus.
45. The difference between Gross National Product (GNP) and Net National Product (NNP) is:
 a) Indirect taxes b) Net factor income from abroad
 c) Depreciation d) Subsidies
46. Which of the following is an indicator of economic well-being and standard of living?
 a) Gross Domestic Product (GDP) b) Per Capita GDP
 c) Net National Product (NNP) d) Gross National Product (GNP)
47. When calculating the GDP of an economy, which of the following is subtracted from Gross Domestic Product to arrive at Net Domestic Product?
 a) Net factor income from abroad b) Depreciation
 c) Indirect taxes d) Subsidies
48. Which of the following will NOT be included in calculating GDP using the expenditure approach?
 a) Government purchases
 b) Net exports
 c) Interest payments on government debt
 d) Gross investment
49. If the GDP deflator in Year 1 is 100 and in Year 2 it is 120, what is the inflation rate between these two years?
 a) 20% b) 12% c) 10% d) 18%
50. In the context of national income, Disposable Personal Income (DPI) refers to:
 a) Personal income minus government transfer payments
 b) National income minus corporate taxes
 c) Personal income minus personal taxes
 d) National income minus depreciation

Unit 2

Keynesian Theory Of Determination of N I

- What is the formula for Aggregate Demand (AD) in a two-sector model?
 - A) $C + S$
 - B) $C + I$
 - C) $C + G$
 - D) $C + I + G$
- In the Keynesian model, equilibrium national income occurs when:
 - A) $AD > AS$
 - B) $AD < AS$
 - C) $AD = AS$
 - D) $S = C$
- If the income of an economy increases from 1000 to 1500 and the consumption increases from 900 to 1200, what is the Marginal Propensity to Consume (MPC)?
 - A) 0.6
 - B) 0.5
 - C) 0.75
 - D) 0.3
- What is the formula for the multiplier (K) when MPC is given?
 - A) $1/MPC$
 - B) $1/1-MPS$
 - C) $1/1-MPC$
 - D) $1/APS$
- If $MPC = 0.75$, what will be the value of the multiplier (K)?

$$300 / 500 = .6$$

$$1 / 1 - .75 = 1 / .25 = 4$$

- A) 2 B) 4 C) 3 D) 5
6. Which of the following is not a leakage in the circular flow of income?
- A) Savings B) Taxes
 - C) Imports D) Investments
7. If savings $(S) = -50 + 0.5Y$ and investment $(I) = 7000$, what is the equilibrium level of national income?
- A) 14,100 B) 13,000
 - C) 15,000 D) 10,000
8. In a two-sector model, the relationship between aggregate supply (AS) and national income (Y) is represented as:
- A) $AS = C + I$ B) $AS = Y$
 - C) $AS = C + S$ D) $AS = Y - C$
9. What happens to APC (Average Propensity to Consume) as income increases?
- A) It increases. B) It decreases.
 - C) It remains constant. D) It becomes negative.
10. If $C = 20 + 0.25Y$ and investment $(I) = 100$, what is the equilibrium level of income?
- A) 400 B) 160
 - C) 600 D) 480
11. In the four-sector model, which of the following is subtracted to calculate net exports?
- A) Imports B) Exports
 - C) Government expenditure D) Investment
12. The formula for savings function is given by:
- A) $S = (-)a + (1-b)Y$ B) $S = a + bY$
 - C) $S = -b + (1-a)Y$ D) $S = C + I$
13. What is the effect on national income when imports exceed exports?
- A) National income increases. B) National income decreases.
 - C) National income remains unchanged. D) National income fluctuates.
14. If $MPC = 0.6$ and investment increases by 200 crores, what will be the total increase in income?
- A) 500 crores B) 400 crores
 - C) 300 crores D) 600 crores
15. The consumption function $C = 100 + 0.75Y$ represents:
- A) Autonomous consumption of 100 and MPC of 0.75.
 - B) Autonomous consumption of 0.75 and MPC of 100.
 - C) Autonomous consumption of 100 and MPC of 0.25.
 - D) Autonomous consumption of 75 and MPC of 0.25.
16. If the Marginal Propensity to Save (MPS) is 0.4, what is the Marginal Propensity to Consume (MPC)?
- A) 0.4 B) 0.6 C) 1 D) 0.5
17. If the investment multiplier is 4, what is the Marginal Propensity to Save (MPS)?
- A) 0.25 B) 0.2 C) 0.75 D) 0.5
18. Which of the following would result in an inflationary gap?
- A) $AD < AS$ B) $AD = AS$
 - C) $AD > AS$ D) $C = S$
19. If autonomous consumption $(a) = 50$, $MPC = 0.8$, and $Y = 200$, what is the level of consumption?
- A) 150 B) 200 C) 210 D) 190
20. If the autonomous investment is 60 and the savings function is $S = -50 + 0.5Y$, what is the equilibrium level of income?
- A) 220 B) 160 C) 200 D) 110

21. What is the value of the foreign trade multiplier when $MPC = 0.8$, MPM (Marginal Propensity to Import) = 0.2, and there is no tax?

- A) 2.5 B) 4 C) 5 D) 6

22. If consumption tax (T) = 10, transfer payments (Tr) = 5, and the consumption function is $C = 20 + 0.8Y_d$, what is the disposable income Y_d when $Y = 100$?

- A) 80 B) 85 C) 90 D) 95

23. In a three-sector model, the equation for aggregate demand (AD) is:

- A) $C + I$ B) $C + I + T$ C) $C + T + G$ D) $C + I + G$

24. In a four-sector model, the equation $M = M + mY$, m represents:

- A) Marginal Propensity to Consume.
• B) Marginal Propensity to Save.
• C) Marginal Propensity to Import.
• D) Marginal Propensity to Export.

25. What is the value of the investment multiplier when $MPC = 0.5$?

- A) 1 B) 2 C) 3 D) 4

26. Which of the following is an injection into the circular flow of income?

- A) Taxes B) Savings C) Exports D) Imports

27. In the context of the Keynesian model, what does the term "ex-ante" refer to?

- A) Actual expenditure
• B) Planned expenditure
• C) Past expenditure
• D) Current expenditure

28. If $C = 100 + 0.6Y$ and savings are given by Saving at equilibrium is 100, what is the equilibrium level of income?

- A) 300 B) 250 C) 400 D) 500

29. If the government increases spending by 200 units and the multiplier is 2.5, what will be the total increase in income?

- A) 300 units B) 500 units C) 600 units D) 700 units

30. What is the Marginal Propensity to Consume (MPC) when the Multiplier (K) is 5?

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

31. The Keynesian cross diagram is used to show:

- A) The relationship between inflation and unemployment.
• B) The determination of equilibrium output.
• C) The trade-off between saving and investment.
• D) The interaction of demand and supply in a market.

32. What happens to the multiplier effect if there is a higher propensity to import?

- A) The multiplier effect increases.
• B) The multiplier effect decreases.
• C) The multiplier effect remains unchanged.
• D) The multiplier effect becomes zero.

33. The consumption function $C = 50 + 0.9Y$ suggests that:

- A) 90% of additional income is spent on consumption.
• B) 50% of additional income is spent on consumption.
• C) 50% of total income is spent on consumption.
• D) None of the above.

34. Which of the following best describes the concept of autonomous consumption?

- A) Consumption that depends on income.
• B) Consumption that occurs even when income is zero.
• C) Consumption that varies with changes in investment.
• D) None of the above.

1
0.8 - 0.2 = 1.2

35. If the income multiplier is 4 and the government wants to increase national income by 800 units, how much should government spending increase?

- A) 100 units B) 200 units C) 300 units D) 400 units

36. In the Keynesian framework, what is the primary cause of unemployment?

- A) High interest rates B) Low aggregate demand
- C) High savings rate D) Excessive imports

37. What would happen to the equilibrium level of income if the marginal propensity to save (MPS) increases?

- A) It increases. B) It decreases.
- C) It remains unchanged. D) It becomes negative.

38. If the savings function is $S = (-)20 + 0.2Y$ and investment is 60, what is the equilibrium level of income?

- A) 400 B) 300 C) 200 D) 500

39. The concept of a “deflationary gap” refers to:

- A) Excess demand in the economy.
- B) Insufficient aggregate demand to maintain full employment.
- C) Excess supply in the economy.
- D) A surplus in the balance of payments.

40. Which of the following best explains the role of government spending in the Keynesian model?

- A) To increase the money supply.
- B) To adjust the levels of aggregate demand.
- C) To control inflation.
- D) To promote exports.

41. 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

42. 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

43. 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.

44. 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

45. 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

46. 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
47. 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
48. 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
49. 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.
50. 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

CHAPTER 7

• PUBLIC FINANCE

UNIT 1: FISCAL FUNCTIONS: AN OVERVIEW

1. What is the primary economic problem faced by every economy?
 - A) What, how, and for whom to produce
 - B) How to control inflation
 - C) How to generate employment
 - D) How to ensure technological advancement
2. Which of the following is not a basic economic function according to Richard Musgrave's theory?
 - A) Allocation
 - B) Redistribution
 - C) Globalization
 - D) Stabilization
3. Adam Smith's economic philosophy advocates for which type of government role?
 - A) Maximum intervention in the economy
 - B) Moderate intervention in markets
 - C) Minimal government activity
 - D) Full control over resource allocation
4. Which of the following is not a cause of market failure?
 - A) Externalities
 - B) Perfect competition

- C) Factor immobility
 - D) Imperfect information
5. The government's allocation function is concerned with the:
- A) Optimal use of monetary policy
 - B) Redistribution of income
 - C) Efficient allocation of scarce resources
 - D) Regulation of foreign exchange reserves
6. What is a key method the government uses to redistribute income?
- A) By setting interest rates
 - B) Through taxation and public expenditure
 - C) Increasing money supply
 - D) Regulating international trade
7. Macroeconomic stabilization is primarily aimed at:
- A) Price stability and full employment
 - B) Income redistribution
 - C) Market competition
 - D) Industrial regulation
8. Fiscal policy primarily involves adjusting:
- A) Supply and demand
 - B) Government spending and taxes
 - C) Interest rates
 - D) Exchange rates
9. Who introduced the concept of Fiscal Federalism?
- A) John Maynard Keynes
 - B) Adam Smith
 - C) Richard Musgrave
 - D) Milton Friedman
10. Article 246 of the Indian Constitution demarcates powers into:
- A) Legislative and executive powers
 - B) Central, state, and concurrent lists
 - C) Financial and non-financial powers
 - D) Monetary and fiscal powers
11. Which of the following is a subject under the Union List in India?
- A) Education
 - B) Agriculture
 - C) Defence
 - D) Public health
12. The Finance Commission is primarily responsible for:
- A) Managing inflation
 - B) Distributing tax revenue between the Union and states
 - C) Supervising local governments
 - D) Regulating imports and exports
13. Which article deals with taxes levied by the Union but collected and appropriated by the states?
- A) Article 268
 - B) Article 270
 - C) Article 275
 - D) Article 280
14. What percentage of states' share in central taxes was recommended by the 15th Finance Commission?
- A) 50%
 - B) 41%
 - C) 45%
 - D) 42%
15. The introduction of Goods and Services Tax (GST) in India happened in:
- A) 2014
 - B) 2016
 - C) 2017
 - D) 2018

16. The primary objective of GST was to:
- A) Increase inflation
 - B) Simplify the indirect tax system
 - C) Abolish direct taxes
 - D) Increase state revenues
17. Who collects Central GST (CGST)?
- A) States
 - B) Union government
 - C) Local governments
 - D) Private corporations
18. The Finance Commission's recommendations on tax sharing are:
- A) Binding
 - B) Non-binding
 - C) Advisory
 - D) Mandatory for states
19. The term 'deadweight loss' in redistribution policies refers to:
- A) Increased profits in the economy
 - B) Efficiency losses due to redistribution measures
 - C) A surplus in the government budget
 - D) Increased productivity
20. Which of the following is not a key function of fiscal policy?
- A) Stabilization
 - B) Redistribution
 - C) Allocation
 - D) Inflationary targeting
21. Public goods typically lead to market failure because:
- A) They are non-excludable and non-rivalrous
 - B) They are expensive to produce
 - C) They encourage competition
 - D) They result in negative externalities
22. Which of the following is not a method of resource allocation used by the government?
- A) Direct production
 - B) Import restrictions
 - C) Regulatory policies
 - D) Tax incentives
23. Which policy instrument is primarily used for macroeconomic stabilization?
- A) Redistribution policy
 - B) Monetary policy
 - C) Regulatory policy
 - D) Allocation policy
24. In fiscal federalism, who is responsible for economic stabilization according to Richard Musgrave?
- A) Local governments
 - B) State governments
 - C) Central government
 - D) Judiciary
25. Which Indian article refers to statutory grants-in-aid from the Union to certain states?
- A) Article 275
 - B) Article 270
 - C) Article 282
 - D) Article 268
26. Under which condition do states need the Centre's consent to borrow money?

- A) Always
 - B) If they are already indebted to the Centre
 - C) If their revenue exceeds their expenditure
 - D) If they are borrowing internationally
27. Which of the following articles in the Constitution deals with loans for any public purpose?
- A) Article 275
 - B) Article 270
 - C) Article 293
 - D) Article 280
28. What is the primary goal of redistribution policies?
- A) Maximizing economic growth
 - B) Achieving equitable distribution of wealth and income
 - C) Reducing government intervention
 - D) Expanding international trade
29. Which of the following leads to imperfect competition in the market?
- A) Free trade
 - B) Monopoly power
 - C) Full employment
 - D) Efficient pricing mechanisms
30. The Goods and Services Tax (GST) system divides tax collection between:
- A) Local and state governments
 - B) Central and local governments
 - C) Central and state governments
 - D) Corporations and individuals
31. 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
32. Macroeconomic stabilization may be achieved through
- (a) Free market economy
 - (b) Fiscal policy
 - (c) Monetary policy
 - (d) (b) and (c) above
33. 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
34. 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 govt: spending.

35. The justification for government intervention is best described by
- The need to prevent recession and inflation in the economy
 - The need to modify the outcomes of private market actions
 - The need to bring in justice in distribution of income and wealth
 - All the above
36. Read the following statements:
- The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy
 - Market failures can at all times be corrected through government intervention
 - Public goods will not be produced in sufficient quantities in a market economy
- Of the three statements above:
- 1, 2 and 3 are correct
 - 1 and 3 are correct
 - 2 and 3 are correct
 - 3 alone is correct
37. When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?
- It is trying to establish stability in an economy
 - It is trying to redistribute income and wealth
 - It is trying to allocate resources to their most efficient use
 - It is creating a source of market failure
38. Government of UK decides to provide most modern road infrastructure throughout the nation. This can be classified as
- Distribution function
 - Allocation function
 - Stabilization function
 - None of the above
39. Which function does the government perform when it provides transfer payments to offer support to the underprivileged
- Allocation
 - Efficiency
 - Distribution
 - None of the above
40. Which of the following is true in respect of centre and state government finances?
- The centre can tax agricultural income and mineral rights
 - Finance commission recommends distribution of taxes b/w the centre and states
 - GST subsumes majority of direct taxes and a few indirect taxes
 - IGST is collected by the state governments
41. GST compensation is given to
- to the industries which have made losses due to the introduction of GST
 - to compensate for the lower rates of GST on essential items
 - to the states to compensate for the loss of revenue due to the introduction of GST
 - to compensate for the loss of input tax credit in manufacturing
42. Which of the following is true in respect of the role of Finance Commissions in India?
- The distribution between the union and the states of the net proceeds of taxes
 - Allocation between the states of the respective shares of such proceeds.
 - Make Recommendations on integrated GST on inter-state movement of goods and services
 - To recommend expenditure decentralization among different states
- I and II are correct

- (b) II and III are correct
 - (c) I, II and III are correct
 - (d) All the above are correct
43. 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
44. 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
45. 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
46. 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
47. 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
48. 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
49. 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
50. 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

UNIT 2:

MARKET FAILURE AND GOVERNMENT INTERVENTION TO CORRECT MARKET FAILURE

1. What is market failure?
 - A) A situation where government intervention distorts the market
 - B) A situation where the free market leads to an optimal allocation of resources
 - C) A situation where the free market leads to a misallocation of resources
 - D) A situation where there is no market for a good
2. Which of the following is NOT a reason for market failure?
 - A) Market power
 - B) Externalities
 - C) Public goods
 - D) Complete information
3. What is market power?
 - A) The ability of a firm to charge below marginal cost
 - B) The ability of a firm to raise the market price of a good above its marginal cost
 - C) The inability to influence market prices
 - D) The monopoly held by government firms
4. What do firms with market power tend to do?
 - A) Produce more than competitive firms
 - B) Produce less output and charge a higher price
 - C) Produce at the same output as competitive firms
 - D) Lower prices to increase market share
5. What is an externality?
 - A) The cost borne by the producer of a good
 - B) The private benefit of consuming a good
 - C) A cost or benefit that accrues to a third party not involved in the transaction
 - D) The surplus gained by market participants
6. What is a negative externality?
 - A) A cost imposed on third parties due to an activity
 - B) A benefit received by third parties
 - C) A reduction in production
 - D) A tax imposed by the government
7. Which of the following is an example of a positive externality?
 - A) Pollution from a factory
 - B) Noise from construction
 - C) Vaccination reducing disease spread
 - D) A factory emitting harmful chemicals into a river
8. What is a public good?
 - A) A good that is non-rivalrous and non-excludable
 - B) A good that is only provided by private markets
 - C) A good that can be consumed only once
 - D) A good that is excludable but non-rivalrous
9. Which is NOT a characteristic of public goods?

- A) Non-rivalrous
 - B) Non-excludable
 - C) Indivisible
 - D) Private property rights
10. What is the 'free rider' problem associated with public goods?
- A) People paying too much for a public good
 - B) People benefiting from a good without paying for it
 - C) Governments refusing to provide public goods
 - D) Firms charging extra for public goods
11. What are private costs?
- A) Costs borne by the government
 - B) Costs paid by consumers
 - C) Costs borne by producers or consumers directly involved in a transaction
 - D) Social costs imposed on third parties
12. What is social cost?
- A) The cost faced only by producers
 - B) The cost of externalities only
 - C) Private costs plus external costs
 - D) Only the cost of production
13. What is asymmetric information?
- A) When both parties have the same information
 - B) When one party knows more than the other in a transaction
 - C) When sellers are unaware of market conditions
 - D) When governments control all market information
14. Which of the following best describes adverse selection?
- A) High-quality goods are driven out of the market by low-quality goods
 - B) Buyers and sellers make fully informed decisions
 - C) Sellers have more information than buyers
 - D) Externalities are eliminated
15. Moral hazard occurs when:
- A) A party takes more risks because they do not bear the full cost
 - B) Both parties in a transaction are fully informed
 - C) The government provides too much information
 - D) Public goods are overused
16. What is a merit good?
- A) A good that is deemed socially desirable
 - B) A good that has negative externalities
 - C) A good that is always provided by the private sector
 - D) A good that leads to adverse selection
17. What type of good is healthcare often considered?
- A) Demerit good
 - B) Private good
 - C) Merit good
 - D) Public good
18. What is a demerit good?
- A) A good that is socially undesirable
 - B) A good provided by the government
 - C) A public good
 - D) A good with no externalities
19. Which is NOT a government intervention to address market power?

- A) Antitrust laws
 - B) Subsidies to monopolies
 - C) Price regulation
 - D) Promoting competition
20. What is the purpose of a pollution tax?
- A) To increase pollution
 - B) To lower private costs
 - C) To internalize the external cost of pollution
 - D) To raise government revenue only
21. What is a cap-and-trade system?
- A) A direct ban on pollution
 - B) A system where firms trade pollution permits
 - C) A subsidy for pollution control
 - D) A tax on emissions
22. Which of the following goods often suffer from the free rider problem?
- A) Food
 - B) National defense
 - C) Smartphones
 - D) Automobiles
23. What is the goal of government subsidies for positive externalities?
- A) To increase the production of goods with positive externalities
 - B) To limit access to those goods
 - C) To reduce the price of all goods
 - D) To discourage production of such goods
24. What is one disadvantage of pollution taxes?
- A) They decrease pollution significantly
 - B) They may increase prices of goods with inelastic demand
 - C) They are simple to administer
 - D) They benefit producers more than consumers
25. Which of the following is an example of a negative production externality?
- A) A firm training workers who later benefit other firms
 - B) A person getting vaccinated
 - C) A factory polluting a river
 - D) A firm reducing pollution
26. What is the purpose of a price ceiling?
- A) To set a maximum price that can be charged for a good
 - B) To ensure prices are always high
 - C) To limit production of goods
 - D) To reduce demand
27. What is a price floor?
- A) The minimum price that can be charged for a good
 - B) The maximum price that can be charged for a good
 - C) The amount a good can be taxed
 - D) The minimum wage a worker can earn
28. Which of the following best describes government provision of public goods?
- A) It is essential because the market fails to provide them optimally
 - B) It leads to overconsumption of the good
 - C) It eliminates externalities
 - D) It reduces the free rider problem
29. What happens when there is information failure in the market?

- A) Resources are allocated efficiently
 - B) Resources are misallocated
 - C) Public goods are provided optimally
 - D) Market failure is avoided
30. What is an example of government intervention in a market with information failure?
- A) Mandatory labeling of products
 - B) Allowing producers to set prices freely
 - C) Reducing taxes on producers
 - D) Promoting monopolies
31. Which of the following could cause market failure due to asymmetric information?
- A) Buyers and sellers having the same knowledge
 - B) High-quality goods being widely available
 - C) Sellers knowing more about a product than buyers
 - D) No externalities being present
32. Which of the following is a public good?
- A) A private tutor service
 - B) A lighthouse
 - C) A movie theater
 - D) A smartphone
33. What is the main goal of antitrust laws?
- A) To increase production costs
 - B) To promote competition and prevent monopolies
 - C) To subsidize failing companies
 - D) To tax companies more heavily
34. What is the effect of a subsidy on goods with positive externalities?
- A) It increases the supply of those goods
 - B) It decreases the demand for those goods
 - C) It eliminates market externalities
 - D) It lowers the equilibrium price
35. What happens to a good that is under-consumed in the presence of positive externalities?
- A) The market provides too much of the good
 - B) The market provides too little of the good
 - C) There is no effect on the market
 - D) The government bans the good
36. What is an example of a negative consumption externality?
- A) A person getting vaccinated
 - B) A person smoking in public
 - C) A student attending college
 - D) A company investing in pollution control
37. Which of the following is an example of a merit good?
- A) Alcohol
 - B) Cigarettes
 - C) Education
 - D) Firearms
38. What is one method to correct market failure caused by demerit goods?
- A) Imposing high taxes on the good
 - B) Providing subsidies
 - C) Encouraging advertising
 - D) Lowering the price of the good
39. What happens when public goods are left to the free market?

- A) They are efficiently provided
 - B) They are overproduced
 - C) They are underprovided or not provided at all
 - D) They eliminate externalities
40. What is the goal of government intervention in cases of market failure?
- A) To increase private costs
 - B) To discourage competition
 - C) To correct misallocation of resources and improve social welfare
 - D) To eliminate all economic transactions
41. Which of the following is NOT a form of direct control for reducing negative externalities?
- a) Emission standards
 - b) Cap-and-trade systems
 - c) Licensing and production quotas
 - d) Prohibiting harmful activities
42. A Pigouvian tax is imposed to:
- a) Encourage consumption of merit goods
 - b) Reduce positive externalities
 - c) Internalize negative externalities
 - d) Support the development of new technologies
43. One disadvantage of pollution taxes is that:
- a) It always leads to unemployment
 - b) It makes it hard for producers to shift the burden to consumers
 - c) It is difficult to determine and administer effectively
 - d) It discourages foreign direct investment (FDI)
44. The cap-and-trade system operates primarily by:
- a) Setting a fixed tax for every firm
 - b) Allowing firms to trade pollution permits
 - c) Subsidizing environmentally friendly firms
 - d) Imposing a flat tax on carbon emissions
45. Which country implemented a cap-and-trade system for sulfur dioxide emissions in 1994?
- a) India
 - b) China
 - c) The United States
 - d) Germany
46. In the case of positive externalities, government intervention may take the form of:
- a) Corrective taxes
 - b) Corrective subsidies
 - c) Tradable permits
 - d) Imposing fines
47. Which of the following is an example of a merit good?
- a) Cigarettes
 - b) Public parks
 - c) Carbon credits
 - d) Sulfur dioxide permits
48. Demerit goods are typically associated with:
- a) Positive externalities
 - b) Over-consumption under free markets
 - c) High government subsidies
 - d) Reduced government regulations

49. What is a common government intervention for demerit goods like cigarettes and alcohol?

- a) Providing subsidies
- b) Imposing unusually high taxes
- c) Issuing pollution permits
- d) Providing public healthcare

50. The free-rider problem typically leads to under-provision of:

- a) Public goods
- b) Demerit goods
- c) Merit goods
- d) Negative externalities

UNIT 3:

THE PROCESS OF BUDGET MAKING: SOURCES OF REVENUE, MANAGEMENT OF EXPENDITURE AND PUBLIC DEBT

1. What is a budget?

- A) A financial statement detailing income and expenses
- B) A document that outlines government projects
- C) A list of government employees
- D) A statement that defines monetary policy

2. Which article of the Indian Constitution mandates the presentation of the Annual Financial Statement?

- A) Article 110
- B) Article 111
- C) Article 112
- D) Article 113

3. Which ministry is primarily responsible for the budget preparation process in India?

- A) Ministry of Commerce
- B) Ministry of Home Affairs
- C) Ministry of Finance
- D) Ministry of External Affairs

4. What does the 'BE' in budget documents stand for?

- A) Budget Expenditure
- B) Budget Estimates
- C) Budget Execution
- D) Budget Enactment

5. When is the Union Budget of India typically presented?

- A) April 1st
- B) January 1st
- C) February 1st
- D) March 1st

6. What are the three accounts into which the Annual Financial Statement is divided?

- A) Revenue Account, Capital Account, Financial Account
- B) Consolidated Fund of India, Contingency Fund of India, Public Account
- C) Tax Account, Non-Tax Account, Investment Account
- D) General Fund, Special Fund, Reserve Fund

7. What does the Guillotine process in the Indian Parliament involve?

- A) Immediate approval of the budget
- B) Final voting on all outstanding demands for grants
- C) Rejection of budget proposals
- D) Discussion on a specific budget segment

8. Which committee in the Parliament reviews the demands for grants from various ministries?

- A) Standing Committee
- B) Select Committee
- C) Public Accounts Committee
- D) Estimates Committee

9. Which of the following is NOT a type of government receipt?

- A) Revenue Receipts
- B) Capital Receipts
- C) External Receipts
- D) Non-Debt Capital Receipts

10. Which of the following is a key source of non-tax revenue?

- A) Corporation Tax
- B) Dividends and profits from public sector enterprises
- C) Customs Duties
- D) Union Excise Duties

11. Which department manages the levy and collection of direct taxes in India?

- A) CBIC
- B) CBDT
- C) NITI Aayog
- D) Department of Economic Affairs

12. What does the term 'Fiscal Deficit' refer to?

- A) The difference between total expenditure and total revenue receipts
- B) The excess of government revenue over expenditure
- C) The difference between tax revenue and non-tax revenue
- D) The total amount of money borrowed by the government

13. What is the primary objective of public debt management?

- A) To increase taxation levels
- B) To finance fiscal deficits at the lowest long-term cost
- C) To reduce government spending
- D) To create new government assets

14. What is a 'Revenue Deficit'?

- A) The excess of government capital expenditure over revenue receipts
- B) The excess of government revenue expenditure over revenue receipts
- C) The shortfall in the tax revenue of the government
- D) The difference

15. Which of the following is a capital receipt?

- A) Income tax
- B) Interest receipts
- C) Recoveries of loans
- D) Customs duties

16. The process of budget preparation begins in which months of the previous year?

- A) March-April
- B) June-July
- C) August-September
- D) October-November

17. Which of the following is NOT a measure of deficit?

- A) Revenue Deficit
- B) Capital Deficit
- C) Fiscal Deficit
- D) Primary Deficit

18. What does the Finance Bill primarily detail?

- A) The government's expenditure estimates
- B) The imposition and regulation of taxes
- C) The allocation of grants

- D) The performance of public sector enterprises
19. What is an 'Outcome Budget'?
- A) A budget that reflects the final financial statements of the government
 - B) A document linking budgetary allocations to annual performance targets
 - C) A budget used only during economic crises
 - D) A revised budget after parliamentary discussions
20. Which fund is used by the government for urgent unforeseen expenditures?
- A) Consolidated Fund of India
 - B) Contingency Fund of India
 - C) Public Account
 - D) Reserve Fund
21. The 'Central Board of Indirect Taxes and Customs' (CBIC) manages which of the following?
- A) Direct taxes
 - B) Union excise duties and customs duties
 - C) State-level taxes
 - D) Income tax
22. What is the primary focus of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003?
- A) Increase government revenue
 - B) Regulate tax policies
 - C) Reduce fiscal deficits and public debt
 - D) Control inflation
23. Which of the following best defines a 'Balanced Budget'?
- A) A budget where revenue equals expenditure
 - B) A budget where revenue exceeds expenditure
 - C) A budget with no government debt
 - D) A budget primarily focused on social welfare
24. Who has the power to approve, refuse, or reduce demands for grants in the Indian Parliament?
- A) Rajya Sabha
 - B) Lok Sabha
 - C) President
 - D) Prime Minister
25. What is the key function of the Department of Expenditure in budget management?
- A) Collection of taxes
 - B) Oversight of public financial management
 - C) Conducting pre-budget consultations
 - D) Drafting the Finance Bill
26. What is the term used for a budget with a surplus?
- A) Balanced Budget
 - B) Deficit Budget
 - C) Excess Budget
 - D) Surplus Budget
27. What does 'Primary Deficit' indicate?
- A) The total fiscal deficit
 - B) The fiscal deficit minus interest payments
 - C) The revenue deficit minus capital receipts
 - D) The shortfall in non-tax revenue
28. Which entity manages India's domestic marketable debt?
- A) Ministry of Finance
 - B) Reserve Bank of India (RBI)

- C) NITI Aayog
 - D) Department of Economic Affairs
29. In what year was the Railway Budget merged with the General Budget in India?
- A) 2015-16
 - B) 2016-17
 - C) 2017-18
 - D) 2018-19
30. What is the 'Vote on Account'?
- A) A vote to approve tax policies
 - B) A temporary budget presented during election years
 - C) A bill authorizing expenditure
 - D) A report on government revenues
31. What is the 'Consolidated Fund of India'?
- A) The government's reserve fund
 - B) A fund for all revenues received by the government
 - C) A fund used for emergencies only
 - D) A fund managed by state governments
32. Which committee examines public expenditure and its efficiency?
- A) Estimates Committee
 - B) Public Accounts Committee
 - C) Committee on Public Undertakings
 - D) Standing Committee on Finance
33. What is the 'Public Account of India'?
- A) An account for all government loans
 - B) An account that deals with transactions where the government acts as a banker
 - C) A reserve account for economic crises
 - D) An account for foreign aid
34. What does the term 'Zero-Based Budgeting' refer to?
- A) Budgeting that starts from a clean slate
 - B) A budget with zero deficits
 - C) A budget that excludes capital expenditures
 - D) A balanced budget with no borrowing
35. What is the purpose of the 'Finance Commission' in India?
- A) To manage the government's investments
 - B) To recommend the distribution of taxes between the Centre and the States
 - C) To approve budget allocations
 - D) To audit government expenditure
36. What is the role of the 'Department of Revenue' in the budget process?
- A) Preparing the budget
 - B) Collection and regulation of taxes
 - C) Management of public debt
 - D) Allocation of grants to states
37. Which body is responsible for auditing government receipts and expenditure?
- A) Central Board of Direct Taxes (CBDT)
 - B) Comptroller and Auditor General (CAG)
 - C) Reserve Bank of India (RBI)
 - D) Ministry of Finance
38. What is the significance of the 'Budget Speech'?
- A) It outlines the government's fiscal policy and financial objectives
 - B) It lists all tax changes for the upcoming year
 - C) It provides detailed estimates of revenue and expenditure
 - D) It announces new government schemes

39. Which section of the Indian population is primarily affected by the 'Tax Expenditure' policy?

- A) Middle-class taxpayers
- B) The poor and marginalized
- C) Corporate sector
- D) High-income earners

40. What does 'Supplementary Grants' mean?

- A) Additional funds provided to ministries beyond the budget estimates
- B) Grants allocated to state governments
- C) Funds for emergency relief
- D) Loans provided to public sector enterprises

41. 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

42. The revenue deficit for country A is

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

43. Fiscal deficit of country A is

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

44. Primary deficit of Country A is

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

45. 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

46. 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 govt to incur expenditure from the revenue receipts only
- (d) be passed before the budget is taken for discussion

47. 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

48. 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
49. 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
50. Corporate tax..
- (a) is collected by the union government and can be a capital receipt or revenue receipt
 - (b) may be collected by the respective states and fall under revenue receipts
 - (c) may be collected either by the centre or states and fall under revenue receipts
 - (d) is collected by the union government and is a revenue receipt

UNIT 4 – FISCAL POLICY

1. What is the primary objective of fiscal policy in most countries?
 - A) Increase national savings
 - B) Control the money supply
 - C) Influence the pattern of economic activity and growth
 - D) Regulate foreign exchange rates
2. Which of the following is NOT a common objective of fiscal policy?
 - A) Maintenance of price stability
 - B) Equitable distribution of income
 - C) Control of the money supply
 - D) Achievement of full employment
3. What type of government expenditure is used to generate direct income and employment?
 - A) Current expenditure
 - B) Capital expenditure
 - C) Transfer payments
 - D) Public debt repayment
4. How does the government stimulate economic activity during a recession?
 - A) Increase in taxation
 - B) Reduction in public debt
 - C) Initiating public works programs
 - D) Increasing interest rates
5. What is the 'multiplier effect' in the context of fiscal policy?
 - A) The effect of tax increases on inflation
 - B) The process by which an initial government expenditure leads to further economic activity
 - C) The impact of government borrowing on interest rates
 - D) The relationship between tax rates and government revenue
6. Which of the following taxes is most likely to reduce disposable income?
 - A) Corporate tax
 - B) Sales tax
 - C) Income tax
 - D) Property tax
7. During a recession, what fiscal policy might the government adopt to encourage private consumption?

- A) Increase in income taxes
 - B) Increase in corporate taxes
 - C) Reduction in income taxes
 - D) Increase in public debt
8. What is the effect of a reduction in corporate taxes during a recession?
- A) Decreases private investment
 - B) Increases disposable income
 - C) Increases business profits and encourages investment
 - D) Increases government revenue
9. What is 'internal debt'?
- A) Government borrowing from foreign countries
 - B) Government borrowing from its own citizens
 - C) Government borrowing through international institutions
 - D) Government borrowing through the issuance of bonds in foreign markets
10. What financial instrument is commonly used by the govt to raise long-term capital?
- A) Treasury bills
 - B) Small savings schemes
 - C) Long-term capital bonds
 - D) National Savings Certificats
11. What is the purpose of a 'balanced budget'?
- A) To reduce national debt
 - B) To increase aggregate demand
 - C) To equalize government revenues and expenditures
 - D) To increase public savings
12. What type of budget occurs when leakages are greater than injections?
- A) Balanced budget
 - B) Deficit budget
 - C) Surplus budget
 - D) Expansionary budget
13. What is the impact of a budget surplus on national debt?
- A) Increases national debt
 - B) Reduces national debt
 - C) Has no impact on national debt
 - D) Leads to inflation
14. What is the primary goal of expansionary fiscal policy?
- A) Increase in government savings
 - B) Reduction in inflation
 - C) Closing a recessionary gap
 - D) Increase in public debt
15. How does the government typically fund an expansionary fiscal policy?
- A) By reducing taxes
 - B) By reducing public debt
 - C) Through borrowing or monetization
 - D) By increasing interest rates
16. What does 'crowding out' refer to in the context of fiscal policy?
- A) The reduction in private investment due to increased government borrowing
 - B) The increase in private investment due to decreased government borrowing
 - C) The elimination of inflation through fiscal policy
 - D) The increase in government savings at the expense of private savings
17. Which of the following is NOT a method to achieve contractionary fiscal policy?
- A) Decrease in government spending
 - B) Increase in personal income taxes

- C) Reduction in corporate taxes
 - D) A combination of decreased spending and increased taxes
18. What is the purpose of a contractionary fiscal policy?
- A) To increase aggregate demand
 - B) To stimulate economic growth
 - C) To reduce an inflationary gap
 - D) To reduce public debt
19. How does infrastructure spending influence long-term economic growth?
- A) By increasing government savings
 - B) By creating short-term jobs
 - C) By providing the private sector with necessary overheads
 - D) By reducing aggregate demand
20. Which of the following is a positive supply-side effect of fiscal policy?
- A) Increase in interest rates
 - B) Infrastructure spending
 - C) Increase in public debt
 - D) Decrease in tax rates
21. What is the effect of well-designed tax policy on economic growth?
- A) It always decreases economic growth
 - B) It encourages innovation and entrepreneurship
 - C) It discourages private investment
 - D) It increases government borrowing
22. How do indirect taxes contribute to reducing income inequality?
- A) By being uniformly applied to all goods
 - B) By being levied more heavily on luxury goods
 - C) By reducing government revenue
 - D) By increasing the prices of essential goods
23. Which type of public expenditure directly targets the redistribution of income?
- A) Defence spending
 - B) Subsidies on inputs for producers
 - C) Transfer payments
 - D) Capital expenditure on infrastructure
24. What is a progressive tax system?
- A) A tax system where everyone pays the same percentage of income
 - B) A tax system where taxes are levied on goods and services
 - C) A tax system where tax rates increase as income increases
 - D) A tax system where taxes are reduced over time
25. What is one limitation of fiscal policy related to timing?
- A) The impact of fiscal policy is immediate
 - B) Fiscal policy can easily be reversed if it fails
 - C) There are significant lags in recognition, decision, and implementation
 - D) Fiscal policy always reduces inflation
26. Why is it difficult to reduce government spending on certain items?
- A) Because government spending is always efficient
 - B) Due to the political and social importance of these items
 - C) Because these items are never significant in the budget
 - D) Because these items are funded by external sources
27. What is a common conflict between different objectives of fiscal policy?
- A) Expansionary fiscal policy may reduce unemployment but worsen inflation
 - B) Contractionary fiscal policy always leads to economic growth

- C) Fiscal policy can only address either inflation or unemployment, not both
 - D) Fiscal policy cannot influence economic growth
28. What might be a consequence of increasing social security benefits?
- A) Increase in work incentives
 - B) Reduction in government debt
 - C) Disincentives to work and save
 - D) Increase in private investment
29. What is a potential negative effect of government borrowing?
- A) Decrease in public sector investments
 - B) Increase in national savings
 - C) Higher interest rates and reduced private investment
 - D) Increase in government revenues
30. Which fiscal policy measure is used to correct an inflationary gap?
- A) Increase in government spending
 - B) Decrease in personal income taxes
 - C) Increase in government spending and reduction in taxes
 - D) Decrease in government spending and increase in taxes
31. What is the role of 'transfer payments' in fiscal policy?
- A) They reduce government debt
 - B) They are used for capital investments
 - C) They redistribute income to the disadvantaged
 - D) They increase aggregate demand directly
32. How does a well-designed tax policy impact market failures?
- A) It discourages innovation
 - B) It prevents market failures completely
 - C) It corrects market failures resulting from externalities
 - D) It increases government intervention in markets
33. What does 'recognition lag' refer to in fiscal policy?
- A) The delay in implementing fiscal measures after recognizing an issue
 - B) The time taken to identify economic problems requiring fiscal intervention
 - C) The delay in understanding the impact of fiscal policy changes
 - D) The time required for the public to recognize fiscal policy changes
34. What is 'monetization' in the context of fiscal policy?
- A) Selling government bonds to reduce public debt
 - B) Printing additional money to finance government expenditures
 - C) Reducing government borrowing
35. Which of the following is a limitation of using fiscal policy to control inflation?
- A) It always leads to increased economic growth
 - B) It can lead to increased government debt
 - C) It is instantly effective
 - D) It eliminates all forms of economic instability
36. What is the primary purpose of infrastructure investment by the government?
- A) To reduce public debt
 - B) To provide necessary overheads for the private sector
 - C) To directly increase tax revenue
 - D) To immediately control inflation
37. What is the impact of 'budget deficit' on national debt?
- A) It reduces national debt
 - B) It has no effect on national debt
 - C) It increases national debt

- D) It stabilizes national debt
38. What is the effect of an increase in government spending on private investment?
- A) It always leads to an increase in private investment
 - B) It may lead to a 'crowding out' effect, reducing private investment
 - C) It has no effect on private investment
 - D) It directly reduces government borrowing
39. Which of the following is an example of a transfer payment?
- A) Capital expenditure on roads
 - B) Tax rebates
 - C) Subsidies on agricultural products
 - D) Unemployment benefits
40. What does 'impact lag' refer to in fiscal policy?
- A) The time taken to implement fiscal measures
 - B) The time required for the fiscal policy to have its intended effect
 - C) The delay in recognizing economic issues
 - D) The time taken to make decisions on fiscal policy
41. Fiscal policy refers to the
- (a) use of govt: spending, taxation and borrowing to influence the level of economic activity
 - (b) government activities related to use of government spending for supply of essential goods
 - (c) use of government spending, taxation and borrowing for reducing the fiscal deficits
 - (d) (a) and (b) above
42. 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)
43. 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
44. During recession the fiscal policy of the government should be directed towards
- (a) Increasing the taxes and reducing the aggregate demand
 - (b) Decreasing taxes to ensure higher disposable income
 - (c) Increasing government expenditure and increasing taxes
 - (d) None of the above
45. 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
46. 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
47. 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
48. 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
49. 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
50. 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

CHAPTER 8 – MONEY MARKET

UNIT: 1

The concept of Money Demand: Important Theories

1. Which of the following is NOT a function of money?
 - a) Store of value
 - b) Unit of account
 - c) Medium of exchange
 - d) Barter system
2. What would happen in an economy without money?
 - a) The economy would flourish
 - b) Barter system would be used
 - c) Everyone would save more
 - d) Trade would be easier
3. Fiat money derives its value from:
 - a) The backing of precious metals
 - b) Government decree
 - c) The amount of physical currency in circulation
 - d) International trade
4. Which of the following was used as a medium of exchange before modern money?
 - a) Peppercorns
 - b) Diamonds
 - c) Gasoline
 - d) Paper
5. Which of the following characteristics does NOT apply to money?
 - a) Durability
 - b) Recognizability
 - c) Easily reproducible
 - d) Portability
6. What is broad money?
 - a) Money backed by gold reserves
 - b) Currency and transferable deposits
 - c) All forms of money providing store of value and liquidity
 - d) Only physical cash in circulation
7. Which of the following can be part of broad money?
 - a) National currency
 - b) Travelers checks
 - c) Term deposits
 - d) All of the above
8. The opportunity cost of holding money is related to:
 - a) The level of inflation
 - b) Interest rates
 - c) Government policies
 - d) Currency exchange rates
9. What is meant by 'liquidity'?
 - a) The ability to buy goods quickly
 - b) The ease of converting assets into cash
 - c) The ability to maintain purchasing power
 - d) The portability of money

10. Which of the following is considered 'narrow money'?
 - a) Term deposits
 - b) Nontransferable savings deposits
 - c) Currency and transferable deposits
 - d) Foreign investments
11. What does the term 'fiat money' refer to?
 - a) Money backed by gold
 - b) Money that holds intrinsic value
 - c) Money issued by the government without backing
 - d) Bartered goods
12. In the Quantity Theory of Money, the 'V' stands for:
 - a) Value of money
 - b) Volume of transactions
 - c) Velocity of money
 - d) Volatility of money
13. The Cambridge equation of money demand focuses on:
 - a) Money supply
 - b) Cash balances
 - c) Interest rates
 - d) Barter transactions
14. Which economist is associated with the Liquidity Preference Theory?
 - a) Irving Fisher
 - b) John Maynard Keynes
 - c) Alfred Marshall
 - d) Milton Friedman
15. The precautionary motive for holding money refers to:
 - a) Buying speculative assets
 - b) Saving for unforeseen circumstances
 - c) Earning interest on cash
 - d) Financing daily expenses
16. The speculative demand for money arises because:
 - a) Interest rates fluctuate
 - b) People want to avoid inflation
 - c) Prices are stable
 - d) Barter economy exists
17. Higher interest rates typically lead to:
 - a) Higher speculative demand for money
 - b) Lower speculative demand for money
 - c) More liquidity in the economy
 - d) Increased supply of money
18. What was the main currency used before fiat money?
 - a) Paper
 - b) Oil
 - c) Gold and silver
 - d) Stocks
19. Which factor directly influences the demand for money?
 - a) Total wealth
 - b) Government regulations
 - c) Price level
 - d) Exchange rate
20. The term "Cambridge k" refers to:
 - a) A constant representing desired cash balances
 - b) Interest rate elasticity

- c) A measure of inflation
 - d) Government spending
21. The Quantity Theory of Money implies that an increase in the money supply leads to:
- a) Lower interest rates
 - b) Higher prices
 - c) More savings
 - d) Lower inflation
22. In Fisher's equation of exchange, 'T' represents:
- a) Taxation
 - b) Total output or transactions
 - c) Total wealth
 - d) Total demand
23. Keynes viewed speculative demand for money as:
- a) Constant across all interest rates
 - b) Positively related to the rate of interest
 - c) Inversely related to the rate of interest
 - d) Unrelated to interest rate
24. The speculative demand curve for money at the aggregate level is:
- a) Upward sloping
 - b) Downward sloping
 - c) Flat
 - d) U-shaped
25. What happens when the market rate of interest is below the critical rate of interest?
- a) People invest in bonds
 - b) People hold their wealth in liquid cash
 - c) People convert cash into foreign currency
 - d) People store their wealth in commodities
26. Which of the following does NOT affect the demand for money?
- a) Real GDP
 - b) Inflation rate
 - c) Technological innovation
 - d) Government tax policies
27. According to the Cambridge approach, the proportion of income people hold as cash balances is represented by:
- a) Y
 - b) P
 - c) k
 - d) i
28. Which of the following factors would reduce the need for holding liquid money?
- a) Increased financial innovation
 - b) Decreased interest rates
 - c) Higher inflation
 - d) Increase in price levels
29. The equation $PY = M_d$, M_d represents:
- a) The supply of money
 - b) The demand for money
 - c) The price elasticity of money
 - d) National savings
30. In the Keynesian theory, what motivates the speculative demand for money?
- a) The need to finance day-to-day expenses
 - b) The expectation of future changes in bond prices
 - c) The desire to earn interest on deposits
 - d) The need to hedge against inflation

31. Which theory emphasizes that money is demanded for its ability to smooth consumption over time?
 - a) Quantity Theory of Money
 - b) Cambridge Approach
 - c) Keynesian Liquidity Preference Theory
 - d) Classical Theory
32. In Fisher's expanded version of the quantity theory, M' represents:
 - a) Money velocity
 - b) Demand deposits
 - c) Nominal GDP
 - d) Total output
33. The precautionary demand for money is primarily influenced by:
 - a) Interest rates
 - b) Future investment opportunities
 - c) Unexpected expenses
 - d) Transaction costs
34. Keynes' theory of liquidity preference suggests that:
 - a) People prefer bonds over money
 - b) People hold money for speculative purposes when interest rates are low
 - c) Money is the primary store of value
 - d) Interest rates have no effect on money demand
35. Which economist is associated with the Transaction Approach to the quantity theory of money?
 - a) Alfred Marshall
 - b) Irving Fisher
 - c) John Maynard Keynes
 - d) A.C. Pigou
36. In the equation $MV=PY$, the term ' MV ' stands for:
 - a) Price level
 - b) Money supply
 - c) Market value
 - d) Multiplier effect
37. The precautionary motive of holding money refers to the desire to:
 - a) Earn interest
 - b) Make immediate transactions
 - c) Guard against future uncertainties
 - d) Purchase assets at low price
38. In the Cambridge version of the quantity theory of money, ' k ' stands for:
 - a) The velocity of money
 - b) The proportion of income people hold as cash
 - c) The nominal income
 - d) The interest rate
39. According to Keynes, speculative demand for money increases when:
 - a) Bond prices are rising
 - b) Economic growth accelerates
 - c) Inflation is high
 - d) Interest rates are falling
40. In the equation $PY=M_d$ the term ' P ' refers to:
 - a) Productivity
 - b) Price level
 - c) Profitability
 - d) Public debt

41. What motivates the speculative demand for money in Keynes' liquidity preference theory?
- a) Daily transactions
 - b) Hedging against inflation
 - c) Uncertainty about future interest rates
 - d) Earning higher returns on savings
42. In classical monetary theory, an increase in the money supply would likely cause:
- a) An increase in real GDP
 - b) A proportional increase in the price level
 - c) A rise in unemployment
 - d) A decline in consumer spending
43. The term 'liquidity preference' was introduced by which economist?
- a) Milton Friedman
 - b) Alfred Marshall
 - c) John Maynard Keynes
 - d) Adam Smith
44. In Fisher's equation of exchange, what does 'V' represent?
- a) Value of transactions
 - b) Velocity of money
 - c) Volume of goods
 - d) Valuation of currency
45. The Cambridge cash-balance approach differs from the Fisherian approach by focusing on:
- a) The amount of cash people want to hold
 - b) The velocity of money
 - c) The relationship between inflation and money supply
 - d) The role of government intervention in money supply
46. Which of the following would Keynes consider as a reason for the precautionary demand for money?
- a) Saving for unanticipated emergencies
 - b) Saving for future purchases
 - c) Avoiding inflation
 - d) Earning high interest on cash
47. In Fisher's equation of exchange, $MV=PT$ 'T' represents:
- a) Transactions or output
 - b) Total supply of money
 - c) Time period
 - d) Taxes
48. Who is credited with developing the classical theory of money?
- a) Milton Friedman
 - b) Irving Fisher
 - c) Adam Smith
 - d) John Maynard Keynes
49. Which factor does not significantly affect the liquidity preference of individuals?
- a) Inflation expectations
 - b) Interest rates
 - c) Exchange rate
 - d) Transaction costs
50. The Cambridge version of the quantity theory of money is more focused on:
- a) The role of income in money demand

- b) The velocity of money
- c) The government's role in the money supply
- d) The use of money in speculative activities

UNIT 2:

CONCEPT OF MONEY SUPPLY

1. Which of the following is NOT a primary function of money?
 - o a) Medium of exchange
 - o b) Unit of account
 - o c) Store of value
 - o d) Source of credit
2. What is M1 in terms of money supply?
 - o a) Broad money
 - o b) Narrow money (Currency with the public + demand deposits with banks)
 - o c) Time deposits with the banking system
 - o d) Savings deposits of post office savings banks
3. Broad money (M3) is defined as:
 - o a) M1 + time deposits with the banking system
 - o b) M2 + time deposits with the banking system
 - o c) M1 + savings deposits of post office savings banks
 - o d) M1 + foreign exchange reserves
4. Which of the following entities is NOT included in the definition of the 'public' for money supply purposes?
 - o a) Households
 - o b) Commercial Banks
 - o c) Non-banking financial institutions
 - o d) Foreign central banks
5. Money supply is primarily determined by:
 - o a) Central bank and government
 - o b) Commercial banks only
 - o c) Public institutions only
 - o d) Foreign exchange reserves only
6. The currency issued by the central bank is backed by:
 - o a) Real assets
 - o b) Gold reserves and foreign securities
 - o c) Stock market value
 - o d) National debt
7. Money supply M2 is defined as:
 - o a) M1 + savings deposits with post office savings banks
 - o b) M3 - time deposits
 - o c) M1 + time deposits with banks
 - o d) Narrow money + foreign exchange assets
8. Who is empowered to issue currency in an economy?
 - o a) Commercial Banks
 - o b) Ministry of Finance
 - o c) Central Bank
 - o d) Government Treasury
9. Central Bank Digital Currencies (CBDCs) are:
 - o a) Cryptocurrency issued by private entities
 - o b) Legal tender issued by a central bank in digital form

- c) Foreign exchange reserves held by banks
 - d) Private debt instruments
10. The total money stock of a country consists of:
- a) High-powered money only
 - b) Credit money only
 - c) High-powered money and credit money
 - d) Foreign exchange reserves
11. Which of the following is NOT considered when measuring money supply?
- a) Interbank deposits
 - b) Demand deposits with banks
 - c) Currency with the public
 - d) Time deposits with banks
12. Money supply changes when:
- a) The central bank issues more bonds
 - b) The magnitude of any of its constituents changes
 - c) There is a rise in stock market prices
 - d) Foreign exchange rates change
13. The main tool used by central banks to control the money supply is:
- a) Government spending
 - b) Open market operations
 - c) Taxation policy
 - d) Fiscal policy
14. Which measure of money supply includes demand deposits with banks but excludes time deposits?
- a) M1
 - b) M2
 - c) M3
 - d) M4
15. High-powered money consists of:
- a) Currency issued by the central bank and bank reserves
 - b) Foreign exchange reserves only
 - c) Credit money only
 - d) Government liabilities only
16. Which of the following constitutes the largest component of M3 in the given data (December 30, 2022)?
- a) Currency with the public
 - b) Demand deposits with banks
 - c) Time deposits with banks
 - d) 'Other' deposits with the Reserve Bank
17. What is the main difference between M1 and M3?
- a) Inclusion of foreign exchange reserves in M3
 - b) Inclusion of time deposits in M3
 - c) Inclusion of savings deposits of post office savings banks in M3
 - d) Exclusion of central bank liabilities in M3
18. According to the monetary base approach, money supply is determined by:
- a) The central bank alone
 - b) A combination of the central bank, commercial banks, and the public
 - c) The fiscal policy of the government
 - d) Foreign exchange reserves and stock market values
19. In India, money supply statistics are compiled and disseminated by the RBI since:

- a) 1950
 - b) 1967
 - c) 1935
 - d) 1977
20. The money multiplier is:
- a) The ratio of broad money to high-powered money
 - b) The ratio of currency with the public to demand deposits
 - c) The total credit created by commercial banks
 - d) The ratio of demand deposits to time deposits
21. Net Bank Credit to the Government Sector includes credit provided by:
- a) Commercial banks only
 - b) The Reserve Bank and other banks
 - c) The central government only
 - d) Private banks only
22. Which of the following components of the money supply is considered most liquid?
- a) Time deposits with banks
 - b) Demand deposits with banks
 - c) Foreign exchange reserves
 - d) Net bank credit to the government
23. Which component saw the highest percentage increase from March 31, 2022, to December 30, 2022?
- a) Currency with the public
 - b) Demand deposits with banks
 - c) Time deposits with banks
 - d) Net bank credit to the government sector
24. The RBI's minimum reserve system allows it to:
- a) Issue currency without backing by any reserves
 - b) Issue currency while maintaining a minimum reserve of gold and foreign securities
 - c) Issue currency backed by 100% gold reserves
 - d) Issue currency based on foreign exchange rates
25. Which of the following is NOT a determinant of money supply according to the money multiplier approach?
- a) Currency held by the public
 - b) Bank reserves
 - c) Demand for foreign exchange
 - d) Credit created by commercial banks
26. Reserve money in an economy primarily refers to:
- a) Net foreign exchange reserves
 - b) Central bank liabilities to the public and commercial banks
 - c) Bank credit to the commercial sector
 - d) Demand deposits with the central bank
27. A Central Bank Digital Currency (CBDC) differs from cryptocurrency in that:
- a) It is backed by the government and is legal tender
 - b) It is decentralized and has no official issuer
 - c) It operates on a peer-to-peer network without regulation
 - d) It is not convertible to cash
28. Which of the following is NOT included in the calculation of M3?
- a) Currency with the public
 - b) Time deposits with banks

- c) Foreign exchange reserves
 - d) Demand deposits with banks
29. The minimum reserve system allows RBI to issue currency by maintaining a minimum reserve of:
- a) 100% of the total currency issued
 - b) A certain amount of gold and foreign securities
 - c) The total value of foreign exchange reserves
 - d) Government debt instruments only
30. The success of monetary policy depends largely on the controllability of:
- a) Fiscal deficit
 - b) The monetary base and money supply
 - c) Stock market prices
 - d) Inflation rates
31. In the context of India, which measure was introduced from 1967-68 besides M1?
- a) M3
 - b) Aggregate Monetary Resources (AMR)
 - c) Central Bank Digital Currency
 - d) Money Multiplier
32. Money supply statistics in India are updated:
- a) Annually
 - b) Quarterly
 - c) Monthly
 - d) Weekly
33. Which of the following contributes directly to an increase in money supply?
- a) Increase in time deposits
 - b) Reduction in foreign exchange reserves
 - c) Higher government currency liabilities to the public
 - d) Increase in non-monetary liabilities of the banking sector
34. Which of the following is not a constituent of the high-powered money?
- a) Currency issued by the central bank
 - b) Bank reserves
 - c) Time deposits with banks
 - d) Government liabilities to the public
35. Which of the following has the authority to issue fiat money in a country?
- a) Commercial banks
 - b) Central bank
 - c) Ministry of Finance
 - d) Private companies
36. What is the monetary base also known as?
- a) High-powered money
 - b) Currency
 - c) Bank deposits
 - d) M1
37. The formula for money supply is:
- a) $M = C + R$
 - b) $M = C + D$
 - c) $M = R + D$
 - d) $M = H + C$
38. The money multiplier represents the ratio between:
- a) Money supply and GDP

- b) Stock of money and stock of high-powered money
 - c) Currency and deposits
 - d) High-powered money and inflation
39. Which of the following increases the money multiplier?
- a) Higher reserve ratio
 - b) Higher currency-deposit ratio
 - c) Lower reserve ratio
 - d) Decrease in high-powered money
40. If the reserve ratio is 10%, the money multiplier will be:
- a) 5
 - b) 10
 - c) 1
 - d) 0.1
41. Excess reserves are defined as:
- a) Total reserves - required reserves
 - b) Required reserves - total reserves
 - c) Reserves + loans
 - d) Loans - deposits
42. If the reserve ratio is 0.15 and the currency-deposit ratio is 0.5, the money multiplier is approximately:
- a) 1.5
 - b) 2.3
 - c) 2.5
 - d) 3.2
43. A higher currency-deposit ratio leads to:
- a) An increase in the money multiplier
 - b) A decrease in the money multiplier
 - c) No effect on the money multiplier
 - d) A decrease in the reserve ratio
44. Which ratio represents the behaviour of commercial banks in determining money supply?
- a) Currency-deposit ratio
 - b) Reserve ratio
 - c) Interest rate
 - d) Inflation rate
45. In which scenario will the money multiplier fall?
- a) When excess reserves increase
 - b) When currency-deposit ratio decreases
 - c) When reserve ratio falls
 - d) When there is more credit creation
46. Which of the following is an immediate determinant of money supply?
- a) Taxation policies
 - b) The stock of high-powered money
 - c) Government expenditure
 - d) Trade balance
47. What happens if the central bank increases the required reserve ratio?
- a) Banks will lend more, increasing the money supply
 - b) Banks must contract loans, decreasing the money supply
 - c) No change in money supply
 - d) Currency in circulation will increase
48. How does the opportunity cost of holding excess reserves affect the money multiplier?
- a) Higher opportunity cost leads to higher excess reserves
 - b) Lower opportunity cost reduces excess reserves
 - c) Higher opportunity cost reduces excess reserves
 - d) Opportunity cost has no effect on excess reserves

$$m = 1 + \frac{0.5}{0.15 + 0.5} = 2.30$$

49. When public behaviour changes and more currency is held than deposits, the money multiplier will:

- a) Increase
- b) Decrease
- c) Remain constant
- d) First increase, then decrease

50. If the required reserve ratio is 10% and banks hold 2% excess reserves, what is the money multiplier?

- a) 7.6
- b) 8.3
- c) 8.5
- d) 9.2

UNIT 3: MONETARY POLICY

$$m = \frac{1}{r + e} = \frac{1}{0.10 + 0.02} = \frac{1}{0.12} = 8.33$$

1. What is the primary goal of the Reserve Bank of India's (RBI) monetary policy?

- a) Employment generation
- b) Economic stability
- c) Price stability
- d) Trade balance

2. How does the RBI typically conduct monetary policy?

- a) By changing tax rates
- b) By adjusting government expenditure
- c) By adjusting the supply of money
- d) By regulating the stock market

3. What is the effect of lowering interest rates in monetary policy?

- a) Tightening
- b) Loosening
- c) Fiscal deficit
- d) Inflation control

4. What is the function of the RBI's monetary policy framework?

- a) Ensure free trade
- b) Establish monetary stability
- c) Implement tax policies
- d) Control inflation directly

5. Which of the following is NOT an objective of India's monetary policy?

- a) Economic growth
- b) Ensuring an adequate flow of credit
- c) Export promotion
- d) Maintaining a moderate interest rate structure

6. According to the RBI Act, 1934, the bank is tasked with:

- a) Regulating international trade
- b) Maintaining monetary stability
- c) Controlling fiscal policy
- d) Reducing unemployment

7. Which component of monetary policy involves tools like CRR and SLR?

- a) Transmission mechanism
- b) Objectives of monetary policy
- c) Operating procedures
- d) Inflation targeting

8. Which type of monetary policy tool directly affects the whole economy?

- a) Qualitative
- b) Quantitative
- c) Market-driven
- d) Selective credit control

9. The Cash Reserve Ratio (CRR) is:

- a) The rate at which banks lend to each other
 - b) The percentage of a bank's total deposits to be held as reserves with the RBI
 - c) A tax levied on banks' profits
 - d) A penalty imposed on banks for failing to maintain cash reserves
10. Which of the following is an example of an Open Market Operation (OMO)?
- a) RBI buying government securities
 - b) RBI printing more currency
 - c) RBI decreasing the tax rates
 - d) RBI setting lending rates
11. What happens when RBI sells government securities in the market?
- a) Inflation increases
 - b) Liquidity increases
 - c) Liquidity decreases
 - d) Currency depreciates
12. A qualitative tool of monetary policy includes:
- a) Cash Reserve Ratio
 - b) Selective credit control
 - c) Open market operations
 - d) Statutory Liquidity Ratio
13. Which rate is used by the RBI for long-term lending to banks?
- a) Repo rate
 - b) Bank rate
 - c) Reverse repo rate
 - d) Marginal Standing Facility
14. What is the primary objective of inflation targeting in India?
- a) Control government expenditure
 - b) Achieve a nominal GDP target
 - c) Maintain CPI inflation within a specified range
 - d) Stabilize the exchange rate
15. Which channel of monetary transmission affects households' saving and investment decisions?
- a) Exchange rate channel
 - b) Wealth effect channel
 - c) Cash-flow channel
 - d) Saving and investment channel
16. Lower interest rates generally lead to:
- a) Increased savings
 - b) Reduced borrowing
 - c) Increased investment
 - d) Reduced consumption
17. The transmission of monetary policy often has a time lag due to:
- a) Uncertainty about interest rates
 - b) Delayed economic response
 - c) Exchange rate fluctuations
 - d) Increased inflation expectations
18. The "asset prices and wealth channel" primarily affects:
- a) Savings
 - b) Consumption and investment
 - c) Government spending
 - d) Trade balance
19. A reduction in the reverse repo rate leads to:
- a) Banks borrowing more from RBI
 - b) Banks depositing more with RBI
 - c) Banks lending less
 - d) Reduced liquidity in the market
20. Marginal Standing Facility (MSF) is used by banks for borrowing:
- a) Long-term funds from RBI
 - b) Short-term funds from other banks
 - c) Short-term funds from RBI above the repo rate
 - d) Foreign currency from international markets

21. How often does the RBI publish a Monetary Policy Report?
- a) Quarterly
 - b) Semi-annually
 - c) Annually
 - d) Monthly
22. Which committee suggested inflation targeting as the primary objective for RBI's monetary policy?
- a) Urjit Patel Committee
 - b) Bimal Jalan Committee
 - c) Niti Aayog
 - d) Raghuram Rajan Committee
23. The maximum inflation rate tolerance level in India's inflation targeting framework is:
- a) 2%
 - b) 4%
 - c) 6%
 - d) 8%
24. The exchange rate channel of monetary policy transmission is most significant for:
- a) Domestic industries
 - b) Export-oriented industries
 - c) Agriculture
 - d) The service sector
25. If RBI lowers interest rates compared to global rates, what typically happens to the Indian rupee?
- a) It appreciates
 - b) It depreciates
 - c) It becomes stable
 - d) It becomes more volatile
26. What is the Statutory Liquidity Ratio (SLR)?
- a) The percentage of deposits that banks must keep in cash
 - b) The portion of liquid assets that banks must hold
 - c) The rate at which RBI lends to commercial banks
 - d) The exchange rate set by the RBI
27. What is meant by 'moral suasion' in monetary policy?
- a) Strict enforcement of monetary rules
 - b) Penalizing banks for non-compliance
 - c) Persuading banks to adhere to RBI's policies voluntarily
 - d) Giving incentives to banks to lend more
28. A repo rate is defined as:
- a) The rate at which banks borrow long-term funds
 - b) The rate at which banks borrow short-term funds from the RBI
 - c) The penalty rate charged to banks
 - d) The rate at which banks lend to customers
29. A failure to meet the inflation target for three consecutive quarters is considered:
- a) A minor issue
 - b) A breach of monetary policy framework
 - c) A success of monetary policy
 - d) A sign of economic stability
30. Which factor is NOT part of the inflation target failure as defined by the RBI?
- a) Average inflation below 2% for three quarters
 - b) Average inflation above 6% for three quarters

- c) Deflation in two consecutive quarters
 - d) No significant policy intervention
31. When the RBI raises the repo rate, it leads to:
- a) Cheaper loans
 - b) Higher borrowing costs
 - c) Lower deposit rates
 - d) More liquidity in the economy
32. What happens when there is a mismatch in liquidity due to foreign capital flows?
- a) Interest rates are lowered
 - b) Inflation increases
 - c) Government expenditure increases
 - d) Open market operations are conducted
33. What is a major drawback of monetary policy transmission?
- a) Inflation increases immediately
 - b) Time lag in its effects
 - c) It only affects the agriculture sector
 - d) No impact on consumption
34. Which sector is most affected by exchange rate changes?
- a) Export-oriented sectors
 - b) Agriculture
 - c) Domestic retail sector
 - d) Real estate
35. What role does liquidity adjustment play in monetary policy?
- a) Controls long-term lending
 - b) Balances short-term liquidity in the market
 - c) Adjusts foreign exchange rates
 - d) Regulates international trade
36. Which of the following is NOT a quantitative tool of monetary policy?
- a) Cash Reserve Ratio
 - b) Open Market Operations
 - c) Moral suasion
 - d) Statutory Liquidity Ratio
37. What is the primary function of the Monetary Policy Committee (MPC)?
- a) Set inflation targets
 - b) Regulate the stock market
 - c) Control fiscal policy
 - d) Formulate tax policies
38. Which entity is responsible for setting the inflation target for RBI?
- a) Ministry of Finance
 - b) Government of India
 - c) Securities and Exchange Board of India (SEBI)
 - d) World Bank
39. Higher asset prices generally lead to:
- a) Increased borrowing capacity
 - b) Lower inflation
 - c) Decreased wealth
 - d) Less consumption
40. India's inflation target framework is based on:
- a) Wholesale Price Index (WPI)
 - b) Producer Price Index (PPI)

- c) Consumer Price Index (CPI)
 - d) Retail Price Index (RPI)
41. What is the primary objective of the Reserve Bank of India's monetary policy?
- a) Boost exports
 - b) Control fiscal deficit
 - c) Maintain a judicious balance between price stability and economic growth
 - d) Increase foreign investment
42. Monetary policy is typically conducted by adjusting the supply of money through which of the following mechanisms?
- a) Taxation
 - b) Open market operations
 - c) Foreign exchange trading
 - d) Public sector investments
43. When the RBI lowers interest rates, this is referred to as:
- a) Tightening monetary policy
 - b) Easing monetary policy
 - c) Stabilizing monetary policy
 - d) Neutral monetary policy
44. Which of the following is NOT a qualitative tool of monetary policy?
- a) Moral suasion
 - b) Selective credit control
 - c) Statutory Liquidity Ratio (SLR)
 - d) Margin requirements
45. Cash Reserve Ratio (CRR) is the portion of deposits that banks must maintain with the:
- a) Ministry of Finance
 - b) Reserve Bank of India
 - c) World Bank
 - d) Commercial Banks
46. Which rate does the RBI use for penalizing banks for not maintaining required CRR or SLR?
- a) Repo rate
 - b) Bank rate
 - c) Reverse repo rate
 - d) Marginal standing facility rate
47. The Consumer Price Index (CPI) is used for targeting inflation because:
- a) It closely reflects the cost of living
 - b) It is easier to calculate
 - c) It is preferred globally
 - d) It excludes volatile items like food and fuel
48. Which channel is responsible for influencing the level of consumption and investment through changes in asset prices?
- a) Cash-flow channel
 - b) Exchange rate channel
 - c) Asset prices and wealth channel
 - d) Savings and investment channel
49. What does the 'repo rate' represent in the monetary policy framework?
- a) Rate at which banks borrow short-term funds from RBI
 - b) Rate at which RBI borrows from banks

- c) Penalty rate on banks for exceeding their borrowing limit
 - d) Rate of interest on government bonds
50. Open Market Operations (OMO) refer to:
- a) Lending to commercial banks
 - b) Buying and selling government securities in the open market
 - c) Adjusting interest rates for savings accounts
 - d) Regulating foreign exchange

CHAPTER 9: INTERNATIONAL TRADE

UNIT 1: THEORIES OF INTERNATIONAL TRADE

1. Which of the following is a direct benefit of international trade?
 - o A) Increased domestic monopolies
 - o B) Decreased efficiency in resource allocation
 - o C) Access to new markets and materials
 - o D) Reduced variety of goods available to consumers
2. The theory of comparative advantage suggests that countries should:
 - o A) Export goods in which they have an absolute advantage
 - o B) Import goods that are more expensive to produce domestically
 - o C) Export goods in which they have a comparative advantage
 - o D) Produce all goods domestically to avoid dependence
3. Which economic theory advocates for a favorable balance of trade through maximizing exports and minimizing imports?
 - o A) Comparative Advantage
 - o B) Mercantilism
 - o C) Absolute Advantage
 - o D) Heckscher-Ohlin Theory
4. Which of the following is not a factor considered in the Heckscher-Ohlin Theory?
 - o A) Labor endowment
 - o B) Capital endowment
 - o C) Technology
 - o D) Climate conditions
5. International trade can lead to:
 - o A) Less competition and innovation
 - o B) Greater specialization and efficiency
 - o C) Increased production costs
 - o D) Uniform pricing across all markets
6. Paul Krugman is associated with which trade theory?
 - o A) New Trade Theory
 - o B) Comparative Advantage
 - o C) Absolute Advantage
 - o D) Mercantilism
7. What is a primary argument against international trade?
 - o A) It leads to a wider variety of goods
 - o B) It may increase environmental degradation
 - o C) It always reduces prices for consumers
 - o D) It eliminates economic dependency
8. According to Adam Smith's theory of absolute advantage, a country should:
 - o A) Specialize in goods it produces at the lowest opportunity cost

- B) Produce goods that it can produce more efficiently than other countries
 - C) Focus on goods that require more labor
 - D) Avoid trade if it has no absolute advantage in any product
9. Which concept refers to the enhanced utility of a product as more people use it?
- A) Economies of scale
 - B) Network effects
 - C) Comparative advantage
 - D) Trade barriers
10. What is a potential disadvantage of relying too heavily on international trade?
- A) Decreased variety of goods
 - B) Economic independence
 - C) Loss of cultural identity
 - D) Reduced economic growth
11. Which of the following is a key feature of globalization in trade?
- A) Isolation of markets
 - B) Increased tariffs
 - C) Integration of global markets
 - D) Reduced communication
12. The principle of comparative advantage is primarily concerned with:
- A) Absolute cost differences
 - B) Opportunity cost differences
 - C) Political relationships
 - D) Import restrictions
13. Which economic policy involves controlling trade to increase national power by accumulating wealth through a surplus of exports?
- A) Free trade
 - B) Mercantilism
 - C) Protectionism
 - D) Liberalization
14. What does the Heckscher-Ohlin Theory emphasize in determining trade patterns?
- A) Absolute cost advantage
 - B) Relative factor endowments
 - C) Technological advancement
 - D) Cultural similarities
15. What is a common argument in favor of free trade?
- A) It reduces economic growth
 - B) It limits consumer choices
 - C) It promotes innovation and efficiency
 - D) It leads to environmental harm
16. Which theory suggests that trade increases competition and allows for greater economies of scale?
- A) New Trade Theory
 - B) Mercantilism
 - C) Heckscher-Ohlin Theory
 - D) Absolute Advantage
17. Which of the following is a potential risk associated with international trade?
- A) Increased economic isolation
 - B) Transmission of economic crises
 - C) Uniform global regulations
 - D) Decreased innovation

18. What is one way international trade can contribute to human resource development?
- A) By reducing educational opportunities
 - B) By promoting exchange of knowledge and best practices
 - C) By limiting access to advanced technologies
 - D) By reducing competition in domestic markets
19. Which theory of international trade is most concerned with differences in labor productivity?
- A) Comparative Advantage
 - B) Absolute Advantage
 - C) Heckscher-Ohlin Theory
 - D) New Trade Theory
20. What is a major benefit of economies of scale in international trade?
- A) Reduced consumer choices
 - B) Higher per-unit production costs
 - C) Increased profit margins due to lower costs
 - D) Limited market reach
21. Which concept explains why even a technologically superior country can benefit from trading with a less developed country?
- A) Absolute Advantage
 - B) Mercantilism
 - C) Comparative Advantage
 - D) Economies of Scale
22. According to the Heckscher-Ohlin Theory, a country with an abundance of capital should:
- A) Export labor-intensive goods
 - B) Import capital-intensive goods
 - C) Export capital-intensive goods
 - D) Avoid international trade
23. Which of the following is a key criticism of the Heckscher-Ohlin Theory in explaining real-world trade patterns?
- A) It does not consider transportation costs
 - B) It ignores the role of technology and economies of scale
 - C) It assumes perfect competition
 - D) It focuses solely on natural resources
24. The "new trade theory" suggests that a major driver of trade between similar countries is:
- A) Comparative advantage based on technology
 - B) Differences in natural resource endowments
 - C) Increasing returns to scale and network effects
 - D) Cultural exchange and similarities
25. Which statement best reflects a limitation of the theory of absolute advantage?
- A) It accounts for opportunity costs
 - B) It assumes that labor is the only factor of production
 - C) It explains trade patterns based on technological differences
 - D) It considers transportation and transaction costs
26. What is international trade?
- a) Exchange of domestic goods
 - b) Exchange of goods, services, and resources between countries
 - c) Exporting only goods
 - d) Importing only services

27. Which economist is associated with the theory of Absolute Advantage?
- a) David Ricardo
 - b) Adam Smith
 - c) Eli Heckscher
 - d) Paul Krugman
28. Mercantilism emphasizes:
- a) Free trade
 - b) More imports than exports
 - c) More exports than imports
 - d) Balanced trade
29. Which of the following is a benefit of international trade?
- a) Decreased efficiency in resource use
 - b) Economic growth and rising incomes
 - c) Increased monopolies
 - d) Limited market access
30. According to the theory of comparative advantage, countries should specialize in goods:
- a) With the highest production cost
 - b) They produce at a lower opportunity cost
 - c) That other countries can produce efficiently
 - d) With no comparative advantage
31. Which of the following is NOT an assumption of the theory of absolute advantage?
- a) No transportation costs
 - b) Two countries and two commodities
 - c) Mobile labour between countries
 - d) Labour is mobile within the country
32. Heckscher-Ohlin theory focuses on:
- a) Differences in capital to labour ratio
 - b) Technological differences
 - c) Factor endowments
 - d) Political influence
33. According to Adam Smith's absolute advantage theory, trade occurs when:
- a) One country has a cost advantage in producing one good, and the other has a cost advantage in another good
 - b) Both countries have the same production costs
 - c) A country has no advantage in any product
 - d) Countries are identical in all aspects
34. Which factor is NOT a major influence in international trade patterns according to modern theory?
- a) Technology transfer
 - b) Economies of scale
 - c) Differences in factor prices
 - d) Currency differences
35. The theory of comparative advantage was developed by:
- a) Paul Krugman
 - b) Adam Smith
 - c) David Ricardo
 - d) Eli Heckscher
36. A major criticism of international trade openness is:
- a) It leads to an increase in monopolies

- b) Unequal market access among trading partners
 - c) A lack of product variety
 - d) Higher transportation costs
37. Which of the following is a negative impact of international trade on underdeveloped countries?
- a) High economic growth
 - b) Risky dependence on foreign countries
 - c) Increased innovation
 - d) Diversification of exports
38. In the context of comparative advantage, if Country A is more productive in producing both goods compared to Country B, then:
- a) Trade is unnecessary
 - b) Both countries should focus on domestic production
 - c) Country B should stop trading
 - d) Country A still benefits from trade with Country B
39. What is the key difference between the theory of comparative costs and modern trade theory?
- a) Focus on technological innovation
 - b) Based on consumer preferences
 - c) Based on absolute advantage
 - d) Focus on factor endowments
40. Paul Krugman's new trade theory suggests that:
- a) Trade only benefits developed countries
 - b) Markets naturally lead to Pareto efficiency
 - c) Trade creates economies of scale and increases competition
 - d) Trade does not influence product variety
41. Which of the following factors leads to the rise of intra-industry trade?
- a) Trade in dissimilar products
 - b) Differences in political influence
 - c) Specialization in different types of similar goods
 - d) Technological stagnation
42. Which theory explains the trade pattern between capital-intensive and labor-intensive countries?
- a) Absolute Advantage Theory
 - b) Comparative Advantage Theory
 - c) Heckscher-Ohlin Theory
 - d) New Trade Theory
43. Which concept from the New Trade Theory involves the idea that consumers gain more utility as more people use a good or service?
- a) Economies of scale
 - b) Opportunity cost
 - c) Network effects
 - d) Factor endowment
44. The Heckscher-Ohlin theory predicts that countries with abundant labour will:
- a) Export labour-intensive goods
 - b) Import labour-intensive goods
 - c) Specialize in high-tech goods
 - d) Avoid international trade
45. The term "opportunity cost" in the theory of comparative advantage refers to:
- a) The cost of not producing other goods

- b) The monetary cost of production
 - c) The value of imported goods
 - d) The transportation cost
46. Which is a direct benefit of international trade for consumers?
- a) Access to innovative products at lower prices
 - b) Limited variety in goods
 - c) Reduced access to foreign markets
 - d) Increased monopolies
47. Which of the following is a consequence of too much export orientation?
- a) Greater economic autonomy
 - b) Distorted investment priorities
 - c) Higher resource allocation efficiency
 - d) Improved living standards
48. Why does trade reduce domestic monopolies?
- a) It increases tariffs
 - b) It allows more competition from foreign firms
 - c) It reduces the availability of resources
 - d) It prevents new market entry
49. How does international trade affect the global value chain for emerging economies?
- a) Lowers product quality
 - b) Moves them up the value chain by improving product standards
 - c) Prevents them from engaging in trade
 - d) Restricts access to raw materials
50. The presence of economies of scale in international trade results in:
- a) Higher costs for exporting firms
 - b) Lower per-unit costs with increased production
 - c) Decreased competition among firms
 - d) Less demand for products

UNIT 2-THE INSTRUMENTS OF TRADE POLICY

1. What is the primary goal of tariffs?
 - a) To promote imports
 - b) To protect domestic industries
 - c) To decrease government revenue
 - d) To increase exports
2. Which country did India sign a Comprehensive Economic Partnership Agreement (CEPA) with in 2022?
 - a) United Kingdom
 - b) United Arab Emirates
 - c) Australia
 - d) Canada
3. An ad valorem tariff is based on which of the following?
 - a) The weight of the imported goods
 - b) The value of the imported goods
 - c) The quantity of the imported goods
 - d) The quality of the imported goods
4. Which of the following is an example of a specific tariff?
 - a) 10% on the value of bicycles
 - b) ₹1000 per imported bicycle

- c) `500 per imported car
 - d) 5% on luxury items
5. What is the bound tariff?
- a) A tariff set below market value
 - b) A tariff that a WTO member cannot exceed without negotiation
 - c) A tariff applied only on agricultural goods
 - d) A tariff imposed temporarily
6. Dumping occurs when:
- a) Goods are sold domestically at higher prices
 - b) Goods are sold abroad at prices below domestic costs
 - c) Goods are exported without tariffs
 - d) Tariffs are reduced on exports
7. What does MFN stand for in international trade?
- a) Most-Favoured Nation
 - b) Main-Financial Nation
 - c) Marginal-Freedom Nation
 - d) Multi-Financial Negotiation
8. Which of the following is an example of a mixed tariff?
- a) 5% ad valorem or `3000 per tonne, whichever is higher
 - b) 1000 per car and 500 per bike
 - c) `200 per unit of imported sugar
 - d) 10% on all imported luxury goods
9. Which policy instrument combines quotas and tariffs?
- a) Compound tariff
 - b) Tariff rate quota
 - c) Preferential tariff
 - d) Ad valorem tariff
10. A prohibitive tariff is set:
- a) High enough to prevent imports
 - b) Low enough to encourage imports
 - c) Only on luxury goods
 - d) Only during inflationary periods
11. Which of the following agreements involves zero tariff rates among member countries?
- a) WTO Agreement
 - b) NAFTA
 - c) MFN Tariff Agreement
 - d) Variable Tariff Agreement
12. What is the main disadvantage of specific tariffs?
- a) They vary with the value of the goods
 - b) Their protective value decreases as the price of goods increases
 - c) They require customs valuation
 - d) They increase government revenue
13. Which of the following is true of trade liberalization?
- a) It increases the importance of tariffs
 - b) It has reduced the role of tariffs in trade protection
 - c) It encourages higher tariffs

- d) It makes domestic producers less competitive
14. Which of the following is an example of anti-dumping duties?
- a) Duties imposed on gold jewelry from ASEAN
 - b) `500 duty on imported bicycles
 - c) 10% duty on exported textiles
 - d) Lower tariffs on goods from NAFTA countries
15. What is a countervailing duty intended to offset?
- a) Inflation
 - b) Export subsidies
 - c) Specific tariffs
 - d) MFN tariffs
16. Which of the following refers to unilateral preferential treatment for goods from developing countries?
- a) NAFTA
 - b) GSP (Generalized System of Preferences)
 - c) WTO
 - d) Bound tariff
17. What does the escalated tariff structure do?
- a) Reduces tariffs on raw materials
 - b) Increases tariffs as goods move up the value chain
 - c) Imposes flat tariffs on all goods
 - d) Applies higher tariffs to agricultural products
18. Which type of tariff is commonly used to prevent foreign competition and protect domestic industries?
- a) Ad valorem tariff
 - b) Specific tariff
 - c) Prohibitive tariff
 - d) Mixed tariff
19. Which country signed an Economic Cooperation and Trade Agreement (ECTA) with India in 2022?
- a) United States
 - b) Australia
 - c) UK
 - d) Germany
20. Which organization governs Most-Favoured Nation tariffs?
- a) WTO
 - b) NAFTA
 - c) ASEAN
 - d) EU
21. What is the impact of tariffs on consumer surplus in the importing country?
- a) Increases consumer surplus
 - b) Decreases consumer surplus
 - c) Does not affect consumer surplus
 - d) Leads to surplus in government revenue
22. Which of the following best describes a compound tariff?
- a) A combination of a specific and ad valorem tariff
 - b) A tariff based on the weight and quality of goods
 - c) A tariff that escalates over time
 - d) A tariff imposed only on raw materials
23. Which of the following is NOT a feature of protectionism?
- a) Imposition of tariffs
 - b) Use of quotas
 - c) Encouraging imports

- d) Use of non-tariff measures
24. In trade policy, what does the term 'trigger-price mechanism' refer to?
- a) A mechanism that lowers tariffs during inflation
 - b) A mechanism responding to trade distortions with tariff adjustments
 - c) A form of anti-dumping measure
 - d) A method of calculating ad valorem duties
25. Why are tariffs considered a distortion of trade?
- a) They prevent efficient production based on comparative advantage
 - b) They encourage dumping
 - c) They increase employment in foreign markets
 - d) They reduce government revenues
26. Which type of tariff is commonly associated with trade distortions?
- a) Anti-dumping duties
 - b) Preferential tariffs
 - c) Ad valorem tariffs
 - d) Escalated tariffs
27. A variable tariff is set to achieve which of the following?
- a) Bring the price of imported goods in line with domestic prices
 - b) Promote international trade through lower tariffs
 - c) Increase domestic consumption of foreign goods
 - d) Offset dumping by foreign producers
28. Which of the following countries was NOT part of India's recent FTA negotiations as of 2022?
- a) Mauritius
 - b) Israel
 - c) Germany
 - d) Canada
29. In the context of tariffs, what does the term 'applied tariff' refer to?
- a) The highest tariff allowed by the WTO
 - b) The actual tariff charged on imports
 - c) A theoretical tariff rate not actually applied
 - d) A tariff imposed only during periods of inflation
30. Which of the following is a non-tariff barrier to trade?
- a) Ad valorem tariffs
 - b) Import quotas
 - c) Export duties
 - d) Countervailing duties
31. In which situation would a prohibitive tariff be most likely applied?
- a) To prevent environmental damage from imports
 - b) To lower domestic prices of essential goods
 - c) To reduce dependence on foreign goods
 - d) To encourage trade liberalization
32. Which of the following would likely lead to trade diversion?
- a) The creation of a customs union
 - b) A global reduction in tariffs
 - c) A bilateral free trade agreement
 - d) The imposition of anti-dumping duties
33. In tariff terminology, what does the term "WTO-plus" refer to?
- a) Tariffs below WTO-bound rates
 - b) Tariff agreements extending beyond WTO commitments

- c) Emergency tariffs on developing countries
 - d) Tariffs limited only to developed countries
34. Which statement best describes the effect of a compound tariff?
- a) It provides higher protection when import prices fall
 - b) It is primarily imposed on agricultural goods
 - c) It increases both consumer and producer surplus
 - d) It is exclusively imposed on services
35. How do countervailing duties protect domestic producers?
- a) By offsetting the effect of foreign export subsidies
 - b) By imposing lower tariffs on raw materials
 - c) By reducing trade surpluses
 - d) By encouraging more exports
36. Which type of tariff applies the same rate on all imported goods regardless of their origin?
- a) MFN tariff
 - b) Preferential tariff
 - c) Specific tariff
 - d) Compound tariff
37. Which of the following describes a trade remedy measure?
- a) Specific tariff
 - b) Preferential tariff
 - c) Anti-dumping duty
 - d) Bound tariff
38. What is the effect of a tariff-rate quota (TRQ)?
- a) Higher tariffs for goods exceeding a set quantity
 - b) Lower tariffs on imports from developing countries
 - c) Flat tariffs for all imported goods
 - d) No tariffs for the first import and higher tariffs thereafter
39. Which of the following could be an objective of preferential tariffs?
- a) To enhance trade with specific countries
 - b) To eliminate domestic industry competition
 - c) To reduce government revenue
 - d) To implement retaliatory measures
40. Which statement best describes the impact of trade liberalization on tariffs?
- a) It has increased the number of tariffs applied globally
 - b) It has led to a decrease in the use of tariffs
 - c) It has resulted in higher tariffs for agricultural goods
 - d) It has had no effect on tariff policies globally
- Answer: b) It has led to a decrease in the use of tariffs
41. What are non-tariff measures (NTMs)?
- a) Measures that impose tariffs on imports
 - b) Measures that promote free trade
 - c) Policy measures, other than tariffs, that affect international trade
 - d) Measures that only affect exports
42. What is the key difference between NTMs and NTBs?
- a) NTBs are a subset of NTMs with protectionist intent
 - b) NTBs increase international trade
 - c) NTBs promote foreign competition
 - d) NTMs are discriminatory while NTBs are neutral
43. Which of the following is an example of a technical measure?

- a) Import quotas
 - b) Price controls
 - c) Sanitary and Phytosanitary (SPS) measures
 - d) Export taxes
44. Which agreement regulates the use of sanitary and phytosanitary measures (SPS) under the WTO?
- a) TRIPS Agreement
 - b) TBT Agreement
 - c) SPS Agreement
 - d) GATT Agreement
45. What is a technical barrier to trade (TBT)?
- a) A measure related to shipping requirements
 - b) A regulation defining product characteristics such as design and labelling
 - c) A ban on exporting certain goods
 - d) A safeguard measure for domestic industries
46. Which of the following is an example of a non-technical measure?
- a) Food safety requirements
 - b) Import quotas
 - c) Hygiene regulations
 - d) Eco-labelling
47. What is the purpose of import quotas?
- a) To allow unlimited imports
 - b) To reduce consumer surplus
 - c) To limit the quantity of goods imported into a country
 - d) To encourage exports
48. What are "quota rents"?
- a) Profits earned by domestic firms due to tariffs
 - b) Profits earned by import license holders due to a quota
 - c) Rent payments for warehouses
 - d) Profits earned from importing banned goods
49. Which of the following is a type of para-tariff measure?
- a) Import quotas
 - b) Financial measures
 - c) Price control measures
 - d) Embargos
50. Which measure involves a voluntary limit on the quantity of exports to a particular country?
- a) Embargo
 - b) Voluntary Export Restraint (VER)
 - c) Export tax
 - d) Import quota

UNIT:3 TRADE NEGOTIATIONS

1. What does the Agreement on Agriculture focus on?
 - a) Export restrictions
 - b) Domestic support, market access, and export subsidies
 - c) Environmental protection
 - d) Textile trade
2. Which WTO Agreement replaced the Multi-Fibre Arrangement (MFA)?
 - a) Agreement on Technical Barriers to Trade

- b) Agreement on Sanitary and Phytosanitary Measures
 - c) Agreement on Textiles and Clothing
 - d) General Agreement on Trade in Services
3. What is the main purpose of the Agreement on Technical Barriers to Trade (TBT)?
- a) To allow the use of arbitrary valuation systems
 - b) To harmonize international standards
 - c) To allow dumping practices
 - d) To prevent trade barriers through excessive standards
4. The Anti-Dumping Agreement aims to prevent:
- a) Market access restrictions
 - b) The abuse of anti-dumping measures
 - c) The regulation of textile trade
 - d) Export subsidies on agricultural products
5. Which agreement governs intellectual property rights under the WTO?
- a) TRIMs
 - b) TRIPS
 - c) TBT
 - d) GATS
6. The Agreement on Trade-Related Investment Measures (TRIMs) restricts:
- a) The application of sanitary measures
 - b) Investment measures inconsistent with national treatment
 - c) Export restrictions on food and fertilizer
 - d) Dumping practices
7. Which of the following is a provision of the Customs Valuation Agreement?
- a) Harmonizing rules of origin
 - b) Harmonizing customs valuation systems
 - c) Eliminating all tariffs on agricultural goods
 - d) Removing all import licensing procedures
- Answer: b) Harmonizing customs valuation systems
8. Which of the following agreements deals with dispute settlement procedures related to pre-shipment inspections?
- a) Agreement on Safeguards
 - b) Agreement on Rules of Origin
 - c) Agreement on Pre-shipment Inspection
 - d) Agreement on Sanitary and Phytosanitary Measures
9. The General Agreement on Trade in Services (GATS) stipulates:
- a) Market access restrictions in agriculture
 - b) No restrictions can be severer than those committed during negotiations
 - c) Investment in services should be eliminated
 - d) Textile trade regulations
10. Which agreement was most controversial in the Doha Development Agenda?
- a) Trade in services
 - b) Market access for non-agricultural products
 - c) Trade in agriculture
 - d) Geographical indications
11. The Agreement on Safeguards allows the imposition of emergency measures when:
- a) Export prices fall below domestic levels
 - b) There is a sudden surge in imports
 - c) Domestic industries suffer from high production
 - d) Trade in textiles is liberalized

12. Which of the following is NOT a key component of the Agreement on Agriculture?
- a) Market access
 - b) Domestic support
 - c) Environmental protection
 - d) Export subsidies
13. What is the main objective of the Agreement on Sanitary and Phytosanitary (SPS) Measures?
- a) To encourage the use of local content requirements
 - b) To regulate pre-shipment inspections
 - c) To prevent discriminatory sanitary measures
 - d) To establish dumping margins
14. Which agreement deals with rules for determining the origin of goods?
- a) Agreement on Safeguards
 - b) Agreement on Rules of Origin
 - c) Agreement on Textiles and Clothing
 - d) Agreement on Import Licensing Procedures
15. The Doha Round is also referred to as:
- a) GATT Development Agenda
 - b) Doha Development Agenda
 - c) Trade Policy Review Mechanism
 - d) Plurilateral Trade Agreements
16. Which agreement provides a mechanism to periodically review members' trade policies?
- a) Agreement on Rules of Origin
 - b) Trade Policy Review Mechanism (TPRM)
 - c) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
 - d) Agreement on Pre-shipment Inspection
17. Which WTO Agreement clarifies procedures for adopting countervailing tariffs?
- a) Agreement on Safeguards
 - b) Agreement on Subsidies and Countervailing Measures
 - c) Agreement on Agriculture
 - d) Agreement on Import Licensing Procedures
18. The G20 economies' trade policies during the COVID-19 pandemic were marked by:
- a) A decline in anti-dumping measures
 - b) An increase in export restrictions
 - c) Full liberalization of all trade barriers
 - d) A significant reduction in subsidies
19. Which of the following was negotiated during the Doha Development Agenda?
- a) Anti-dumping rules
 - b) Trade facilitation measures
 - c) Textiles and clothing agreements
 - d) Multilateral trade policies
20. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) does NOT cover:
- a) Copyright
 - b) Geographical indications
 - c) Textiles
 - d) Patents

21. Which agreement outlines measures for planning and adopting sanitary standards in global trade?
- a) Agreement on Technical Barriers to Trade
 - b) Agreement on Sanitary and Phytosanitary Measures
 - c) Agreement on Rules of Origin
 - d) Agreement on Trade-Related Investment Measures
22. Which of the following is NOT a goal of the WTO's Trade Policy Review Mechanism (TPRM)?
- a) To conduct periodic reviews of member countries' trade practices
 - b) To set tariffs for global trade
 - c) To promote transparency in trade policies
 - d) To assist in dispute settlement among members
23. The Agreement on Trade-Related Investment Measures (TRIMs) primarily concerns:
- a) Environmental measures
 - b) Intellectual property rights
 - c) Cross-border investments
 - d) Anti-dumping policies
24. The Doha Round focuses on improving trade in which area?
- a) Services only
 - b) Agriculture and services
 - c) Textiles and non-agricultural products
 - d) Pharmaceuticals only
25. Which agreement establishes multilateral frameworks to prevent unjustified trade discrimination in sanitary measures?
- a) TBT
 - b) SPS
 - c) TRIPS
 - d) TRIMs
26. The Agreement on Safeguards primarily deals with:
- a) Regulating technical barriers to trade
 - b) Emergency restrictions on imports
 - c) The protection of intellectual property
 - d) Export subsidies
27. Which agreement aims to harmonize administrative procedures for import licensing?
- a) Agreement on Agriculture
 - b) Agreement on Import Licensing Procedures
 - c) Agreement on Subsidies and Countervailing Measures
 - d) Agreement on Pre-shipment Inspection
28. The Agreement on Customs Valuation eliminates:
- a) Import restrictions
 - b) Arbitrary valuation systems
 - c) Local content requirements
 - d) Textile quotas
29. Which country is NOT a member of the G20?
- a) China
 - b) Mexico
 - c) Sweden
 - d) South Africa
30. By mid-October 2022, what percentage of pandemic-related export restrictions had been repealed by G20 countries?

- a) 77%
 - b) 50%
 - c) 90%
 - d) 61%
31. What is the primary objective of Regional Trade Agreements (RTAs)?
 - A) To eliminate all global trade barriers
 - B) To reduce barriers to trade between member countries
 - C) To establish a single currency among member countries
 - D) To impose tariffs on non-member countries
 32. Which of the following is an example of a Free Trade Area?
 - A) European Union (EU)
 - B) Gulf Cooperation Council (GCC)
 - C) ASEAN–India Free Trade Area (AIFTA)
 - D) Mercosur
 33. What distinguishes a Customs Union from a Free Trade Area?
 - A) Customs Unions have a common external tariff, while Free Trade Areas do not
 - B) Free Trade Areas eliminate all tariffs among members, while Customs Unions do not
 - C) Customs Unions apply tariffs only to non-member countries, while Free Trade Areas do not
 - D) Free Trade Areas provide a common currency, while Customs Unions do not
 34. Which of the following is NOT a type of Regional Trade Agreement (RTA)?
 - A) Bilateral Agreement
 - B) Economic and Monetary Union
 - C) Unilateral Trade Agreement
 - D) Trading Bloc
 35. The General Agreement on Tariffs and Trade (GATT) was eventually replaced by which organization?
 - A) The World Bank
 - B) The United Nations
 - C) The International Monetary Fund (IMF)
 - D) The World Trade Organization (WTO)
 36. What was one of the key reasons for the obsolescence of the GATT by the 1980s?
 - A) It was a treaty with mandatory compliance
 - B) It focused only on trade in services
 - C) It was not equipped to handle intellectual property rights and trade in services
 - D) It established a common external tariff for all members
 37. Which RTA type involves the sharing of a common currency among member countries?
 - A) Common Market
 - B) Economic and Monetary Union
 - C) Free Trade Area
 - D) Customs Union
 38. Which organization was established as a result of the Uruguay Round of negotiations?
 - A) The General Agreement on Tariffs and Trade (GATT)
 - B) The North American Free Trade Agreement (NAFTA)
 - C) The World Trade Organization (WTO)
 - D) The European Free Trade Association (EFTA)
 39. What is the main characteristic of a Common Market compared to a Customs Union?

- A) Common Markets do not have external tariffs
 - B) Common Markets include free movement of labor and capital
 - C) Common Markets impose higher tariffs on non-member countries
 - D) Common Markets require the adoption of a common currency
40. What was one major outcome of the Uruguay Round of trade negotiations?
- A) The creation of the General Agreement on Tariffs and Trade (GATT)
 - B) The expansion of the European Union
 - C) The formation of the World Trade Organization (WTO)
 - D) The dissolution of the North American Free Trade Agreement (NAFTA)
41. What is the primary purpose of the WTO?
- A) To regulate global financial markets
 - B) To manage international trade rules and agreements
 - C) To promote military alliances
 - D) To establish global environmental standards
42. How many members does the WTO currently have?
- A) 150
 - B) 164
 - C) 175
 - D) 200
43. Which body is the highest decision-making authority in the WTO?
- A) The General Council
 - B) The Ministerial Conference
 - C) The Dispute Settlement Body
 - D) The Goods Council
44. Where is the WTO Secretariat headquartered?
- A) Paris
 - B) Geneva
 - C) New York
 - D) Brussels
45. Which principle requires that WTO members must treat all trading partners equally?
- A) National Treatment
 - B) Most-Favoured-Nation (MFN) Treatment
 - C) Trade Liberalization
 - D) Transparency
46. Which agreement aims to prevent technical standards from becoming trade barriers?
- A) Agreement on Agriculture
 - B) Agreement on Technical Barriers to Trade (TBT)
 - C) Agreement on Trade-Related Investment Measures (TRIMs)
 - D) Agreement on Safeguards
47. Which WTO agreement replaced the Multi-Fibre Arrangement (MFA)?
- A) Agreement on Agriculture
 - B) Agreement on Textiles and Clothing
 - C) Agreement on Trade-Related Investment Measures (TRIMs)
 - D) Agreement on Subsidies and Countervailing Measures
48. What does the Agreement on Sanitary and Phytosanitary (SPS) Measures cover?
- A) Import licensing procedures
 - B) Customs valuation
 - C) Health and safety measures for food and plants
 - D) Intellectual property rights
49. What does the General Agreement on Trade in Services (GATS) address?

- A) Trade in goods
 - B) Intellectual property
 - C) Trade in services
 - D) Agricultural subsidies
50. What is the purpose of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)?
- A) To regulate customs procedures
 - B) To ensure fair trade practices
 - C) To protect intellectual property rights
 - D) To manage agricultural trade

UNIT :4 EXCHANGE RATE AND ITS ECONOMIC EFFECTS

1. What is the primary function of the foreign exchange market?
 - A) To exchange currencies for immediate settlement
 - B) To buy and sell stocks and bonds
 - C) To exchange goods and services
 - D) To lend and borrow funds
2. Which exchange rate regime involves no government intervention and is determined purely by market forces?
 - A) Fixed exchange rate
 - B) Managed float
 - C) Floating exchange rate
 - D) Pegged exchange rate
3. What does a managed float system entail?
 - A) Exchange rates are fixed by the government
 - B) Exchange rates are determined solely by market forces
 - C) Governments and central banks intervene to influence exchange rates
 - D) All currencies are pegged to gold
4. Under a fixed exchange rate system, which of the following is true?
 - A) Exchange rates fluctuate freely based on market forces
 - B) The government or central bank intervenes to maintain a set rate
 - C) Currency values are determined by international market speculation
 - D) Exchange rates are determined by the demand and supply of foreign currencies
5. What is the difference between nominal and real exchange rates?
 - A) Nominal exchange rates are adjusted for inflation, real exchange rates are not
 - B) Real exchange rates are adjusted for inflation, nominal exchange rates are not
 - C) Nominal exchange rates include tariffs and taxes, real exchange rates do not
 - D) Nominal exchange rates reflect only short-term fluctuations, real exchange rates reflect long-term trends
6. Which of the following is a characteristic of a free-floating exchange rate system?
 - A) The government sets a fixed rate
 - B) Exchange rates are determined by market forces
 - C) The central bank maintains a constant exchange rate
 - D) Currency values are pegged to a basket of other currencies
7. What effect does currency appreciation typically have on a country's exports?
 - A) Exports become cheaper and increase
 - B) Exports become more expensive and decrease
 - C) Exports remain unchanged
 - D) Exports are not affected by currency appreciation
8. What is the term used to describe a decrease in the value of a currency relative to another currency due to market forces?

- A) Devaluation
 - B) Depreciation
 - C) Revaluation
 - D) Appreciation
9. In which type of transaction do spot exchange rates apply?
- A) Transactions settled for future dates
 - B) Immediate currency exchanges
 - C) Long-term foreign investment
 - D) Forward contracts
10. What is the impact of currency depreciation on domestic inflation?
- A) It typically reduces inflation
 - B) It has no effect on inflation
 - C) It generally increases inflation
 - D) It stabilizes inflation
11. What does the term "real effective exchange rate" (REER) measure?
- A) The nominal value of a currency against one foreign currency
 - B) The nominal effective exchange rate adjusted for domestic inflation
 - C) The value of a currency against a weighted average of various foreign currencies adjusted for price indices
 - D) The value of a currency in the foreign exchange market
12. How does an increase in the supply of foreign currency typically affect the exchange rate?
- A) The exchange rate rises
 - B) The exchange rate falls
 - C) The exchange rate remains constant
 - D) The exchange rate becomes more volatile
13. What is the primary reason for a country to adopt a fixed exchange rate system?
- A) To allow exchange rates to fluctuate freely
 - B) To control and reduce exchange rate volatility
 - C) To facilitate easier monetary policy adjustments
 - D) To let market forces determine the currency value
14. What does a forward premium indicate in currency trading?
- A) The forward exchange rate is lower than the spot rate
 - B) The forward exchange rate is equal to the spot rate
 - C) The forward exchange rate is higher than the spot rate
 - D) There is no forward premium in this case
15. How does currency depreciation affect a country's balance of trade?
- A) It worsens the trade balance by increasing imports
 - B) It improves the trade balance by increasing exports
 - C) It has no effect on the trade balance
 - D) It makes the trade balance more stable
16. What is the main purpose of foreign exchange hedging?
- A) To speculate on future currency movements
 - B) To protect against adverse currency fluctuations
 - C) To maximize profits from currency exchange
 - D) To avoid currency exchange altogether
17. How does an appreciation of a country's currency typically impact its international competitiveness?
- A) It enhances competitiveness by making exports cheaper
 - B) It has no effect on competitiveness

- C) It reduces competitiveness by making exports more expensive
D) It improves competitiveness by increasing imports
18. What is the impact of a fixed exchange rate system on monetary policy?
A) It allows for greater flexibility in monetary policy
B) It imposes discipline on monetary policy
C) It eliminates the need for monetary policy
D) It makes monetary policy irrelevant
19. What is the main feature of a managed float exchange rate system?
A) Exchange rates are set by international treaties
B) Governments rarely intervene in the currency market
C) Governments intervene occasionally to influence currency values
D) The exchange rate is fixed at all times
20. What typically happens to a country's currency value when there is an increase in the demand for foreign currency?
A) The domestic currency appreciates
B) The domestic currency depreciates
C) The domestic currency remains stable
D) The domestic currency becomes more volatile
21. What does a floating exchange rate system imply?
 - A) The government sets the exchange rate.
 - B) The exchange rate is determined purely by market forces.
 - C) The exchange rate is fixed by a currency board.
 - D) The central bank intervenes frequently to control the exchange rate.
22. What is a managed float system?
 - A) A system where the government fixes the exchange rate.
 - B) A system where the exchange rate is allowed to float freely but the government intervenes occasionally.
 - C) A system where exchange rates are determined by a central bank's policy.
 - D) A system where exchange rates are pegged to a basket of currencies.
23. In a fixed exchange rate regime, what is the primary role of the government?
 - A) To allow the exchange rate to fluctuate freely.
 - B) To adjust the nominal exchange rate based on market forces.
 - C) To set and maintain the exchange rate at a fixed level.
 - D) To ensure that exchange rates are determined by speculative activities.
24. What does a real exchange rate measure?
 - A) The rate at which one currency can be exchanged for another.
 - B) The rate at which goods and services of one country can be traded for those of another country.
 - C) The nominal value of a currency against a basket of foreign currencies.
 - D) The exchange rate that is fixed by government policy.
25. How does currency appreciation typically affect exports and imports?
 - A) Exports become cheaper and imports become more expensive.
 - B) Exports become more expensive and imports become cheaper.
 - C) Both exports and imports become more expensive.
 - D) Both exports and imports become cheaper.
26. Which type of exchange rate system is characterized by the government setting a fixed rate and intervening in the market to maintain it?
 - A) Floating exchange rate system
 - B) Managed float system
 - C) Fixed exchange rate system

- D) Pegged exchange rate system
27. In which situation would a country likely experience currency depreciation?
- A) When there is an increase in domestic demand for foreign goods.
 - B) When there is a decrease in foreign investment.
 - C) When the central bank sells foreign reserves to stabilize the currency.
 - D) When there is an increase in supply of the domestic currency.
28. What is the difference between devaluation and depreciation of a currency?
- A) Devaluation occurs in a fixed exchange rate system, while depreciation occurs in a floating exchange rate system.
 - B) Depreciation occurs in a fixed exchange rate system, while devaluation occurs in a floating exchange rate system.
 - C) Devaluation and depreciation are essentially the same and occur under any exchange rate system.
 - D) Devaluation is controlled by market forces, while depreciation is a government policy.
29. What is the impact of a strong currency on the domestic economy?
- A) Increased competitiveness of domestic exports.
 - B) Lower prices for imported goods.
 - C) Decreased demand for foreign goods.
 - D) Reduced foreign investment in the domestic market.
30. Which of the following is true about forward exchange rates?
- A) They are rates for immediate currency delivery.
 - B) They are rates agreed upon for future currency delivery.
 - C) They are set by government policy.
 - D) They reflect the current spot exchange rate.
31. What does a "free-floating" exchange rate system mean?
- a) The government sets the exchange rate.
 - b) The exchange rate is determined by market forces without government intervention.
 - c) The exchange rate is pegged to a basket of currencies.
 - d) The central bank frequently intervenes to maintain exchange rates.
32. Which of the following is a key advantage of a fixed exchange rate system?
- a) It allows for independent monetary policy.
 - b) It reduces uncertainty in international transactions.
 - c) It eliminates the need for foreign currency reserves.
 - d) It allows for automatic adjustment to trade imbalances.
33. What is the primary difference between spot and forward transactions in the foreign exchange market?
- a) Spot transactions involve immediate delivery, while forward transactions are settled at a future date.
 - b) Forward transactions involve larger amounts than spot transactions.
 - c) Spot transactions only involve government entities, while forward transactions involve businesses.
 - d) Forward transactions are based on speculation, while spot transactions are not.
34. What is a "nominal exchange rate"?
- a) The rate at which one country's goods are traded for another country's goods.
 - b) The exchange rate adjusted for inflation.
 - c) The rate at which a currency can be exchanged for another.

- d) The price of gold in terms of foreign currency.
35. Which factor directly influences the demand for foreign currency?
- a) Domestic investment
 - b) Export of goods and services
 - c) Import of goods and services
 - d) Domestic interest rates
36. In a floating exchange rate system, what typically determines exchange rates?
- a) Government intervention
 - b) Supply and demand in the foreign exchange market
 - c) The World Bank
 - d) A pre-determined fixed rate by central banks
37. Which of the following is NOT a method to maintain a fixed exchange rate?
- a) Government currency reserves
 - b) Devaluation of domestic currency
 - c) Frequent central bank intervention
 - d) Allowing currency to float freely
38. What is a managed float exchange rate system?
- a) A system where the government sets a fixed exchange rate.
 - b) A system where the currency floats but is occasionally influenced by government interventions.
 - c) A system with no government interference in the exchange market.
 - d) A system where exchange rates are pre-determined for long periods.
39. Which institution plays a key role in currency trading and market making?
- a) Stock exchanges
 - b) Commercial banks
 - c) World Trade Organization (WTO)
 - d) International Monetary Fund (IMF)
40. A "real exchange rate" is primarily used to measure what?
- a) The nominal value of a currency against another.
 - b) The purchasing power of goods and services between two countries.
 - c) The future value of foreign currency.
 - d) The speculative price of a foreign currency.
41. What type of exchange rate risk is minimized under a fixed exchange rate system?
- a) Inflation risk
 - b) Speculative risk
 - c) Currency fluctuation risk
 - d) Interest rate risk
42. Which of the following is NOT a key player in the foreign exchange market?
- a) Commercial banks
 - b) Central banks
 - c) Individual tourists
 - d) Foreign exchange brokers
43. In the context of exchange rates, what is "hedging"?
- a) A speculative practice to maximize profit
 - b) An investment strategy to minimize risks due to currency fluctuations
 - c) A method to fix exchange rates
 - d) A government policy to control inflation
44. What is a currency "forward premium"?
- a) When the forward exchange rate is higher than the spot rate
 - b) When the spot exchange rate is higher than the forward rate
 - c) When the forward rate matches the current rate
 - d) When a currency's value is artificially inflated
45. What is the "Real Effective Exchange Rate (REER)"?
- a) The nominal exchange rate between two currencies

- b) A weighted average of nominal exchange rates adjusted for inflation
 - c) The spot rate at a future point in time
 - d) A market-determined exchange rate based on real goods
46. What is the key disadvantage of a flexible exchange rate system?
- a) It generates uncertainty due to currency volatility
 - b) It requires large currency reserves.
 - c) It limits the government's ability to control monetary policy.
 - d) It imposes inflationary pressures.
47. Which of the following statements about fixed exchange rates is false?
- a) It eliminates exchange rate risk for businesses.
 - b) It increases flexibility in the government's monetary policy.
 - c) It reduces speculation in the foreign exchange market.
 - d) It requires the central bank to maintain foreign currency reserves.
48. What role does a "vehicle currency" like the U.S. dollar play in the foreign exchange market?
- a) It is used for speculative investments.
 - b) It serves as the intermediary currency in transactions between non-dollar currencies.
 - c) It is backed by gold reserves.
 - d) It controls inflation in the global market.
49. Which of the following is a method used by central banks to influence exchange rates in a managed float system?
- a) Buying or selling foreign currency reserves
 - b) Pegging the currency to gold reserves
 - c) Imposing tariffs on foreign goods
 - d) Raising domestic taxes
50. Which factor is least likely to increase the demand for foreign currency?
- a) Importing goods from foreign countries
 - b) Receiving foreign direct investment
 - c) Speculative buying in foreign currencies
 - d) Purchasing domestic bonds

UNIT :5. INTERNATIONAL CAPITAL MOVEMENTS

1. What is the primary distinction between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)?
 - A) FDI involves investment in financial assets, while FPI involves real assets.
 - B) FDI involves ownership and control of a company, while FPI does not.
 - C) FDI is short-term, while FPI is long-term.
 - D) FDI is speculative, while FPI is stable.
2. Which of the following is a component of Foreign Direct Investment (FDI)?
 - A) Foreign Portfolio Investments
 - B) Equity Capital
 - C) Foreign Grants
 - D) Trade Credit Facilities
3. What is an example of a horizontal FDI?
 - A) A U.S. car manufacturer investing in a local auto parts supplier in Japan.

- B) A U.S. car manufacturer opening a new plant in China to produce the same cars sold in the U.S.
 - C) A U.S. tech firm investing in a Brazilian agriculture company.
 - D) A U.S. pharmaceutical company acquiring a German medical device manufacturer.
4. Which type of foreign aid is given without any specific conditions on how it should be used?
- A) Tied Aid
 - B) Bilateral Aid
 - C) Multilateral Aid
 - D) Untied Aid
5. Which of the following is NOT a reason for foreign direct investment?
- A) To gain access to new technology
 - B) To diversify investment risks
 - C) To immediately improve stock market performance
 - D) To access new markets
6. What is the primary purpose of foreign portfolio investment (FPI)?
- A) To gain control over a foreign company's management
 - B) To invest in real assets and production facilities
 - C) To earn returns through investment in financial assets
 - D) To build long-term business relationships
7. Which of the following statements about FDI is true?
- A) FDI is typically short-term and easily withdrawable.
 - B) FDI often involves technology transfer.
 - C) FDI usually does not affect employment in the host country.
 - D) FDI investments do not require a significant degree of control or influence over the enterprise.
8. What characterizes a vertical FDI?
- A) Investment in a similar business abroad
 - B) Investment in a business related to the investor's core activities
 - C) Investment in unrelated business sectors
 - D) Reciprocal investments between two countries
9. Which of the following is an example of an FDI type where a company invests in an industry unrelated to its existing business?
- A) Horizontal Investment
 - B) Vertical Investment
 - C) Conglomerate Investment
 - D) Reciprocal Investment
10. What is a key characteristic of foreign portfolio investment (FPI)?
- A) Involves significant ownership and control
 - B) Typically has a long-term investment horizon
 - C) Is generally speculative and short-term
 - D) Directly impacts employment and wages
11. Which factor is NOT likely to attract FDI to a host country?
- A) High inflation rates
 - B) Stable political environment
 - C) Large market size
 - D) Favorable tax policies
12. What is meant by 'two-way direct foreign investments'?
- A) Investments between two companies in the same country

- B) Reciprocal investments between countries with differing industry advantages
 - C) Investments made by two companies in a joint venture
 - D) Investments in both FDI and FPI by the same investor
13. Which type of foreign capital involves the purchase of bonds and stocks without intending to control the issuing companies?
- A) Foreign Direct Investment (FDI)
 - B) Foreign Portfolio Investment (FPI)
 - C) Foreign Aid
 - D) External Commercial Borrowing
14. What is the primary reason for companies to engage in foreign direct investment?
- A) To avoid competition in their home country
 - B) To immediately access capital markets
 - C) To reduce their tax burden in their home country
 - D) To gain control over domestic companies
15. Which of the following is a typical feature of FDI compared to FPI?
- A) Greater flexibility in investment withdrawal
 - B) Involves ownership and control
 - C) Shorter-term investment focus
 - D) Minimal impact on the host country's economy
16. Which of the following is NOT a mode of Foreign Direct Investment (FDI)?
- A) Opening a subsidiary in a foreign country
 - B) Equity injection into an overseas company
 - C) Acquiring a controlling interest in a foreign company
 - D) Purchasing government bonds in the host country
17. What is a Greenfield investment?
- A) Investment in acquiring an existing foreign company
 - B) Investment in a new facility from scratch
 - C) Investment through mergers and acquisitions
 - D) Investment in existing infrastructure
18. Which mode of FDI involves establishing a new production base abroad rather than acquiring or merging with existing companies?
- A) Greenfield investment
 - B) Brownfield investment
 - C) Joint venture
 - D) Equity injection
19. Which type of FDI typically involves using existing infrastructure rather than developing new facilities?
- A) Greenfield investment
 - B) Brownfield investment
 - C) Equity injection
 - D) Joint venture
20. What benefit of FDI can result from increased competition in the host country's market?
- A) Lower wages for domestic workers
 - B) Reduced variety of products
 - C) Improved product quality and lower prices
 - D) Decreased technological transfer
21. How can FDI affect the employment situation in a developing country?
- A) It only creates high-skilled jobs
 - B) It generates both direct and indirect employment opportunities
 - C) It reduces employment by automating jobs

- D) It only creates employment in the home country
22. Which potential problem of FDI involves the crowding-out effect in the host country's capital market?
- A) Increased import of raw materials
 - B) Higher interest rates and reduced domestic investment
 - C) Distorted market patterns
 - D) Enhanced income inequality
23. What is a common criticism related to the impact of FDI on income inequality in the host country?
- A) FDI tends to reduce income inequality
 - B) FDI can exacerbate existing income inequalities
 - C) FDI has no impact on income inequality
 - D) FDI only affects income inequality in developed countries
24. Which of the following is a potential negative impact of FDI on the host country's balance of payments?
- A) Improvement in the balance of payments due to increased exports
 - B) Decreased foreign exchange reserves from profit repatriation
 - C) Enhanced exchange rate stability
 - D) Increased domestic savings
25. Which type of FDI involves a foreign firm investing in a local company to create a new joint entity?
- A) Brownfield investment
 - B) Greenfield investment
 - C) Joint venture
 - D) Equity injection
26. Which recent development illustrates a major FDI inflow into India's technology sector?
- A) Reliance New Energy's investment in Norway
 - B) Tata Steel's investment in North-East England
 - C) Ola Electric's establishment of a global hub in the UK
 - D) Jindal Steel and Power's investment in Mauritius
27. What has been a significant result of the recent FDI policies in India?
- A) Reduction in FDI inflows
 - B) Increase in cross-border mergers and acquisitions
 - C) Decline in technology and health sector investments
 - D) Decrease in foreign investment in telecommunication
28. What concern is associated with FDI in terms of employment and skills in the host country?
- A) FDI exclusively creates low-skilled jobs
 - B) High-skilled jobs often remain in the home country
 - C) FDI leads to increased domestic wages for all skill levels
 - D) FDI provides no new employment opportunities
29. Which Indian company invested in its wholly-owned subsidiary in Singapore recently?
- A) Jindal Steel and Power
 - B) Tata Communications
 - C) Wipro
 - D) Reliance Retail Limited
30. What is a common safeguard used by countries to maximize benefits from FDI?
- A) Complete free repatriation of profits
 - B) Reservation of key sectors for foreign firms
 - C) Requirements for local employee percentage

- D) Minimal local sourcing requirements
31. Foreign capital includes:
- A. Only foreign direct investment (FDI)
 - B. Any inflow of capital into the home country from abroad
 - C. Only external commercial borrowings
 - D. Only portfolio investments
32. Which of the following is an example of foreign aid?
- A. Bilateral intergovernmental grants
 - B. Foreign direct investment
 - C. Non-resident Indian deposits
 - D. Trade credit facilities
33. What are 'external commercial borrowings'?
- A. Loans from foreign banks and institutions
 - B. Investment in shares by foreign investors
 - C. Grants from international organizations
 - D. Deposits from foreign individuals
34. What is the minimum stake required to classify an investment as FDI?
- A. 1%
 - B. 5%
 - C. 10%
 - D. 20%
35. Which of the following is NOT a type of foreign direct investment (FDI)?
- A. Horizontal FDI
 - B. Vertical FDI
 - C. Conglomerate FDI
 - D. Multilateral aid
36. Horizontal direct investment occurs when:
- A. A business expands into an unrelated industry
 - B. A company expands into the same type of business in a foreign country
 - C. A company invests in its supply chain abroad
 - D. A government provides foreign aid
37. Which of the following describes foreign portfolio investment (FPI)?
- A. Long-term investment involving control over management
 - B. Investment in physical assets
 - C. Investment in financial assets like stocks and bonds
 - D. Investment accompanied by technology transfer
38. FPI is primarily motivated by:
- A. Technology transfer
 - B. Long-term control of enterprises
 - C. Short-term speculative gains
 - D. Creation of new production facilities
39. Which of the following is a characteristic of FDI?
- A. Speculative in nature
 - B. Easily withdrawn
 - C. Creates physical assets and jobs
 - D. Has no impact on production
40. The primary motive for international capital movement is:
- A. High customs duties in the home country

- B. Expectation of higher returns in the host country
 - C. Avoidance of political instability in the home country
 - D. Desire to control foreign markets
41. What is the term for reciprocal investments between countries?
- A. Conglomerate FDI
 - B. Horizontal FDI
 - C. Two-way direct foreign investments
 - D. Vertical FDI
42. Which of the following is a reason for foreign direct investment?
- A. Lack of feasibility of licensing agreements
 - B. Low tax rates in the host country
 - C. Poor labor skills in the host country
 - D. High environmental standards in the host country
43. Which of the following is NOT a factor that attracts FDI to a host country?
- A. Access to regional markets
 - B. Political instability
 - C. Large and growing population
 - D. Low labor costs
44. Portfolio investments are:
- A. Long-term and involve ownership control
 - B. Speculative and short-term in nature
 - C. Always in the form of physical assets
 - D. Typically involve technology transfer
45. Which organization typically provides soft loans?
- A. International Monetary Fund (IMF)
 - B. World Bank's International Development Association (IDA)
 - C. Asian Development Bank (ADB)
 - D. Bilateral governments
46. One of the risks associated with FPI is:
- A. Job creation
 - B. Long-term control over enterprise
 - C. Rapid capital withdrawal during crises
 - D. Transfer of management skills
47. Which of the following is true about conglomerate FDI?
- A. The investor enters the same industry in a foreign country
 - B. The investor enters a different, unrelated industry abroad
 - C. The investor seeks vertical integration in the supply chain
 - D. The investor avoids political instability by diversifying
48. Which of the following is a major benefit of vertical FDI?
- A. Diversification into unrelated businesses
 - B. Expansion into foreign markets
 - C. Control over supply chain and raw materials
 - D. Avoidance of home country tariffs
49. Which of the following does NOT discourage foreign investment in a host country?
- A. Bureaucracy and corruption
 - B. Cumbersome legal formalities
 - C. High literacy rates and skilled labor

- D. High inflation rates
50. Which type of foreign capital movement focuses on long-term investments in assets like factories and land?
- A. External commercial borrowing
 - B. Foreign portfolio investment (FPI)
 - C. Foreign direct investment (FDI)
 - D. Trade credit facilities

CHAPTER 10: INDIAN ECONOMY

1. What was the literacy rate of India in 1951?
A) 12% B) 18% C) 25% D) 32%
2. What was the core element of India's post-independence economic policy?
A) Privatization
B) Free market economy
C) Centralized economic planning
D) Foreign direct investment
3. Who was the architect of India's planned industrialization strategy?
A) Mahatma Gandhi
B) Jawaharlal Nehru
C) Sardar Patel
D) B.R. Ambedkar
4. The first Industrial Policy Resolution of independent India was passed in which year?
A) 1947 B) 1948 C) 1950 D) 1956
5. What was the primary focus of the Industrial Policy Resolution of 1956?
A) Emphasis on cottage industries
B) Expansion of public sector
C) Trade liberalization
D) Privatization
6. The term 'Hindu rate of growth' refers to which period?
A) 1947–1960 B) 1950–1980
C) 1960–1991 D) 1980–1991
7. What was the major focus of the Green Revolution in India?
A) Development of small-scale industries
B) Increasing agricultural productivity
C) Establishment of heavy industries
D) Enhancing foreign trade
8. Which technology was key to the success of the Green Revolution?
A) Biotechnology
B) High-yielding seed varieties
C) Genetic engineering
D) Organic farming
9. What led to the nationalization of 14 banks in India in 1969?
A) Agricultural crisis
B) Industrial stagnation
C) Government's push for financial inclusion
D) Balance of payments crisis
10. What was the primary objective of the Monopolies and Restrictive Trade Practices (MRTP) Act of 1969?
A) Promote foreign investment

- B) Restrict the growth of large businesses
 - C) Facilitate ease of doing business
 - D) Encourage joint ventures
11. The era of 'License Raj' refers to:
- A) A period of free-market reforms
 - B) A system of permits and licenses regulating businesses
 - C) The privatization of industries
 - D) The deregulation of small-scale industries
12. In which year did India witness the first major nationalization of banks?
- A) 1967
 - B) 1969
 - C) 1971
 - D) 1980
13. What was the impact of the oil shocks of the 1970s on the Indian economy?
- A) Increased exports
 - B) Industrial growth
 - C) Economic slowdown
 - D) Trade liberalization
14. The Green Revolution focused primarily on which agricultural crop?
- A) Wheat
 - B) Rice
 - C) Cotton
 - D) Sugarcane
15. Which economic philosophy dominated India's industrial policies in the 1950s and 1960s?
- A) Neoliberalism
 - B) Socialism
 - C) Capitalism
 - D) Mercantilism
16. The term 'autarchic policies' in Indian economic history refers to:
- A) Policies encouraging imports
 - B) Self-sufficient economic policies
 - C) Promotion of foreign trade
 - D) Free market economic reforms
17. What was the main trigger for the economic reforms initiated in 1991?
- A) High inflation
 - B) Balance of payments crisis
 - C) Political instability
 - D) Decline in agricultural productivity
18. What was the aim of the 'New Industrial Policy' of 1991?
- A) Strengthening the License Raj
 - B) Promoting large-scale nationalization
 - C) Promoting industrial deregulation
 - D) Enhancing state control over industries
19. In the economic reforms of 1991, how much foreign direct investment (FDI) was allowed automatically without government approval?
- A) 25% B) 35% C) 51% D) 75%
20. The fiscal deficit in India during the 1980s was primarily due to:
- A) High government spending on public sector enterprises
 - B) Reduction in taxes

- C) Increase in exports
 - D) Decline in agricultural output
21. The establishment of the Planning Commission was a cornerstone of which model?
- A) Gandhian model
 - B) Keynesian model
 - C) Nehruvian model
 - D) Globalization model
22. What was a major consequence of the "License Raj" system?
- A) Surge in foreign investments
 - B) Boost in private entrepreneurship
 - C) Restriction on business growth and competition
 - D) Growth in small-scale industries
23. The economic reforms in India during the 1980s were often referred to as:
- A) Liberalization by decree
 - B) Reforms by stealth
 - C) Privatization push
 - D) Globalization initiative
24. The disinvestment of public sector enterprises is a key feature of:
- A) Nehruvian socialism
 - B) Gandhian economics
 - C) Liberalization
 - D) License Raj
25. Which event in 1990 significantly contributed to India's foreign exchange crisis?
- A) Collapse of the Soviet Union
 - B) The Gulf War
 - C) The Green Revolution
 - D) Indo-Pak war
26. In the 1980s, India began to implement which kind of monetary policy?
- A) Expansionary policy
 - B) Tight monetary policy
 - C) Deflationary policy
 - D) Keynesian policy
27. The 1991 economic reforms in India led to which major change in the Indian rupee?
- A) Pegged to gold
 - B) Devalued
 - C) Pegged to the US dollar
 - D) Made fully convertible
28. The Securities and Exchange Board of India (SEBI) was given statutory recognition in which year?
- A) 1988
 - B) 1990
 - C) 1991
 - D) 1992
29. What was the primary purpose of the MRTP Act of 1969?
- A) Encourage foreign investments
 - B) Check monopolistic practices
 - C) Reduce taxes on industries
 - D) Promote export-oriented growth
30. What was one of the key objectives of India's economic reforms in 1991?
- A) Enhance subsidies on essential goods

- B) Increase government ownership of industries
C) Stabilize the economy through fiscal discipline
D) Limit foreign trade to essential goods
31. What was one of the major aims of India's trade policy reforms?
- a) Increase tariffs on exports
 - b) Simplify licensing procedures for imports
 - c) Implement quantitative restrictions on imports
 - d) Peg the rupee to a basket of currencies
32. When did India devalue the rupee by 18-19%?
- a) 1991
 - b) 1992
 - c) 1993
 - d) 1994
33. Which exchange rate system did India adopt in March 1993?
- a) Fixed exchange rate
 - b) Dual exchange rate
 - c) Managed floating exchange rate
 - d) Fully floating exchange rate
34. Which sector in India has achieved high international competitiveness?
- a) Mining
 - b) Telecommunications
 - c) Agriculture
 - d) Heavy engineering
35. What percentage of GDP did India's service trade surplus account for?
- a) 1.2%
 - b) 2.5%
 - c) 3.7%
 - d) 5.0%
36. In 2021, how many months of import cover did India's foreign exchange reserves provide?
- a) Six months
 - b) Seven months
 - c) Eight months
 - d) Nine months
37. In 1991, India's GDP growth was approximately:
- a) 1%
 - b) 5%
 - c) 7%
 - d) 9%
38. In which year did India's GDP growth rate hit -6.59%?
- a) 2001
 - b) 2010
 - c) 2020
 - d) 2021
39. What was the main role of NITI Aayog when it replaced the Planning Commission?
- a) Control state budgets
 - b) Spur innovative thinking and promote cooperative federalism
 - c) Manage fiscal policies
 - d) Enforce monetary controls
40. One of the key initiatives of NITI Aayog is:
- a) Green Revolution
 - b) Methanol Economy
 - c) Price stabilization of pulses
 - d) Enhancing fertilizer subsidies
41. What percentage of India's population was directly dependent on agriculture in 2021-22?
- a) 25%
 - b) 47%
 - c) 55%
 - d) 60%

42. India's agricultural and allied sectors recorded a growth of _____ in 2022-23.
- a) 1.5%
 - b) 2.3%
 - c) 3.5%
 - d) 4.0%
43. Which of the following is NOT a recent measure for agriculture by the Government of India?
- a) Paramparagat Krishi Vikas Yojana (PKVY)
 - b) Launch of the Green India Mission
 - c) Setting up of Micro Irrigation Fund
 - d) PM Kisan Income Support
44. The Pradhan Mantri Fasal Bima Yojana (PMFBY) is a scheme for:
- a) Financial support for mechanization
 - b) Credit for small farmers
 - c) Crop loss insurance
 - d) Agricultural export promotion
45. What is the key focus of the "Per Drop More Crop" scheme?
- a) Enhancing crop yields
 - b) Irrigation efficiency
 - c) Soil health improvement
 - d) Crop diversification
46. Which sector is NOT mentioned as having achieved international competitiveness in India?
- a) Pharmaceuticals
 - b) Auto components
 - c) Textiles
 - d) Software
47. In 2021-22, India achieved record food grains production of:
- a) 200 million tonnes
 - b) 250 million tonnes
 - c) 300 million tonnes
 - d) 315.7 million tonnes
48. What percentage of private investment in agriculture was recorded in 2020-21?
- a) 4.7%
 - b) 6.6%
 - c) 9.3%
 - d) 11.5%
49. Which of the following is a weakness of NITI Aayog, according to critics?
- a) Its influence over fiscal policies
 - b) Exclusion from the budgeting process
 - c) Its dominance over state planning
 - d) Limited role in international trade policies
50. One of the major challenges in Indian agriculture is:
- a) Overproduction of food crops
 - b) Climate resilience of farming technologies
 - c) High rates of rural unemployment
 - d) Lack of diversification in the software sector