



## Business Economics

### Nature and Scope of Business Economics

#### Unit-1: Introduction

1. \_\_\_\_\_ wrote "An inquiry into the nature and causes of wealth of nations". [Dec.2023]  
 (A) Adam Smith (B) Pigou  
 (C) Marshall (D) Hicks
2. The word economics owes its origin with the Greek word Oikonomia which means: [Dec.2023]  
 (A) Commodity  
 (B) Household  
 (C) Price  
 (D) Consumer expectations
3. In Economics, we use "scarcity" the term to mean [Nov.2019]  
 (A) Absolute scarcity and lack of resources in less developed countries.  
 (B) Relative scarcity i.e. scarcity in relation to the wants of the society.  
 (C) Scarcity during times of business failure and natural calamities.  
 (D) Scarcity caused on account of excessive consumption by the rich
4. Human wants are \_\_\_\_\_ in response to satisfy their wants? [CA CPT Nov.2018]  
 (A) Unlimited (B) Limited  
 (C) Scarce (D) Multiple
5. Economic goods are considered as scarce resources because \_\_\_\_\_ [CA CPT May 2019]  
 (A) Inadequate quantity to satisfy the needs of the needs of the society  
 (B) Not possible to increase in quantity  
 (C) Limited hands to make goods  
 (D) Primary importance in satisfying social requirements

#### Meaning of Business Economics

6. \_\_\_\_\_ refers to the process of selecting an appropriate alternative that will provide the most efficient means of attaining a desired end, from two or more alternative courses of action.  
 (A) Decision making (B) Strategy  
 (C) Problem solving (D) Effectiveness
7. Business Economics is also known as: [CA CPT Nov. 2018]  
 (A) Applied Economics  
 (B) Managerial Economics  
 (C) Micro Economics  
 (D) All of the above
8. Which of the following is not within the scope of Business Economics? [Nov. 2019]  
 (A) Capital Budgeting  
 (B) Risk Analysis  
 (C) Business Cycles  
 (D) Accounting Standards
9. Concept of Business Economics was given by: [CA CPT May 2018]  
 (A) Joel Dean (B) Alfred Marshall  
 (C) Adam Smith (D) L. Robbins

#### Micro and Macro Economics

10. Micro Economics does not study: [CA CPT Dec.2015]  
 (A) Consumer behaviour  
 (B) Factor pricing  
 (C) General price level  
 (D) Firms equilibrium



- 11.** Micro Economics is also known as \_\_\_\_\_  
[Nov.2020]  
(A) Public Economics (B) Income Theory  
(C) Demand Theory (D) Price Theory
- 12.** Economics is classified into \_\_\_\_\_  
[June 2023]  
(A) Normative and Positive  
(B) Micro and Macro  
(C) Internal and External  
(D) None of the above
- 13.** Which of the following is not the subject matter of micro economics?  
[June 2023]  
(A) Consumer Behaviour  
(B) Foreign Exchange Rate  
(C) Behaviour of Firms  
(D) Location of Industry
- 14.** Which of the following is used for allocation of resources?  
[Nov. 2019]  
(A) Micro-Economics  
(B) Macro-Economics  
(C) Econometrics  
(D) Descriptive Economics
- 15.** Mr. X had been given a task to segregate normative and non-normative statements. Help him to identify which one of these is normative economic statement?  
[June 2024]  
(A) Pollution level is raising day by day because of urbanization  
(B) The part time working hours of students should be increased to 25 hours per week  
(C) Due to the increased number of cars on roads, people will be struck in traffic jams  
(D) The government has allotted a major portion of revenue in defence
- 16.** Which of the is a part of micro economics?  
[CA CPT June 2011]  
(A) Factor pricing  
(B) National Income  
(C) Balance of payment  
(D) None of the above
- 17.** What is the nature of business economics, which is an applied branch of economics?  
[June 2024]  
(A) It is positive in nature  
(B) It is normative in nature  
(C) It is neutral in nature  
(D) It is both positive as well as nor-mative in nature
- 18.** Study of the behaviour of different individuals and organizations within an economic system is called?  
[July 2021]  
(A) Industrial Economics  
(B) Macro Economics  
(C) Micro Economics  
(D) Welfare Economics
- 19.** Which of the following is not a subject matter of Micro-economies?  
(A) The price of mangoes  
(B) The cost of producing a fire truck for the fire department of Delhi, India.  
(C) The quantity of mangoes produced for the mangoes market.  
(D) The national economy's annual rate of growth.
- 20.** The India's Employment rate has increased in March 2023 as compared to March 2022. The study of this aspect comes under \_\_\_\_\_.  
[Dec. 2023]  
(A) Microeconomics  
(B) Macro Economics  
(C) Price theory  
(D) Market Economics



21. Which of the following is not a study of Macro-Economics? [July 2021]  
 (A) Consumer behaviour  
 (B) National Income  
 (C) General Price Level  
 (D) Level of employment
22. Which of the following is subject matter of macroeconomics? [June 2024]  
 (A) Behaviour of firms  
 (B) Factor Pricing  
 (C) Overall level of savings and investments  
 (D) The economics condition section of people
23. A study of how increases in the corporate income tax rate will affect the national unemployment rate an example of: [Nov. 2019]  
 (A) Macro Economics  
 (B) Descriptive Economics  
 (C) Micro Economics  
 (D) Normative Economics
24. Normative science suggests which of the following? [June 2022]  
 (A) What should be  
 (B) What to produce  
 (C) How to produce  
 (D) When to produce
25. Which one of the area comes under macro-economics? [Jan. 2021]  
 (A) Product pricing  
 (B) Consumer behaviour  
 (C) The general price level and interest rates  
 (D) Economics conditions of a section of people
27. Business Economics is pragmatic in approach because of which of the following cause? [June 2022]  
 (A) Based on assumptions  
 (B) Tackles practical problems  
 (C) Considers profit only  
 (D) Considers internal value
28. Under pragmatic approach, microeconomics is abstract and purely \_\_\_\_\_ nature and takes \_\_\_\_\_ assumptions [June 2024]  
 (A) Practical, Unrealistic  
 (B) Practical, Realistic  
 (C) Theoretical, Unrealistic  
 (D) Theoretical, Realistic
29. Which of the following is not a correct statement? [June 2023]  
 (A) Business Economics is a normative science  
 (B) Business Economics is an art  
 (C) Business Economics is based largely on Micro Economics  
 (D) Business Economics does not incorporate elements of Macro Economics
30. Which of the following is not a correct statement? [June 2022]  
 (A) Business economics is a normative science  
 (B) Business economics in an art  
 (C) Business economics is based largely on micro economics  
 (D) Business economics does not incorporate elements of macro economic analysis
31. **Rama:** My corn harvest this year is poor.  
**Manoj:** Don't worry. Price increase will compensate for this fall in quantity supplied.  
**Meera:** Climate affects crop yield. Some years are bad, others are good.  
**Bharti :** The Government ought to guarantee that our income will not fall.  
 In this conversation, the normative statement is made by: [Jan 2021]  
 (A) Rama (B) Manoj  
 (C) Meera (D) Bharti

#### Nature of Business Economics

26. Which one of the following is not the scope of business economics? [July 2021]  
 (A) Cost standards  
 (B) Cost analysis  
 (C) Demand analysis  
 (D) Inventory management



32. Business economy involves theory of Business economics with \_\_\_\_\_.  
[CA CPT Nov. 2018]

- (A) Normative Economics
- (B) Business practices
- (C) Micro Economics
- (D) Macro Economics

### Scope of Business Economics

33. Which factor is included in business Economics?  
[CA CPT Nov. 2018]

- (A) Business Economics is an art
- (B) Inter-disciplinary in nature
- (C) Normative in nature
- (D) All of the above

34. Business economics is pragmatic in its approach because?  
[July 2021]

- (A) It tackles practical problem which the firm faces in real world
- (B) It tackles practical problem which the firm faces due to WTO policies
- (C) It tackles practical problem which the firm faces due to lack of directors
- (D) Business economics is abstracts and purely theoretical.

35. Which of the below enables application of economic logic and analytical tools to bridge the gap between theory and practice?  
[June 2023]

- (A) Macro economics
- (B) Micro economics
- (C) Business economics
- (D) Traditional economics

36. Which one of the following is not a business economics?  
[Dec. 2023]

- (A) Demand forecasting & Analysis
- (B) Cost and production analysis
- (C) Profit Analysis
- (D) Capital budgeting

37. The nature of business economics is: [Nov. 2020]

- (A) Positive in nature
- (B) Pure science
- (C) Pragmatic
- (D) Independent

### Unit-2 : Basic Problems of An Economy and Role of Price Mechanism

#### Basic Problems of an Economy

38. The central economic problem of an economy arises due to \_\_\_\_\_.  
[July 2021]

- (A) Scarcity of resources relative to the wants
- (B) Co-existences of private and public sector
- (C) Govt. interference in economic activities
- (D) Federal structure of Constitution

39. In which type of central economic problem, an economy must decide whether more Indian electric toys should be produced and how many units of each toy should be produced? [Dec. 2023]

- (A) How to produce
- (B) What to produce
- (C) For whom to produce
- (D) What provision should be made for economic growth

40. What implications does the resource scarcity of economy have?  
[Dec. 2023]

- (A) Political problems
- (B) Economic problems
- (C) Geographical problems
- (D) Cultural problems

41. Which of the following is the central problem of economy?  
[June 2023]

- (A) Scarcity of resources
- (B) Unemployment
- (C) Poverty
- (D) Inflation



42. Which of the following is the central problem of the economy? [June 2022]  
 (A) Unemployment  
 (B) Poverty  
 (C) Scarcity of resources  
 (D) Inflation
43. The 'Central Economics Problem' does not deal with which of the following economic problems? [July 2021]  
 (A) What to produce?  
 (B) How to produce?  
 (C) For whom to produce?  
 (D) Where to produce?
44. Which of the following refers to the sum total of arrangements for the product and distribution of goods and services in society? [June 2023]  
 (A) Economic System  
 (B) Business System  
 (C) Capitalist Economic System  
 (D) Socialist Economic System
- Capitalist Economy**
45. The capitalist Economy uses \_\_\_\_\_ as principle means of allocation of resources. [Nov. 2019]  
 (A) Price  
 (B) Demand  
 (C) Supply  
 (D) None of the above
46. In capitalistic economy \_\_\_\_\_ and \_\_\_\_\_ will be more. [Nov. 2020]  
 (A) Equalities, non-exploitation  
 (B) Inequalities, exploitation  
 (C) Exploitation, equalities  
 (D) Non-exploitation, inequalities
47. An economy is called capitalist economy, when \_\_\_\_\_ is given. [Jan. 2021]  
 (A) Right to private property  
 (B) Freedom of Government interference  
 (C) Freedom of business choices  
 (D) Discrimination
48. An economic system in which all means of production are owned and controlled by private individuals for profit is called as? [June 2023]  
 (A) Free economy  
 (B) Capitalist economy  
 (C) Normative economy  
 (D) Socialist economy
49. Laissez-Faire economy is also known as: [Jan. 2021]  
 (A) Capitalist economy  
 (B) Socialist economy  
 (C) Mixed economy  
 (D) Communist economy
50. Capitalist incentives for system offer \_\_\_\_\_ incentives for \_\_\_\_\_. [Jan.2021, June 2024]  
 (A) Efficient business decisions  
 (B) Efficient government decisions  
 (C) Efficient non-government decisions  
 (D) Efficient economic decisions
51. Capitalist economy solve their economic problems through which of the following? [June 2023]  
 (A) Central Planning Authority  
 (B) Price mechanism  
 (C) Administered Prices  
 (D) Voting done by customers
52. Exploitation and inequality will be more in \_\_\_\_\_. [CA CPT May 2019]  
 (A) Socialism (B) Capitalism  
 (C) Mixed (D) All of the above



53. In a \_\_\_\_\_ the producer is free to set up any type of firms produce goods and services of his choice. [Dec. 2023]

- (A) Capitalist economy
- (B) Command Economy
- (C) Centrally planned economy
- (D) Planned economy

### Socialist Economy

54. Under which of the following economy the consumer has limited freedom of choice? [June 2023]

- (A) Social
- (B) Mixed
- (C) Capital
- (D) Restricted

55. The concept of socialist economy was propounded by \_\_\_\_\_.

- (A) Alfred Marshall
- (B) Joel dean
- (C) Albert Einstein
- (D) Karl Marx and Fredric Engles

56. The economic system in which production and distribution of goods are aimed at maximizing the welfare of the community as a whole is known as \_\_\_\_\_. [July 2021]

- (A) Capitalism
- (B) Socialism
- (C) Mixed economy
- (D) Communist Economy

57. Which of the following statements is not correct? [June 2022]

- (A) Scarcity of resources is the key problem of all economies
- (B) Economic inequalities lead to wide difference in economic opportunities to people
- (C) Economic instability is very common under capitalism
- (D) Freedom of enterprise is one of the main characteristic of command economy

58. Which of the following is one of the merits of socialism? [June 2023]

- (A) Importance given to personal efficiency
- (B) Importance given to productivity
- (C) Incentive for economic decisions
- (D) Rapid growth and balanced eco-nomic development

59. In a socialistic economy the allocation of resources is done by: [June 2022]

- (A) Market prices
- (B) Consumer preferences
- (C) A central planning authority
- (D) The level of corporate profits

60. The concept of Socialist economy was propounded by \_\_\_\_\_. [July 2021]

- (A) Karl Marx and Adam Smith
- (B) Frideric Engels and Adam Smith
- (C) Frideric Engels
- (D) Karl Marx and Frideric Engels

61. A socialist economy is called as which of the following? [June 2022]

- (A) Command economy
- (B) Military economy
- (C) Behaviour a list economy
- (D) Applied economy

62. \_\_\_\_\_ involves the predominance of bureaucracy and resulting inefficiencies and delays. [June 2022]

- (A) Socialistic economy
- (B) Capitalist economy
- (C) Mixed economy
- (D) Free market economy





### Mixed Economy

- 63.** Co-existence of public and private sector is the feature of \_\_\_\_\_ [Jun. 2021]  
 (A) Capitalist Economy  
 (B) Mixed Economy  
 (C) Socialist Economy  
 (D) Federal Economy
- 64.** In a mixed economy, there are \_\_\_\_\_ sectors of industries. [Jan. 2021]  
 (A) Two  
 (B) Three  
 (C) Four  
 (D) Five
- 65.** Which of the following statement is correct? [June 2022]  
 (A) Mixed economy is not always a 'golden path' between capitalistic and socialistic economy  
 (B) Socialistic economy is not always a 'golden path' between mixed economy and capitalism  
 (C) Capitalistic economy is not always a 'golden path' between mixed economy and socialism.  
 (D) Local economy is not always a 'golden path' between internal and international economy
- 66.** Which of the following statement! is correct? [July 2021]  
 (A) Mixed economy is not always a 'golden path' between capitalism and socialism.  
 (B) Socialistic economy is not always a 'golden path' between mixed and capitalism.  
 (C) Capitalistic economy is not always a 'golden path' between mixed and socialism.  
 (D) Mixed economy is always a 'golden path' between capitalism and socialism.
- 67.** Finance minister was discussing, balance of trade and balance of payments. This area comes under:  
 (A) Macro Economics  
 (B) Micro Economics  
 (C) Capitalist Economy  
 (D) Mixed Economy
- 68.** Which of the following is an example of normative statement?  
 (A) The government should increase taxes on liquor to reduce its consumption.  
 (B) The demand for a good will increase if its price decreases.  
 (C) A decrease in interest rates will lead to an increase in investment  
 (D) An increase in government spending will reduce the unemployment rate.
- 69.** Which of the following does not describe the nature of business economics?  
 (A) It is abstract and purely theoretical  
 (B) It is normative in nature  
 (C) It is an art  
 (D) It incorporates elements of Macro Analysis
- 70.** "Buyers ultimately determine which goods and services will be produced and in what quantities." The given statement is the meaning of :  
 (A) Consumer Sovereignty  
 (B) Planned economy  
 (C) Freedom of economic choice  
 (D) Freedom of enterprise
- 71.** Which of the following is not one of the four basic economic problem of an economy?  
 (A) Where to produce?  
 (B) What to produce?  
 (C) For whom to produce?  
 (D) What provisions are to be made for economic growth?



## Answer Key

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





## Hints and Solution

- |   |  |
|---|--|
| <p>1. (A)<br/>"An Inquiry into the Nature and Causes of the Wealth of Nations" was written by Adam Smith. This book, published in 1776, is considered one of the founding works of classical economics.</p> | <p>15. (B)</p>   |
| <p>2. (B)<br/>The word 'economics' owes its origin to the Greek word 'Oikonomia', which means Household. It referred to the management of household affairs in ancient Greece.</p>                          | <p>16. (A)</p>   |
| <p>3. (B)</p>   | <p>17. (D)</p>   |
| <p>4. (A)</p>   | <p>18. (C)</p>   |
| <p>5. (A)</p>   | <p>19. (C)</p>   |
| <p>6. (A)</p>   | <p>20. (B)<br/>The study of India's Employment rate and how it has changed over a period is a part of Macro Economics. Macroeconomics looks at economy-wide phenomena, such as changes in unemployment, national income, rate of growth, and gross domestic product.</p> |
| <p>7. (B)</p>   | <p>21. (A)</p>   |
| <p>8. (D)</p>   | <p>22. (C)</p>   |
| <p>9. (A)</p>   | <p>23. (A)</p>   |
| <p>10. (C)</p>  | <p>24. (A)</p>   |
| <p>11. (D)</p>  | <p>25. (C)</p>   |
| <p>12. (B)</p>  | <p>26. (A)</p>   |
| <p>13. (B)</p>  | <p>27. (B)</p>   |
| <p>14. (A)</p>  | <p>28. (C)</p>   |
|   | <p>29. (D)</p>   |



30. (D)

31. (D)

32. (B)

33. (D)

34. (A)

35. (C)

36. (D)

Capital budgeting is not typically considered a part of business economics. Business economics mainly focuses on factors like demand forecasting, cost and production analysis, and profit analysis. Capital budgeting, although important in business decisions, is more related to financial management.

37. (C)

38. (A)

39. (B)

The central economic problem of deciding whether more Indian electric toys should be produced and how many units of each toy should be produced falls under What to produce. This problem deals with determining which goods and services should be produced in the economy.

40. (B)

The resource scarcity of an economy has Economic problems implications. Scarcity of resources means that there are limited resources to satisfy unlimited wants, leading to the fundamental economic problem of allocation and necessitating choices and trade-offs.

41. (A)

42. (C)

43. (D)

44. (A)

45. (A)

46. (B)

47. (A)

48. (B)

49. (A)

50. (D)

51. (B)

52. (B)

53. (A)

In a Capitalist economy, the producer is free to set up any type of firms and produce goods and services of his choice. A capitalist economy is characterized by private ownership and the freedom to produce and trade.

54. (A)

55. (D)

56. (B)

57. (D)

58. (D)



59. (C)

60. (D)

61. (A)

62. (A)

63. (B)

64. (B)

65. (A)

66. (A)

67. (A)

68. (A)

69. (A)

70. (A)

71. (A)



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# CA Foundation Sampurna September 2025

## Theory of Demand and Supply

Notes

### Unit-1 : Law of Demand and Elasticity of Demand

1. The term 'demand' refers to: [Dec. 2021]
    - (a) Demand of money
    - (b) Need for the commodity
    - (c) Need for services
    - (d) The quantity of a good or service that buyers are willing and able to purchase at various prices during a given period of time
  2. The quantity demanded is a \_\_\_\_\_.
    - (a) Flow
    - (b) Stock
    - (c) Single isolated purchase
    - (d) Concept without reference to time
  3. In economics, Effective Demand for a thing depends on :
    - (a) Desire
    - (b) Means to purchase
    - (c) Willingness to use those means for that purchase
    - (d) All of the above
- Determinants of Demand**
4. Which is not an important factor that determines demand? [Dec. 2021]
    - (a) Price of commodity
    - (b) Disposable income of consumer
    - (c) Tastes and preferences of buyers
    - (d) Educational qualification of buyers
  5. Price of goods expresses value of \_\_\_\_\_. [June 2023]
    - (a) Exchange
    - (b) Cost
    - (c) Demand
    - (d) Fair
  6. Which of the following will affect the demand for non-durable goods? [CA CPT May 2019]
    - (a) Disposable income
    - (b) Price
    - (c) Demography
    - (d) All of the above
  7. What is not a determinant of demand? [Jan. 2021]
    - (a) Consumer's expectations
    - (b) Consumer's tastes and preferences
    - (c) Income of the consumers
    - (d) Prices of unrelated goods.
  8. The term "Ceteris Paribus" refers to \_\_\_\_\_.
    - (a) Other things being equal
    - (b) Other things also change
    - (c) Other things may change
    - (d) None of the above
  9. Goods which are inferior, with no close substitutes easily available and which occupy a substantial place in consumer's budget are called \_\_\_\_\_ goods. [July 2021]
    - (a) Speculative
    - (b) Prestige
    - (c) Conspicuous
    - (d) Giffen
  10. In case of Veblen goods, the demand curve is: [June 2022]
    - (a) Horizontal
    - (b) Vertical
    - (c) Upward sloping to the right
    - (d) Downward sloping to the right
  11. Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This is called as: \_\_\_\_\_ [July 2021]
    - (a) Veblen Effect
    - (b) Snob Effect
    - (c) Helen Effect
    - (d) None of these



12. Name the term which refers to the demand for consumer goods which is decreased owing to the fact that others are also consuming the same commodity.

- (a) Halo effect
- (b) Snob effect
- (c) Veblen effect
- (d) Demonstration effect

13. Consumption of high-priced goods by status seeking rich people for conspicuous consumption is called as \_\_\_\_\_. [June 2024]

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

14. Increase in price of pulses leads to increase in demand of green vegetables. The pulses and green vegetables are \_\_\_\_\_. [June 2023]

- (a) Substitutes
- (b) Complimentary goods
- (c) Normal goods
- (d) None of the above

15. "High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods" is: [CA CPT May 2018]

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

16. Which of the following is the price at which the quantity demanded of a commodity is equal to the quantity supplied of the commodity and there is no unsold stock or no unsupplied demand?

[July 2021]

- (a) Selling price
- (b) Asking price
- (c) Future price
- (d) Market clearing price

### The Law of Demand

17. What are exceptions to Law of Demand?

[Jan. 2021]

- (a) Law of Diminishing Marginal Utility
- (b) Substitution effect
- (c) Conspicuous goods
- (d) Different uses

18. When Price of a commodity increases what will be the effect on Quantity demanded?

[CA CPT Nov. 2018]

- (a) Increases
- (b) Decreases
- (c) No change
- (d) None of these

19. An increase in the demand of computers, other things remaining same, will:

- (a) Increase the number of computers bought.
- (b) Decrease the price but increase the number of computers bought
- (c) Increase the price of computer
- (d) Increase the price and number of computers bought.

20. In case of Normal goods, Rise in price leads to \_\_\_\_\_? [CA CPT Nov. 2018]

- (a) Fall in demand
- (b) Rise in demand
- (c) No Change
- (d) Initially rise then ultimately fall

21. A decrease in the demand for cameras, other things remaining the same will:

- (a) Increase the number of cameras bought.
- (b) Decrease the price but increase the number of cameras bought.
- (c) Increase the price of cameras.
- (d) Decrease the price and decrease in the number of cameras bought



- 22.** Comforts lies between:  
 (a) Inferior goods and necessities  
 (b) Luxuries and inferior goods  
 (c) Necessaries and luxuries  
 (d) None of the above
- 23.** If price of the commodity increases, what will be the effect Quantity demanded?  
 [CA CPT Nov. 2018]  
 (a) Decreases (b) Increases  
 (c) No change (d) Can't say
- 24.** Due to increase in price of coffee, the demand for tea increases. The two commodities under consideration are:  
 [June 2022]  
 (a) Substitute goods  
 (b) Complementary goods  
 (c) Unrelated goods  
 (d) Producers goods
- 25.** The demand for petrol decreases due to increase in its price, it is termed as:  
 [June 2022]  
 (a) A decrease in demand  
 (b) A change in demand  
 (c) A contraction in demand  
 (d) An increase in demand
- 26.** Which of the following is not an exception to the law of demand?  
 [June 2022]  
 (a) Giffen goods  
 (b) Speculative goods  
 (c) Conspicuous goods  
 (d) White goods
- 27.** Suppose the demand for auto-mobile decreases due to increase in price of petrol. Both the goods are:  
 [July 2021]  
 (a) Perishable  
 (b) Complementary  
 (c) Substitute  
 (d) Normal
- 28.** Which of the following statements is not correct?  
 [June 2022]  
 (a) Giffen goods exhibit negative relationship between price and demand  
 (b) Conspicuous goods exhibit positive relationship between price and demand  
 (c) Incomplete information and irrational behaviour of consumer is one of the reasons of exception to the law of demand  
 (d) Law of demand states inverse relationship between price of a commodity and its quantity demanded
- 29.** Which of the following is an exception to the law of demand?  
 [Dec. 2023]  
 (a) Substitute goods  
 (b) Marginal utility  
 (c) Conspicuous goods  
 (d) Cross elasticity of demand
- 30.** For what type of goods does demand fall with a rise in income levels of households?  
 [CA CPT May 2018]  
 (a) Inferior goods  
 (b) Substitutes  
 (c) Luxuries  
 (d) Necessities
- 31.** A situation where after a price decrease, more units are sold causing increase in revenue is called as which of the following?  
 [June 2022]  
 (a) Price effect (b) Quantity effect  
 (c) Income effect (d) Substitution effect
- 32.** Price effect is described as which of following?  
 [June 2023, June 2024]  
 (a) Income effect + Veblen effect  
 (b) Substitution effect + Veblen effect  
 (c) Income effect + Substitution effect  
 (d) Veblen effect + Demonstration effect





33. In case of inferior goods, with rise of income of consumes, demand of goodwill?

[CA CPT Nov. 2018]

- (a) Increases
- (b) Decreases
- (c) No change
- (d) None of these

34. In the case of a Giffen good, the demand curve will be:

- (a) Horizontal
- (b) Downward-sloping to the right
- (c) Vertical
- (d) Upward-sloping to the right

35. In case \_\_\_\_\_ there is an inverse relationship between income and demand for a product.

[CA CPT May 2019]

- (a) Substitute goods
- (b) Complementary goods
- (c) Giffen Goods
- (d) None of the above

36. If the demand of Bajra de. creases due to decrease in its price then Bajra is a:

[June 2023]

- (a) Superior good
- (b) Inferior good
- (c) Necessary good
- (d) Luxury good

#### Expansion and Contraction of DD

37. Movement along the same demand curve represents:

[June 2023]

- (a) Change in demand
- (b) Change in Quantity demand
- (c) Increase in demand
- (d) Decrease in demand

38. When price of apple is ₹120 er kg. Ram buys one kg. of apples that price. Now it other things remains the same but the price of apples falls to ₹ 90 per kg. Now Ram buys 2 kg. of apples. It is called as:

[Nov. 2020]

- (a) Demand schedule
- (b) Market demand
- (c) Contraction of demand
- (d) Expansion of demand

39. \_\_\_\_\_ refers to a change along a curve i.e. movement from one point to another on the same curve.

- (a) Expansion/Contraction of Demand
- (b) Increase/Decrease in Demand
- (c) Shift of Demand Curve
- (d) None of these

40. In case of \_\_\_\_\_ goods, the expansion in demand due to a price fall will take place only if the substitution effect outweighs the income effect

[Dec. 2021]

- (a) Inferior goods
- (b) Necessaries
- (c) Giffen goods
- (d) Luxuries goods

41. Movement along the demand curve may be due to \_\_\_\_\_

- (a) Expansion of Demand
- (b) Contraction of Demand
- (c) Increase/Decrease in Demand
- (d) Both (a) and (b)

#### Increase and Decrease in DD

42. Leftward shift of demand curve of coffee represents:

[June 2023]

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



43. A leftward shift in the demand curve may be due to :

- (a) Fall in income
- (b) Fall in the Price of Substitute
- (c) Decrease in Population
- (d) Any of the above

#### Price Elasticity of Demand

44. If both the total revenue of a product and price are moving in the same direction, demand is:

[Dec. 2023]

- (a) Elastic
- (b) Perfectly inelastic
- (c) Inelastic
- (d) Unrelated

45. At ₹5 per unit, Ram supplies 500 units of commodity X. At what price, 650 units of X should be supplied for at unit elasticity of supply?

[Dec. 2023]

- (a) 3.5
- (b) 4.5
- (c) 6.5
- (d) 7.5

46. The price of a commodity decreases from ₹ 6 per unit to ₹ 4 Per unit and quantity demanded of the goods increased from 10 units to 15 units. The Coefficient of Price Elasticity will be \_\_\_\_\_.

- (a) 1.5
- (b) 2
- (c) 1
- (d) 4

47. The demand for the commodity is \_\_\_\_\_ when a consumer is a habitual consumer. [June 2022]

- (a) Relative elasticity
- (b) Inelastic
- (c) Unit elasticity
- (d) Perfectly elastic

48. Identify the factor which generally keeps the price elasticity of a good low? [Jan. 2021]

- (a) Variety of uses for that good
- (b) Very low price of a commodity
- (c) Close substitutes for that good
- (d) High proportion of the consumer's income spent on it

49. Calculate the price elasticity of demand, when the price increases from ₹ 20 to ₹ 22 and quantity demand falls from 300 to 200 units (Midpoint method) [June 2024]

- (a) 4.2
- (b) -4.2
- (c) 4
- (d) -4

50. The price of a good decreases from ₹80 to ₹40 per unit. If the price elasticity of demand for the given product is 1.5 and the original quantity is 20 units, then the new quantity demanded will be: [Dec. 2023]

- (a) 15 Units
- (b) 35 Units
- (c) 18 Units
- (d) 48 Units

51. Calculate the price elasticity of demand if the household increases his demand for commodity x from 80 units to 100 units and price of a product x decreases by 10%. [Dec. 2023]

- (a) 2.5
- (b) 0.4
- (c) 10
- (d) 1.25

52. There is decrease in price of LED TV after budget announcement from ₹ 60,000 to ₹ 50,000. As a result of which demand for it has increased from 1,500 units to 2,000 units. The Elasticity of demand for LED TV will be \_\_\_\_\_. [June 2023]

- (a) 1.27
- (b) -2
- (c) 0.63
- (d) 0.67

53. For which of the following product elasticity of demand is highly elastic? [July 2021]

- (a) Salt
- (b) Life-saving medicines
- (c) water
- (d) Jewellery

54. The price of X commodity decreases from ₹ 10 to 8, owing to which its demand increases from 100 to 120 units. Calculate the price elasticity of demand. [June 2022]

- (a) (-)1
- (b) 1
- (c) 0.8
- (d) 1.2



55. If price decreases from ₹ 80 to ₹ 60 and elasticity of demand is 1.25 then [CA CPT May 2019]

- (a) Demand increase by 25%
- (b) Demand decrease by 25%
- (c) Remains constant
- (d) None of the above

56. The elasticity of demand for a product will not be higher when:

- (a) It has several uses
- (b) More substitutes for the product are available
- (c) It is an expensive commodity
- (d) It is considered a necessity by its buyers

57. If the price of a gel pen increases from ₹ 40 to ₹ 50 and in response to this the quantity demand decreases from 25 units to 20 units. The coefficient of price elasticity will be: [June 2023]

- (a) 1.2
- (b) -1.25
- (c) 0.8
- (d) -0.8

58. The price elasticity of demand for X is 1 and the original quantity 1 demand of X is 90 units, if the price of X decreases from ₹300 to ₹180 per unit, calculate the new quantity [Nov. 2020]

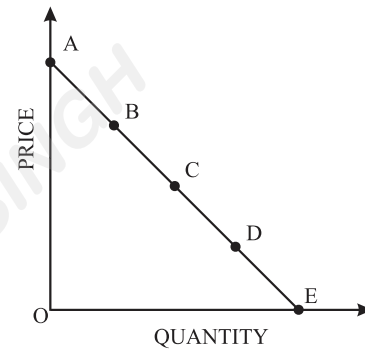
- (a) 36 units
- (b) 120 units
- (c) 126 units
- (d) 144 units

59. Mr. Z went to a stationery shop to buy pens. The price of pen decreased from ₹ 5 to ₹ 3 per unit. If the price elasticity of demand for pen is 2.5 and the original quantity demand for pen is 20, then how much is the new quantity of demanded.

[June 2024]

- (a) 10
- (b) 40
- (c) 30
- (d) 20

60.



[CA CPT May 2018]

- (a) Elasticity at point A =  $\infty$ , at B =  $> 1$ , at C = 1, at D =  $\leq 1$  and E = 0
- (b) Elasticity at A = 0, at B =  $< 1$ , at C = 1 at D =  $> 1$  and E =  $\infty$
- (c) Elasticity at A = 0 at B =  $> 1$ , at C = 1, at D =  $< 1$  and at E = 0
- (d) None of these

61. The price elasticity of demand at the midpoint of the straight line demand curve under point method is \_\_\_\_\_. [CA CPT May 2019]

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

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

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

63. Which of the following method is used to calculate Elasticity of demand when price and quantity demand are large? [June 2023]

- (a) Zero elasticity
- (b) Cross elasticity
- (c) Point elasticity
- (d) Arc elasticity



64. The price of a commodity decreases from ₹ 200 to ₹ 120 per unit. If the price elasticity of demand for this commodity is 2 and the original quantity demanded is 60 units, calculate the new quantity demanded. [July 2021]

- (a) 48 units (b) 100 units  
(c) 108 units (d) 120 units

65. The demand for a generic good like soap and for Lux soap are \_\_\_\_\_ respectively. [July 2021]

- (a) Elastic and elastic  
(b) Inelastic and inelastic  
(c) Inelastic and elastic  
(d) Elastic and inelastic

#### Income Elasticity of Demand

66. If the percentage change in demand of good X is -2.5% and the percentage change in income is 5%, then the income elasticity for and the good X will be good X is treated as: [Dec. 2023]

- (a) -0.5, normal goods  
(b) -0.5, inferior goods  
(c) 0.5, normal goods  
(d) 0.5, inferior goods

67. Which of the following formula can be used for calculation of income Elasticity of Demand?

- (a)  $E_i = \frac{\Delta q}{\Delta y} \times \frac{y}{q}$   
(b)  $E_i = \frac{\Delta y}{\Delta q} \times \frac{q}{y}$   
(c)  $E_i = \frac{\Delta q}{\Delta y} \times \frac{q}{y}$   
(d) None of the above

68. Income elasticity of luxury goods is \_\_\_\_\_. [Nov. 2019]

- (a) Zero  
(b) Positive and greater than one  
(c) Positive and lesser than one  
(d) Negative and greater than -1

69. Suppose there is an increase in income by 15%, which increases demand by 30% the income elasticity of demand will be \_\_\_\_\_. [June 2023]

- (a) 0.67 (b) 0.5  
(c) 2 (d) 1.0

70. The quantity purchased remains constant irrespective of the change in income. This is known as:

- (a) Negative income elasticity of demand.  
(b) Income elasticity of demand less than one.  
(c) Zero income elasticity of demand.  
(d) Income elasticity of demand is greater than one.

71. Dinesh's annual income increases from ₹3,00,000 to ₹3,60,000. Accordingly, he increases his purchases of commodity X from 50 Nos. to 60 Nos. What is the Dinesh's income elasticity of demand for commodity X? (use Arc elasticity method) [Dec. 2023]

- (a) 0.5 (b) 1.0  
(c) 2.0 (d) Zero

72. The average income of residents of two cities A and B and the corresponding change in demand for two goods is given in the following table. Which of the following statements is true?

City	% Increase in income	% change in demand for Good X	% change in demand for Good Y
A	12	6.5	-2.3
B	9	5.6	1.6

- (a) Both goods are normal goods in both cities A and B  
(b) Good X is a normal good in both cities; good Y is an inferior good in city A  
(c) Good X is a normal in both cities; good Y is an inferior good in city B  
(d) Need more information to make and accurate comment



73. In the case of inferior goods, the income elasticity of demand is: [Jan. 2021]

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

#### Cross Elasticity of Demand

74. Cross elasticity of perfect substitutes is: [CA CPT May 2018]

- (a) Zero (b) Negative  
(c) One (d) Infinity

75. When two goods are unrelated then cross elasticity of demand will be \_\_\_\_\_. [June 2023]

- (a) 0 (b) 00  
(c) 1 (d) (-)

76. The quantity demanded of coffee increases by 2% when the price of tea increases by 8%, the cross elasticity of demand between two products are \_\_\_\_\_. [July 2021]

- (a) + 0.25 (b) - 0.25  
(c) - 0.4 (d) + 0.4

77. If the quantity demand of coffee increased by 8% the price of tea increase by 25% the cross elasticity of demand between coffee and tea is \_\_\_\_\_. [June 2024]

- (a) -0.32 (b) 0.32  
(c) 3.125 (d) -3.125

78. The cross elasticity between personal computers and software's is:

- (a) Positive (b) Negative  
(c) zero (d) One

79. The price of 1 kg. of tea is ₹ 30. At this price, 5 kg. of tea is demanded. If the price of coffee rises from ₹ 25 to ₹ 35 per kg., the quantity demanded of tea rises from 5 kg. to 8 kg. The cross price elastic of tea is \_\_\_\_\_. [Jan. 2021]

- (a) 1 (b) 0.5  
(c) 1.5 (d) 0

#### Advertisement Elasticity

80. Advertising elasticity of demand is typically \_\_\_\_\_. [June 2022]

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

81. What will be the advertisement elasticity?

% Change in Demand = 30%

% change in Price = Nil

% change in advertisement Expenditure = 25%

- (a) 1.2 (b) 0.83  
(c) 1 (d) 25

82. If the advertisement expenditure on X commodity increase by 20% and demand for it increases only by 5%. The advertisement elasticity of demand for X commodity is: [June 2022]

- (a) 0.25 (b) (-) 0.25  
(c) 4 (d) (-) 4

83. The zero advertisement Elasticity represents:

- (a) Demand responds proportionately  
(b) Demand does not respond proportionately  
(c) Demand does not respond at all  
(d) None of the above

#### Unit-2 : Theory of Consumer Behavior

##### Nature of Human Wants

84. Wants may arise due to \_\_\_\_\_ causes.

- (a) Elementary  
(b) Psychological  
(c) Internal  
(d) Both (a) & (b)

85. Wants arise from multiple causes including \_\_\_\_\_.

- (a) Natural instincts  
(b) Social obligations  
(c) Individual's economic & social status  
(d) All of the above



### Classification of Wants

86. Which of the following is NO an example of Necessaries?
- Nourishing food
  - Adequate clothing & clean water
  - Comfortable dwelling
  - Expensive clothing

### Law of Diminishing Marginal Utility

87. Which of the following statements about utility is incorrect? [Dec. 2021]
- Utility is ethically neutral
  - A commodity has utility even when it is not consumed
  - Utility is subjective and varies from person to person
  - Utility is the same thing as useful-ness
88. Utility is the numerical score in terms of '\_\_\_\_\_' representing the satisfaction that a consumer obtains from the consumption of a particular good. [Dec. 2021]
- Points
  - Utils
  - Units
  - Numbers

89. When total utility is diminishing, the marginal utility is: [June 2022]
- Diminisher
  - Zero
  - Negative
  - Increases

90. At the point of satiation, TU is \_\_\_\_\_ and MU is \_\_\_\_\_. [Dec. 2021]
- Maximum, Zero
  - Minimum, Zero
  - Zero, Zero
  - Maximum, diminishing

91. From the information provided, what will be the Total utility of 2nd unit? [Dec. 2023]

Units	TU	MU
1	200	--
2	--	150
3	480	--

- 350
- 380
- 50
- 330

92. Which Equation is correct? [CA CPT Nov. 2018]

- $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$
- $\frac{MU_x}{MU_y} > \frac{P_x}{P_y}$
- $\frac{MU_x}{MU_y} < \frac{P_x}{P_y}$
- $\frac{MU_x}{MU_y} \neq \frac{P_x}{P_y}$

93. Marginal rate of Substitution X for Y is calculated as \_\_\_\_\_. [Dec. 2021]

- Change in X/change in Y
- $P_x/P_y$
- $P_y/P_x$
- Change in Y/change in X

94. From the following data given below answer questions 251 and 252) [CA CPT Nov. 2018]

Units	TU	MU
1	200	
2	-	180
3	480	-

Total utility derived from 2nd unit?

- 380
- 20
- 100
- 280

95. Marginal utility of 3rd unit is? [CA CPT Nov. 2018]

- 200
- 280
- 100
- 50

96. When marginal utility is zero then total utility is \_\_\_\_\_.

- Maximum
- Lower
- Negative
- Increasing





97. Supposing that total utility is 100 at 10 units of consumption of a commodity. If consumer increases the consumption by one more unit and owing to that total utility increases to 108.

The marginal utility of last units consumed will be \_\_\_\_\_ . [June 2023]

- (a) 8 (b) 100  
(c) 108 (d) 101

98. Budget line is otherwise called as: [Nov. 2019]

- (a) Money line (b) Preference line  
(c) Income line (d) Price line

99. The Consumer is in equilibrium when the following condition is satisfied:

[CA CPT May 2019]

- (a) Budget line is tangent to the  $I_c$  curve  
(b)  $\frac{MU_x}{P_x} = \frac{MU_y}{P_y} = \frac{MU_z}{P_z}$   
(c) Both (a) and (b)  
(d) None of the above

100. An indifference curve is a curve which represents all those combinations of two goods which give \_\_\_\_\_ to the consumer.

- (a) Equal satisfaction  
(b) Greater satisfaction  
(c) Lesser satisfaction  
(d) Variable satisfaction

101. Cardinal approach is related to:

[CA CPT May 2018]

- (a) Indifference curve  
(b) Equi marginal utility  
(c) Law of diminishing returns  
(d) None of these

102. Which economist said that money is the measuring rod of utility? [Ca CPT may 2018]

- (a) A.C. Pigou (b) Marshall  
(c) Adam Smith (d) Robbins

103. Which of the following relation is true with MU? [CA CPT May 2019]

- (a) When MU is positive, Total utility rises at a diminishing rate  
(b) When marginal utility is zero, total utility is maximum  
(c) When marginal utility is negative, total utility is diminishing  
(d) All of the above

### Consumer's Surplus

104. Consumer's surplus = what the consumer is ready to pay minus \_\_\_\_\_ ? [June 2022]

- (a) What is actual price of the product  
(b) What is income of the consumer  
(c) What he actually pays  
(d) What is actual surplus

105. Purushottam wanted to buy laptop by paying ₹60,000 but the actual price is ₹55,000, then consumer surplus is: [Nov. 2020]

- (a) 6,500 (b) 55,000  
(c) 5,000 (d) 60,000

106. Ram wanted to purchase an Apple tab at ₹12,000/- . Actual price in the market (MRP) is ₹ 11,000/- and discount was given at 20%. Also there is an additional cash discount of ₹ 300. Find consumers surplus [June 2024]

- (a) 3200 (b) 3500  
(c) 1000 (d) 3300

107. Which of the following is/are the condition's of theory of consumer surplus if price is same for all the units he purchased? [CA CPT May 2019]

- (a) Consumer gains extra utility or surplus  
(b) Consumer surplus for the last commodity is zero  
(c) Both  
(d) None



**108.** The concept of consumer's surplus is derived from: [CA CPT May 2018]

- (a) The law of diminishing marginal utility
- (b) The law of equal-marginal utility
- (c) The law of diminishing returns
- (d) Engel's law

**109.** The concept of consumer surplus is derived from \_\_\_\_\_. [Dec. 2021]

- (a) The law of Demand
- (b) The law of Supply
- (c) The law of diminishing marginal utility
- (d) Indifference curve Analysis

### Indifference Curve Analysis

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

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

**111.** More consumption of commodity X and less consumption of commodity Y make indifference curve [Dec. 2023]

- (a) Slope downwards from left to right
- (b) Intersect with each other
- (c) Touch two axes
- (d) Concave at mid-point

**112.** Which of the following is not the property of indifference curve? [CA CPT May 2019]

- (a) Slopes downwards to the right
- (b) Always convex to the origin
- (c) Intersects each other
- (d) Will not touch either of the axes

**113.** Indifference Curve analysis is based on which approach? [July 2021]

- (a) Ordinal
- (b) Cardinal
- (c) Marginal
- (d) All of the above

**114.** Which of the following is not the property of indifference curve? [CA CPT Nov. 2018]

- (a) IC is convex to the origin
- (b) IC slopes downwards from left to right
- (c) Two IC can touch each other
- (d) IC cannot touch either of the axis

**115.** The Indifference curve for two perfect complementary goods is \_\_\_\_\_. [July 2021]

- (a) U-shaped
- (b) Straight line
- (c) Z-shaped
- (d) L-shaped

**116.** A shift in budget line occurs, when prices of the two goods remain constant, is due to \_\_\_\_\_. [Dec. 2021]

- (a) Change in preferences
- (b) Change in demand
- (c) Change in income
- (d) Change in utility

**117.** Why does demand curve slopes downwards?

[Jan. 2021]

- (a) Law of diminishing marginal cost
- (b) Arrival of new Consumers
- (c) Cost effect
- (d) Different users

**118.** If indifference curve is 'L' shaped then two goods will be called as \_\_\_\_\_. [June 2023]

- (a) Perfect superior goods
- (b) Perfect inferior goods
- (c) Perfect quality goods
- (d) Perfect complementary goods



119. The slope of the indifference curve shows consumer equilibrium at point where  $MRS_{(xy)}$  \_\_\_\_\_  $\frac{P_x}{P_y}$  (Price line) [CA CPT Nov. 2018]

- (a) Less than
- (b) More than
- (c) Equal to
- (d) None of the above

120. The slope of the 'Price line' indicates the ratio between of the two goods.

- (a) Prices
- (b) Quantities demanded
- (c) Quantities Sold
- (d) Marginal Utility

### Unit-3 : Supply Introduction

121. The supply of a good refers to: [Nov. 2019]

- (a) Actual production of the good.
- (b) Total existing stock of the good.
- (c) Stock available for sale.
- (d) Amount of the good offered for sale at a particular price per unit of time.

122. Supply is a \_\_\_\_\_ concept.  
[CA CPT May 2018, Jan. 2021]

- (a) Flow
- (b) Stock
- (c) Flow and stock, both
- (d) Qualitative

### Law of Supply

123. According to law of supply, change in supply is related to? [CA CPT Nov. 2018]

- (a) Price of goods
- (b) Price of related goods
- (c) Factors of production
- (d) None of the above

124. When supply price increase in the short run, the profit of the producer \_\_\_\_\_.  
[CA CPT May 2018]

- (a) Increases
- (b) Decreases
- (c) Remains constant
- (d) Decreases marginally

### Increase or Decrease in the Quantity Supplied

125. Contraction of supply implies \_\_\_\_\_.  
[CA CPT May 2019]

- (a) Decrease in cost of production
- (b) Decrease in price of the good concerned
- (c) Decrease in price of related good
- (d) Increase in price of the good concerned

126. When supply curves moves to right, it means \_\_\_\_\_.  
[Jan. 2021]

- (a) Supply increases
- (b) Supply decreases
- (c) Supply remains constant
- (d) Supply expands

### Shifts in Supply Curve

127. An increase in the supply of a good is caused by:

- (a) Improvements in its technology.
- (b) Fall in the prices of other goods.
- (c) Fall in the prices of factors of production.
- (d) All of the above

128. When supply curve moves to right, it means

- (a) Supply increases
- (b) Supply decreases
- (c) Supply remains constant
- (d) None of the above

129. When supply curve shifts to the right there is: [CA CPT May 2018]

- (a) An increase
- (b) Expansion
- (c) Contraction
- (d) Decrease



**130.** When supply curve moves to the left, it means

- (a) Smaller supply at a given price
- (b) Larger supply at a given price
- (c) Constant supply at a lower price
- (d) None of the above

**131.** When the supply curve shifts to the left or right, it is called as \_\_\_\_\_ or \_\_\_\_\_ in supply, respectively.

- (a) Decrease, Decrease
- (b) Decreases, Increase
- (c) Increase, Increase
- (d) Increase, Decrease

### Elasticity of Supply

**132.** A vertical supply curve parallel to the Y-axis exhibits that the elasticity of supply is: [June 2022]

- (a) Zero (b) Infinite
- (c) Elastic (d) Inelastic

**133.** If elasticity of supply is infinite, the supply curve will be:

- (a) Parallel to x axis
- (b) Parallel to y axis
- (c) Upward sloping
- (d) Downward sloping

**134.** Price elasticity of supply refers to change in responsiveness of quantity to change in:

[Nov. 2019]

- (a) Price (b) Price in substitute
- (c) Income (d) Preference

**135.** The elasticity of supply is de-fined as the:

- (a) Responsiveness of the quantity supplied of a good to a change in its price.
- (b) Responsiveness of the quantity supplied of a good without change in its price.
- (c) Responsiveness of the quantity demanded of a good to a change in its price.
- (d) Responsiveness of the quantity demanded of a good without change in its price.

**136.** If the elasticity of Supply is 5 and the price of product Y increases by 15%, then what percentage of quantity supplied will increase? [Dec. 2023]

- (a) 10% (b) 3%
- (c) 75% (d) 15%

**137.** The Price of Good Increases from 200 to ₹300 the quantity supplied Increases from 200 to 2500 units. The elasticity of supply will be:

- (a) Less than one (b) Greater than two
- (c) Equal to one (d) Equal to two

**138.** When price of a commodity Rises from 200 to ₹300 and Quantity supply increases from 2,000 to 5,000 units find elasticity of supply? [CA CPT Nov. 2018]

- (a) 3.0 (b) 2.5
- (c) 0.3 (d) 3.5

**139.** If the price of sugar increases from ₹ 8,000 to 10,000 per tone and due to that quantity supplies of sugar increases from 2000 to 2500 tones. Compute the elasticity of supply. [June 2022]

- (a) (-) 1 (b) 1
- (c) (-) 0.4 (d) 0.4

**140.** If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is :

- (a) 2.5 (b) 0.4
- (c) (-) 2.5 (d) (-) 0.4

**141.** Due to introduction of 5G mobiles in the market, the price of such mobiles has increased by 20% and there by supply increased by 40% the elasticity of supply will be which of the following? [June 2023]

- (a) 0.5 (b) - 0.5
- (c) - 2 (d) 2

**142.** When No. of tourists increase at a place for which the room rent of hostel also increases. Then the elasticity of supply of room will be \_\_\_\_\_. [June 2023]

- (a) Zero (b) <1
- (c) >1 (d) =1



**143.** If quantity supplied changes substantially in response to small changes in price of the good, then it is: [Nov. 2020]

- (a) Perfect elastic
- (b) Unitary elastic
- (c) Relatively less elastic supply
- (d) Relatively greater elastic supply

**144.** When elasticity is measured at a given point on the supply curve is called as which of the following? [June 2022]

- (a) Unit elasticity
- (b) Point elasticity
- (c) Supply elasticity
- (d) Limited elasticity

**145.** The Price of Commodity X increased from ₹2,000 per unit to ₹ 2,100 per unit and consequently the quantity supplied rises from 2,500 units to 3,000 units. The Elasticity of supply will be:

- (a) 2
- (b) 4
- (c) .25
- (d) 0

**146.** The supply function is given as  $Q = 20p - 200$ . The elasticity of supply using point method, when the price is ₹30 will be: [Dec. 2021]

- (a) -1.5
- (b) +1.5
- (c) +0.66
- (d) -0.66

**147.** Perishable commodities will have \_\_\_\_\_. [CA CPT May 2019]

- (a) Perfectly elastic curve
- (b) Perfectly inelastic curve
- (c) Elastic
- (d) Inelastic

**148.** When the supply of a product is perfectly inelastic then the curve will be: [CA CPT May 2019]

- (a) Parallel to Y - axis
- (b) Parallel to X - axis
- (c) At the angle of  $45^\circ$
- (d) Sloping upwards

**149.** The cross elasticity between Rye bread and Whole Wheat bread is expected to be:

- (a) Positive
- (b) Negative
- (c) Zero
- (d) Can't say

**150.** The supply function is given as  $Q = -100 + 10P$ . Find the elasticity using point method, when price is ₹ 15.

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

### Equilibrium Price

**151.** Equilibrium refers to a market situation where quantity demand is \_\_\_\_\_ to quantity supplied.

- (a) Equal
- (b) Less than or Equal
- (c) More than
- (d) More than or equal

**152.** The equilibrium price is determined by the intersection between \_\_\_\_\_ and \_\_\_\_\_. It is also called as the \_\_\_\_\_ equilibrium.

- (a) Demand, Supply, Static
- (b) Demand Supply, Dynamic
- (c) Supply, Demand, Partial
- (d) Demand, Supply, Market



## Answer Key

1. (d)	32. (c)	63. (d)	94. (a)	125. (b)
2. (a)	33. (b)	64. (c)	95. (c)	126. (a)
3. (d)	34. (d)	65. (c)	96. (a)	127. (d)
4. (d)	35. (c)	66. (b)	97. (a)	128. (a)
5. (a)	36. (b)	67. (a)	98. (d)	129. (a)
6. (d)	37. (b)	68. (b)	99. (c)	130. (a)
7. (d)	38. (d)	69. (c)	100. (a)	131. (b)
8. (a)	39. (a)	70. (c)	101. (b)	132. (a)
9. (d)	40. (a)	71. (b)	102. (b)	133. (a)
10. (c)	41. (d)	72. (b)	103. (d)	134. (a)
11. (a)	42. (a)	73. (c)	104. (c)	135. (a)
12. (b)	43. (d)	74. (d)	105. (c)	136. (c)
13. (d)	44. (c)	75. (a)	106. (b)	137. (b)
14. (a)	45. (c)	76. (a)	107. (c)	138. (a)
15. (a)	46. (a)	77. (b)	108. (a)	139. (b)
16. (d)	47. (b)	78. (b)	109. (c)	140. (a)
17. (c)	48. (b)	79. (c)	110. (c)	141. (d)
18. (b)	49. (b)	80. (d)	111. (a)	142. (b)
19. (d)	50. (b)	81. (a)	112. (c)	143. (d)
20. (a)	51. (a)	82. (a)	113. (a)	144. (b)
21. (d)	52. (b)	83. (c)	114. (c)	145. (b)
22. (c)	53. (d)	84. (d)	115. (d)	146. (b)
23. (a)	54. (a)	85. (d)	116. (c)	147. (b)
24. (a)	55. (d)	86. (d)	117. (b)	148. (a)
25. (c)	56. (d)	87. (d)	118. (d)	149. (a)
26. (d)	57. (d)	88. (b)	119. (c)	150. (d)
27. (b)	58. (c)	89. (c)	120. (a)	151. (a)
28. (a)	59. (b)	90. (a)	121. (d)	152. (d)
29. (c)	60. (a)	91. (a)	122. (a)	
30. (a)	61. (b)	92. (a)	123. (a)	
31. (b)	62. (c)	93. (d)	124. (a)	





## Hints & Solution

1. (d)

2. (a)

The quantity demanded is a flow. We are concerned not with a single iso-lated purchase, but with a continuous flow of purchases. Therefore, demand is expressed as "So much per period of time".

3. (d)

4. (d)

5. (a)

6. (d)

7. (d)

The prices of related commodities are included in determinant of demand. Which may be either complimentary goods or substitutes.

8. (a)

9. (d)

10. (c)

11. (a)

12. (b)

13. (d)

14. (a)

15. (a)

16. (d)

17. (c)

In case of articles of conspicuous goods, these become more attractive if their prices go up. Such articles will not conform to the usual law of demand.

18. (b)

19. (d)

20. (a)

21. (d)

22. (c)

23. (a)

24. (a)

A

25. (c)

26. (d)

27. (b)

28. (a)

29. (c)

**Conspicuous goods** are an exception to the law of demand. This is because their demand often increases with higher prices due to their status symbol, contrary to normal goods where demand decreases as price increases.



30. (a)

31. (b)

32. (c)

33. (b)

34. (d)

35. (c)

36. (b)

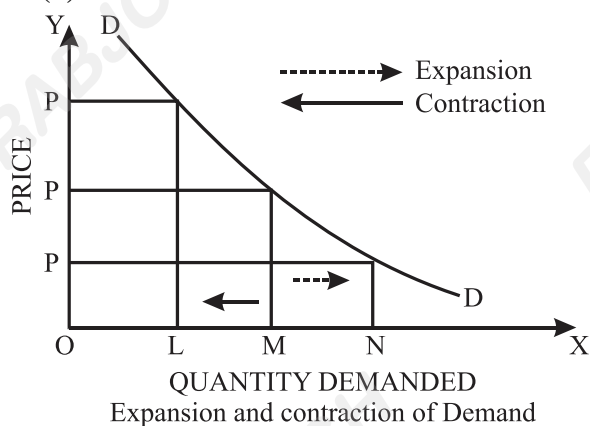
37. (b)

38. (d)

39. (a)

40. (a)

41. (d)



42. (a)

	Price (P)	Quantity (Q)
Original	₹ 6	10 units
New	₹ 4	15 units
Change	$\Delta P = 2$	$\Delta Q = 5$
Price Elasticity = $\frac{-\Delta Q}{\Delta P} \times \frac{P}{Q} = (-) \frac{5}{2} \times \frac{6}{10} = (-) 1.5$		

43. (d)

44. (c)

45. (c)

46. (a)

47. (b)

48. (b)

49. (b)

$$\text{Price Elasticity of Demand} = \frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2} = \frac{(200-300)}{(22-20)} \times \frac{(20-22)}{(300-200)} = -4.2$$

50. (b)

	Original	New	Change
Price	80	40	-40
Quantity	20	$x$	$X-20$

$$\text{Price elasticity of Demand} = \frac{\Delta Q}{\Delta P} \times \frac{P_1}{Q_1}$$

$$-1.5 = \frac{x-20}{-40} \times \frac{80}{20}$$

$$-1.5 = \frac{x-20}{-10}$$

$$15 = x - 20$$

$$X = 15 + 20 = 35 \text{ units}$$

51. (a)

Price Elasticity of Demand

$$= \frac{\% \text{ change in Quantity Demanded}}{\% \text{ change in Price}} = \frac{25\%}{-10} = 2.5$$

52. (b)

Elasticity of Demand

$$= \frac{\Delta Q}{\Delta P} \times \frac{P_1}{Q_1} = \frac{500}{-10,000} \times \frac{60,000}{1,500} = -2$$

53. (d)

54. (a)



55. (d)

$$\% \text{ change in Price} = \frac{60-80}{80} = 25\%$$

$$\text{Price Elasticity of Demand} = 1.25$$

Price Elasticity

$$= \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

$$1.25 = \frac{\% \text{ change in Quantity}}{25\%}$$

56. (d)

57. (d)

Price elasticity of Demand

$$= \frac{\Delta Q}{\Delta P} \times \frac{P_1}{Q_1} = \frac{-5}{10} \times \frac{40}{25} = -0.8$$

58. (c)

$$\text{Price elasticity of Demand} = \frac{\Delta Q}{\Delta P} \times \frac{P_1}{Q_1}$$

$$-2.5 = \frac{(Q_2 - 20)}{(3 - 5)} \times \frac{5}{10} \Rightarrow Q_2 = 40$$

59. (b)

60. (a)

$$\text{Price Elasticity (E}_P\text{)} = \frac{\text{Lower Segment}}{\text{Upper Segment}}$$

61. (b)

62. (c)

63. (d)

64. (c)

$$\text{Price Elasticity (E}_P\text{)} = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

$$2 = \frac{\Delta q}{80} \times \frac{200}{60}$$

$$\Delta q = \frac{2 \times 80 \times 60}{200} = 48$$

$$\text{Therefore, New Quantity Demanded} = 60 + 48 = 108 \text{ units}$$

65. (c)

It means the quantity demanded changes by a larger percentage than the price.

66. (b)

Income Elasticity of Demand

$$= \frac{\% \text{ Change in Demand}}{\% \text{ Change of Income}} = \frac{2.5\%}{5\%} = -0.5$$

A Negative income elasticity indicates an inferior good, where demand decreases as income increases. Thus, the income elasticity for good X is  $-0.5$ , inferior goods.

67. (a)

68. (b)

69. (c)

70. (c)

71. (b)

Using the arc elasticity method,

Income Elasticity

$$= \frac{\Delta Q}{\Delta Y} \times \frac{Y_1 + Y_2}{Q_1 + Q_2} = \frac{10}{60,000} \times \frac{6,60,000}{110} = +1$$

72. (b)

73. (c)

When income increases, consumers choose to consume superior substitutes. Thus, income elasticity is negative in case of inferior goods.

74. (d)

75. (a)

Choose demand refers to the quantities of a commodity or service which will be purchased with reference to changes in price, not of that particular commodity, but of other inter-related commodities, other things remaining the same.

If two goods are totally unrelated, the cross-price elasticity between them is zero.



76. (a)

 $E_c$ 

$$= \frac{\text{Percentage Change in Demand}}{\text{Percentage change in price of substituted}}$$

$$= \frac{2\%}{8\%} = +0.25$$

77. (b)

Cross elasticity of demand

$$= \frac{\% \text{ change in demand for coffee}}{\% \text{ change in Price of Tea}} = \frac{8\%}{25\%} = 0.32$$

78. (b)

79. (c)

$$E_c = \frac{\Delta q_x}{\Delta P_y} \times \frac{P_y}{q_x} \text{ [Where X = Tea and Y = Coffee]}$$

$$E_c = \frac{5-8}{-10} \times \frac{25}{5} = \frac{-3}{-10} \times \frac{25}{5} = +1.5$$

80. (d)

81. (a)

$$E_a = \frac{\% \text{ Change in Demand}}{\% \text{ Change in Spending an advertising}} = \frac{30}{25} = 1.2$$

82. (a)

83. (c)

84. (d)

85. (d)

86. (d)

87. (d)

88. (b)

89. (c)

90. (a)

91. (a)

The Total Utility (TU) of the 2<sup>nd</sup> unit can be found by adding the Marginal Utility (MU) of the 2<sup>nd</sup> unit to the TU of the 1<sup>st</sup> unit. Since TU of 1<sup>st</sup> unit is 200 and MU of 2<sup>nd</sup> unit is 150, TU of 2<sup>nd</sup> unit = 200 + 150 = 350.

92. (a)

93. (d)

94. (a)

$$TU_2 = TU_1 + MU_2$$

$$= 200 + 180 = 380$$

95. (c)

$$MU_n = TU_n - TU_{n-1}$$

$$MU_3 = TU_3 - TU_2$$

$$= 480 - 380 = 100$$

96. (a)

97. (a)

Marginal utility = The additional made to the total utility by the addition of consumption of one more unit of a commodity. Symbolically,

$$U_n = TU_n - TU_{n-1}$$

$$MU_{11} = TU_{11} - TU_{10} = 108 - 100 = 8$$

98. (d)

99. (c)

The conditions for consumer attaining equilibrium is the point where :

(a) The budget line is tangent to the indifference curve and

$$(b) \frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

100. (a)



101. (b)

102. (b)

103. (d)

104. (c)

105. (c)

106. (b)

MRP = ₹ 11,000

Discounted price =  $11,000 - (20\% \text{ of } 11,000) = 8,800$ Final price after cash discount =  $8,800 - 300 = 8,500$ Consumer surplus =  $12,000 - 8,500 = 3,500$ 

107. (c)

108. (a)

109. (c)

110. (c)

More consumption of commodity X and less consumption of commodity Y makes indifference curves slope downwards from left to right. This downwards slope represents a trade-off between the two commodities, showing how much of one commodity a consumer is willing to give up to obtain more of the other.

111. (a)

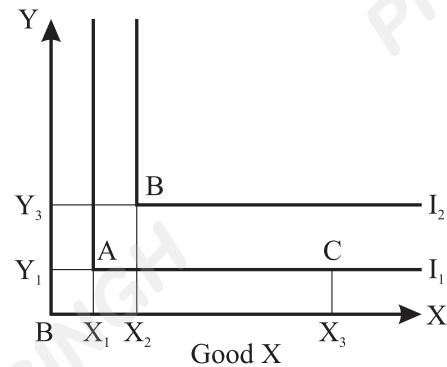
112. (c)

113. (a)

114. (c)

115. (d)

When two goods are perfect complementary goods (e.g. left shoe and right shoe), the consumer consumes only bundles in which both X and Y in equal proportions. With a bundle like A or 8, he will not substitute X for Y because an extra piece of the other good (here a single shoe) is worthless for him. The reason is that neither an additional left shoe nor a right shoe without a paired one of each, adds to his total utility. In such a case, the indifference curve will consist of two straight lines with a right angle bent which is convex to the origin, or in other words, it will be L shaped.



Indifference Curve of Perfect Complements

116. (c)

117. (b)

The main reasons for downward sloping demand curve are:

- (i) Law of diminishing marginal utility
- (ii) Price effect
- (iii) Arrival of new customers
- (iv) Different uses of the product

118. (d)

119. (c)

120. (a)

121. (d)

122. (a)



123. (a)

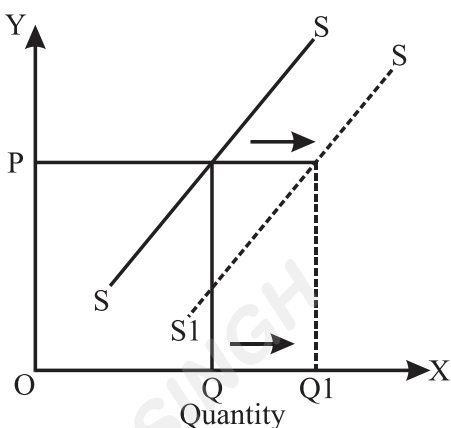
124. (a)

125. (b)

126. (a)

When the supply curve shifts to the right more is offered for sale at each price. In figure, we find that at price P, the quantity supplied rises from Q to Q<sub>1</sub>.

Increase in Supply



127. (d)

128. (a)

129. (a)

130. (a)

131. (b)

132. (a)

133. (a)

134. (a)

135. (a)

136. (c)

If the elasticity of supply is 5 and the price increases by 15%, the quantity supplied will increase by elasticity  $\times$  price change percentage =  $5 \times 15\% = 75\%$ .

137. (b)

**Greater than two.** Elasticity of supply is calculated as (% change in quantity supplied) / (% change in price). Here,  $(2500 - 200) / 200 = 1150\%$  change in quantity, and  $(\text{₹ } 300 - \text{₹ } 200) / \text{₹ } 200 = 50\%$  change in price. So,  $1150\% / 50\% = 23$ , which is greater than two.

138. (a)

Elasticity of Supply ( $E_s$ )

$$= \frac{\Delta q}{q} \times \frac{p}{\Delta p} = \frac{3,000}{2,000} \times \frac{200}{100} = 3.0$$

139. (b)

140. (a)

$$E_s = \frac{\% \text{ Change in Supply}}{\% \text{ Change in Price}} = \frac{25\%}{10\%} = 2.5$$

141. (d)

Elasticity of Supply

$$\frac{\% \text{ Change in quantity Supplied}}{\% \text{ change in Price}} = \frac{40\%}{20\%} = 2$$

142. (b)

143. (d)

144. (b)

145. (b)

$$E_s = \frac{\Delta q}{\Delta P} \times \frac{P}{Q} = \frac{500}{100} \times \frac{2000}{2500} = 4$$

146. (b)

147. (b)

148. (a)





149. (a)

151. (a)

150. (d)

152. (d)



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Library- <https://smart.link/sdfez8ejd80if>



# CA Foundation Sampurna September 2025

## Theory of Production and Cost

Notes

### Unit 1 : Theory of Production Meaning of Production

1. What is Production in Economics?  
[CA CPT Dec. 2008]
  - (a) Creating/Addition of Utility
  - (b) Production of food grains
  - (c) Creation of services
  - (d) Manufacturing of goods
2. According to \_\_\_\_\_, Production is the organized activity of transforming resources into finished products in the form of goods and services, and the objective of production is to satisfy the demand of such transformed "resources".
  - (a) James Bates
  - (b) J.R. Parkinson
  - (c) Marshall
  - (d) Both (a) and (b)
3. Production does not include work done \_\_\_\_\_.
  - (a) Within a household out of love and affection
  - (b) Voluntary services
  - (c) For self-consumption
  - (d) All of the above.

### Factors of Production

4. The term \_\_\_\_\_ means any mental or physical exertion directed to produce goods or services.  
[Dec. 2021]
  - (a) Land
  - (b) Labour
  - (c) Capital
  - (d) Entrepreneur
5. Which among the following is not a characteristic of land?  
[CA CPT Dec. 2016]
  - (a) It is an active factor
  - (b) It has variety of uses
  - (c) Its production powers are inde-structible
  - (d) Its supply is limited

6. Which one of the following is not a characteristic of land?  
[June 2023]
  - (a) Land is immobile
  - (b) Land is active factor
  - (c) Land has multiple uses
  - (d) Land is heterogeneous
7. A person went to buy a land and he thought one among the following is wrong feature with regarding to land  
[June 2024]
  - (a) Homogeneous
  - (b) Heterogeneous
  - (c) immobile
  - (d) No supply price
8. Which of the following statement about factors of production is not true?  
[CA CPT Nov. 2018]
  - (a) Land is a passive factor
  - (b) Land is a free gift of nature
  - (c) Land is immobile
  - (d) Land is perishable
9. 'Land is heterogeneous' implies which of the following?  
[June 2022]
  - (a) Two lands are alike
  - (b) Two lands are not alike
  - (c) Two lands are fixed
  - (d) Two lands are mobile
10. No two pieces of land are alike. They differ in fertility and situation. Therefore, Land is \_\_\_\_\_.
  - (a) Homogenous
  - (b) Heterogeneous
  - (c) Nitrogenous
  - (d) None of these.
11. Which of the following is correct about Land?
  - (a) It is mobile
  - (b) It has single use
  - (c) Its supply is fixed
  - (d) It is homogeneous.



- 12.** Supply of land is : [Nov. 2019]  
 (a) Elastic (b) Perfectly Elastic  
 (c) Perfectly Inelastic (d) Inelastic
- 13.** Labour force wants more \_\_\_\_\_ [CA CPT Dec. 2009]  
 (a) Facility (b) Leisure  
 (c) Benefit (d) All of the above
- 14.** Which of the following is not a characteristic of labour? [CA CPT Dec. 2016]  
 (a) It is perishable  
 (b) It has weak bargaining power  
 (c) Labour and Labour power cannot be separated  
 (d) Labour is not mobile
- 15.** The concept of "innovative entrepreneurship" was given by: [Nov. 2020]  
 (a) Adam smith (b) Marshall  
 (c) JK Mehta (d) Schumpeter
- 16.** Human capital refers to: [CA CPT June 2016]  
 (a) Savings by individuals  
 (b) Mobilisation of saving  
 (c) Human skills and abilities  
 (d) Productive investment
- 17.** Which of the following is not a passive factor of production? [July 2021]  
 (a) Building (b) Machine  
 (c) Land (d) Labour
- 18.** Functions of the entrepreneur are: [CA CPT June 2009]  
 (a) Risk bearing  
 (b) Initiating a business enterprise and resource co-ordinating  
 (c) Introducing new innovations  
 (d) All of the above
- 19.** An Entrepreneur undertakes which one of the following functions? [CA CPT June 2014]  
 (a) Initiating a business and re-source co-ordination  
 (b) Risk or uncertainty bearing  
 (c) Innovations  
 (d) All of the above
- 20.** Innovation theory of entrepreneurship is propounded by: [CA CPT Dec. 2013, Dec. 2023]  
 (a) Knight (b) Schumpeter  
 (c) Max Weber (d) Peter Drucker
- 21.** The concept of innovative entrepreneurship was propounded by \_\_\_\_\_ [June 2023]  
 (a) Joel dean (b) Schumpeter  
 (c) Marshall (d) Karl Marx
- 22.** The most important function of an entrepreneur is to \_\_\_\_\_.  
 (a) Innovate  
 (b) Bear the sense of responsibility  
 (c) Finance  
 (d) Earn profit
- 23.** Who has given the concept of Innovative Entrepreneurship? [CA CPT June 2008]  
 (a) Robbins (b) Adam Smith  
 (c) Schumpeter (d) Sweezy
- Production Function**
- 24.** Technological relationship between input and output? [June, 2023]  
 (a) Production function  
 (b) Marketing  
 (c) Supply function  
 (d) Social function



25. The production function is a relationship between a given combination of inputs and:
- Another combination that yields the same output.
  - The highest resulting output.
  - The increase in output generated by one-unit increase in one out-put.
  - All levels of output that can be generated by those inputs.
26. Production function is: [CA CPT Dec. 2013]
- Purely a technical relationship between input and output
  - Purely an economic relationship between input and output
  - Both the technical and economical relationship between input and output
  - None of the above
27. Which function shows relation-ship between input and output? [CA CPT Dec. 2010]
- Consumption function
  - Investment function
  - Production function
  - Cost function

### Cobb-Douglas Production Function

28. The Cobb-Douglas production function explained \_\_\_\_\_ returns to scale in production. [Dec. 2023]
- Decrease
  - Fluctuate
  - Increase
  - Constant
29. In Cobb-Douglas production function, two inputs are: [CA CPT Dec. 2013]
- Land and Labour
  - Labour and Capital
  - Capital and Entrepreneur
  - Entrepreneur and land

30. The famous Cobb-Douglas pro-duction function is based on studies of \_\_\_\_\_ industries in the United States of America. [CA CPT June 2017]
- Manufacturing
  - Construction
  - Consumer
  - Aviation
31. If Cobb-Douglas function is given by  $Q = KL^aC^b$  then there will be \_\_\_\_\_ when  $(a + b)$  \_\_\_\_\_. [CA CPT May 2018]
- Increasing returns,  $> 1$
  - Increasing returns to scale,  $> 1$
  - Diminishing returns,  $< 1$
  - Decreasing returns to scale,  $= 1$
32. The conclusion drawn from Cobb-Douglas production function is that labour contributed about \_\_\_\_\_ and capital about \_\_\_\_\_ of the increase in the manufacturing production. [CA CPT Dec. 2015]
- $\frac{3^{rd}}{4}, \frac{1^{st}}{4}$
  - $\frac{1}{2}, \frac{1}{2}$
  - $\frac{1^{st}}{4}, \frac{3^{rd}}{4}$
  - None of the above
33. According to Cobb-Douglas pro-duction function, will get \_\_\_\_\_ returns to scale? [CA CPT Nov. 2018]
- Constant
  - Diminishing
  - Increasing
  - Any of the above
34. According to Cobb-Douglas production function, labour contribution in increasing manufacturing production is: [Jan. 2021]
- $2/3$
  - $3/4$
  - $1/4$
  - $1/2$



### Total, Average and Marginal Product

35. What will be the total product when two labourers are hired according to the table given below?

[CA CPT Dec. 2010]

No. of Labourers	Total Product	Marginal Product
0	—	—
1	350	350
2	—	280

- (a) 680 (b) 580  
(c) 350 (d) 230

36. Marginal product is the slope of: [Nov. 2019]

- (a) Total Product (b) Average Product  
(c) Marginal Product (d) Implicit Product

37. Consider the following table:

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

What is the total output, when 2 labour are employed?

[CA CPT June 2008]

- (a) 80 (b) 100  
(c) 180 (d) 200

38. Suppose the first four units of a variable input generate corresponding total output of 150, 200, 350, 550. What will be the marginal product of the third unit of input?

[CA CPT Dec. 2016]

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

39. When Average Product falls, marginal product is \_\_\_\_\_ the Average Product. [Jan. 2021]

- (a) Less than (b) More than  
(c) Equal to (d) Maximum

40. Marginal, average and total product of a firm in the short run will not comprise with:

[CA CPT May 2019]

- (a) When marginal production is at a maximum, average product is equal to marginal product, and total product is rising  
(b) When average product is maximum, average product is equal to marginal product, and total product is rising  
(c) When marginal product is negative, total product and average product are falling  
(d) When total product is increasing, average product and marginal product may be either rising or falling

41. When average product rises as a result of an increase in the quantity of variable factor, marginal product is:

[CA CPT Dec. 2016]

- (a) Equal to average product  
(b) More than average product  
(c) Less than average product  
(d) Becomes negative

42. The marginal product curve is above the average product curve when the average product is:

[CA CPT Feb. 2007]

- (a) Increasing (b) Decreasing  
(c) Constant (d) None

43. Which of the following is correct in relation to Marginal Product? [Jan. 2021]

- (a) What is produced units when all factors of production are employed at optimum efficiency?  
(b) The extra output obtained from employing an additional unit of a factor  
(c) The left revenue to the entrepreneur after he has incurred all expenses  
(d) None of the above



44. If the marginal product of labour is below the average product of labour. It must be true that:  
[CA CPT Aug. 2007]

- (a) Marginal product of labour is negative
- (b) Marginal product of labour is zero
- (c) Average product of labour is falling
- (d) Average product of labour is negative

#### Law of Diminishing Returns

45. Law of variable proportion is valid when:  
[CA CPT Nov. 2007]

- (a) Only one input is fixed and all other inputs are kept variable
- (b) All factors are kept constant
- (c) All inputs are varied in the same proportion
- (d) None of these

46. Diminishing marginal returns implies:[Nov. 2019]

- (a) Decreasing average variable costs
- (b) Decreasing marginal costs
- (c) Increasing marginal costs
- (d) Decreasing average fixed costs

47. In short run the Law of variable proportions is also known as \_\_\_\_\_. [Jan. 2021]

- (a) Law of increasing returns
- (b) Law of diminishing returns
- (c) Law of decreasing returns
- (d) Law of constant returns

48. Production activity in the short period is analyzed with the help of: [CA CPT Dec. 2012]

- (a) Law of variable proportion
- (b) Laws of returns to scale
- (c) Both (a) and (b)
- (d) of the above

49. The Law of Variable Proportions is associated with: [CA CPT June 2016]

- (a) Short period
- (b) Long period
- (c) Both short and long periods
- (d) Neither short nor long period

50. The "law of diminishing returns" applies to :  
[Nov. 2019]

- (a) The short run, but not the long run.
- (b) The long run, but not the short run.
- (c) Both the short run and the long run.
- (d) Neither the short run nor the long run.

51. Law of increasing returns is applicable because of \_\_\_\_\_. [CA CPT June 2010]

- (a) Indivisibility of factors
- (b) Specialization
- (c) Economies of scale
- (d) Both (a) and (b) above

52. In the first stage of law of variable proportions, total product increases at the \_\_\_\_\_.  
[CA CPT Dec. 2010]

- (a) Decreasing rate
- (b) Increasing rate
- (c) Constant rate
- (d) Both (a) and (b)

53. During 2nd stage of law of Diminishing returns:  
[CA CPT June 2008]

- (a) MP and TP is maximum
- (b) MP and AP are decreasing
- (c) AP is negative
- (d) TP is negative

54. A rational producer will produce in the stage in which marginal product is positive and:  
[CA CPT June 2016]

- (a)  $MP > AP$
- (b)  $MP = AP$
- (c)  $MP < AP$
- (d) MP is zero



55. Diminishing marginal returns implies:  
[CA CPT May 2007]

- (a) Decreasing average variable costs
- (b) Decreasing marginal costs
- (c) Increasing marginal costs
- (d) Decreasing average fixed costs

### Returns to Scale

56. The concept of Returns to Scale is related with:  
[CA CPT June 2012, 2013]

- (a) Very short period
- (b) Short period
- (c) Long period
- (d) None of above

57. The Law of returns to scale is: [Jan. 2021]

- (a) Short run
- (b) Long run
- (c) Short and Long run
- (d) Medium run

58. Increasing returns to scale can be explained in terms of: [CA CPT Feb. 2007, May 2018]

- (a) External and internal economies
- (b) External and internal diseconomies
- (c) External economics and internal dis-economies
- (d) All of these

59. The stage of "Decreasing returns to scale" will occur when \_\_\_\_\_. [June 2023]

- (a) Decrease in output is less than increase in input
- (b) Decrease in output is greater than increase in input
- (c) Increase in output is greater than increase in input
- (d) Increase in output is less than increase in input

60. Returns to scale will said to be in operation when quantity of : [CA CPT Feb. 2008]

- (a) All inputs are changed
- (b) All inputs are changed in already established proportion
- (c) All inputs are not changed
- (d) One input is changed while quantity of all other inputs remain the same

61. Diminishing returns occur - [Nov. 2019]

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

62. Linear homogeneous production function is based on: [CA CPT Dec. 2014, May 2018]

- (a) Increasing returns to scale
- (b) Decreasing returns to scale
- (c) Constant returns to scale
- (d) None of the above

63. Which one of the following statement is correct in relation to the profit in accounting and economic sense? [Dec. 2023]

- (a) Accounting profit considers explicit and implicit costs
- (b) Accounting profit is generally less than the economic profit
- (c) Economic profit includes opportunity cost related with self-owned factors
- (d) No difference between accounting and economic profit





64. With a view to increase his production, Hariharan a manufacturer of shoes, increases all the factors of production in his unit by 100%. But at the end of the year, he finds that instead of an increase of 100%, his production has increased by only 80%. Which law of returns to scale is operating in this case? [CA CPT June 2014]
- Increasing returns to scale
  - Decreasing returns to scale
  - Constant returns to scale
  - None of the above

### Production Optimization

65. Isoquants are equal to: [CA CPT Nov. 2006, May 2018]
- Product Lines
  - Total utility lines
  - Cost lines
  - Revenue lines
66. Which of the following defines all those combinations of inputs which are capable of producing the same level of output is \_\_\_\_\_ [June 2024]
- Indifference curve
  - Iso quant
  - Iso cost
  - Budget line
67. Among the following statement which is incorrect in relation to isoquants: [Nov. 2020]
- These are negatively sloped
  - These are concave to origin
  - These are not intersecting
  - These are convex to origin
68. Isoquants are also known as: [CA CPT June 2016]
- Production possibility curves
  - Indifference curves
  - Production indifference curves
  - None of the above

69. An Isoquant is \_\_\_\_\_ to an Isocost line at equilibrium point: [CA CPT May 2007]
- Convex
  - Concave
  - Tangent
  - Perpendicular
70. Large production of \_\_\_\_\_ goods would lead to higher production in future. [Nov. 2019]
- Consumer Goods
  - Capital Goods
  - Agricultural Goods
  - Public Goods
71. An ISO quant shows:
- All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.
  - All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
  - All the alternative combinations of two inputs that yield the same total product.
  - Both (b) and (c)
72. It shows all those combinations of different factors of production which give the same output to the producer is called \_\_\_\_\_. [CA CPT June 2015]
- Kinked demand curve
  - Isoquant curve
  - Marginal cost curve
  - Short run cost curve
73. Isoquants are negatively sloped and \_\_\_\_\_ to the origin due to \_\_\_\_\_ Marginal Rate of Technical Substitution (MRTS).
- Convex, Increasing
  - Convex, Decreasing
  - Concave, Increasing
  - Concave, Decreasing



74. Which of the following statement is true in relation to an ISO Quant Curve?

[CA CPT June 2015]

- (a) It represents those combinations of two factors of production that will give the same level of output.
- (b) It represents those combinations of all the factors that will give the same level of output.
- (c) It slopes upward to the right.
- (d) It can touch either axis.

## Unit – 2 : Theory of Cost

### Accounting Costs and Economic Costs

75. Suppose, the total cost of production of commodity X is ₹ 1,25,000. Out of this cost implicit is ₹ 35,000 and normal profits is ₹ 25,000. What will be the explicit cost of commodity X?

[CA CPT Aug.2007, Dec.2011, June 2013]

- (a) 90,000
- (b) 65,000
- (c) 60,000
- (d) 1,00,000

76. Which of the following is an example of “explicit cost”?

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

77. Which of the following is an example of an “implicit cost”?

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

78. The normal returns on money capital invested by the entrepreneur himself in his own business is an example of \_\_\_\_\_ [June 2024]

- (a) Explicit cost      (b) External cost
- (c) Private cost      (d) Implicit cost

79. Total Cost = Explicit cost + Implicit cost + \_\_\_\_\_ [Nov. 2019]

- (a) Super Normal Profit
- (b) Normal Profit
- (c) Super Normal Losses
- (d) Average Fixed Cost

80. Which of the following Statement is false? [Jan. 2021]

- (a) Economic costs include the opportunity costs of the resources owned by the firm.
- (b) Accounting costs include only explicit costs.
- (c) Economic profit will always less than accounting profit if resources owned and used by the firm have any opportunity costs.
- (d) Accounting profit is equal to total revenue less implicit costs.



81. Accounting cost is \_\_\_\_\_ of Economic cost. [CA CPT Nov. 2018]

- (a) Equal to (b) Less than  
(c) More than (d) Not Included

### Outlay Costs and Opportunity Costs

82. The money cost of producing goods and services incurred by the firm such as wages, lightings, lease payment etc., is \_\_\_\_\_ cost. [June 2020]

- (a) Implicit cost (b) Opportunity cost  
(c) Outlay cost (d) Economic cost

83. Opportunity Cost is \_\_\_\_\_. [CA CPT Nov. 2006]

- (a) Direct Cost  
(b) Total Cost  
(c) Accounting Cost  
(d) Cost of forgone opportunity

84. The alternative cost of one thing in terms of what must be given up is known as:

[CA CPT Nov. 2006]

- (a) Opportunity Cost (b) Real Cost  
(c) Economic Cost (d) Implicit Cost

85. If the market price of good is more than the opportunity cost of producing it, then:

[CA CPT June 2016]

- (a) The market price of the product will increase in the long-run  
(b) Producers will increase supply in the long-run  
(c) Resources will flow away from production of the good, causing supply to decline with the passage of time  
(d) The situation will remain unchanged as long as supply and demand remain in balance

86. In which of the following cases opportunity cost concept applies? [CA CPT June 2013]

- (a) Resources have alternative uses  
(b) Resources have limited uses  
(c) Resources have no use  
(d) None of the above

87. Opportunity Cost is: [CA CPT May 2018]

- (a) Marginal cost (b) Variable cost  
(c) Total fixed cost (d) None of these

88. Opportunity Cost is \_\_\_\_\_. [CA CPT May 2019]

- (a) Recorded in the books of account  
(b) Sacrificed alternative  
(c) Both (a) and (b)  
(d) None of the above

### Historical Costs and Replacement Costs

89. A Company is willing to change its existing Machinery (5 years old) by a new machinery at a cost of ₹ 10,00,000. The cost of ₹ 10,00,000 may be regarded as :

- (a) Historical Cost (b) Replacement Cost  
(c) New Cost (d) Market Cost

90. Other things remaining the same, an increase in price will make \_\_\_\_\_ cost higher than \_\_\_\_\_ cost.

- (a) Historical, Replacement  
(b) Replacement, Historical  
(c) Historical, Reliable  
(d) Fixed, Historical

91. Usually in the case of continuous decrease in price of an asset, which one of the following shall be the highest?

- (a) Replacement Cost (b) Historical Cost  
(c) Realizable Value (d) Variable Cost



### Cost Function

92. Which of the following is not a determinant of the firm's cost function?
- The production function
  - The price of labour
  - Taxes
  - The price of the firm's output
93. In a cost function, the dependent variable is unit cost and the independent or total cost variable(s) are \_\_\_\_\_.
- Units sold and purchased
  - Price of factor, and size of output
  - Relevant phenomenon which has a bearing on which technology, level of capacity like utilisation, efficiency, etc.
  - Both (b) and (c)
94. The Cost function expresses the relationship between \_\_\_\_\_ and \_\_\_\_\_.
- Costs, input
  - Costs, output
  - Dependent Variable, cost
  - None of these

### Short Run Cost

#### Total Cost

95. A company produces 10 units of output and incurs ₹ 30 per unit as variable cost and ₹ 5 per unit as fixed cost. What will be its total cost of producing 10 units? [CA CPT Dec. 2014]
- ₹ 300
  - ₹ 35
  - ₹ 305
  - ₹ 350

#### Variable Cost

96. The difference between Total Cost and Total Fixed Cost is equal to \_\_\_\_\_. [July 2021]
- Zero
  - MC
  - AFC
  - TVC

### Semi-Variable Cost

97. Semi-Variable Costs are \_\_\_\_\_ Variable, \_\_\_\_\_ fixed in relation to the changes in the size of output.
- Fixed
  - Semi-Variable
  - Semi-Variable
  - Both (a) and (b)
98. Electricity charges include both a fixed charge and a charge based on consumption. It should be classified as \_\_\_\_\_.
- Fixed Cost
  - Variable Cost
  - Semi-Variable Cost
  - Quasi Cost
99. The Semi-variable Cost:
- Remains Constant
  - Remains variable proportionately
  - Increases in stair-step fashion
  - Increases proportionately
100. Which of the following cost remains fixed over certain range of output but suddenly jump to a new higher level when output goes beyond a given limit?
- Total Fixed cost
  - Total Variable Cost
  - Both (a) and (b)
  - Semi-Variable Cost
101. The total Cost Curve is obtained by adding \_\_\_\_\_ the \_\_\_\_\_ curve and the \_\_\_\_\_ Curve.
- Vertically, Total Fixed Cost, Total Variable Cost
  - Horizontally, Cost, Total
  - Vertically, Total Cost, Total Variable cost
  - Horizontally, Cost Valuable



**102.** The costs which remain fixed over certain range of output but suddenly jump to a new higher level when production goes beyond a given limit are called: [CA CPT June 2017, May 2018]

- (a) Variable cost
- (b) Semi-variable cost
- (c) Stair-step variable cost
- (d) Jumping cost.

#### Average Fixed Cost

**103.** Average fixed cost can be obtained through: [CA CPT Nov. 2006, Jan. 2021]

- (a)  $AFC = \frac{TFC}{TS}$
- (b)  $AFC = \frac{EC}{TU}$
- (c)  $AFC = \frac{TC}{PS}$
- (d)  $AFC = \frac{TFC}{Q}$

**104.** Which one of the following is correct? [CA CPT June 2009, May 2018]

- (a)  $AFC = AVC + ATC$
- (b)  $ATC = AFC + AVC$
- (c)  $AVC = AFC + ATC$
- (d)  $ATC = ATC - AVC$

**105.** Which of the following cost curves is never 'U' shaped? [CA CPT Aug. 2007, June 2009, Dec. 2015, May 2018, Nov. 2019]

- (a) Average Total Cost Curve
- (b) Marginal Cost Curve
- (c) Total Cost Curve
- (d) Total Fixed Cost Curve

**106.** AFC curve is: [CA CPT Feb. 2007]

- (a) Convex and downward sloping
- (b) Concave and downward sloping
- (c) Convex and upward sloping
- (d) Concave and upward rising

**107.** Which of the following curve never touch any axis but is downward:

[CA CPT Feb. 2008, June 2013]

- (a) Marginal cost curve
- (b) Total cost curve
- (c) Average fixed cost curve
- (d) Average variable cost curve

**108.** The slope of Average Fixed cost curve is: [CA CPT Nov. 2018]

- (a) Falls from left to right
- (b) Rises from left to right
- (c) Parallel to x-axis
- (d) Parallel to y-axis

**109.** When the output of a firm increase in the short run, its average fixed cost:

[CA CPT Nov. 2006, Dec. 2015, Dec. 2017]

- (a) Increases
- (b) Decreases
- (c) Remains constant
- (d) First declines and then rises.

**110.** Which statement among below is correct in reference to Average Fixed Cost?

[CA CPT Dec. 2013]

- (a) Never becomes zero
- (b) Curve never touches x-axis
- (c) Curve never touches y-axis
- (d) All of the above

**111.** Average fixed cost curve is always: [CA CPT Dec. 2014]

- (a) Declining when output increases
- (b) U-Shaped, if there are increasing returns to scale
- (c) U-Shaped, if there are decreasing returns to scale
- (d) Intersected by marginal cost at its minimum point



**112.** A firm producing 7 units of output has an average total cost of rupees 150 and has to pay rupees 300 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable cost?

- (a) 100
- (b) 20
- (c) 50
- (d) 300

**113.** Average cost of producing 50 units of any commodity is ₹250 and fixed cost is ₹1,000. What will be the average fixed cost of producing 100 units of the commodity?

[CA CPT Dec.2014, Dec. 2016]

- (a) ₹ 10
- (b) ₹ 30
- (c) ₹ 20
- (d) ₹ 05

**114.** Average Fixed Cost = ₹20

Quantity Produced = 10 units

What will be the Average Fixed Cost of 20 units?

[CA CPT Dec. 2008]

- (a) ₹10
- (b) ₹20
- (c) ₹5
- (d) None

**115.** Find AFC of 3 units: [CA CPT Dec. 2009]

Unit	0	1	2	3
Total Cost	15	25	35	45

- (a) 5
- (b) 10
- (c) 15
- (d) 25

**116.** What will be the AFC of 2 units according to the table given below: [CA CPT Dec. 2009]

Unit	0	1	2
Total Cost (in ₹)	580	689	850

- (a) 105
- (b) 125
- (c) 290
- (d) 270

**117.** Average cost curve is \_\_\_\_\_. [Jan 2021]

- (a) 'U' Shaped
- (b) Positively sloped
- (c) Negatively sloped
- (d) Rectangular hyperbola

**118.** U-shaped average cost curve is based on:

[Dec. 2023]

- (a) Law of increasing cost
- (b) Law of decreasing cost
- (c) Law of constant returns to scale
- (d) Law of variable proportions

**119.** A firm producing 7 units of output has an average total cost of ₹150 and has to pay ₹350 to its fixed factors of production. How much of the average total cost is made up of variable cost?

[CA CPT Feb. 2007]

- (a) ₹ 200
- (b) ₹ 50
- (c) ₹ 300
- (d) ₹ 100

### Marginal Cost

**120.** Marginal Cost is defined as:

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

**121.** The change in total cost due to one unit change in the output is called \_\_\_\_\_ cost.

[CA CPT June 2014]

- (a) Marginal
- (b) Average
- (c) Average variable
- (d) Average fixed





122. Marginal cost changes due to change in \_\_\_\_\_ cost. [CA CPT June 2012]

- (a) Total (b) Fixed  
(c) Average (d) Variable

123. The marginal cost of the fifth unit of output is \_\_\_\_\_. [July 2021]

- (a) ₹ 105 (b) ₹ 174  
(c) ₹ 225 (d) ₹ 675

124. Diminishing marginal returns starts to occur between \_\_\_\_\_ Units. [July 2021]

- (a) 1 and 2 (b) 2 and 3  
(c) 3 and 4 (d) 4 and 5

125. At 10 units Total Cost = ₹ 200

20 units Total Cost = ₹ 600

Marginal Cost = ? [CA CPT Dec. 2008]

- (a) 50 (b) 40  
(c) 30 (d) 400

126. The total cost incurred for 10 units is ₹ 400 and 20 units is ₹ 800.

Find the marginal cost.

[CA CPT June 2009, June 2010, June 2012, June 2014]

- (a) ₹ 400  
(b) ₹ 40  
(c) ₹ 200  
(d) ₹ 20

#### Long Run Average Cost Curve

127. If LAC curve falls as output expands, this is due to \_\_\_\_\_. [CA CPT Nov. 2006]

- (a) Law of diminishing returns  
(b) Economics of scale  
(c) Law of variable proportion  
(d) Dis-economics of scale

128. Planning curve is related to which of the following? [CA CPT June 2015]

- (a) Short run average cost curve  
(b) Long run average cost curve  
(c) Average variable cost  
(d) Average total cost

129. The shape of long run average cost curve depends upon \_\_\_\_\_. [June 2024]

- (a) Law of returns  
(b) Returns to scale  
(c) Diminishing returns  
(d) Law of variable proportions

130. Which of the following is known as Envelope curve? [CA CPT Feb. 2008, Dec. 2011, June 2012]

- (a) Marginal Cost Curve  
(b) Average Fixed Cost Curve  
(c) Long Run Average Cost Curve  
(d) Total Fixed Cost Curve

#### Economies and Diseconomies of Scale

131. The positively sloped (rising) part of the long run average cost curve indicates working of the \_\_\_\_\_. [CA CPT Dec. 2014]

- (a) Diseconomies of scale  
(b) Increasing returns to scale  
(c) Constant returns to scale  
(d) Economies of scale

132. External economies accrue due to \_\_\_\_\_. [CA CPT Nov. 2007, May 2018]

- (a) Increasing returns to scale  
(b) Increasing returns to factor  
(c) Law of variable proportion  
(d) Low cost





**133.** External Economies arise due to:

[CA CPT June 2013]

- (a) Growth of ancillary industries
- (b) High cost of technologies
- (c) Increase in the price of factors of production
- (d) None of the above

**134.** External economies of Scale are obtained by:

[CA CPT Dec. 2008]

- (a) A firm (b) A group of firm
- (c) Small Production (d) Society

**135.** External economies are enjoyed:

[CA CPT June 2011]

- (a) By large producers only
- (b) As firm expands
- (c) Both (a) and (b)
- (d) None of the above

**136.** Suppose that a sole proprietor is earning total revenue of ₹ 120,000/- and is incurring explicit cost of ₹ 95,000/-. If the owner could work for another company for ₹ 30,000/- a year, which of the following statement is false?

[May 2025]

- (a) The firm incurred an economic loss of ₹ 5,000/-
- (b) The firm is having accounting profit of ₹ 25,000/-
- (c) Total economic costs are ₹ 30,000/-
- (d) The total accounting costs are ₹ 95,000/-

**137.** Use the following data to answer question

[May 2025]

Quantity	0	10	20	30	40
Total Cost (in ₹)	100	220	320	410	510

What is the average variable cost when 20 units are produced?

- (a) ₹ 5 (b) ₹ 10
- (c) ₹ 11 (d) ₹ 220

**138.** Use the following data to answer question

[May 2025]

Quantity	0	10	20	30	40
Total Cost (in ₹)	100	220	320	410	510

Between 10 and 20 units, what is the marginal cost per unit?

- (a) ₹ 10 (b) ₹ 20
- (c) ₹ 100 (d) ₹ 220

**139.** The form of capital which performs its function in production in a single use and is not available for further use is termed as :

[May 2025]

- (a) Fixed capital (b) Circulating capital
- (c) Real capital (d) Intangible capital

**140.** Survival, growth and expansion come under which of the following objective of an enterprise?

[May 2025]

- (a) Organic objective
- (b) Economic objective
- (c) Social objective
- (d) National objective

**141.** Which of the following is not true about relationship between average product and marginal product?

[May 2025]

- (a) When average product rises as a result of an increase in the quantity of variable input marginal product is more than the average product.
- (b) When average product is maximum, marginal product is equal to average product.
- (c) When average product falls, marginal product is less than the average product.
- (d) When average product is negative, marginal product becomes zero.



**142.** Total product starts declining in which stage of production? [May 2025]

- (a) Stage 1: The stage of increasing returns
- (b) Stage 2: The stage of diminishing returns
- (c) Stage 3: The stage of negative returns
- (d) It may decline in any stage of production

**143.** Returns to scale refers to: [May 2025]

- (a) Changes in output as a result of proportionate change in one of the variable factors of production.
- (b) Changes in output as a result of proportionate change in all factors of production.
- (c) Changes in output as a result of proportionate change in any two variable factors of production.
- (d) Changes in output as a result of variation in factor proportions.

**144.** Linear Homogeneous Production function is another name for \_\_\_\_\_. [May 2025]

- (a) Law of variable proportion
- (b) Constant returns to scale
- (c) Increasing returns to scale
- (d) Decreasing returns to scale

**145.** The minimum quantities of various inputs that are required to yield a given quantity of output is termed as: [May 2025]

- (a) Demand function
- (b) Supply function
- (c) Production function
- (d) Investment function

**146.** Budget line or budget constraint line which shows the various alternative combinations of two factors which the firm can buy with given outlay is called: [May 2025]

- (a) Isoquant
- (b) Indifference curve
- (c) Isocost line
- (d) Iso-product curve

**147.** Use the following data to answer question [May 2025]

Output (Q)	0	1	2	3	4	5
Total Cost (TC)	₹200	₹310	₹410	₹500	₹604	₹710

The average fixed cost of 2 units of output is:

- (a) ₹ 85
- (b) ₹ 100
- (c) ₹ 110
- (d) ₹ 205

**148.** Use the following data to answer question [May 2025]

Output (Q)	0	1	2	3	4	5
Total Cost (TC)	₹200	₹310	₹410	₹500	₹604	₹710

Diminishing marginal returns start to occur between units:

- (a) 1 and 2
- (b) 2 and 3
- (c) 3 and 4
- (d) 4 and 5



## Answer Key

1. (a)	38. (d)	75. (b)	112. (a)
2. (d)	39. (a)	76. (c)	113. (a)
3. (d)	40. (a)	77. (a)	114. (a)
4. (b)	41. (b)	78. (d)	115. (a)
5. (a)	42. (a)	79. (b)	116. (d)
6. (b)	43. (b)	80. (d)	117. (a)
7. (a)	44. (a)	81. (b)	118. (d)
8. (d)	45. (a)	82. (c)	119. (d)
9. (b)	46. (c)	83. (d)	120. (a)
10. (b)	47. (b)	84. (a)	121. (a)
11. (c)	48. (a)	85. (b)	122. (d)
12. (c)	49. (a)	86. (a)	123. (a)
13. (b)	50. (a)	87. (d)	124. (d)
14. (d)	51. (d)	88. (b)	125. (b)
15. (d)	52. (b)	89. (b)	126. (b)
16. (c)	53. (b)	90. (b)	127. (b)
17. (d)	54. (c)	91. (b)	128. (b)
18. (d)	55. (c)	92. (d)	129. (b)
19. (d)	56. (c)	93. (d)	130. (c)
20. (b)	57. (b)	94. (b)	131. (a)
21. (b)	58. (a)	95. (d)	132. (a)
22. (a)	59. (d)	96. (d)	133. (a)
23. (c)	60. (b)	97. (b)	134. (b)
24. (a)	61. (b)	98. (c)	135. (c)
25. (b)	62. (c)	99. (c)	136. (c)
26. (a)	63. (c)	100. (d)	137. (c)
27. (c)	64. (b)	101. (a)	138. (a)
28. (d)	65. (a)	102. (c)	139. (b)
29. (b)	66. (b)	103. (d)	140. (a)
30. (a)	67. (b)	104. (d)	141. (d)
31. (b)	68. (c)	105. (d)	142. (c)
32. (a)	69. (c)	106. (a)	143. (b)
33. (a)	70. (b)	107. (c)	144. (b)
34. (b)	71. (c)	108. (a)	145. (c)
35. (b)	72. (b)	109. (b)	146. (c)
36. (a)	73. (b)	110. (d)	147. (b)
37. (c)	74. (a)	111. (a)	148. (c)



## Hints and Solution

1. (a)

In economics, the word "Production is used in a wider sense to denote the process by which man utilizes resources such as men, material, capital, time, etc., working upon them to transform them into commodities and services so as to make them satisfy human wants.

2. (d)

3. (d)

4. (b)

5. (a)

6. (b)

7. (a)

Land is heterogeneous, meaning no two parcels are exactly alike in terms of location, fertility, and other characteristics.

8. (d)

9. (b)

10. (b)

11. (c)

12. (c)

13. (b)

14. (d)

15. (d)

16. (c)

17. (d)

18. (d)

19. (d)

20. (b)

The 'Innovation' theory of entrepreneurship was Propounded by Schumpeter. Joseph Schumpeter emphasized the role of the entrepreneur as an innovator who implements change within markets through the carrying out of new combinations.

21. (b)

22. (a)

23. (c)

24. (a)

25. (b)

26. (a)

27. (c)

28. (d)

The Cobb-Douglas production function is known for explaining Constant returns to scale in production. This means that a proportional increase in all inputs leads to an equivalent proportional increase in output.



29. (b)

30. (a)

31. (b)

For Cobb-Douglas production function,  
 $Q = KL^aC^b$

If $a + b > 1$	Increasing returns to Scale
If $a + b = 1$	Constant Returns to Scale
If $a + b < 1$	Decreasing Returns to Scale

32. (a)

As per Cobb-Douglas production function, labour contributed about  $3/4^{\text{th}}$  and Capital about  $1/4^{\text{th}}$  of the increase in the manufacturing production.

33. (a)

34. (b)

Paul H. Douglas and C.W. Cobb of the U.S.A. studied the production function of the American manufacturing industries. The conclusion drawn from this famous statistical study is that labour contributed about  $3/4^{\text{th}}$  and capital about  $1/4^{\text{th}}$  of the increase in the manufacturing production.

35. (b)

When only 1 unit of labour is employed, the total output is 350 units. The 2nd unit of labour is contributing 230 additional units. Therefore,

$$TP_n = TP_{n-1} + MP_n$$

$$TP_2 = TP_1 + MP_2 = 350 + 230 = 580 \text{ units}$$

36. (a)

37. (c)

$$TP_n = TP_{n-1} + MP_n$$

$$TP_2 = TP_1 + MP_2$$

$$= 100 + 80$$

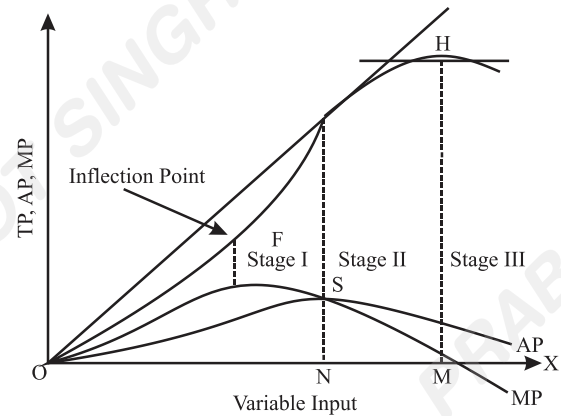
$$= 180 \text{ Units}$$

38. (d)

$$MP_3 = TP_3 - TP_2 = 350 - 200 = 150 \text{ Units}$$

39. (a)

When average product falls, marginal product is less than the average product.



40. (a)

41. (b)

42. (a)

43. (b)

Marginal product is the change in total product per unit change in the quantity of variable factor. In other words, it is the additional made to the total production by an additional unit of input. Symbolically,

44. (a)

45. (a)

46. (c)

47. (b)

48. (a)

49. (a)

50. (a)

51. (d)



52. (b)

53. (b)

54. (c)

55. (c)

56. (c)

57. (b)

58. (a)

59. (d)

60. (b)

61. (b)

62. (c)

Constant returns to scale means with the increase in the scale in some proportion, output increases in the same proportion. Constant returns to Scale is also called as "Linear Homogenous Production function."

63. (c)

Economic profit includes opportunity cost related with self-owned factors. Economic profit differs from accounting profit in that it includes opportunity costs for all factors of production, including those owned by the entrepreneur.

64. (b)

65. (a)

66. (b)

67. (b)

68. (c)

69. (c)

70. (b)

71. (c)

72. (b)

An Isoquant curve shows all those combinations of different factors of production which give the same output to the producer. It represents equal level of production output.

73. (b)

74. (a)

75. (b)

Total Cost = Explicit Cost + Implicit Cost + Normal Profit

$1,25,000 = \text{Explicit Cost} + 35,000 + 25,000$

Explicit Cost = ₹ 65,000

76. (c)

77. (a)

78. (d)

79. (b)

80. (d)

81. (b)

82. (c)

83. (d)

84. (a)

85. (b)



86. (a)

87. (d)

88. (b)

89. (b)

90. (b)

91. (b)

92. (d)

93. (d)

94. (b)

95. (d)

Total Fixed Cost = 10 units @ ₹ 5 = ₹ 50

Total Variable Cost = 10 units @ ₹ 30 = ₹ 300

Total Cost = Total Fixed Cost + Total Variable Cost

Total Cost = ₹ 50 + ₹ 300 = ₹ 350

96. (d)

97. (b)

98. (c)

99. (c)

100. (d)

101. (a)

102. (c)

103. (d)

104. (d)

105. (d)

106. (a)

107. (c)

108. (a)

109. (b)

110. (d)

111. (a)

112. (a)

113. (a)

$$AFC_{100} = \frac{TFC}{100} = \frac{₹ 1,000}{100} = ₹ 10$$

114. (a)

$$TFC = ₹ 20 \times 10 = ₹ 200$$

$$AFC_{20} = \frac{200}{20} = ₹ 10$$

115. (a)

$$TFC = ₹ 15$$

$$AFC_3 = \frac{TFC}{3} = \frac{15}{3} = ₹ 5$$

116. (d)

$$TFC = ₹ 580$$

$$AFC_2 = \frac{TFC}{2} = \frac{₹ 580}{2} = ₹ 290$$

117. (a)

118. (d)

119. (d)

$$ATC_7 = ₹ 150$$

$$AFC_7 = \frac{₹ 350}{7} = ₹ 50$$

$$AVC_7 = 150 - 50 = ₹ 100$$





120. (a)

121. (a)

122. (d)

123. (a)

$$MC_5 = TC_5 - TC_4 = 915 - 810 = 105$$

124. (d)

125. (b)

$$MC = \frac{\Delta TC}{\Delta Q} = \frac{600 - 200}{20 - 10} = \frac{400}{10}$$

126. (b)

$$MC = \frac{\Delta TC}{\Delta Q} = \frac{800 - 400}{20 - 10}$$

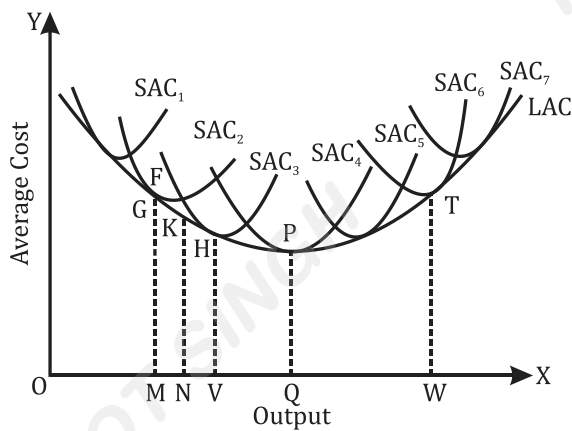
$$= \frac{\text{₹ } 400}{10} = \text{₹ } 40$$

127. (b)

128. (b)

129. (b)

130. (c)



131. (a)

132. (a)

133. (a)

134. (b)

135. (c)

136. (c)

137. (c)

138. (a)

139. (b)

140. (a)

141. (d)

142. (c)

143. (b)

144. (b)

145. (c)

146. (c)

147. (b)

148. (c)

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# CA Foundation Sampurna September 2025

## Determination of National Income (Unit – 1)

Note

### Unit-1: National Income Accounting

#### Introduction

1. Which of the following Ministry is responsible in India for the compilation of National Accounts Statistics?
  - (a) Ministry of Commerce and Industry
  - (b) Ministry of Social Affairs
  - (c) Ministry of Finance
  - (d) Ministry of Central Statistical and program Implementation
2. National Income Accounting was pioneered by \_\_\_\_\_.
  - (a) Simon Kuznets
  - (b) Simon Kuznets and Richard Stone
  - (c) Simon Kuznets, Richard Stone and Adam Smith
  - (d) None of these
3. National Income accounts are extremely useful:
  - (a) For analyzing and evaluating the performance of an economy.
  - (b) For knowing the composition and structure of the national income, income distribution and economic forecasting.
  - (c) For choosing economic policies and evaluating them.
  - (d) All of the above.
4. Joseph had a shoe company in US. The profits earned from its manufacturing unit operating in India will come under \_\_\_\_\_. [June 2024]
  - (a) GDP of India and GNP of US
  - (b) GDP of US and GNP of India
  - (c) GNP of US and GNP of India
  - (d) GDP of US and GDP of India
5. \_\_\_\_\_ is a price index which is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100?
  - (a) GDP Deflator
  - (b) GDP Inflator
  - (c) GDP Velocity
  - (d) GDP Accelerator
6. The formula for computing Real GDP is \_\_\_\_\_.
  - (a)  $\text{GDP for the Current year} \times \text{Base Year (100)}$
  - (b)  $\text{GDP for the Base year} \times \text{current year Index}$
  - (c)  $\frac{\text{GDP for the Current year} \times \text{Base year (100)}}{\text{Current Year Index}}$
  - (d)  $\frac{\text{GDP for the Current year} \times \text{Current year Index}}{\text{Base Year (100)}}$
7. GDP at Current Prices means \_\_\_\_\_.
  - (a) Nominal GDP
  - (b) Real GDP
  - (c) GDP at constant prices
  - (d) None of these
8. If nominal GDP and real GDP for the year 2015 are ₹ 5000 crores and ₹ 6700 crores respectively, then what will be the impact on change in prices with respect to base year? [June 2024]
  - (a) Prices will fall
  - (b) Prices will rise
  - (c) Not defined as base is year not given
  - (d) No effect on prices
9. Which one of the following is the correct formula for computation of GDP Deflator?
  - (a)  $\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$
  - (b)  $\frac{\text{Real GDP}}{\text{Nominal GDP}} \times 100$
  - (c)  $\frac{\text{Nominal GDP} \times \text{Real GDP}}{100}$
  - (d)  $(\text{Nominal GDP} - \text{Real GDP}) \times 100$



10. GDP Deflator is a price index used to convert \_\_\_\_\_.

- (a) Nominal GDP to Real GDP
- (b) Nominal GDP to National GDP
- (c) Real GDP to National GDP
- (d) Nominal GDP into percentage

11. Using the following information

Year	Nominal GDP in crores (₹)	Real GDP in Crores (₹)
2020	600	600
2021	1050	650
2022	1250	850
2023	1500	940

Calculate the GDP Deflator for the years 2022 and 2023. [June 2024]

- (a) 147.06 and 159.57 (b) 100 and 161.54
- (c) 68 and 62.67 (d) 400 and 560

12. Using the following information

Year	Nominal GDP in crores (₹)	Real GDP in Crores (₹)
2020	600	600
2021	1050	650
2022	1250	850
2023	1500	940

The inflation rate between the years 2022 and 2023 is \_\_\_\_\_. [June 2024]

- (a) -7.84 (b) -8.51
- (c) 8.51 (d) 7.84

13. Consider the following data and answer the questions.

Year	2019	2020	2021	2022	2023
GDP Deflator	100	119.15	141.08	135.71	129.75

Which Year is the base Year?

- (a) 2019
- (b) 2020
- (c) 2021
- (d) None of the above

14. Consider the following data and answer the questions.

Year	2019	2020	2021	2022	2023
GDP Deflator	100	119.15	141.08	135.71	129.75

In which year the Nominal GDP is greater than Real GDP?

- (a) 2020 (b) 2020-21
- (c) 2020-22 (d) 2020-23

15. Consider the following data and answer the questions.

Year	2019	2020	2021	2022	2023
GDP Deflator	100	119.15	141.08	135.71	129.75

In which year the Nominal GDP and Real GDP are the same?

- (a) 2019
- (b) 2020
- (c) 2021
- (d) None of these

16. Consider the following data and answer the questions.

Year	2019	2020	2021	2022	2023
GDP Deflator	100	119.15	141.08	135.71	129.75

From year 2020 to 2023, the price levels are higher than that of the base year 2019. In which year, it is highest?

- (a) 2019
- (b) 2021
- (c) 2023
- (d) 2020

17. Consider the following data and answer the questions.

Year	2019	2020	2021	2022	2023
GDP Deflator	100	119.15	141.08	135.71	129.75

In which year, the price level has fallen?

- (a) 2022 (b) 2022-2023
- (c) 2020 (d) 2020-2021



18. While computing various basic aggregates of national income, the basis of distinction between "Gross" and "Net" is:

- (a) Depreciation
- (b) Consumption of fixed capital
- (c) Both (a) and (b)
- (d) None of the above

19. When NFIA is positive, then [June 2024]

- (a)  $GNP_{MP} > GDP_{MP}$
- (b)  $GNP_{MP} < GDP_{MP}$
- (c)  $GDP_{MP} > GNP_{MP}$
- (d)  $GDP_{MP} < GNP_{MP}$

20. If Net factor income from abroad is positive, then

- (a)  $GNP_{MP} > GDP_{MP}$
- (b)  $GNP_{MP} > GDP_{MP}$
- (c)  $GNP_{MP} < GDP_{MP}$
- (d) None of the above

21.

Private Income	₹ 10,000
Undistributed Corporate Profits	₹ 2,000
Profit Taxes	₹ 500

What is Personal Income?

- (a) ₹ 7,500
- (b) ₹ 8,000
- (c) ₹ 8,500
- (d) ₹ 10,000

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

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

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

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

24. What is the relationship of Disposable Personal Income (DI) and Personal Income (PI)?

- (a)  $DI = PI + \text{Personal Income Taxes} + \text{Non-Tax Payments}$
- (b)  $DI = PI - \text{Personal Income Taxes} + \text{Non-Tax Payments}$
- (c)  $DI = PI - \text{Personal Income Taxes} - \text{Non-Tax Payments}$
- (d) None of the above

25. Disposable personal Income [June 2024]

- (a) Total personal income left after tax deduction at source
- (b) Personal Income - Direct Taxes paid by individual - Indirect taxes paid by individual
- (c) Personal income - Personal income taxes - non-tax payments
- (d) Personal income - Indirect taxes paid by individual

26. Consider the following data:

Particulars	₹ in crores
GNP at MP	9,500
Depreciation	540
Net Factor income from abroad	410
Net indirect Taxes	630

Calculate NDP at FC.

- (a) ₹ 7,920
- (b) ₹ 8,550
- (c) ₹ 8,960
- (d) None of these



27. The net domestic product at market price of an economy is ₹6,400 crores. The Capital Stock is worth ₹6,000 crores and it depreciates at the rate of 10% p.a Indirect Taxes amounted to ₹290 Crores, Subsidies amounted to ₹30 Crores, Factor Income from the rest of the world is 500 crores and to rest of the world is ₹650 Crores. What will be  $GNP_{FC}$ ? [June 2024]

- (a) ₹ 7,190 Crores (b) ₹ 6,590 Crores  
(c) ₹ 6,330 Crores (d) ₹ 6,180 Crores

28. Consider the following information:

Particulars	₹ in crores
$GNP_{FC}$	35,600
Consumption of fixed capital	3,900
Indirect Taxes	210
Factor Income from abroad	600
$NDP_{MP}$	32,000
Factor Income to Abroad	750

Calculate the amount of subsidies.

- (a) ₹ 40 Crores  
(b) ₹ 50 Crores  
(c) ₹ 60 Crores  
(d) None of these

29. Calculate consumption of Fixed Capital from the following data:

Particulars	₹ in crores
NNP at Factor Cost	6,250
GDP at Market Price	7,000
Net Indirect Taxes	250
Net Factor Income from Abroad	150

- (a) ₹ 450 Crores  
(b) ₹ 550 Crores  
(c) ₹ 650 Crores  
(d) None of these

30. Consider the following data:

Particulars	₹ in crores
Compensation of Employees	1,200
Operating Surplus	2,400
Consumption of fixed capital	480
Mixed income of Self employed	1,320
Net Indirect Tax	540
Rent	660
Profit	960
Net factor Income from abroad	-60

Which of the following is incorrect?

- (a) GDP at MP = ₹ 5,940 Crores  
(b) GNP at MP = ₹ 5,880 Crores  
(c) NNP at MP = ₹ 5,400 Crores  
(d) NNP at FC = ₹ 5,940 Crores

### Methods of measurement of National Income in India

31. Value Added Method is also known as \_\_\_\_\_.

- (a) Product Method  
(b) Inventory Method or Net Output Method  
(c) Industrial Origin Method  
(d) All of the above

32. If purchase of raw material from domestic firm is given at ₹158 crore and imports are ₹8 crore, what will be the amount of intermediate consumption under value added method?

- (a) ₹ 8 crore (b) ₹ 150 crore  
(c) ₹ 158 crore (d) ₹ 166 crore

33. What is the value of output on the basis of following information?

Sales : ₹40,000 Lakhs

Closing Stock : ₹2,000 Lakhs

Opening Stock : ₹500 Lakhs

- (a) ₹ 42,500 Lakhs  
(b) ₹ 42,000 Lakhs  
(c) ₹ 41,500 Lakhs  
(d) ₹ 38,500 Lakhs



34. Consider the following data:

Sales	: 20,00,000
Closing Stock	: 40,000
Opening Stock	: 10,000
Indirect Taxes	: 1,00,000
Depreciation	: 60,000
Intermediate Consumption	: 3,20,000
Purchase of Raw Material	: 1,35,000
Rent	: 25,000

The amount of Net value added at market price is \_\_\_\_\_.

- (a) ₹ 16,30,000      (b) ₹ 16,50,000  
(c) ₹ 16,80,000      (d) ₹ 16,90,000

#### Income Method

35. Which one of the following is component of Income Method?

- (a) Compensation of Employees  
(b) Rent and Royalty  
(c) Profit and Interest  
(d) All of the above

36. Which as the following is included while estimating National Income under Income Method?

- (a) Income from sale of second-hand goods  
(b) Income from sale of shares, bonds and debentures  
(c) Windfall gains like income from lotteries, horse race, etc.  
(d) Imputed value of services provided by owners of production units

37. While estimating national income by income method, transfer incomes are not included as there are not connected with any productive activity and there is no value addition, which of the following is included in "Transfer Income"?

- (a) Scholarship  
(b) Donations and charity  
(c) Old age pensions  
(d) All of the above

38. Which of the following is not covered under Income Method of computing Gross National Product?

- (a) Rents  
(b) Private consumption expenditure  
(c) Wages and salaries  
(d) Interest

39. What is the value of NDP at factor Cost?

Rent	: ₹ 9,000
Royalty	: ₹ 4,000
Mixed Income	: ₹ 3,500
Interest	: ₹ 11,000
Profit	: ₹ 8,700
Compensation of Employees	: ₹ 20,000

- (a) ₹ 52,700  
(b) ₹ 56,200  
(c) ₹ 59,700  
(d) None of these

40. Consider the following data:

Value of output	: ₹2,50,000
Purchase of Raw Material	: ₹58,000
Wages and Salaries	: ₹65,000
Net Indirect Tax	: ₹15,000

The value of operating surplus is \_\_\_\_\_

- (a) ₹ 1,12,000      (b) ₹ 1,27,000  
(c) ₹ 1,92,000      (d) None of these

41. Which of the following method measures national income as the sum of all incomes, wages, rents, interest and profit paid to the four factors of production?

- (a) Value Added Method  
(b) Expenditure Method  
(c) Income Method  
(d) Product Method



42. From the following information, compute Gross National Product (GNP) according to the Expenditure Method

Private Consumption Expenditure = INR 200 Crores

Gross Domestic Private Investment = INR 80 Crores

Net Foreign Investment = INR 20 Crores

Rent = INR 60 Crores

Wages = INR 100 Crores

Mixed Income = INR 25 Crores

Government Expenditure on Goods and Services = INR 60 Crores

- (a) INR 360 Crores  
(b) INR 200 Crores  
(c) INR 385 Crores  
(d) INR 270 Crores
43. Which of the following is/are considered for calculating National Income according to the Expenditure Method?
- (a) Consumption Expenditure; Investment Expenditure; Government Expenditure and Net Exports  
(b) Consumption Expenditure  
(c) Net Exports and Consumption Expenditure  
(d) Government Expenditure; Investment Expenditure and Net Exports

44. The formula to compute Net National Product at Factor Cost is:

- (a) NNP at Market Prices + Indirect Taxes + Subsidies  
(b) NNP at Market Prices - Indirect Taxes - Subsidies  
(c) NNP at Market Prices - Indirect Taxes + Subsidies  
(d) NNP at Market Prices - Subsidies

45. In respect of following data given in ₹. What will be national income using expenditure method?

Particulars	₹ in crores
Private final consumption	25,000
Government final consumption	12,000
Net Domestic capital formation	6,500
Net Export	5,000
Net factor income from Abroad	1,000
Net Indirect Taxes	1,500

- (a) ₹ 49,500 (b) ₹ 48,000  
(c) ₹ 47,000 (d) ₹ 45,500

46. Consider the following data:

Particulars	₹ in crores
Sales	1,050
Opening Stock	750
Intermediate Consumption	525
Closing Stock	600
Net factor Income from Abroad	45
Depreciation	225
Excise Tax	165
Subsidies	75

What is the amount of National Income by value Added method?

- (a) ₹ 900 Crores (b) ₹ 375 Crores  
(c) ₹ 105 Crores (d) None of these

47. The following data is available (In ₹ Crores):

Purchase of Materials	₹ 170
Subsidies	₹ 30
Intermediate Consumption	₹ 400
Sales	₹ 900
Depreciation	₹ 60
Excise Tax	₹ 90
Opening Stock	₹ 80
Closing Stock	₹ 60

Calculate Net Value Added by factor Cost

- (a) ₹ 480 Crores (b) ₹ 420 Crores  
(c) ₹ 360 Crores (d) None of above





48. Which of the following is not used when National Income is calculated using expenditure method?

- (a) Operating Surplus
- (b) Private Final Consumption Expenditure
- (c) Net Export
- (d) Net Domestic Capital Formation

49. Calculate National Income with the help of Expenditure Method with the help of following data.

Particulars	₹ in crores
Net factor Income from Abroad	15
Net Indirect Taxes	90
Private Final Consumption Expenditure	1,500
Net Domestic Capital Formation	577
Consumption of Fixed Capital	98
Net Export	22
Govt. Final Consumption Expenditure	825

- (a) ₹ 1,139 Crores
- (b) ₹ 1,237 Crores
- (c) ₹ 2,039 Crores
- (d) ₹ 3,022 Crores

50. Consider the following Information:

Particulars	₹ in crores
Private Final Consumption Expenditure	45
Gross Domestic Fixed Capital Formation	1,575
Subsidy	450
Net Import	90
Change in Stock	135
Net acquisition of Valuables	45
Public Final Consumption Expenditure	22
Income Paid to abroad	90
Depreciation	135

What is the value of  $NNP_{FC}$  (by expenditure method)?

- (a) ₹ 1,957 Crores
- (b) ₹ 1,507 Crores
- (c) ₹ 1,462 Crores
- (d) None of these

51. The following data is available:

Particulars	₹ in crores
Compensation of Employees	2,250
Interest	675
GNP at Factor Cost	46,125
Profit	975
Net Domestic Capital Formation	600
Gross Domestic Capital Formation	675
Net Exports	(-38)
Rent	600
Factor Income to abroad	675
Net Indirect taxes	225

What are  $GDP_{FC}$  and  $GDP_{MP}$ ?

- (a) ₹ 4,800 Crores and ₹ 4,575 Crores
- (b) ₹ 4,575 Crores and ₹ 4,800 Crores
- (c) ₹ 6,750 Crores and ₹ 6,825 Crores
- (d) ₹ 6,825 Crores and ₹ 6,750 Crores

### The System of Regional Accounts in India

52. At present, \_\_\_\_\_ compute State Income estimates and district level estimates.

- (a) All the states only
- (b) All Union territories only
- (c) All The States and Union territories of India
- (d) Central Government

53. \_\_\_\_\_ is a measure in monetary terms of the volume of all goods and services produced in the State within a given period of time accounted without duplication.

- (a) Net State Domestic Product
- (b) Net State Disposition Product
- (c) Net State Generated Product
- (d) None of the above

54. What is the formula to calculate Per Capital State Income?

- (a) State Income  $\times$  Money Multiplier
- (b)  $\frac{\text{State Income} \times \text{Money Multiplier}}{\text{Year end State Population}}$
- (c)  $\frac{\text{State Income}}{\text{Year end State Population}}$
- (d)  $\frac{\text{State Income}}{\text{Mid year projected Population of the State}}$



55. The State level estimates are prepared by the State Income Unit of the respective state\_\_\_\_\_.
- Directorates of Commerce Wing
  - Directorates of Economic Affairs
  - Directorates of Economic and Statistics
  - Directorates of CSO
56. In the preparation of State Level estimates the advice an conceptual and Methodological problems is rendered by\_\_\_\_\_.
- State Statistical Organization
  - State Directorates of Economics and Statistics.
  - State Economic Affairs Organization
  - Central Statistical Organization
57. Which of the following activities is not assigned to a particular State?
- Railways
  - Communication
  - Banking and Insurance
  - All of these
58. Which of the following is part of "Supra-Regional Sectors" of the Economy?
- Railways
  - Communication
  - Central Government Administration
  - All of the above
59. The estimates for "Supra-Regional Activities" are compiled for \_\_\_\_\_ and allocated to \_\_\_\_\_ on the basis of relevant indicators.
- the States, the Centre
  - the economy, the States
  - the economy, the Centre
  - the States, the States.

60. In the preparation of State Income estimates, certain activities cut across State boundaries and thus their economic contribution cannot be assigned to any one State directly. These sectors of the economy are known as\_\_\_\_\_.
- Super regional sectors
  - Supra regional sectors
  - State balancing sectors
  - Regional sectors

### **GDP and Welfare**

61. Which of the following aspects are excluded in GDP measures?
- Income Distributions
  - Quality Improvement in Systems
  - Productions hidden from government authorities.
  - All of the above

### **Limitations and Challenges of National Income Computation**

62. Which of the following is an example of conceptual difficulties related to measurement of National Income?
- Issue of Transfer Payments
  - Valuation of Government Services
  - Lack of an agreed definition of National Income
  - All of the above



## Answer Key

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

32. (d)
33. (c)
34. (b)
35. (d)
36. (d)
37. (d)
38. (b)
39. (b)
40. (a)
41. (c)
42. (a)
43. (a)
44. (c)
45. (b)
46. (c)
47. (c)
48. (a)
49. (c)
50. (a)
51. (b)
52. (c)
53. (a)
54. (d)
55. (c)
56. (d)
57. (d)
58. (d)
59. (b)
60. (b)
61. (d)
62. (d)



## Hints and Solution

1. (d)

2. (b)

3. (d)

4. (a)

5. (a)

6. (c)

7. (a)

8. (a)

9. (a)

10. (a)

The GDP deflator is used to take inflation out of GDP.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{GDP Deflator}} \times 100$$

11. (a)

12. (c)

Inflation Rate between 2022 and 2023

$$= \frac{\text{GDP Deflator}_{2023} - \text{GDP Deflator}_{2022}}{\text{GDP Deflator}_{2022}} \times 100$$

$$= \frac{159.57 - 147.06}{147.06} \times 100 = 8.51\%$$

13. (a)

14. (d)

If the GDP Deflator is greater than 100, then Nominal GDP is greater than real GDP.

15. (a)

16. (b)

17. (b)

If the GDP deflator next year is less than GDP deflator this year, then the price level has fallen.

18. (c)

19. (a)

20. (b)

21. (a)

22. (d)

23. (a)

24. (c)

25. (c)

26. (a)

$$\text{NDP at FC} = \text{GNP}_{\text{MP}} - \text{Dep.} - \text{NFIA} - \text{NIT}$$

$$= 9,500 - 540 - 410 - 630$$

$$= ₹ 7,920 \text{ Crores.}$$

27. (b)

$$\text{GNP}_{\text{FC}} = \text{NDP}_{\text{MP}} + \text{Depreciation} - \text{Net Indirect taxes} - \text{Net Factor Income from Abroad}$$

$$= 6,400 + 10\% \text{ of } 6,000 - (290 - 30) + (500 - 650)$$

$$= 6,400 + 600 - 260 - 150$$

$$= ₹ 6,590 \text{ Crores.}$$



28. (c)

$GNP_{FC} = NDP_{MP} + \text{Consumption of fixed capital} +$   
 (Factor Income from Abroad - Factor Income to  
 abroad) - (Indirect Taxes - Subsidies).

$$35,600 = 32,000 + 3,900 + (600 - 750) - (210 - \text{Subsidies})$$

$$35,600 = 35,540 + \text{subsidies}$$

$$\text{Subsidies} = 35,600 - 35,540 = ₹60 \text{ Crores.}$$

29. (c)

$GDP_{MP} = NNP_{FC} + \text{Consumption of fixed capital} -$   
 Net Factor Income from abroad Net Indirect Taxes

$$7,000 = 6,250 + \text{Consumption of fixed capital} - 150 + 250$$

$$7,000 = 6,350 + \text{Consumption of fixed capital}$$

$$\text{Consumption of fixed capital} = 7,000 - 6,350 = ₹ 650 \text{ Crores.}$$

30. (d)

$GDP_{MP} = \text{Compensation of Employees} + \text{Mixed}$   
 Income of Self Employed + Operating Surplus +  
 Depreciation + Net Indirect taxes

$$= 1,200 + 1,320 + 2,400 + 480 + 540 = ₹ 5,940 \text{ Crores.}$$

$$GNP_{MP} = GDP_{MP} + NFIA = 5,940 + (-60) = ₹ 5,880 \text{ Crores}$$

$$NNP_{MP} = GNP_{MP} - \text{Dep.} = 5,880 - 480 = ₹5,400 \text{ Crores}$$

$$NNP_{FC} = NNP_{MP} - \text{NIT} = ₹ 5,400 - ₹ 540 = ₹ 4,860 \text{ Crores}$$

31. (d)

32. (d)

33. (c)

34. (b)

35. (d)

36. (d)

37. (d)

38. (b)

39. (b)

40. (a)

41. (c)

42. (a)

43. (a)

44. (c)

45. (b)

46. (c)

Value of Output = Sales + Change in Stock

$$= 1050 + ₹ (600 - 750) = ₹ 900$$

$GVA_{MP} = \text{Value of Output} - \text{Intermediate}$   
 Consumption

$$= 900 - 525 = ₹ 375$$

National Income =  $NVA_{FC}$

$$= GVA_{MP} - \text{Dep.} + NFIA - \text{Net Indirect Tax}$$

$$= 375 - 225 + 45 - (165 - 75)$$

$$= ₹ 105 \text{ Crores.}$$

47. (c)

$GVA_{MP} = \text{Sales} + \text{Change in Stock} - \text{Intermediate}$   
 Consumption

$$= 900 + (60 - 80) - 400$$

$$= ₹ 480 \text{ Crores}$$

$NVA_{MP} = GVA_{MP} - \text{Depreciation}$

$$= 480 - 600 = ₹ 420 \text{ Crores}$$

$NVA_{FC} = NVA_{MP} - (\text{Indirect Tax} - \text{Subsidies})$

$$= 420 - (90 - 30)$$

$$= ₹ 360 \text{ Crores}$$

48. (a)



49. (c)

$GDP_{MP} = \text{Private Final Consumption Expenditure} + \text{Government Final Consumption Expenditure} + \text{Gross domestic Capital Formation (Net domestic Capital Formation + depreciation)} + \text{Net Export}$   
 $= 1,500 + 825 + (577 + 98) + 22$   
 $= ₹ 3,022 \text{ Crores}$

$NNP_{FC} (NI) = GDP_{MP} - \text{Depreciation} + NFIA - NIT$   
 $= 3,022 - 98 + 15 - 900$   
 $= ₹ 2,039 \text{ Crores.}$

50. (a)

$GDP_{MP} = \text{Government Final Consumption Expenditure (Public Final Consumption Expenditure)} + \text{Private Final Consumption Expenditure} + \text{Gross Domestic Capital Formation (Gross Domestic Fixed Capital Formation + Change Stock + Net acquisition of Valuables)} + \text{Net Export.}$

$= 22 + 45 + (1575 + 135 + 45) + (-90) = ₹ 1,732 \text{ Crores}$

$NNP_{FC} = GDP_{MP} - \text{Dep.} + \text{Net factor income from abroad (Income from abroad - Income paid to abroad)} - \text{Net Indirect Tax (Indirect Tax - Subsidies)}$

$= 1732 - 135 + (0 - 90) - (0 - 450) = ₹ 1,957 \text{ Crores.}$

51. (b)

$GDP_{FC} = \text{Compensation of Employees} + \text{Rent} + \text{Interest} + \text{Profit} + \text{Mixed Income} + (\text{Gross Domestic Capital Formation} - \text{Net Domestic Capital Formation})$

$= 2250 + 600 + 675 + 975 + \text{Nil} + (675 - 600)$   
 $4,575 \text{ Crores}$

$GDP_{MP} = GDP_{FC} + \text{Net Indirect Taxes}$   
 $= ₹ 4,575 + 225$   
 $= ₹ 4,800 \text{ Crores.}$

52. (c)

53. (a)

54. (d)

55. (c)

56. (d)

57. (d)

58. (d)

59. (b)

60. (b)

61. (d)

62. (d)



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# CA Foundation Sampurna September 2025

## Determination of National Income (Unit – 2)

Note

### The Keynesian Theory of Determination at National Income

#### Introduction

- In 1936, who published the masterpiece "The General Theory of Employment, Interest and Money"?
  - John Maynard Keynes
  - John Milton Keynes
  - Jean Maynard Keynes
  - Jean Milton Keynes
- Which of the following is not a part of "The Three-sector model" of Keynesian theory of income determination?
  - Household
  - Business
  - Government
  - Foreign
- Which of the following is not a reason for leakages? [June 2024]
  - Part of an increment in income used for payment of debts
  - Distributed profits of corporation
  - High liquidity preference
  - Progressive rate of taxation

#### Circular flow in a simple Two-Sector Model

- Which of the following Statements about Circular Flow is incorrect?
  - The circular Flow model demonstrates how money moves through society.
  - An economy is an endless circular flow of money
  - Money flows from producers to workers as wages and flows back to producers as payment for products.
  - All the Statements are correct.

- In two sector model, what is the relationship between total Income produced ( $y$ ) that accrues to the Households and the disposable personal income ( $Y_d$ ) of households?
  - $Y > Y_d$
  - $Y < Y_d$
  - $Y = Y_d$
  - Either (a) or (b)
- Which of the following is true is "Circular Flow in a two sector Economy"?
  - Factor Payment = Household Income
  - Household Income = Household Expenditure
  - Total Receipts of Firms = Value of Output
  - All of the above
- As regards "Circular Flow in a Two Sector Economy", \_\_\_\_\_ refer to the flow of the actual goods or Services while \_\_\_\_\_ refer to the payment for the Services (wages) or consumption payments.
  - Real Flows, Money Flows
  - Money Flows, Real Flows
  - Real Flows, Circular Flows
  - Circular Flows, Money Flows

#### Basic Concepts and Functions

- Which of the following is NOT TRUE about AD in a two-sector economy?
  - AD Consumption + Saving
  - AD = Consumption + Investment
  - AD = Curve has a positive Slope
  - AD = Curve Starts from same point about origin.
- Keynes believed that an economy may attain equilibrium level of output:
  - only at the full-employment level of output
  - below the full-employment level of output
  - only if prices were inflexible
  - (a) and (c) above





10. As per consumption function, if the disposable income increases, consumers will \_\_\_\_\_ their planned expenditure but only by \_\_\_\_\_ than the increase in income.  
 (a) increase, less (b) increase, more  
 (c) decrease, less (d) decrease, more
11. In the Keynesian Consumption function  $C = a + bY$ , by what may be the value of  $b$ ?  
 (a)  $b = 0$  (b)  $b = 1$   
 (c)  $b > 1$  (d)  $0 < b < 1$
12. If 30% of income is not spent on consumption, then what will be the Average propensity to consume?  
 (a) 30% (b) 70%  
 (c) 130% (d) None of these
13. Which of the following is true for MPC?  
 [June 2024]  
 (a) It is always greater than one  
 (b) It is always less than unity but greater than zero  
 (c) It can be even less than zero  
 (d) It can attain any value depending upon the disposable income
14. What will be the value of Average Propensity to Save (APS) When  $C = 300$  at  $Y = 1,000$ ?  
 (a) 0.3 (b) 0.7  
 (c) 1.3 (d) 3.1
15. \_\_\_\_\_ is the total supply of goods and services which firms in a national economy plan on selling during a specific time period.  
 (a) *Ex ante* Aggregate Supply  
 (b) Planned Aggregate Supply  
 (c) Projected Aggregate Supply  
 (d) Both (a) and (b)
16. When income rises from ₹ 1,000 to ₹ 1,100, saving rises by ₹ 40. What are MPS and MPC?  
 (a) 0.40 and 0.60  
 (b) 0.60 and 0.40  
 (c) 1.40 and 1.60  
 (d) 1.60 and 1.40
17. The consumption expenditure and investment demand are ₹ 800 Crores and ₹ 350 Crores respectively, when income is ₹ 1,250 Crores. What will be the value of AD, AS and Saving?  
 (a) ₹ 1,250, ₹ 1150 and ₹ 450  
 (b) ₹ 1,150, ₹ 1,250 and ₹ 450  
 (c) ₹ 1,700, ₹ 2,050 and ₹ 350  
 (d) None of these
- The Two-Sector Model of National Income Determination**
18. 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
19. 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
20. As per Keynesian model of macro economy, if the aggregate demand is for an amount of output less than the full employment level of output, then we say there is deficient demand. This deficient demand gives rise to \_\_\_\_\_  
 (a) Deflationary Gap  
 (b) Recessionary Gap  
 (c) Contractionary Gap  
 (d) All of the above



21. If aggregate demand for an amount of output is less than the full employment level of output in the economy, then it gives rise to \_\_\_\_\_. [June 2024]  
 (a) Inflationary Gap (b) Deflationary Gap  
 (c) Potential Gap (d) Excess Demand
22. Under Keynesian Theory, \_\_\_\_\_ is the amount by which actual aggregate demand exceeds the level of aggregate demand required to establish the full employment equilibrium.  
 (a) Inflationary Gap  
 (b) Deflationary Gap  
 (c) Contractionary Gap  
 (d) None of these
23. Consider the following data relating to an economy in equilibrium:  
 Autonomous Consumption = 500  
 MPS = 0.3  
 Investment Expenditure = 1000  
 What is national income?  
 (a) 1,500 (b) 5,000  
 (c) 150 (d) 5,650
24. Given the empirical consumption function  $C = 100 + 0.75Y$  and  $I = 1000$ , what will be the equilibrium level of national income and also the consumption expenditure at this equilibrium level of national income?  
 (a) 4400; 3400 (b) 1100; 850  
 (c) 3300; 2150 (d) None of these
- The Investment Multiplier**
25. Investment multiplier is the \_\_\_\_\_. [June 2024]  
 (a) Rate of change in investment due to increase in income  
 (b) Rate of increase in the national income due to increase in investment  
 (c) Rate of change in the investment due to increase in the savings  
 (d) Rate of change in savings due to increase in the investment
26. Higher the \_\_\_\_\_ more will be the value of multiplier, whereas, higher the \_\_\_\_\_, lower will be the value of multiplier.  
 (a) MPS, MPC (b) MPC, MPS  
 (c) APS, APC (d) APC, APS
27. The value of investment multiplier is the reciprocal of \_\_\_\_\_.  
 (a) APC (b) APS  
 (c) MPS (d) MPC
28. In an economy investment expenditure is increased by ₹ 600 crores and Marginal Propensity to Consume (MPC) is 0.8. What will be the total increase in saving?  
 (a) 3000 (b) 4000  
 (c) 600 (d) 500
29. Suppose in a country investment increases by ₹ 320 Crores and consumption is given by  $C = 45 + 0.6Y$  (Where  $C$  = Consumption and  $Y$  = income). How much increases will there take place in income?  
 (a) ₹ 192 (b) ₹ 365  
 (c) ₹ 640 (d) ₹ 800
30. An increase in investment by ₹ 1000 Crores leads to increase in national income by ₹ 2500 Crore. What will be Marginal Propensity to Consume (MPC)?  
 (a) 2.5 (b) 0.6  
 (c) 0.4 (d) None of these
31. Which of the following formula can be used to find the value of Multiplier (K)?  
 (a)  $K = \frac{\Delta Y}{\Delta I}$   
 (b)  $K = \frac{1}{1 - MPC}$   
 (c)  $K = \frac{1}{1 - MPS}$   
 (d) Any of the above



32. Consider the following data relating to an economy:

- (a) increase in investment = ₹ 3,500 Crores
- (b) 80% of the increase in income is spent on consumption.

What will be the total increase in income?

- (a) ₹ 2,800
- (b) ₹ 7,000
- (c) ₹ 17,500
- (d) None of these

**Determination of equilibrium  
Income: Three Sector Model**

33. Which of the following is not considered in three sector model of closed economy?

- (a) Household Consumption
- (b) Desired Business Investment Demand
- (c) Government Sector's Demand for goods and Services
- (d) Foreign Trade

34. Find the aggregate demand, when consumption is ₹ 2000 crores, investment is ₹ 700 crores, Government Spending is ₹ 750 crores, total exports is ₹ 150 crores and total expenditure on imports are 50 crores. [June 2024]

- (a) 3550 Cr
- (b) 3300 Cr
- (c) 3600 Cr
- (d) 3350 Cr

35.  $C = 200 + 0.8Y_d$ ;  $G = T = 150$   $I = 200$ ;  $TR = 75$   
Find equilibrium income. [June 2024]

- (a) 625
- (b) 2450
- (c) 2250
- (d) 800

36. The following Information is available regarding structure model of an economy:

$$C = 40 + 0.8Y_d$$

$$I = 80$$

$$G = T = 40$$

$$TR = 15$$

Where  $C$  = Consumption function

$I$  = Investment

$G$  = Government Expenditure

$T$  = Lump Sum Tax

$TR$  = Autonomous Transfer Payment.

What will be the equilibrium level of income?

- (a) 700
- (b) 610
- (c) 175
- (d) None of these

37. In an economy, the tax has been levied as a function of income with Government expenditure and transfer payments. The following data is available:

$$\text{Consumption function (C)} = 400 + 0.75 (Y - T + TR)$$

$$\text{Investment (I)} = 750$$

$$\text{Government Expenditure (G)} = 380$$

$$\text{Tax (T)} = 84 + 0.2Y$$

$$\text{Autonomous Transfer Payment (TR)} = 200$$

What is the equilibrium level of income?

- (a) 4002.50
- (b) 4042.50
- (c) 4152.50
- (d) 4582.50

**Determination of National  
Income: Four Sector Model**

38. In the four sector model, which of the following additional flow is considered as compared with three sector model?

- (a) Exports
- (b) Imports
- (c) Net Capital Inflow
- (d) All of the above



39. Which of the following indicates the aggregate demand or the total planned expenditure of consumers, investors, governments and foreigners (Net exports) at each income level?
- $C + Y + G + (X + M)$
  - $C + I + \text{Tax} + \text{TR}$
  - $C + I + G + (X - M)$
  - None of these
40. In the determination of equilibrium level of national income, which of the following is correct?
- $Y = C + I + G + (X - M)$
  - $C = a + b(Y - T)$
  - $M = \bar{M} + mY$
  - All of the above.
41. In four sector model, which of the following formula is used to calculate Foreign Trade Multiplier, if  $b$  and  $m$  refer to marginal propensity to consume and Marginal propensity to import?
- $\frac{1}{1 - b - m}$
  - $\frac{1}{1 + b - m}$
  - $\frac{1}{1 - b + m}$
  - $\frac{1}{1 + b + m}$
42. Consider the following:  
 Consumption function  $(C) = 40 + 0.8Y_d$   
 $T = 0.1Y$   
 $I = 60$  crores  
 $G = 40$  Crores  
 $X = 58$   
 $M = 0.05Y$   
 What will be the equilibrium level of income?
- 800 crores
  - 603 crores
  - 545 crores
  - None of these
43.  $C = 60 + 0.9Y_d$   
 $I = 10$   
 $M = 10 + 0.05Y$   
 What is Foreign Trade Multiplier?
- 0.98
  - 3.97
  - 6.66
  - None of these
44. Equilibrium income  $(Y) = 600$   
 Exports  $(\times) = 20$   
 Imports  $(M) = 10 + 0.05Y$   
 Calculate Trade Balance.
- Surplus (20)
  - Deficit (20)
  - Surplus (30)
  - Deficit (30)
45. Which of the following organization is responsible for the compilation of National accounts statistics? [May 2025]
- Central Statistical Organization (CSO)
  - Directorate of Economic and Statistics (DES)
  - Ministry of Finance of Central Government
  - Reserve Bank of India (RBI)
46. Which of the following defines the Gross National Product (GNP) of a country under the concept of National Income? [May 2025]
- It is market value of all final economic goods and services produced within the domestic territory of a country including Net Factor Income from abroad.
  - It is market value of all final economic goods and services produced within the domestic territory of a country excluding Net Factor Income from abroad.
  - It is production cost of all final economic goods and services produced within the domestic territory including depreciation.
  - It is production cost of all final economic goods and services produced within the domestic territory excluding depreciation.
47. The Gross Domestic Product at Factor Cost ( $GDP_{FC}$ ) is calculated by which of the following formula (Here  $GDP_{MP}$  is Gross Domestic Product at market prices): [May 2025]
- $GDP_{FC} = GDP_{MP} + \text{Net Factor Income from Abroad}$
  - $GDP_{FC} = GDP_{MP} + \text{Net Factor Income from Abroad} - \text{Depreciation}$
  - $GDP_{FC} = GDP_{MP} - \text{Indirect Taxes} + \text{Subsidies}$
  - $GDP_{FC} = GDP_{MP} + \text{Indirect Taxes} - \text{Subsidies}$



48. Considering the data given in the table below calculate the Inflation rate of year 3 : [May 2025]

Year	Nominal GDP	Real GDP	GDP Deflator
0	900	900	100
1	1200	1000	120
2	1500	1200	125
3	1800	1250	144
4	2000	1600	125

- (a) 13.19%  
 (b) 15.20%  
 (c) 19%  
 (d) -19%
49. Which of the following is an indicator of the standard of living of a country under the concept of National Income? [May 2025]  
 (a) Personal Income  
 (b) Disposable Personal Income  
 (c) Per Capita Income  
 (d) GDP at factor cost
50. The amount of money in the hands of the individual that is available for their consumption or savings is known as \_\_\_\_\_. [May 2025]  
 (a) Private Income  
 (b) Per Capita Income  
 (c) Disposable Personal Income  
 (d) Personal Income
51. Which of the following is included in the calculation of Personal Income under the concept of National Income? [May 2025]  
 (a) Unemployment Compensation  
 (b) Retained Earnings  
 (c) Indirect Business Taxes  
 (d) Contribution towards Social Security

52. Which of the following is true in relation with Private Income under the concept of National Income? [May 2025]  
 (a) It is personal income adjusted by inflation rate.  
 (b) It is personal income less personal income tax.  
 (c) It is the income (both factor & transfer income) accrued to private sector from all sources within the country only.  
 (d) It is income (both factor and transfer income) accrued to the private sector from all sources within and outside the country.
53. Which of the following is true about the basic price in the determination of National Income? [May 2025]  
 (a) Basic Price = Factor Cost – Manufacturing Taxes + Manufacturing Subsidy  
 (b) Basic Price = Factor Cost – Depreciation  
 (c) Basic Price = Factor Cost + Net Factor Income from Abroad  
 (d) Basic Price = Factor Cost + Production Tax + Production Subsidy
54. Which of the following is not a sector to be included in the three sector model of Keynesian theory of Income determination? [May 2025]  
 (a) Household Sector  
 (b) Business Sector  
 (c) Foreign Sector  
 (d) Government Sector
55. Under the Keynesian theory of National Income determination, which of the following term is given to the demand for money? [May 2025]  
 (a) Investment multiplier  
 (b) Liquidity preference  
 (c) Aggregate demand  
 (d) Marginal Propensity



56. Under the Keynesian theory of determination of national income, the assumption is that the consumption increases with an increase in disposable income but the increase in consumption will be \_\_\_\_\_ the increase in disposable income. [May 2025]
- (a) Equal to
  - (b) Opposite to
  - (c) Greater than
  - (d) Less than
57. Which of the following is true in respect of relation of Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) as per the Keynesian theory of determination of National Income? [May 2025]
- (a)  $MPC + MPS$
  - (b)  $MPC + MPS = 1$
  - (c)  $MPC + MPS = 0$
  - (d) No relation exists between MPC and MPS
58. In the preparation of state income estimates, certain activities like railways, banking, insurance etc. that cut across state boundaries, and thus their economic contribution assigned to more than one state are known as \_\_\_\_\_. [May 2025]
- (a) Central Sectors of economy
  - (b) Supra Regional Sectors of economy
  - (c) Tertiary Sectors of economy
  - (d) Secondary Sectors of economy



## Answer Key

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

30. (b)
31. (d)
32. (c)
33. (d)
34. (a)
35. (b)
36. (a)
37. (b)
38. (d)
39. (c)
40. (d)
41. (c)
42. (b)
43. (c)
44. (b)
45. (a)
46. (a)
47. (c)
48. (b)
49. (c)
50. (c)
51. (a)
52. (d)
53. (d)
54. (c)
55. (b)
56. (d)
57. (b)
58. (b)





## Hints and Solution

1. (a)

2. (d)

3. (b)

4. (d)

5. (c)

6. (d)

7. (a)

8. (a)

9. (b)

10. (a)

11. (d)

12. (b)

13. (b)

14. (b)

$$S = Y - C = 1000 - 300 = 700$$

$$APS = \frac{S}{Y} = \frac{700}{1000} = 0.7$$

15. (d)

16. (a)

$$MPS = \frac{\text{Change in Saving}}{\text{Change in Income}}$$

$$= \frac{40}{1100 - 1000} = \frac{40}{100} = 0.40$$

$$MPC = 1 - MPS = 1 - 0.40 = 0.60$$

17. (b)

$$(i) \quad AD = C + I = ₹ 800 + ₹ 350, = ₹ 1.150 \text{ Crores}$$

$$(ii) \quad AS = \text{national Income (Y)} = ₹ 1,250 \text{ Crores.}$$

$$(iii) \quad \text{Saving (s)} = Y - C = ₹ 1,250 - ₹ 800 = ₹ 450 \text{ Crores}$$

18. (c)

19. (c)

20. (d)

21. (b)

22. (a)

23. (b)

$$C = \bar{C} + MPC(y)$$

$$= \bar{C} + (1 - MPS)(y)$$

$$= 500 + (1 - 0.3)y$$

$$y = C + I$$

$$= 500 + (0.7)(y) + 1000$$

$$= 1500 + 0.7y$$

$$0.3Y = 1500$$

$$Y = \frac{1500}{0.3} = 5000$$

24. (a)

$$C = 100 + 0.75y$$

$$I = 1000$$

$$\text{In Equilibrium, } Y = C + I$$

$$Y = 100 + 0.75Y + 1000$$

$$Y = 1100 + 0.75Y$$

$$Y - 0.75Y = 1100$$

$$0.25Y = 1100$$

$$Y = \frac{1100}{0.25} = 4400$$

$$\text{Also, } Y = C + I$$

$$C = Y - I$$

$$= 4400 - 1000$$

$$= 3400$$



25. (b)

26. (b)

27. (c)

$$\text{Multiplier} = \frac{1}{\text{MPS}} \text{ or } \frac{1}{1-\text{MPC}}$$

28. (c)

$$\text{MPC} = 0.8$$

$$\text{MPS} = 1 - 0.8 = 0.2$$

$$\text{Multiplier (k)} = \frac{1}{\text{MPS}} = \frac{1}{0.2} = 5$$

$$\text{Increase in Income } (\Delta Y) = K \times \Delta I = 5 \times 600 = 3000 \text{ Crores}$$

$$\begin{aligned} \text{Increase in Saving } (\Delta Y) &= \Delta Y \times \text{MPS} \\ &= 3000 \times 0.2 \\ &= 600 \text{ Crores} \end{aligned}$$

29. (d)

$$\text{MPC} = 0.6 \text{ [From Consumption Function]}$$

$$\text{Multiplier (K)} = \frac{1}{1-\text{MPC}} = \frac{1}{1-0.6} = 2.5$$

$$\text{Change in Income } (\Delta Y) = \text{Multiplier (K)} \times \text{Change in Investment } (\Delta I)$$

$$\Delta Y = 2.5 \times 320 = ₹ 800 \text{ Crores.}$$

Thus, increase in investment by ₹ 320

Crores will cause equilibrium income to rise by ₹ 800 Crores.

30. (b)

$$\begin{aligned} \text{Multiplier (K)} &= \frac{\Delta Y}{\Delta I} \\ &= \frac{₹ 2500}{₹ 1000} = 2.5 \end{aligned}$$

We know that,

$$\begin{aligned} \text{Multiplier (K)} &= \frac{1}{\text{MPS}} \\ 2.5 &= \frac{1}{\text{MPS}} \end{aligned}$$

$$\begin{aligned} \text{MPS} &= \frac{1}{2.5} \\ &= 0.4 \end{aligned}$$

$$\begin{aligned} \text{MPC} &= 1 - \text{MPS} \\ &= 1 - 0.4 \\ &= 0.6 \end{aligned}$$

31. (d)

32. (c)

80% of Increase in income is spent on Consumption.

$$\text{MPC} = 0.80$$

$$\text{Multiplier (K)} = \frac{1}{1-\text{MPC}} = \frac{1}{1-0.8} = \frac{1}{0.2} = 5$$

$$\text{Multiplier (K)} = \frac{\text{Change in Income } (\Delta Y)}{\text{Change in Investment } (\Delta I)}$$

$$\Delta I = (K) (\Delta I)$$

$$= 5 \times 3500$$

$$= ₹ 17,500 \text{ crores}$$

33. (d)

34. (a)

35. (b)

**Equilibrium condition:**

$$Y = C + I + G \quad (1)$$

$$C = 200 + 0.8 Y_d \quad (2)$$

$$Y_d = Y - T + TR \quad (3)$$

Substituting the value of  $Y_d$  from eq. (3) in eq.(2)

$$C = 200 + 0.8 (Y - T + TR)$$

$$= 200 + 0.8 (Y - 150 + 75) = 140 + 0.8Y$$

Putting this value of C in eq (1)

$$Y = 140 + 0.8Y + I + G$$

$$= 140 + 0.8Y + 200 + 150$$

$$0.2Y = 490$$

$$Y = 490 / 0.2 = 2450$$

36. (a)

$$Y = C + I + G$$

$$= 40 + 0.8Y_d + 80 + 40$$

$$= 160 + 0.8 Y_d$$

$$= 160 + 0.8 [Y - T + TR]$$

$$= 160 + 0.8 [Y - 40 + 15]$$

$$= 160 + 0.8 [Y - 25]$$

$$= 160 - 20 + 0.8Y$$

$$= 140 + 0.8Y$$

$$Y = \frac{140}{0.2} = 700$$



37. (b)

$$\begin{aligned}
 C &= a + b(Y - \bar{T} - tY + TR) \\
 &= 400 + 0.75[Y - (84 + 0.2Y) + 200] \\
 &= 400 + 0.75[Y - 84 - 0.2Y + 200] \\
 &= 400 + 0.75[0.8Y + 116] \\
 &= 400 + 0.6Y + 87 \\
 &= 487 + 0.6Y \\
 Y &= C + I + G \\
 &= 487 + 0.6Y + 750 + 380 \\
 &= 1617 + 0.6Y \\
 0.4Y &= 1617 \\
 Y &= \frac{1617}{0.4} = 4042.50
 \end{aligned}$$

38. (d)

39. (c)

40. (d)

41. (c)

42. (b)

$$\begin{aligned}
 C &= 40 + 0.8Y_d \\
 &= 40 + 0.8(Y - 0.1Y) \\
 &= 40 + 0.8(0.9Y) \\
 I &= 60 \\
 G &= 40 \\
 X &= 58 \\
 M &= 0.05Y \\
 (X - M) &= 58 - 0.05Y \\
 \text{Equilibrium level of Income (Y) will be:} \\
 Y &= C + I + G + (X - M) \\
 &= 40 + 0.8(0.9Y) + 60 + 40 + (58 - 0.05Y) \\
 &= 198 + 0.72Y - 0.05Y \\
 &= 198 + 0.67Y \\
 Y - 0.67Y &= 198 \\
 0.33Y &= 198 \\
 Y &= \frac{198}{0.33} = 603
 \end{aligned}$$

43. (c)

$$\begin{aligned}
 &\text{Foreign Trade multiplier} \\
 &= \frac{1}{1-b+m} \\
 &= \frac{1}{1-0.9+0.05} = \frac{1}{0.15} \\
 &= 6.66
 \end{aligned}$$

44. (b)

$$\begin{aligned}
 \text{Trade Balance} &= X - M = 20 - 10 - 0.05(600) = -20 \\
 &\text{Thus, trade balance is in deficit (20).}
 \end{aligned}$$

45. (a)

46. (a)

47. (c)

48. (b)

49. (c)

50. (c)

51. (a)

52. (d)

53. (d)

54. (c)

55. (b)

56. (d)

57. (b)

58. (b)





# CA Foundation Sampurna September 2025

## Public Finance

Notes

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

1. Who is responsible for the economic stabilization and the income redistribution in an economy?

[June 2024]

- (A) State Government
- (B) Central Government
- (C) Central and State
- (D) Central, State, local bodies

2. Which one of the following is the main macroeconomic goals of any nation?

- (A) Economic Growth
- (B) High levels of employment
- (C) Stable price levels
- (D) All of the above

3. Who has introduced the three-branch taxonomy of the role of government in a market economy in the book "The Theory of Public Finance"?

- (A) Adam Smith      (B) J.B. Say
- (C) J.M. Keynes      (D) Richard Musgrave

4. Which of the following is primarily a macroeconomic function?

- (A) Allocation function
- (B) Income Redistribution
- (C) Stabilization Function
- (D) All of the above

### The Allocation Function

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

- (A) Distribution function
- (B) Allocation function
- (C) Stabilization function
- (D) None of the above

6. The allocative function in budgeting determines \_\_\_\_\_.

- (A) Who and what will be taxed?
- (B) The process by which the total resources of the economy are divided among various uses
- (C) The level of involvement of the public sector in the national economy
- (D) All of the above

### The Redistribution Function

7. The Government can redistribute income and wealth through \_\_\_\_\_.

- (A) Expenditure side of the budget
- (B) Revenue side of the budget
- (C) Either (A) or (B)
- (D) None of these

8. When the redistribution function is done by Government through revenue side, then which of the following method is adopted?

- (A) Free or subsidized education
- (B) Healthcare
- (C) Progressive Taxation
- (D) Flat rate of Taxation

9. Allocative and Distributive functions of a government is a \_\_\_\_\_ economic function.

[June 2024]

- (A) Micro      (B) Macro
- (C) Both      (D) None

### Stabilization Function

10. The stabilization issue also becomes more complex due to \_\_\_\_\_.

- (A) Contagion effect
- (B) Contraction effect
- (C) Expansion effect
- (D) Recession effect



11. The government stabilization intervention may be through which of the following?
- Monetary Policy
  - Fiscal policy
  - Monetary Policy as well as fiscal policy
  - None of these
12. Which of the following fiscal policy is adopted to alleviate recession?
- Expansionary
  - Contractionary
  - Both (A) and (B)
  - Neither (A) nor (B)
13. The policy designed to restrain the level of economic activities of the economy during the inflationary phase is known as \_\_\_\_\_.  
[June 2024]
- Expansionary fiscal policy
  - Contractionary fiscal policy
  - Taxation policy
  - Budgetary policy
- Centre and State Finance**
14. Fiscal federalism in India is maintained by?  
[June 2024]
- Central Government
  - State Government
  - RBI
  - Finance Commission
15. Which of the following Article of the constitution demarcates the powers of the union and the state by classifying their powers into three lists?
- Article 244
  - Article 245
  - Article 246
  - Article 247
16. On which of the following items, the State Government cannot levy taxes?
- Lands and Buildings
  - Electricity
  - Vehicles
  - Capital Value of assets
17. Which Article provides for a institutional mechanism, namely the Finance commission, for recommending the sharing of taxes?
- Article 277
  - Article 278
  - Article 279
  - Article 280
18. On which date, the GST was rolled out across the country?
- 1st April, 2017
  - 1st July, 2017
  - 1st January, 2018
  - 1st July, 2018
19. GST compensation is given:
- 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
20. As per the Supreme Court verdict in May 2022.
- The union has greater powers than the states for enacting GST laws
  - The union and state legislatures have "equal, simultaneous powers" to make laws on Goods and Services Tax
  - The union legislature's enactments will prevail in case of a conflict between those of union and states
  - The state legislatures can make rules only with the permission of central government



### Why do Markets Fail?

21. Which one of the following is incorrect about the term "externalities" in relation to market failure?
- (A) Externalities are costs which are reflected in free market prices
  - (B) Externalities are also referred to as third party effects
  - (C) Negative externalities occur when the action of one party imposes costs on another party
  - (D) Positive externalities occur when the action of one party confers benefits on another party
22. Externalities leads to market failure because [June 2024]
- (A) They always result in negative outcomes for markets causing market failure
  - (B) They represent cost or benefit which are not reflected in the market price
  - (C) They are always associated with public goods and services
  - (D) They prevent the production of private goods harming mankind.
23. Which one of the following would you suggest for reducing negative externality?
- (A) Production subsidies
  - (B) Excise duty
  - (C) Pigouvian taxes
  - (D) All of the above
24. A Pigouvian subsidy:
- (A) Cannot be present when externalities are present
  - (B) Is a good solution for negative externality as prices will increase
  - (C) Is not measurable in terms of money and therefore not practical
  - (D) May help production to be socially optimal when positive externalities are present

25. What is the correct relationship between social cost and private cost?
- (A)  $\text{Social cost} = \text{Private cost} - \text{External Cost}$
  - (B)  $\text{Social cost} = \text{Private cost} + \text{External Cost}$
  - (C)  $\text{Private cost} = \text{Social Cost} + \text{External Cost}$
  - (D)  $\text{External Cost Private Cost} = \text{Social Cost}$

### Public Goods

26. Which economist developed the theory of public goods?
- (A) Paul A. Samuelson (B) Jean Baptist Say
  - (C) J.R. Hicks (D) None of these
27. A public good is also called as \_\_\_\_\_.
- (A) Collective Consumption goods
  - (B) Social goods
  - (C) Both (A) and (B)
  - (D) None of above
28. The free rider problem arises because of:
- (A) Ability of participants to produce goods at zero marginal cost
  - (B) Marginal benefit cannot be calculated due to externalities present
  - (C) The good or service is non excludable.
  - (D) General poverty and unemployment of people.

### Government Inventions to Minimise Market Failure (Due to Market Power and Externalities)

29. When smoking is completely banned by the government in public places like bus stand, schools, parks etc., then it is an example of \_\_\_\_\_. [June 2024]
- (A) Direct control on negative production externality
  - (B) Direct control on positive production externality
  - (C) Command solution
  - (D) Direct control on positive consumption externality.



30. What are Pigouvian taxes?
- (A) Pollution Taxes
  - (B) Corruption Levy Tax
  - (C) Penalty an over/under production
  - (D) Anti-profiteering tax

**Government Intervention in the Case of Merit-Demerit and Public Goods**

31. Which of the following is not an example of Demerit goods?
- (A) Cigarettes
  - (B) Alcohol
  - (C) Medical use of Alcohol
  - (D) Intoxicating drugs
32. Demerit goods are goods which are believed to be:
- (A) Socially desirable
  - (B) Socially Undesirable
  - (C) Having positive externalities
  - (D) None of above
33. Direct provision of a \_\_\_\_\_ by the government can help to over-come the free-rider problem which leads to market failure.
- (A) Public goods
  - (B) Private goods
  - (C) Demerit goods
  - (D) Goods with negative externalities

**Price Intervention: Non - Market Pricing**

34. Which of the following is Not a price intervention in the form of price controls by the Government?
- (A) Fixation of minimum wages
  - (B) Rent controls
  - (C) Price floor or price ceiling
  - (D) Pollution taxes

35. With the objective of ensuring stability in prices and distribution, governments often intervene in grain markets through:
- (A) Building and maintenance of Buffer stocks
  - (B) Price ceilings
  - (C) Price floor
  - (D) None of the above

**Government Intervention (For Correcting Information Failure and For Equitable Distribution)**

36. In Order to bring equity and fair. ness in the society, the government intervenes to redistribute incomes. Which one of the following is NOT an example of such policy?
- (A) Social Security Schemes
  - (B) Job reservations
  - (C) Unemployment Compensation
  - (D) Setting advertising standards to make advertising more responsible, information and less per-suasive

**Unit 3: The Process of Budget Making: Sources of Revenue, Expenditure Management and Management of Public DEBT**

**Introduction to Indian Union Budget**

37. Which Article of the Constitution of India requires the Government to present Union budget?
- (A) Article 111
  - (B) Article 112
  - (C) Article 113
  - (D) Article 114

**The Process of Budget Making**

38. The budget is prepared by the Ministry of Finance in consultation with \_\_\_\_\_.
- (A) Finance commission
  - (B) Niti Aayog
  - (C) Relevant Ministry
  - (D) Both (B) and (C)





39. Which of the following is a part of Annual Financial Statement?

- (A) Consolidated fund (B) Contingency fund  
(C) Public Account (D) All of the above

40. Which of the following is/are charged on the consolidated fund of India but are not subject to the vote of parliament?

- (A) Emoluments and allowances of the President of India  
(B) Emoluments of Judges of Supreme Court  
(C) Emoluments of High Ranking personnel of Constitutional bodies across India  
(D) All of the above

41. Which of the following is a statement submitted along with the bud. get as a requirement of FRBM Act.

- (A) Annual Financial Statement  
(B) Macro-Economic Framework Statement  
(C) Medium- Term Fiscal Policy cum Fiscal Policy Strategy Statement  
(D) (B) and (C) above

42. In how many days of its introduction, pass the parliament has to pass the finance Bill?

- (A) Within 50 days (B) Within 60 days  
(C) Within 75 days (D) Within 80 days

43. On the last day of the days allotted for discussion on the demands for grants, the speaker put all the outstanding demands for grants to the vote of the house. What is this process called?

- (A) Budgeting  
(B) Appropriation  
(C) Guillotine  
(D) None of these

### Sources of Revenue

44. What is the statutory board through which the Department of Revenue exercises control in respect of Matters relating to all the direct and indirect union taxes?

- (A) CBDT  
(B) CBEC  
(C) CBDT and CBEC  
(D) CBDT and CBIC

45. As regards levy and collection which of the following taxes fall within the purview of CBIC?

- (A) GST  
(B) GST and Customs  
(C) GST, Customs and Central Excise Duties  
(D) All direct taxes

46. Which of the following is NOT a part of revenue receipts of the Government? [June 2024]

- (A) Tax Revenue (B) Non-Tax revenue  
(C) Debt receipts (D) All of the above

47. Non-debt capital receipts:

- (A) Do not add to the assets of the government and therefore not treated as capital receipts  
(B) Are those that do not create any future repayment burden for the government  
(C) Are those that create future liabilities for the government  
(D) Facilitate capital investments at low cost

48. Government borrowings from foreign governments and institutions:

- (A) Capital receipt  
(B) Revenue receipt  
(C) Accounts for fiscal deficit  
(D) Any of the above depending on the purpose of borrowing



**Instruction:** Read the Following and answer the questions 49 to 51

The following table relates to the revenue and expenditure figures of a hypothetical economy

*In ₹ lakh Crores*

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

49. The capital receipts are:

- (A) 23.5 (B) 19.7  
(C) 11.3 (D) None of the above

50. Revenue deficit is:

- (A) 23.6 (B) 13.0  
(C) 7.0 (D) 2.6

51. The non-debt capital receipts of this country is:

- (A) 45.1 (B) 16.7  
(C) 15.8 (D) None of the above

#### **Public Expenditure Management**

52. Which department of the minis-try of finance is the nodal department for overseeing the public financial management system in the Central Government?

- (A) Department of Revenue  
(B) Department of Taxation  
(C) Department of Expenditure  
(D) Department of Revenue and Expenditure

53. Which of the following comes under the responsibility of the Department of Expenditure?

- (A) Implementation of recommendation of finance commission  
(B) Monitoring of audit comments/observations  
(C) Controlling the costs and prices of public services  
(D) All of the above

#### **Public Debt. Management**

54. Which of the following institution is responsible for public debt management?

- (A) Reserve Bank of India  
(B) Ministry of Finance  
(C) Both (A) and (B)  
(D) None of the above

55. Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as:

- (A) RBI credit to states  
(B) Commercial credit of RBI  
(C) Ways and Means Advances (WMA)  
(D) Short-term facility

56. 'Retail Direct' scheme is:

- (A) Initiated by the Reserve Bank of India  
(B) Facilitate investment in government securities by individual investors  
(C) Direct sale of goods and services by government departments  
(D) Both (A) and (B) are correct

57. In which Year, The Public Debt Management Cell (PDMC) was created under the Department of Economic Affairs?

- (A) 2003 (B) 2015  
(C) 2016 (D) none of these



### Types of Budgets

58. The revenue deficit for country A is:  
 (A) 5,000 (B) 24,000  
 (C) 4,500 (D) None of the above
59. Fiscal deficit of country A is:  
 (A) 14,000 (B) 24,000  
 (C) 23,500 (D) None of the above
60. Primary deficit of Country A is:  
 (A) 26,000 (B) 26,500  
 (C) 22,000 (D) 24,500
61. How the primary deficit is determined?  
 (A) Fiscal Deficit-Net interest liabilities  
 (B) Fiscal Deficit - Interest Payments  
 (C) Fiscal Deficit - Interest Receipts  
 (D) None of these

### Unit-4: Fiscal Policy

#### Concept and Objectives of Fiscal Policy

62. Which of the following is/are the most common objectives of fiscal policy?  
 (A) Achievement and maintenance of full employment  
 (B) Maintenance of price stability and acceleration of the rate of economic development  
 (C) Equitable distribution of income and wealth  
 (D) All of the above
63. What may be the priorities of developing nations as regards objectives of fiscal policy?  
 (A) Stability  
 (B) Stability and Growth  
 (C) Equity  
 (D) Employment and Equity

### Types of Fiscal Policy

64. While resorting to expansionary fiscal policy:  
 (A) The government may possibly have a budget surplus as increased expenditure will bring more out-put and more tax revenue  
 (B) The government may run into budget deficits because tax cuts reduce government income and the government expenditures exceed tax revenues in a given year  
 (C) It is important to have a balanced budget to avoid inflation and bring in stability  
 (D) None of the above will happen
65. Contractionary fiscal policy:  
 (A) Is resorted to when government expenditure is greater than tax revenues of any particular year  
 (B) Increase the aggregate demand to sustain the economy  
 (C) To increase the disposable income of people through tax cuts and to enable greater demand  
 (D) Is designed to restrain the levels of economic activity of the economy during an inflationary phase
66. Contractionary Fiscal policy works through:  
 (A) Decrease in Government Spending  
 (B) Increase in personal income tax / Business taxes  
 (C) Combination of (A) and (B)  
 (D) Increase in Government Spending and decrease in personal income tax.

### The Instruments of Fiscal Policy

67. Which of the following is included in Government Expenditure?  
 (A) Current expenditures to meet the day-to-day running of the government  
 (B) Capital Expenditures  
 (C) Transfer Payments  
 (D) All of the above



68. An increase in personal income taxes:
- (A) Reduces disposable incomes leading to fall in consumption spending and aggregate demand
  - (B) Is desirable during inflation or when there is excessive levels of aggregate demand
  - (C) Is to compensate the deficiency in effective demand by boosting aggregate spending
  - (D) Both (A) and (B) are correct

**Fiscal policy for long-run Economic Growth and for reduction inequalities of income and wealth**

69. Fiscal policy is a chief instrument available for governments:
- (A) To influence income distribution
  - (B) In reducing inequality
  - (C) In achieving equity and social justice
  - (D) All of above are correct

**Limitations of Fiscal policy**

70. 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
71. Which of the following is NOT a type of lags involved in fiscal-policy action? [June 2024]
- (A) Recognition Lag
  - (B) Decision Lag
  - (C) Implementation Lag
  - (D) Progressive Lag

72. Which of the following lag occurs when the outcomes of a policy are not visible for sometime?
- (A) Impact Lag
  - (B) Decision Lag
  - (C) Recognition Lag
  - (D) Artificial Lag
73. Which one of the following lag is involved in fiscal -policy action under a democratic setup?
- (A) Recognition Lag
  - (B) Implementation Lag
  - (C) Decision Lag
  - (D) Impact Lag
74. During deep recessions crowd. ing-out is less likely to happen as private sector investment is al. ready minimal. Therefore, there is \_\_\_\_\_ to crowd out.
- (A) Only insignificant private spending
  - (B) Only insignificant public spending
  - (C) Only significant private spending
  - (D) Only significant public spending
75. Which of the following statement is true in respect of Social cost?
- (A)  $\text{Social Cost} = \text{Private Cost} + \text{External Cost}$
  - (B)  $\text{Social Cost} = \text{Private Cost} + \text{External Cost} - \text{Total Negative Externalities}$
  - (C)  $\text{Social Cost} = \text{Private Cost} + \text{External Cost} - \text{Government Taxes}$
  - (D)  $\text{Social Cost} = \text{Private Cost} + \text{Total Negative Externalities} - \text{Government Taxes}$
76. Which of the following is not a characteristic of Public Goods?
- (A) Non-rival in consumption
  - (B) Indivisibility
  - (C) More vulnerable to externalities
  - (D) Excludable



77. What does the term “lemon” means in the model of “Lemons problem” developed by “George Akeil of” in relation to used car market:-
- Only good quality used cars
  - Both poor and good quality used cars
  - Average quality used cars
  - Scrapped use cars
78. Which of the following is one of the key functions of fiscal policy and aims at eliminating the macroeconomic fluctuations arising from sub optimal allocation of resources?
- The Allocation Function
  - The Redistribution Function
  - The Stabilization Function
  - The Utilization Function
79. Article 112 of Indian Constitution provides that in respect of every financial year the President shall cause to be laid before both houses of the parliament a statement of estimated receipts and expenditure of the government of India for that year. This statement is referred as:
- Budget
  - Annual Financial Statement
  - Statement of Income and Expenditure
  - Interim Budget
80. Which of the following information regarding the receipts and expenditure of the Government is not presented in the budget documents?
- Budget estimates of Current financial year
  - Budget estimates of the Ensuing financial year
  - Revised estimates of the Ensuing financial year
  - Actual expenditure and Income of Current financial year
81. Which of the following is the nodal department for overseeing the public financial management system in the Central Government?
- NITI Aayog
  - Department of Revenue under Finance Ministry
  - Department of Expenditure under Finance Ministry
  - Reserve Bank of India
82. The statutory disclaimer that “Mutual Fund investments are subject to market risk please read the offer documents carefully before investing” is which of the following type of government intervention?
- Government intervention to correct externalities
  - Government intervention for equitable distribution
  - Government intervention to correct information failure
  - Government intervention in case of public goods
83. Which of the following is not true regarding the fiscal policy of Government?
- It is deliberate policy of Government
  - An economy producing full employment does not require Government action in the form of fiscal policy
  - Taxation policy is part of Fiscal policy
  - Fiscal Policy is supply side policy
84. During the Budget proceedings, the speaker of Lok Sabha once the prescribed time is over, puts all the outstanding demand for grants, whether discussed or not, to the vote of the house, this process is known as:
- Cut Motion
  - Presenting the appropriation bill
  - Outcome Budget
  - Guillotine



## Answer Key

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



## Hints and Solution

1. (B)

2. (D)

3. (D)

4. (C)

The allocation and distribution functions are primarily macroeconomic functions, while stabilization is a macroeconomic function.

5. (B)

6. (D)

7. (C)

8. (C)

9. (A)

10. (A)

11. (C)

12. (A)

13. (B)

14. (D)

15. (C)

16. (D)

17. (D)

18. (B)

19. (C)

20. (B)

21. (A)

22. (B)

23. (C)

24. (D)

25. (B)

26. (A)

27. (C)

28. (C)

29. (C)

30. (A)

31. (C)

32. (B)

33. (A)

34. (D)

35. (A)





36. (D)

Option (D) is not the government intervention for equitable distribution such advertising standard are infact for correcting information failure.

37. (B)

38. (D)

39. (D)

40. (D)

41. (D)

42. (C)

43. (C)

44. (D)

45. (C)

46. (C)

47. (B)

48. (A)

49. (A)

50. (C)

51. (B)

52. (C)

53. (D)

54. (C)

55. (C)

56. (A)

57. (C)

58. (C)

59. (B)

60. (C)

61. (A)

62. (D)

63. (B)

64. (B)

65. (D)

66. (C)

67. (D)

68. (D)

69. (D)

70. (C)

71. (D)

72. (A)

73. (B)

Implementation lag occurs when appropriate policy measures are decided on, but there are possible delay in bringing in legislation and implementing them on account of bureaucracy. This is specially so under a democratic Setup.



74. (A)

80. (C)

75. (A)

81. (C)

76. (D)

82. (C)

77. (C OR D)

83. (B)

78. (C)

84. (D)

79. (B)



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# CA Foundation Sampurna September 2025

## Money Market

Notes

### Unit 1 :

#### The Concept of Money Demand: Important Theories

1. Fiat money is materially \_\_\_\_\_ but has \_\_\_\_\_ simply because a nation collectively agreed to ascribe a value to it.

- (a) Worthless, value
- (b) Valuable, worthless
- (c) Transparent, liquid
- (d) Liquid, exchangeability

2. Which of the following is Not a Part of general characteristics that money should possess in order to make it serve its function as money?

- (a) Generally Acceptable and possessing uniformity
- (b) Durable or long-lasting
- (c) Portable and effortlessly recognizable
- (d) Easily counterfeit able

3. Choose the incorrect statement.

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

#### The Demand for Money

4. Demand for money is:

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

5. Higher the \_\_\_\_\_ higher would be \_\_\_\_\_ of holding cash and lower will be the \_\_\_\_\_.

- (a) Demand for money, opportunity cost, interest rate
- (b) Price level, opportunity cost, interest rate
- (c) Real income, opportunity cost, demand for money
- (d) Interest rate, opportunity cost, demand for money

6. The transitionary demand for money is directly proportional to and is a positive function of

[June 2024]

- (a) Level of price
- (b) Level of income
- (c) Level of demand
- (d) Level of interest rate

7. The quantity which people desire to hold is \_\_\_\_\_ the income. proportional to

- (a) Directly
- (b) Inversely
- (c) Regressive
- (d) None of these

8. The Demand for money depends upon prevailing price level. \_\_\_\_\_ the prices, \_\_\_\_\_ should be the holding of money.

- (a) Lower, Higher
- (b) Higher, Lower
- (c) Higher, Higher
- (d) Lower, Lower

9. Which of the following innovations, has reduced the need for holding liquid money?

- (a) Internet Banking
- (b) Application based transfer
- (c) Automated Teller Machines
- (d) All of the above



10. The rate of interest is crucial factor on which demand for money depends on. The demand for money is \_\_\_\_\_ proportional to the interest rate
- (a) Directly (b) Inversely  
(c) Progressively (d) None of the above

#### Theories of Demand for money

11. Which theory was propounded in the book "The Purchasing power of money"?
- (a) Quantity theory of money  
(b) Cash Balance Approach  
(c) Keynesian theory of Demand for money  
(d) None of these
12. Which are of the following is the expanded form of Fisher's equation of exchange?
- (a)  $MV = PT$   
(b)  $MV + M'V' = P'T'$   
(c)  $MV = PT + PT$   
(d)  $MV + M'V' = PT + P'T'$

#### Measurement of money supply

13. If Velocity = 20, Average Price = 120 and volume of transactions  $T = 150$  Cr then money supply will be [June 2024]
- (a) 2500 Cr (b) 25 Cr  
(c) 900 Cr (d) 1000 Cr
14. As per fisher's expanded quantity theory of money, the total value of transactions made is equal to \_\_\_\_\_ and the value of money flow is equal to \_\_\_\_\_.
- (a)  $MV: PT$  (b)  $PT, MV$   
(c)  $PT; MV + M'V'$  (d)  $MV + M'V'; PT$

15. The Cambridge equation is:  $M^d = K.P.Y$ . In above equation, \_\_\_\_\_ is exogenous.
- (a)  $M^d$  (b)  $K$   
(c)  $P$  (d)  $Y$

16. The Cambridge money demand function is stated as follows:

$$M_d = KPY.$$

In this equation, PY stands for:

- (a) National Income  
(b) Real National Income  
(c) Nominal Income  
(d) Real Income.
17. In Cambridge money demand function, \_\_\_\_\_ is a parameter reflecting the proportion of national income (PY) that people want to hold as cash balance:
- (a)  $M_d$   
(b)  $K$   
(c)  $P$   
(d)  $Y$
18. Real money is:
- (a) Nominal money adjusted to the price level  
(b) Real national income  
(c) Money demanded at given rate of interest  
(d) Nominal GNP divided by price level
19. The Keynesian Theory of Demand for money is also called as:
- (a) Demand Preference Theory  
(b) Liquidity Preference Theory  
(c) Preference Demand Theory  
(d) Preference Liquidity Theory
20. People's desire to hold cash in order to be equipped to exploit any attractive investments opportunity requiring cash expenditure reflects \_\_\_\_\_ [June 2024]
- (a) Transaction Motive  
(b) Speculative motive  
(c) Precautionary motive  
(d) Personal and business exchange



21. According to John Maynard Keynes, the transactions demand for money depends only on the \_\_\_\_\_ and not influenced by the \_\_\_\_\_.  
 (a) Rate of Interest, level of Income  
 (b) Level of Income, Rate of Interest  
 (c) Psychology of individual, Real Income  
 (d) Psychology of individual, Rate of Interest
22. The precautionary money balances people want to hold \_\_\_\_\_.  
 (a) As income elastic and not very sensitive to rate of interest  
 (b) As income inelastic and very sensitive to rate of interest  
 (c) Are determined primarily by the level of transactions they expect to make in the future  
 (d) Are determined primarily by the current level of transactions
23. Prof. J.M. Keynes regarded the Precautionary balances as income \_\_\_\_\_ and by itself not very sensitive to \_\_\_\_\_.  
 (a) Elastic, rate of interest  
 (b) Inelastic, rate of interest  
 (c) Elastic, level of income  
 (d) Inelastic, level of income
24. Speculative demand for money \_\_\_\_\_.  
 (a) Is not determined by interest rates  
 (b) Is positively related to interest rates  
 (c) Is negatively related to interest rates  
 (d) Is determined by general price level
25. Under liquidity preference theory, Keynes assumed that the expected return on money is \_\_\_\_\_ while the expected return on bonds are \_\_\_\_\_ and \_\_\_\_\_.  
 (a) Zero, interest payment, expected rate of capital gain  
 (b) One, interest payment, expected rate of capital gain  
 (c) Zero, fixed interest, fixed loss  
 (d) None of the above
26. According to Keynes, if the current interest rate is high:  
 (a) People will demand more money because the capital gain on bonds would be less than return on money  
 (b) People will expect the interest rate to rise and bond price to fall in the future  
 (c) People will expect the interest rate to fall and bond price to rise in the future  
 (d) Either (a) or (b) will happen
27. Under liquidity preference theory, if the current rate of interest is lower than the critical rate of interest, his asset portfolio would consist \_\_\_\_\_.  
 (a) Only government bonds  
 (b) Wholly of cash  
 (c) Both cash and bonds equally  
 (d) Either cash or bonds
28. \_\_\_\_\_ is an adverse economic situation that can occur when consumers and investors hoard cash rather than spending or investing it even when interest rates are low.  
 (a) Liquidity trap (b) Monetary trap  
 (c) Precautionary trap (d) Stimulus trap
29. What does the concept of liquidity trap mean?  
 [June 2024]  
 (a) Liquidity trap is a situation where the desire to hold bonds is very low and approaches zero; and the demand to hold money in liquid form as an alternative approaches infinity  
 (b) Even if the public fear adverse events (deflation, war), then they prepare to hold only bonds at a give rate of interest.  
 (c) The speculative money demand curve becomes parallel to the Y axis  
 (d) None



30. In the situation of liquidity trap, the monetary authority is \_\_\_\_\_ to stimulate the economy with monetary policy.

- (a) Unable (b) Able  
(c) Perfectly able (d) Very effective

### Post Keynesian Developments in the Theory of demand for Money

31. The inventory-theoretic approach to the transactions demand for money \_\_\_\_\_.

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

32. According to Baumol which of the following formula can be used to calculate the average amount of cash withdrawal which minimizes cost?

- (a)  $C = \sqrt{2byr}$   
(b)  $C = \sqrt{\frac{2by}{r}}$   
(c)  $C = \sqrt{\frac{byr}{2}}$   
(d)  $C = \sqrt{\frac{2br}{y}}$

33. The nominal demand for money rises if:

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

34. As per Milton Friedman's re-statement of the quantity Theory, the nominal demand for money is a function of \_\_\_\_\_, which is represented by permanent income divided by the \_\_\_\_\_ rates, defined as the average return on the \_\_\_\_\_ asset classes in the monetarist theory world.

- (a) Total wealth, discount, five  
(b) Total wealth, Interest, five  
(c) Permanent wealth, Interest, six  
(d) None of these

35. Under Friedman's Quantity theory, the nominal demand for money is \_\_\_\_\_ related to the price level.

- (a) Negatively (b) Positively  
(c) Regressively (d) Not

36. According to James Tobin's theory, an individual's behaviour shows risk aversion, which means they prefer \_\_\_\_\_ risk to \_\_\_\_\_ risk at a given rate of return.

- (a) Less, more (b) More, less  
(c) Less, positive (d) More, negative

37. The demand for money as behavior towards "aversion to risk" was propounded by:

- (a) Fisher (b) Marshall  
(c) Friedman (d) Tobin

## UNIT 2 : CONCEPT OF MONEY Supply

### Money Supply : Rationale and Sources

38. Money Supply is a \_\_\_\_\_ variable.

- (a) Flow (b) Stock  
(c) Both (a) and (b) (d) None of the above

39. Money Supply does not include stock of money held by the \_\_\_\_\_ as well as \_\_\_\_\_ of country.

- (a) Public, government  
(b) Public, banking system  
(c) Government, banking system  
(d) Public, banks



40. Which one of the following is the feature of money supply?

- (a) Money includes money held by public only
- (b) Money does not include money-creating sector (suppliers of money)
- (c) Money is a stock concept, as it is concerned with a particular point of time
- (d) All of the above

41. Choose the correct statement from the following:

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

42. The primary source of money supply in all countries is:

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

43. Under the 'minimum reserve system' the central bank is \_\_\_\_\_.

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

44. Which of the following is a fiat money?

[June 2024]

- (a) Gold Coins
- (b) Silver Coins
- (c) Currency Notes
- (d) Gold coins, Silver Coins as well as currency notes

45. The currency issued by the Central Bank is "FIAT MONEY" and is backed by supporting \_\_\_\_\_ and its value is guaranteed by the \_\_\_\_\_.

- (a) Currency, central Bank
- (b) Currency, government
- (c) Reserves, government
- (d) Reserves, central bank

46. "Money" consists of currency and \_\_\_\_\_, while "High Powered Money". Consists of currency and \_\_\_\_\_.

- (a) Demand deposits, cash reserves with banks
- (b) Cash reserves with Banks, demand Deposits
- (c) Public money, paper money
- (d) Paper money, public money

### Measurement of Money Supply

47. Calculate broad money M3? [June 2024]

- (a) Currency with public + demand deposits with banks
- (b) Currency with public + demand deposits with banks = net time deposit with the banking system
- (c) Currency with public + Savings with government banks
- (d) Currency with public + Demand Deposits with banks + other deposits with RBI

48. Reserve money is also known as.

- (a) Central bank money
- (b) Base money
- (c) High powered money
- (d) All of the above





49. Reserve Money is composed of:

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

50.  $M_1$  is the sum of:

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

51. Consider the following data and answer.

Currency with Public	₹ 45,000 Cr.
Demand Deposit with Banking System	₹ 1,00,000 Cr.
Time Deposits with Banking System	₹ 1,10,000 Cr.
Other deposit with RBI	₹ 1,40,000 Cr.
Saving Deposits of Post Office Saving Banks	₹ 30,000 Cr.

What is the amount of Narrow Money ( $M_1$ )?

- (a) ₹ 2,85,000 crores
- (b) ₹ 3,15,000 crores
- (c) ₹ 3,95,000 crores
- (d) None of the above

52. Consider the following data and answer.

Currency with Public	₹ 45,000 Cr.
Demand Deposit with Banking System	₹ 1,00,000 Cr.
Time Deposits with Banking System	₹ 1,10,000 Cr.
Other deposit with RBI	₹ 1,40,000 Cr.
Saving Deposits of Post Office Saving Banks	₹ 30,000 Cr.

The calculated value of  $M_2$  is \_\_\_\_\_

- (a) ₹ 2,85,000 crores
- (b) ₹ 3,95,000 crores
- (c) ₹ 3,15,000 crores
- (d) None of the above

53. Consider the following data and answer.

Currency with Public	₹ 45,000 Cr.
Demand Deposit with Banking System	₹ 1,00,000 Cr.
Time Deposits with Banking System	₹ 1,10,000 Cr.
Other deposit with RBI	₹ 1,40,000 Cr.
Saving Deposits of Post Office Saving Banks	₹ 30,000 Cr.

The value of  $M$ , will be \_\_\_\_\_

- (a) ₹ 2,85,000 crores
- (b) ₹ 3,95,000 crores
- (c) ₹ 3,15,000 crores
- (d) None of the above

54. Consider the following data (crore)?

Notes in circulation	26,09,005
Circulation of Rupee Coin	40,715
Circulation of Small Coins	1,080
Cash on hand and Bank	99,200

What is the currency with the Public?

- (a) ₹ 26,09,005 crores
- (b) ₹ 26,49,720 crores
- (c) ₹ 26,50,800 crores
- (d) ₹ 25,51,600 crores



55. Calculate currency with public [June 2024]

Particulars	(₹) in crores
Notes with public in circulation	23,26,500
Currency of small coins in circulation	500
Currency of rupee coins in circulation	34,500
Cash in hand with banks	80,615

- (a) 22,80,885 Crores (b) 24,42,115 Crores  
(c) 22,45,885 Crores (d) 23,62,000 Crores

56. Consider the following data:

$M_1$  ₹ 42,90,550 crores

$M_2$  ₹ 44,42,695 crores

Calculate the value of Post Office Saving Bank Deposits.

- (a) ₹ 87,33,245 (b) ₹ 1,52,145  
(c) ₹ 3,04,290 (d) None of these

#### Money Multiplier Approach

57. Money Multiplier means [June 2024]

- (a) It decreases the total money supply for a given monetary base  
(b) It dictates interest rates set by RBI  
(c) The ratio of money supply to monetary base  
(d) It controls amount of gold reserves held by bank

58. The money multiplier will be large:

- (a) For higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)  
(b) For constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)  
(c) For lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)  
(d) None of the above

59. The required reserved ratio is 10% for every ₹ 2,00,000 deposited in the banking system. What will be the Credit Multiplier and Credit Creation?

- (a) 10, ₹ 20,00,000 (b) 10, ₹ 20,000  
(c) 8, ₹ 20,00,000 (d) 8, ₹ 20,000

60. For initial deposit of ₹ 5,00,000, the credit creation is calculated at ₹ 40,00,000. What is RRR (Required Reserved Ratio)?

- (a) 8  
(b) .08  
(c) 12.5%  
(d) Cannot be calculated

61. When there are excess reserves, the money multiplier (m) is expressed as \_\_\_\_\_.

- (a)  $m = \frac{1+c}{r+e+c}$  (b)  $m = \frac{1+r}{r+e+c}$   
(c)  $m = \frac{1+e}{r+e+c}$  (d)  $m = \frac{c}{r+e+c}$

62. Which formula is used to find -out Money Supply (m) where:

$r$  = required reserve ratio

$c$  = currency - deposit ratio (C/D)

$e$  = ratio of Excess Reserves to De. posits  $H$  = Stock of high powered money

- (a)  $M = \frac{1+c}{r+e+c} + H$   
(b)  $M = \frac{1+C}{r+e+c} \times H$   
(c)  $M = \frac{1+H}{r+e+c} + C$   
(d)  $M = \frac{1+H}{r+e+c} \times C$

63. If  $M$  is the money supply,  $m$  is the money multiplier and  $MB$  is the monetary base or high-powered money, then which of the following equation is correct?

- (a)  $MB = M \times m$   
(b)  $m = MB \times M$   
(c)  $M = MB \times m$   
(d)  $M = MB \div m$



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

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

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

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

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

- (a) The currency ratio
- (b) The excess reserve ratio (*e*)
- (c) The credit multiplier
- (d) The currency ratio (*c*)

67. Consider the following data:

Required Reserve Ratio	10 Per cent
Currency in circulation	₹ 400 Billion
Demand Deposits	₹ 1000 Billion
Excess Reserves	₹ 1 Billion

The value of money multiplier will be \_\_\_\_\_.

- (a) 1.74
- (b) 2.74
- (c) 1.79
- (d) 2.79

68. The \_\_\_\_\_ the reserve of ration, the \_\_\_\_\_ of each deposit bank loan out and the \_\_\_\_\_ the money multiplier.

- (a) Higher, less, smaller
- (b) Higher, high element, smaller
- (c) Smaller, less, smaller
- (d) None of these

69. Under the fractional reserve system:

- (a) The money supply is an increasing function of reserve money (or high powered money) and the money multiplier
- (b) The money supply is an decreasing function of reserve money (or high powered money) and the money multiplier
- (c) The money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier
- (d) None of the above as the determinants of money supply are different

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

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

71. The Money Multiplier is a function of the current ratio which depends on the :

- (a) Behaviour of the public
- (b) Excess reserve ratio of the banks
- (c) Required reserve ratio set by the Central Bank
- (d) All of the above

72. Excess reserves ratio (*e*) is \_\_\_\_\_ related to the market interest ratio (*i*).

- (a) Positively
- (b) Negatively
- (c) Uniformly
- (d) Not

### The Money Multiplier Approach to Supply of Money

73. The Money multiplier approach to money supply was propounded by \_\_\_\_\_.

- (a) Milton Friedman
- (b) Milton Friedman and Anna Schwartz
- (c) Milton Friedman and Irvin fisher
- (d) Milton Friedman and Marshall



74. The Money Multiplier and the money supply are \_\_\_\_\_ related to the ratio of currency to deposits (c) *i.e.* C/D.

- (a) Negatively (b) Positively  
(c) Not (d) Progressively

75. Considering all other variables remain the same, If ratio of cash re-serves to deposits (reserve ratio) increases, then \_\_\_\_\_ will decrease.

- (a) Deposits  
(b) Money Supply  
(c) Reserves  
(d) High-powered money

76. When reserve ratio (r) is 8%, the money multiplier is calculated at 12.58. If the reserve ratio is increased - to 12%, the value of money multiplier will be \_\_\_\_\_.

- (a) Less than 2.58  
(b) More than 2.58  
(c) 2.58  
(d) Cannot be decided

#### Monetary Policy and Effect of Government Expenditure on - Money Supply

77. Open Market purchases of government securities by RBI will [June 2024]

- (a) Reduce the Money Supply  
(b) Reduce the reserves  
(c) Increase reserves  
(d) Reduce the reserves and there by reduces the money supply

78. The credit creation process by the banking system in the country will create money to the tune of  $\Delta \text{money supply} = \frac{1}{R} \times \Delta \text{Reserves}$ .

It holds true, when it assumed that \_\_\_\_\_.

- (a) Banks do not hold excess reserves  
(b) People do not hold more currency than before  
(c) There is demand for loans from businesses  
(d) All of the above

79. Whenever the Central and the State Government's cash balances fall short of the minimum requirement, they are eligible to avail of a facility. What is the name of that facility?

- (a) Ways and Means Advances (WMA)  
(b) Overdraft facility (OD)  
(c) Both (a) and (b)  
(d) None of the above

80. If required reserve ratio is 20%, then what will be credit multiplier?

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

81. What is the formula used to calculate credit Multiplier?

- (a)  $100 - \text{Required Reserve Ratio}$   
(b)  $100 + \text{Required Reserve Ratio}$   
(c)  $100 \times \text{Required Reserve Ratio}$   
(d)  $\frac{1}{\text{Required Reserve Ratio}}$

82. The credit multiplier is also referred to as the \_\_\_\_\_.

- (a) Deposit multiplier  
(b) Deposit expansion multiplier  
(c) Both (a) and (b)  
(d) None of the above

83. Which describes the amount of additional money created by commercial bank through the process of lending the available money it has in excess of the Central Banks reserve requirement?

- (a) Credit multiplier  
(b) Deposit multiplier  
(c) Deposit Expansion  
(d) All of the above

84. What will be the total deposit created if initial deposit is of ₹ 800 crores and required reserve ratio is 10%?

- (a) ₹ 80 crores (b) ₹ 800 crores  
(c) ₹ 8000 crores (d) None of these



85. The total deposits created by the commercial banks is ₹ 16,800 crores and the required reserve ratio is 12.5%. Calculate the amount of initial deposits.

- (a) ₹ 16,800 (b) ₹ 2,100  
(c) ₹ 18,900 (d) None of these

86. Initial Deposit of ₹ 1,521 crores lead to creation of total deposits of ₹12,168 crores by the commercial banks. What is required reserve ratio?

- (a) 15% (b) 12.5%  
(c) 10% (d) 7.5%

### UNIT 3: MONETARY POLICY

#### The Monetary Policy Framework

87. Expansionary monetary policy of government directs towards \_\_\_\_\_. [Dec. 2023]

- (a) Reduction in inflation  
(b) Rising of aggregate demand  
(c) Decline in employment rate  
(d) Increase in interest rates

88. Which of the following is not a channel of monetary transmission mechanism? [June 2024]

- (a) Savings and Investments Channel  
(b) Cash Flow Channel  
(c) Exchange rate Channel  
(d) International Trade Channel

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

- (a) Increases the cost of capital and the real cost of borrowing for firms  
(b) Increases the cost of capital and the real cost of borrowing for firms and households  
(c) Decreases the cost of capital and the real cost of borrowing for firms  
(d) Has no interest rate effect on firms and households

90. During deflation:

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

91. The analytics of monetary policy focus on the transmission mechanisms. Which of the following is included in such mechanism?

- (a) The interest rate channel  
(b) The exchange rate channel  
(c) The quantum channel and the asset price channel  
(d) All of the above

92. Which of the following statement is correct?

- (a) The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same  
(b) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself  
(c) When repo rates increase, it means that banks can now borrow money through Open Market Operations (OMO)  
(d) None of the above



- 93.** Which of the following Statements is incorrect?
- Quantitative instruments are general in nature
  - Quantitative instruments affects all the sectors making use of bank credit
  - Quantitative controls are designed to regulate the direction of credit
  - Quantitative Controls are also known as traditional methods of control
  - Selective credit control
- 94.** \_\_\_\_\_ is the interest rate at which RBI lends long-term funds to banks.
- Interest Rate
  - Bank Rate
  - Repo Rate
  - Marginal Rate
- 95.** RBI provides financial accommodation to the commercial banks through repos/reverse repos under:
- Market Stabilization Scheme (MSS)
  - The Marginal Standing Facility (MSF)
  - Liquidity Adjustment Facility (LAF)
  - Statutory Liquidity Ratio (SLR)
- 96.** In India, the term 'Policy rate' refers to:
- The bank rate prescribed by the RBI in its half yearly monetary policy statement
  - The CRR and SLR prescribed by RBI in its monetary policy statement
  - The fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)
  - The fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)
- 97.** \_\_\_\_\_ is a money market instrument, which enables collateralized short-term borrowing and lending through sale/purchase operations in debt instruments.
- OMO
  - CRR
  - SLR
  - Repo
- 98.** Reverse repo operation takes place when:
- RBI borrows money from banks by giving them securities
  - Banks borrow money from RBI by giving them securities
  - Banks borrow money in the overnight segment of the money market
  - RBI borrows money from the central government
- 99.** The Monetary Policy Frame-work Agreement is on \_\_\_\_\_.
- The maximum repo rate that RBI can charge from government
  - The maximum tolerable inflation rate that RBI should target to achieve price stability
  - The maximum repo rate that RBI can charge from the commercial banks
  - The maximum reverse repo rate that RBI can charge from the commercial banks
- 100.** An open market operation is an instrument of monetary policy which involves buying or selling of \_\_\_\_\_ from or to the public and banks.
- Bonds and bills of exchange
  - Debentures and shares
  - Government securities
  - None of these
- 101.** Monetary Policy Committee (MPC) determines the policy rate to achieve the inflation target through debate and majority vote by a panel of experts. How many members does this MPC consists of?
- Three members
  - Four members
  - Five members
  - Six members





**102.** Under \_\_\_\_\_ the Government of India borrows from the RBI (Such borrowing being additional to its normal borrowing requirements) and issues treasury bills/dated securities.

- (a) Market Stabilization Scheme (MSS)
- (b) Minimum Statutory Scheme (MSS)
- (c) Marginal Standing Facility (MSF)
- (d) Minimum Statutory Facility (MSF)

**103.** \_\_\_\_\_ is defined as an instrument for lending funds by purchasing securities with an agreement to resell the securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.

- (a) Reverse Repo      (b) Repo Rate
- (c) Bank Rate        (d) MSF

**104.** The Monetary Policy Frame-work Agreement is an agreement reached between the Government of India and the Reserve Bank of India (RBI) to keep the Consumer Price Index (CPI) inflation rate between \_\_\_\_\_.

- (a) 1 to 5 per cent      (b) 2 to 6 per cent
- (c) 3 to 5 per cent      (d) 4 to 6 per cent

**105.** Which of the following is not a characteristic of money? [Jan-2025]

- (a) Generally acceptable
- (b) Effortlessly Recognizable
- (c) Easily Transportable
- (d) Easily Reproducible by People

**106.** The currency issued by the Central Bank is known as \_\_\_\_\_ and is backed by supporting reserves and its value is a sovereign guarantee.

[Jan-2025]

- (a) Real Money
- (b) Credit Money
- (c) Fiat Money
- (d) Sovereign bonds

**107.** Considering that with a money multiplier of 1.5 there has been an increment of ₹ 600 cr. Of money supply. Find out the monetary base. [Jan-2025]

- (a) ₹ 800 cr.                      (b) ₹ 200 cr.
- (c) ₹ 400 cr.                      (d) ₹ 900 cr.

**108.** Calculate Narrow Money M1 from the following data. [Jan-2025]

Currency with public	₹ 88,000 cr.
Demand deposit with the banking system	₹ 2,20,000 cr.
Time deposit with the banking system	₹ 2,40,000 cr.
Othe deposits with RBI	₹ 2,60,000 cr.
Saving deposits with Post Office Saving Bank	₹ 50,000 cr.

- (a) ₹ 5,68,000 cr.      (b) ₹ 6,18,000 cr.
- (c) ₹ 5,98,000 cr.      (d) ₹ 6,38,000 cr.

**109.** Liquidity Adjustment Facility (LAF) was introduced by RBI on the basis of the recommendation of the \_\_\_\_\_ Committee on the reforms in banking sector. [Jan-2025]

- (a) Tandon                      (b) Narsimham
- (c) Chore                      (d) Basel

**110.** Money created by the commercial banks is called \_\_\_\_\_. [Jan-2025]

- (a) Real money
- (b) High powered money
- (c) Fiat Money
- (d) Credit Money

**111.** Under the concept of money supply, the term 'public' do not include \_\_\_\_\_. [Jan-2025]

- (a) Households
- (b) Institutions
- (c) Government and Banking system
- (d) Firms





**112.** Compute the total credit money created by the banking system if the required reserved ratio is 15% for every ₹ 12,00,000 deposited in the banking system? [Jan-2025]

- (a) ₹ 1,00,00,000
- (b) ₹ 80,00,000
- (c) ₹ 1,25,00,000
- (d) ₹ 1,50,00,000

**113.** Calculate currency with the public from the following data: [Jan-2025]

Notes in circulation	₹ 45,000 cr.
Circulation of rupee coins	₹ 1,500 cr.
Circulation of small coins	₹ 750 cr.
Cash on hand with banks	₹ 27,500 cr.

- (a) ₹ 74,750 cr.      (b) ₹ 19,750 cr.
- (c) ₹ 73,250 cr.      (d) ₹ 29,750 cr.

**114.** \_\_\_\_\_ is a penal rate at which RBI lends money to banks, above the rate available under the rep policy. [Jan-2025]

- (a) Marginal standing facility rate
- (b) Bank Rate
- (c) Repo Rate
- (d) Reverse repo rate

**115.** What is the term Y represent in the expression  $M_d = kPY$ ? [May-2025]

- (a) Real National Income
- (b) Price Level
- (c) Money Supply
- (d) Interest Rate

**116.** Banks availing Marginal Standing Facility Rate can use a maximum of much percentage of Statutory Liquidity Ratio Securities? [May-2025]

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

**117.** Calculate currency with public from following Data (₹ in lakhs) [May-2025]

Notes in Circulation	2,59,121
Coins in Circulation	23,345
Cash on hands with Banks	19,009
Coins on hands with Banks	909

- (a) ₹ 3,02,384
- (b) ₹ 2,62,548
- (c) ₹ 2,53,876
- (d) ₹ 2,15,858

**118.** What is the likely impact of an increase in the Time Deposit to Demand Deposit (TD/DD) ratio on the banking system and monetary expansion? [May-2025]

- (a) It leads to higher availability of free reserves and consequent enlargement of volume of multiple deposit expansion and monetary expansion.
- (b) It reduces the availability of free reserves, thereby restricting the process. of monetary expansion
- (c) It has no impact on the banking system as time deposits and demand deposits are interchangeable
- (d) It directly reduces the money supply as time deposits are not considered part of the money supply

**119.** Broad money includes currency deposits with an agreed maturity of up to 24 years, deposits redeemable at notice up to 3 months and repurchase agreements, money market fund shares/units and debt security up to 2 years. [May-2025]

- (a) 3 years, 6 months, 3 years
- (b) 2 years, 6 months, 2 years
- (c) 3 years, 3 months, 3 years,
- (d) 2 years, 3 months, 2 years



**120.** Which of the following is NOT included in M1 ?  
[May-2025]

- (a) Currency with the public
- (b) Demand deposits with banks
- (c) Time (term) deposits with banks
- (d) Other deposits with RBI

**121.** Liquidity trap occurs when : [May-2025]

- (a) Interest rates are high, and people prefer bonds over cash balances.
- (b) Interest rates are near zero, and people prefer holding cash over bonds.
- (c) Inflation rates are high, reducing purchasing power of money balances.
- (d) Central banks increase CRR drastically.

**122.** Which of the following is NOT a quantitative tool of monetary policy? [May-2025]

- (a) Cash Reserve Ratio (CRR)
- (b) Statutory Liquidity Ratio (SLR)
- (c) Open Market Operations OMO
- (d) Liquidity Adjustment Facility (LAF)

**123.** Which of the following expressions is true?  
[May-2025]

- (a)  $\text{Reverse Repo Rate} = \text{Repo Rate} - 1$
- (b)  $\text{Reverse Repo Rate} = \text{Repo Rate} + 1$
- (c)  $\text{Repo Rate} = \text{Reverse Repo Rate} - 1$
- (d)  $\text{Repo Rate} = 1 - \text{Reverse Repo Rate}$

**124.** Which of the following is NOT one of the four determinants of the Friedman's demand for money?  
[May-2025]

- (a) Nominal Demand for money is a function of total wealth
- (b) It is positively related to price level P, if price level rises the demand for money increases
- (c) Nominal demand for money falls if the opportunity costs of money holding declines
- (d) Nominal Demand for money is influenced by inflation



## Answer Key

1. (a)	32. (b)	63. (c)	200. (b)
2. (d)	33. (a)	64. (a)	201. (c)
3. (a)	34. (a)	65. (c)	202. (c)
4. (a)	35. (b)	66. (c)	203. (d)
5. (d)	36. (a)	67. (d)	204. (a)
6. (b)	37. (d)	68. (a)	205. (b)
7. (a)	38. (b)	69. (a)	206. (c)
8. (c)	39. (c)	70. (c)	207. (d)
9. (d)	40. (d)	71. (d)	208. (a)
10. (b)	41. (c)	72. (b)	209. (a)
11. (a)	42. (b)	73. (b)	210. (b)
12. (b)	43. (b)	74. (a)	19. (d)
13. (c)	44. (c)	75. (b)	20. (c)
14. (c)	45. (c)	76. (a)	21. (c)
15. (d)	46. (a)	77. (c)	22. (a)
16. (c)	47. (b)	78. (d)	25. (b)
17. (b)	48. (d)	168. (c)	26. (d)
18. (a)	49. (b)	171. (d)	27. (c)
19. (b)	50. (a)	172. (d)	28. (b)
20. (b)	51. (a)	173. (c)	29. (b)
21. (b)	52. (c)	174. (d)	30. (a)
22. (a)	53. (b)	175. (c)	42. (a)
23. (a)	54. (d)	176. (b)	43. (a)
24. (c)	55. (a)	177. (b)	44. (b)
25. (a)	56. (b)	182. (b)	46. (a)
26. (c)	57. (c)	187. (d)	47. (d)
27. (b)	58. (c)	188. (b)	48. (c)
28. (a)	59. (a)	189. (a)	49. (b)
29. (d)	60. (c)	190. (d)	50. (d)
30. (a)	61. (a)	191. (b)	51. (a)
31. (a)	62. (b)	192. (c)	53. (c)



## Hints and Solution

1. (a)

2. (d)

3. (a)

4. (a)

5. (d)

6. (b)

7. (a)

It is directly proportional because higher the income of individuals, higher the expenditure; richer people hold more money to finance their expenditure.

8. (c)

9. (d)

10. (b)

The opportunity cost of holding money is the interest rate a person could earn on other assets. Therefore, higher the interest rate, higher would be opportunity cost of holding cash and lower the demand for money. Thus, there is inverse relationship between the two.

11. (a)

12. (b)

13. (c)

14. (c)

15. (d)

16. (c)

17. (b)

18. (a)

19. (b)

20. (b)

21. (b)

22. (a)

23. (a)

24. (c)

25. (a)

26. (c)

27. (b)

28. (a)

29. (d)

30. (a)

In the situation of liquidity trap, the opportunity cost of holding money is zero. Therefore, even if the monetary authority increases money supply to stimulate the economy, people would prefer to hoard money. Consequently, excess funds may not be converted into new investment. Thus, liquidity trap is synonymous with ineffective monetary policy.



31. (a)

32. (b)

33. (a)

34. (a)

35. (b)

36. (a)

37. (d)

38. (b)

39. (c)

Money Supply does not include stock of money held by the Government as well as banking system of country because they are suppliers of money & money held by them is not treated as part of money supply.

40. (d)

41. (c)

42. (b)

43. (b)

44. (c)

45. (c)

46. (a)

47. (b)

48. (d)

49. (b)

50. (a)

51. (a)

$M_1 = \text{Currency with Public} + \text{Demand Deposits with banking system} + \text{Other deposit with RBI}$   
 $= 45,000 + 1,00,000 + 1,40,000$   
 $= ₹ 2,85,000 \text{ crores}$

$M_2 = M_1 + \text{Saving deposit with Post Office Saving Banking}$   
 $= 2,85,000 + 30,000 = ₹ 3,15,000 \text{ crores}$

$M_3 = M_1 + \text{Time Deposit with the Banking System}$   
 $= 2,85,000 + 1,10,000$   
 $= 3,95,000 \text{ crores}$

52. (c)

53. (b)

54. (d)

Currency with the Public  
 $= 26,09,005 + 40,715 + 1,080 - 99,200$   
 $= ₹ 25,51,600 \text{ Crores}$

55. (a)

Currency with the public = Notes with public +  
 Currency of small coins Currency of rupee coins -  
 Cash in hand with banks =  $23,26,500 + 500 +$   
 $34,500 - 80,615 = 22,80,885 \text{ Crores}$

56. (b)

$M_2 = M + \text{Post Office Saving Bank Deposits}$   
 $\Rightarrow \text{Post Office Saving Bank Deposit} = M_2 - M_1$   
 $= 44,42,69542,90,550$   
 $= 1,52,145 \text{ crores}$

57. (c)

The money multiplier is the ratio of the total money supply to the monetary base, indicating how much the money supply increases with an increase in the monetary base.

58. (c)



59. (a)

$$\text{Credit Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$= \frac{1}{0.10} = 10$$

$$\text{Credit Creation} = \frac{\text{Initial Deposits} \times 1}{\text{Required Reserve Ratio}}$$

$$= ₹ 2,00,000 \times \frac{1}{0.10}$$

$$= ₹ 20,00,000$$

60. (c)

$$\text{Credit Creation} = \text{Initial Deposits} \times \text{Credit Multiplier}$$

$$\text{Credit Multiplier} = \frac{\text{Credit Creation}}{\text{Initial Deposits}}$$

$$= \frac{40,00,000}{5,00,000} = 8$$

$$\text{Credit Multiplier} = \frac{1}{\text{RRR}}$$

$$\text{RRR} = \frac{1}{\text{Credit Multiplier}} = \frac{1}{8} = 0.125 \text{ or } 12.5\%$$

61. (a)

62. (b)

63. (c)

64. (a)

65. (c)

66. (c)

67. (d)

$$\text{Money Supply (M)} = \text{Currency} + \text{Deposits}$$

$$= ₹ 400 + ₹ 1000 = ₹ 1400 \text{ Billion}$$

$$\text{Currency-Deposit Ratio} = \frac{\text{Currency}}{\text{Deposits}}$$

$$= \frac{₹ 400}{₹ 1,000} = 0.4$$

$$e = \frac{\text{Excess Reserves}}{\text{Deposits}} = \frac{₹ 1 \text{ Billion}}{₹ 1000 \text{ Billion}} = 0.001$$

$$\text{Multiplier} = \frac{1 + c}{r + e + c} = \frac{1 + 0.4}{0.1 + 0.001 + 0.4}$$

$$= \frac{1.5}{0.501} = 2.79$$

Therefore, a 1 unit increase in MB leads to 2.79 units increase in M.

68. (a)

69. (a)

70. (c)

71. (d)

72. (b)

If interest rate increases, the opportunity cost of holding excess reserves rises, and the desired ratio of excess reserves to deposits falls.

73. (b)

74. (a)

When bank deposits are being converted into currency, banks can create only less credit money. The overall level of multiple-expansion declines, and therefore, money multiplier also falls. Hence, Money multiplier and the money supply are negatively related to currency ratio (c).

75. (b)

If the required reserve ratio on demand deposits increases while all the other variables remain the same, more reserves would be needed. This implies that banks must contract their loans, causing a decline in deposits and hence in the money supply.

76. (a)

$$m = \frac{1 + c}{r + e + c}$$

$r$  and  $m$  are negatively related. When  $r$  rises,  $m$  falls and when  $r$  falls,  $m$  rises. The reason is that less multiple deposit creation can occur when  $r$  rises, while more multiple deposit creation can occur when  $r$  falls.

77. (c)

78. (d)

79. (c)



80. (d)

$$\text{Credit Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$= \frac{1}{20\%} = \frac{1}{0.20} = 5$$

81. (d)

82. (c)

83. (d)

84. (c)

Required Reserve Ratio = 10% or 0.10

$$\text{Money Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$= \frac{1}{0.1} = 10$$

$$\text{Total Deposit} = \text{Initial Deposit} \times \text{Money Multiplier}$$

$$= 800 \times 10$$

$$= ₹ 8000 \text{ Crores.}$$

85. (b)

$$\text{Money Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$= \frac{1}{0.125} = 8$$

Total Deposit Created = ₹ 16,800

$$\text{Initial Deposits} = \frac{\text{Total Deposits}}{\text{Money Multiplier}} = \frac{16,800}{8}$$

$$= ₹ 2100 \text{ crores.}$$

86. (b)

$$\text{Money Multiplier} = \frac{\text{Total Deposit}}{\text{Initial Deposits}} = \frac{12,168}{1,521} = 8$$

$$\text{Money Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$\text{Required Reserve Ratio} = \frac{1}{\text{Money Multiplier}}$$

$$= \frac{1}{8} = 0.125$$

$$= 12.5\%$$

87. (b)

An Expansionary Monetary Policy of government is directed towards Rising of aggregate demand. This type of policy typically involves lowering interest rates to stimulate economic growth.

88. (d)

89. (b)

90. (a)

91. (d)

92. (b)

93. (c)

Option (c) is incorrect because Quantitative controls are designed to regulate the total volume of credit whereas qualitative controls are designed to regulate the direction of credit.

94. (b)

95. (c)

96. (c)

97. (d)

98. (a)

99. (b)

100. (c)

101. (d)

102. (a)

103. (a)

104. (b)

105. (d)

106. (c)

107. (c)





108. (a)

109. (b)

110. (d)

111. (c)

112. (b)

113. (b)

114. (a)

115. (a)

116. (a)

117. (b)

118. (a)

119. (d)

120. (c)

121. (b)

122. (d)

123. (a)

124. (c)



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# CA Foundation Sampurna September 2025

## International Trade

Notes

### Unit 1 : Theories of International Trade

#### International Trade

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

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

#### Theories of International Trade

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

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

3. Theory of Comparative cost advantage is \_\_\_\_\_ in nature and it \_\_\_\_\_ takes into account of factor price difference [June 2024]

- (a) Positive, does
- (b) Normative, does not
- (c) Positive, does not
- (d) Normative, does

4. Mercantilism advocates [June 2024 ]

- (a) Aggressive exports over imports to accumulate wealth
- (b) Comparative advantage
- (c) Absolute cost advantage
- (d) Factor endowment

5. Which of the following is NOT an assumption of Absolute Cost Advantage Theory?

- (a) There are two countries
- (b) There are two commodities
- (c) The commodities are heterogeneous
- (d) There is only labour Cost of Production.

6. The theory of absolute advantage states that:

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

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

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

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

Labour Cost (hours) for production of one unit

	Country A	Country B
Cloth	40	80
Grain	80	40

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



9. According to the theory of comparative advantage:

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

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

Labour Cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

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

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

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

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

12. Comparative advantage refers to:

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

13. Ricardo explained the law of comparative advantage on the basis of:

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

14. The theory given by Swedish economists "Eli Heckscher and Bertil Ohlin" is also known as:

- (a) The Heckscher - Ohlin theory of trade
- (b) Factor - Endowment theory of trade
- (c) Modern theory of trade
- (d) All of the above

## Unit 2 : The Instruments of Trade Policy

### Tariff: Forms and Effects

15. A specific tariff is:

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

16. Tariff can be based on \_\_\_\_\_

- (a) Quantity only
- (b) Value of Import
- (c) Quantity and/or value
- (d) None of these



17. When a specified amount of tariff is charged per unit of the product (e.g., ₹ 1000 per tonne of cement), then it is categorized as \_\_\_\_\_.  
 (a) Specific Duty  
 (b) Ad valorem Duty  
 (c) A Compound Duty  
 (d) Value Duty
18. Tariff levied as a percentage of value of product is termed as \_\_\_\_\_.  
 (a) Specific Duty  
 (b) Fixed Duty  
 (c) Ad valorem Duty  
 (d) A Compound Duty
19. The tariff rate is ₹ 500 per tonne plus 10 per cent of the value of the product imported. This type of tariff is termed as \_\_\_\_\_.  
 (a) Fixed Rate Duty  
 (b) Variable Rate Duty  
 (c) Ad valorem Duty  
 (d) Compound Duty
20. The Government has imposed tariff as under:  
 ₹ 3000 on each solar panel plus ₹ 50 per kg on the battery.  
 What is the type of tariff?  
 (a) Specific Tariff  
 (b) *ad valorem* Tariff  
 (c) Compound Tariff  
 (d) Technical Tariff
21. \_\_\_\_\_ is calculated on the basis of both the value of the imported goods (an *ad valorem* duty) and a Unit of measure of the imported goods (a specific duty).  
 (a) Compound Tariff  
 (b) *Ad valorem* Duty  
 (c) Technical Tariff  
 (d) Tariff Rate Quotas
22. \_\_\_\_\_ tariffs refers to import tariffs. Which countries promise to impose on imports from other members of two WTO. Unless the country is a part of preferential trade agreement.  
 (a) MFN  
 (b) MTN  
 (c) CFN  
 (d) CTN
23. Escalated tariff refers to :  
 (a) Nominal tariff rates on raw materials which are greater than tariffs on manufactured products  
 (b) Nominal tariff rates on manufactured products which are greater than tariffs on raw materials  
 (c) A tariff which is escalated to prohibit imports of a particular good to protect domestic industries  
 (d) None of the above
24. What is the type of tariff which is set so high that no imports can enter?  
 (a) Restricted Tariff  
 (b) Prohibitive Tariff  
 (c) Anti-Dumping Duty  
 (d) None of these
25. Dumping occurs when manufactures sell goods in a Foreign country \_\_\_\_\_.  
 (a) Below the Sales prices in their domestic market  
 (b) Below their full average cost of the product  
 (c) Free of cost  
 (d) Either (a) or (b)



26. Anti-dumping duties are:

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

27. A countervailing duty is

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

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

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

29. Which of the following is not a negative outcome of tariff? [June 2024]

- (a) Decreases revenue to the government
- (b) Producers of the importing country increases the well being
- (c) Domestic consumers suffer a loss in consumer surplus
- (d) By ignoring comparative advantage, tariffs discourage efficient product in the rest of the world

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

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

#### Non-Tariff Measures (NTMs)

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

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

32. Non-Tariff Barriers (NTBs) include all of the following except:

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



33. SPS measures and TBTs are:
- permissible under WTO to protect the interests of countries.
  - may result in loss of competitive advantage of developing countries.
  - increases the costs of compliance to the exporting countries.
  - All of the above
34. \_\_\_\_\_ measures of NTMs refer to product-specific properties such as characteristics of the product, technical specifications and production processes.
- Financial
  - Standard
  - Technical
  - Non-Technical
35. Which of the following is NOT a component of Technical measures under Non-Tariff Measures?
- Import Quota
  - Characteristics of the Product
  - Technical Specifications
  - Production Processes
36. \_\_\_\_\_ is a total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period.
- Embargos
  - Anti-Dumping
  - SPS
  - TBT
37. A total ban imposed by the government on imports or export of some or all commodities to particular country or regions for a specified or indefinite period is termed as [June 2024]
- Embargos
  - Safeguard measure
  - Distribution restrictions
  - Restrictive measures

### Export Related Measures

38. Voluntary export restraints involve:
- an importing country voluntarily restraining the quantity of goods that can be exported into the country during a specified period of time.
  - domestic firms agreeing to limit the quantity foreign products sold in their domestic markets.
  - an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time.
  - quantitative restrictions imposed by the importing country's government.
39. Due to shortage in domestic market, Government has prohibited the export of onion. This export related measure can be categorized as
- Ban' on Exports
  - Export Taxes
  - Export Subsidies
  - Voluntary Export Restraints

### Unit 3: Trade Negotiations

#### Taxonomy of Regional Trade Agreements (RTAs)

40. \_\_\_\_\_ has a group of countries that have a free Trade agreement between themselves and may apply a common external tariff to other countries.
- Trading Centers
  - Free-Trade Area
  - Trading Bloc
  - Common market
41. Group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries is referred as \_\_\_\_\_ [June 2024]
- Trading Block
  - Free-trade area
  - Customs union
  - Economic and monetary union



42. \_\_\_\_\_ is a group of countries that eliminate all tariff and quota barriers on trade with the objective of increasing exchange of goods with each other.
- Customs Union
  - Free-Trade Area
  - Common Trade Area
  - Unilateral Trade Agreements

### **The General Agreement on Tariffs and Trade (GATT)**

43. The General Agreement on Tariffs and Trade Covers \_\_\_\_\_ trade in \_\_\_\_\_.
- National, goods
  - International, goods
  - National, Services
  - International, Services
44. GATT was established in the year [June 2024]
- 1945
  - 1948
  - 1995
  - 2014
45. The GATT lost its relevance by the \_\_\_\_\_.
- 1975
  - 1980
  - 1982
  - 1985
46. What is the reason behind losing its relevance by GATT by the 1980's?
- Substantial Expansion of inter-national investments.
  - Non-coverage of intellectual property rights and trade in services by GATT
  - Ambiguities in the multilateral System
  - All of the above

### **The Uruguay Round and the Establishment of WTO**

47. Which of the following culminated in the establishment of the World Trade Organization?
- The Doha Round
  - The Tokyo Round
  - The Uruguay Round
  - The Kennedy Round

48. The World Trade Organization (WTO).
- has now been replaced by the GATT
  - has an inbuilt mechanism to settle disputes among members.
  - was established to ensure free and fair trade internationally.
  - (b) and (c) above
49. The headquarters of WTO is in \_\_\_\_\_.
- USA
  - Switzerland
  - Australia
  - Germany
50. Which of the following is covered under protection of intellectual properties (TRIPS)?
- Copyrights, Trade Marks and Patents.
  - Geographical indications, industrial designs and patents.
  - Layout designs of integrated circuits and undisclosed information (i.e. trade secrets).
  - All of the above.
51. The WTO accounts for about \_\_\_\_\_ of world trade.
- 50%
  - 70%
  - 85%
  - 95%
52. The WTO's top-level decision-making body is the \_\_\_\_\_ which can take decisions on all matters under any of the multilateral trade agreements.
- Ministerial conference
  - General council
  - Goods council
  - Services council and intellectual property council





53. The Ministerial conference, top decision making body of WTO, meets at least \_\_\_\_\_ to take decisions.
- Once every year
  - Twice every year
  - Once every two years
  - No such fixed frequency
54. Which of the following is/are responsible for overseeing the implementation of the WTO agreements?
- Ministerial Conference
  - General Council
  - Goods Council, Services Council and Intellectual Property Council
  - All of the above
55. Which of the following meets several times a year at the Geneva headquarters?
- Ministerial Conference
  - General Council
  - Goods Council
  - Services Council
56. The Goods Council, Services Council and Intellectual Property Council report to which of the following?
- Ministerial Conference
  - General Council
  - Director General of WTO
  - Both (a) and (b)
57. The essence of 'MFN principle' is:
- equality of treatment of all member countries of WTO in respect of matters related to trade
  - favour one, country, you need to favour all in the same manner
  - every WTO member will treat all its trading partners equally without any prejudice and discrimination
  - all the above
58. Under WTO agreements, the countries cannot normally discriminate between their trading partners. This is referred to as \_\_\_\_\_. [June 2024]
- National Treatment (NT)
  - Most Favoured Nation (MFN)
  - Promoting Fair Competition (PFC)
  - Free Trade through Negotiation (FTN)
59. The 'National treatment' principle stands for.
- the procedures within the WTO for resolving disagreements about trade policy among countries
  - the principle that imported products are to be treated no worse in the domestic market than the local ones.
  - exported products are to be treated no worse in the domestic market than the local ones
  - imported products should have the same tariff, no matter where they are imported from
60. 'Bound tariff refers to:
- clubbing of tariffs of different commodities into one common measure.
  - the lower limit of the tariff below which a nation cannot be taxing its imports
  - the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.
  - the limit within which the country's export duty should fall so that there are cheaper exports
61. Which of the following is True for "Free-Trade" principle of WTO?
- Member countries to reduce tariff and non-tariff barriers to encourage free-trade.
  - Quantitative restrictions are prohibited.
  - Developing and other countries facing difficulties in their balance of payments are allowed to reduce trade barriers gradually.
  - All of the above



62. The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments.
- on increasing agricultural productivity and rural development.
  - market access and agricultural credit support.
  - market access, domestic support and export subsidies.
  - market access, import subsidies and export subsidies.
63. The Agreement on Textiles and Clothing.
- provides that textile trade should be deregulated gradually and the
  - replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974
  - granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries
  - stipulated that tariffs in all countries should be the same
64. The Agreement on Trade-Related Aspects of Intellectual Property Rights.
- stipulates to administer a system of enforcement of intellectual property rights
  - provides for most-favoured-nation treatment and national treatment for intellectual properties
  - mandates to maintain high levels of intellectual property protection by all members
  - All of the above
65. TPRM Stands for \_\_\_\_\_.
- Trade Policy Review Mechanism
  - Trade Practices Regulatory Measures
  - Transparent Practices Regulatory Mechanism
  - None of these

66. TRIM stands for \_\_\_\_\_.
- Trade Policy International Mechanism
  - Trade Related Investment Measures
  - Transparent Reforms Inherent Mechanism
  - None of these

#### The Doha Round

67. Which of the following is NOT the member of G20?
- |               |               |
|---------------|---------------|
| (a) Mexico    | (b) India     |
| (c) Singapore | (d) Indonesia |
68. Where was the first submit of G20 held?
- |            |             |
|------------|-------------|
| (a) USA    | (b) Britain |
| (c) France | (d) Canada  |

#### Unit 4 : Exchange Rate and Its Economic Effects

##### The Exchange Rate Regimes

69. Choose the correct statement.
- An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency.
  - The fixed exchange rate regime is said to be efficient and highly transparent.
  - A direct quote is the number of units of a local currency exchange-able for one unit of a foreign currency.
  - Exchange rates are generally fixed by the central bank of the country.
70. Number of units of a foreign currency can be exchanged for one unit of local currency is referred to as \_\_\_\_\_. [June 2024]
- Direct Quote
  - Indirect Quote
  - European Currency
  - Cross Quotes



71. Which of the following is NOT the merit of fixed Exchange Rate System?

- (a) Stability in the Exchange Rate
- (b) Prevent speculative activities
- (c) Huge Foreign Exchange Reserve required
- (d) Promotes International Investment

72. \_\_\_\_\_ refers to reduction in price of domestic currency in terms of all Foreign currencies under fixed exchange rate regime.

- (a) Depreciation                      (b) Devaluation
- (c) Revaluation                      (d) None of the above

73. Which of the following statement is true?

- (a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency.
- (b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency
- (c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.
- (d) All of the above

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

- (i) floating exchange rate
- (ii) pegged exchange rate
- (iii) devaluation
- (iv) appreciation
- (a) fixed exchange rate
- (b) depreciation
- (c) revaluation
- (d) flexible exchange rate
- (a) (i c); (ii d); (iii b); (iv a);
- (b) (i b); (ii a); (iii d); (iv c);
- (c) (i a); (ii d); (iii b); (iv c);
- (d) (i d); (ii a); (iii b); (iv c);

### Nominal Versus Real Exchange Rates

75. On which of the following factors, the real exchange rate depends?

- (a) Nominal Exchange Rate
- (b) Domestic Price
- (c) Foreign Price
- (d) All of the above

76. When studying the economy as a whole, which ratio is used in the determination of Real Exchange Rate?

- (a)  $\frac{\text{Domestic Price}}{\text{Foreign Price}}$
- (b)  $\frac{\text{Foreign Price}}{\text{Domestic Price}}$
- (c)  $\frac{\text{Domestic Price Index}}{\text{Foreign Price Index}}$
- (d)  $\frac{\text{Foreign Price Index}}{\text{Domestic Price Index}}$

77. An increase in Real Effective Exchange Rate (REER) implies that \_\_\_\_\_.

- (a) Exports become more expensive
- (b) Imports become cheaper
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

78. The price indices are used, when studying the economy as a whole, for determination of Real Exchange Rate. Which of the following formulas is used for this?

- (a) Nominal Exchange Rate  $\times \frac{\text{Domestic Price Index}}{\text{Foreign Price Index}}$
- (b) Real Exchange Rate  $\times \frac{\text{Domestic Price Index}}{\text{Foreign Price Index}}$
- (c) Nominal Exchange Rate  $\times \frac{\text{Foreign Price Index}}{\text{Domestic Price Index}}$
- (d) Real Exchange Rate  $\times \frac{\text{Foreign Price Index}}{\text{Domestic Price Index}}$



### The Foreign Exchange Market

79. 'Vehicle Currency' refers to:
- a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties.
  - a currency that is traded internationally and, therefore, is in high demand.
  - a type of currency used in euro area for synchronization of exchange rates
  - a currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties.
80. In case of spot trading, the settlement is done by and large in \_\_\_\_\_ days.
- Same
  - One
  - Two
  - Three
81. The forward exchange rate is always \_\_\_\_\_ the spot exchange rate.
- Equal to
  - more than
  - less than
  - Any of the above
82. If the forward exchange rate is quoted at more than a spot exchange rate, then there is a \_\_\_\_\_.
- forward premium
  - forward discount
  - Spot Premium
  - Spot discount
83. In the case of forward dis-count, the forward exchange rate is \_\_\_\_\_ the spot exchange rate.
- more than
  - less than
  - equal to
  - Either (a) or (b)
84. When one currency depreciates against another, the second currency must \_\_\_\_\_ against the first.
- also depreciate
  - appreciate after some time
  - simultaneously depreciate
  - simultaneously appreciate.
85. All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?
- The demand curve for dollars shifts to the right and Indian Rupee appreciates.
  - The supply of US dollars shrinks and, therefore, import prices decrease.
  - The demand curve for dollars shifts to the right and Indian Rupee depreciates.
  - The demand curve for dollars shifts to the left and leads to an increase in exchange rate.
86. An increase in the supply of foreign exchange:
- shifts the supply curve to the right and as a consequence, the exchange rate declines.
  - shifts the supply curve to the right and as a consequence, the exchange rate increases.
  - more units of domestic currency are required to buy a unit of foreign exchange.
  - the domestic currency depreciates and the foreign currency
87. Under a floating rate system, if the demand for Foreign currency increases and supply curve remains unchanged, then the exchange value of \_\_\_\_\_ rises and the \_\_\_\_\_ depreciates in value.
- domestic currency, foreign Currency
  - Foreign currency, domestic currency
  - domestic currency, outside currency
  - None of these
88. Which of the following is INCORRECT?
- An increase in the supply of Foreign exchange shifts the supply curve to the right.
  - An increase in demand of Foreign currency shift the demand curve to the right.
  - An increase in demand with no change in supply will bring an increase in the equilibrium exchange rate.
  - None of the above



### Devaluation and Appreciation

89. Currency devaluation:
- (a) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries.
  - (b) may reduce export prices and increase the international competitiveness of domestic industries
  - (c) may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services
  - (d) (a) and (c) above
90. Which one of following is in-correct?
- (a) Revaluation refers to a discrete official increase of the otherwise fixed par value of a nation's currency.
  - (b) Devaluation is a monetary policy tool.
  - (c) Depreciation is a decrease in a currency's value due to market forces of demand and supply under a floating exchange rate.
  - (d) None of the above

### Impacts of Exchange Rate Fluctuations on Domestic Economy

91. If currency depreciates in an economy, where the exports are significantly high and the exports originate from labour - intensive industries, then what will happen?
- (a) Increase in Export Prices
  - (b) Increase in employment
  - (c) Increase in wages
  - (d) All of the above
92. Which of the following is NOT a consequences of appreciation, on real economy?
- (a) Rise in price of exports
  - (b) Reduction in levels of inflation
  - (c) Insignificant loss of competitive-ness
  - (d) Positive effect on domestic industry.

### Unit 5 : International Capital Movement

#### Types of Foreign Capital

93. Which of the following is a component of foreign capital?
- (a) Direct inter government loans
  - (b) Loans from international institutions (e.g. World Bank, IMF, ADB)
  - (c) Soft loans for e.g. from affiliates of World Bank such as IDA
  - (d) All of the above
94. Which of the following is a form of Borrowings?
- (a) Direct Inter government loans.
  - (b) Loans from international institutions (e.g. World Bank, IMF, ADB).
  - (c) External Commercial Borrowings.
  - (d) All of the above.
95. Which of the following is NOT a Component of Foreign Capital Flows?
- (a) Foreign aid or assistance
  - (b) Borrowings/loans from international institutions.
  - (c) FDI in industrial, commercial and similar other enterprises.
  - (d) Deposits of Resident Indians.

#### Foreign Direct Investment (FDI)

96. Which of the following statements is incorrect?
- (a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.
  - (b) Foreign portfolio investments involve the flow of 'financial capital'.
  - (c) Foreign Direct Investment (FDI) is not concerned with either manufacture of goods or with provision of services.
  - (d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.





97. Not a component of FDI according to IMF:  
[June 2024]

- (a) Equity capital
- (b) Reinvestment earnings
- (c) Portfolio investments
- (d) Intra company loans

#### Foreign Portfolio Investment (FPI)

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

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

99. The Foreign Portfolio Investment (FPI) is NOT concerned with \_\_\_\_\_.

- (a) manufacture of goods
- (b) provision of services
- (c) the intention of exercising voting power
- (d) all of the above

#### FDI: Reasons, Modes and Benefits

100. Which of the following is a rea-son for foreign direct investment?

- (a) Secure access to minerals or raw materials
- (b) Desire to capture of large and rap-idly growing emerging markets
- (c) Desire to influence home country industries
- (d) (a) and(b) above

101. An argument in favour of direct foreign investment is that it tends to:

- (a) promote rural development
- (b) increase access to modern technology
- (c) protect domestic industries
- (d) keep inflation under control

102. What is the Ad valorem tariff? [May 2025]

- (a) The fixed amount of money per physical unit or weight of commodity imported or exported
- (b) A fixed time period for tariff application per calendar year
- (c) The duty levied as a fixed percentage of the value of the traded commodity
- (d) A flat rate imposed regardless of the product's value

103. A tariff that is set so high that no imports can enter is known as \_\_\_\_\_ [May 2025]

- (a) Prohibitive Tariff
- (b) Bound tariff
- (c) Escalated Tariff
- (d) Variable Tariff

104. Which of these countries is part of the USMCA Agreement? [May 2025]

- (a) Mexico
- (b) Malta
- (c) Malaysia
- (d) Mongolia

105. Which one of these is the main reason why GATT lost its relevance by 1980? [May 2025]

- (a) Efforts at liberalizing agricultural trade were successful
- (b) International investments did not expand substantially
- (c) GATT was a treaty
- (d) There were inadequacies in institutional structure and dispute settlement system



**106.** The Value of the product or service is enhanced as the number of individuals using it increases. What effect is this? [May 2025]

- (a) Veblen Effect
- (b) Bandwagon Effect
- (c) Income Effect
- (d) Snob Effect

**107.** Match the following: [May 2025]

Table A	Table B
(a) Has a long term interest and is invested for long	(i) Foreign Portfolio Investment
(b) Speculative in Nature	(ii) Foreign Direct Investment
(c) Help developing countries benefit fully from global trading system	(iii) Free Floating exchange rate system
(d) Government and central banks do not participate in the market for foreign exchange	(iv) World Trade Organization

- (a) (a)-(ii), (b)-(i), (c)-(iv), (d)-(iii)
- (b) (a)-(i), (b)-(ii), (c)-(iv), (d)-(iii)
- (c) (a)-(ii), (b)-(i), (c)-(iii), (d)-(iv)
- (d) (a)-(i), (b)-(ii), (c)-(iii), (d)-(iv)

**108.** An investment in which one investor establishes a business activity in a foreign country which is different from investor's main business activity but in some way supplements its major activity is called \_\_\_\_\_. [May 2025]

- (a) Horizontal direct investment
- (b) Vertical investment
- (c) Conglomerate type of FDI
- (d) Two way direct foreign investment

**109.** The most controversial topic for Doha Development Agenda was [May 2025]

- (a) The Labour Welfare
- (b) World Peace
- (c) Globalization
- (d) Agriculture Trade

**110.** An appreciation of currency or strong currency makes the domestic currency more \_\_\_\_\_ therefore it can be exchanged for a \_\_\_\_\_ amount of foreign currency. [May 2025]

- (a) Weaker, smaller
- (b) Valuable, larger
- (c) Weaker, larger
- (d) Valuable, Smaller

**111.** Factor Endowment Theory of trade is also known as \_\_\_\_\_. [Jan. 2025]

- (a) Baumol and Tobin theory
- (b) Adam Smith, Absolute Cost Advantage theory
- (c) Heckscher-Ohlin theory
- (d) Factor Price Equalization theory

**112.** Which tariff is calculated on the basis of specific contents of the imported goods (duties are payable by its components or related items)? [Jan. 2025]

- (a) Compound tariff
- (b) Mixed tariff
- (c) Ad valorem tariff
- (d) Technical tariff

**113.** Which tariff is expressed either on the basis of the value of the imported goods or on the basis of a unit of measure of the imported goods depending on which generates the most income (or least income at times) for the country? [Jan. 2025]

- (a) Ad valorem tariff
- (b) Specific tariff
- (c) Mixed tariff
- (d) Compound tariff

**114.** The system wherein the nominal tariff rates on imports of manufactured goods are higher than the nominal tariff rates on intermediate inputs and raw materials is known as \_\_\_\_\_. [Jan. 2025]

- (a) Applied tariff
- (b) Escalated tariff
- (c) Bound tariff
- (d) Preferential tariff

**115.** Which of the following is a measure to protect human, animal or plant life from risks arising out of additives, pests, toxins, etc. and to protect the biodiversity? [Jan. 2025]

- (a) Prohibited tariff
- (b) Sanitary and phytosanitary measures
- (c) Technical barriers to trade
- (d) Anti-dumping duties





**116.** With regards to international trade the European Union can be categorized as a \_\_\_\_\_. [Jan. 2025]

- (a) Trading bloc
- (b) Free trade area
- (c) Bilateral agreements
- (d) Customs union

**117.** Investments which are reciprocal investments between countries are referred to as \_\_\_\_\_. [Jan. 2025]

- (a) Horizontal direct investment
- (b) Vertical direct investment
- (c) Two-way direct foreign investment
- (d) Conglomerate foreign investment

**118.** A total ban imposed by the Government on imports or exports of some or all commodities to a particular country or regions for a specified or indefinite period is known as \_\_\_\_\_. [Jan. 2025]

- (a) Prohibitive tariff
- (b) Anti-dumping duties
- (c) Embargo
- (d) Rules of origin

**119.** The theory of Comparative Advantage in International Trade was presented by \_\_\_\_\_. [Jan. 2025]

- (a) Adam Smith
- (b) David Ricardo
- (c) John Maynard Keynes
- (d) Milton Friedman



## Answer Key

1. (b)	31. (c)	61. (d)	91. (d)
2. (c)	32. (b)	62. (c)	92. (d)
3. (b)	33. (d)	63. (b)	93. (d)
4. (a)	34. (c)	64. (d)	94. (d)
5. (c)	35. (a)	65. (a)	95. (d)
6. (b)	36. (a)	66. (b)	96. (c)
7. (d)	37. (a)	67. (c)	97. (c)
8. (b)	38. (c)	68. (a)	98. (c)
9. (b)	39. (a)	69. (c)	99. (d)
10. (b)	40. (c)	70. (b)	100. (d)
11. (d)	41. (a)	71. (c)	101. (b)
12. (b)	42. (b)	72. (b)	102. (c)
13. (d)	43. (b)	73. (d)	103. (a)
14. (d)	44. (b)	74. (d)	104. (a)
15. (d)	45. (b)	75. (d)	105. (d)
16. (c)	46. (d)	76. (c)	106. (b)
17. (a)	47. (c)	77. (c)	107. (a)
18. (c)	48. (d)	78. (a)	108. (b)
19. (d)	49. (b)	79. (d)	108. (d)
20. (d)	50. (d)	80. (c)	110. (b)
21. (a)	51. (d)	81. (d)	111. (c)
22. (a)	52. (a)	82. (a)	112. (d)
23. (b)	53. (c)	83. (b)	113. (c)
24. (b)	54. (c)	84. (d)	114. (b)
25. (d)	55. (b)	85. (c)	115. (b)
26. (d)	56. (b)	86. (a)	116. (d)
27. (d)	57. (d)	87. (b)	117. (c)
28. (c)	58. (b)	88. (d)	118. (c)
29. (b)	59. (b)	89. (b)	119. (b)
30. (b)	60. (c)	90. (d)	



## Hints and Solution

1. (b)

2. (c)

3. (b)

4. (a)

5. (c)

6. (b)

7. (d)

8. (b)

9. (b)

10. (b)

11. (d)

12. (b)

13. (d)

14. (d)

15. (d)

16. (c)

17. (a)

18. (c)

19. (d)

Compound Duty is a tariff that combines both per unit and percentage of value.

20. (d)

It is technical tariff since it has been calculated on the basis of the specific contents of the imported goods *i.e.*, The duties are payable by its components or related items.

21. (a)

22. (a)

These are Most – Favored Nation (MFN) tariffs.

23. (b)

24. (b)

25. (d)

26. (d)

27. (d)

28. (c)

29. (b)

30. (b)

31. (c)

32. (b)

33. (d)

34. (c)



35. (a)

36. (a)

37. (a)

38. (c)

39. (a)

40. (c)

41. (a)

42. (b)

43. (b)

44. (b)

45. (b)

46. (d)

47. (c)

48. (d)

49. (b)

50. (d)

51. (d)

52. (a)

53. (c)

54. (c)

55. (b)

56. (b)

57. (d)

58. (b)

59. (b)

60. (c)

61. (d)

62. (c)

63. (b)

64. (d)

65. (a)

66. (b)

67. (c)

68. (a)

The first summit of the G20 was held in Washington (USA) in 2008.

69. (c)

70. (b)

71. (c)

The option (c) is a demerit because Government has to maintain large reserves of Foreign currencies to maintain the exchange rate at the level fixed by it.

72. (b)

73. (d)

74. (d)



75. (d)

76. (c)

77. (c)

78. (a)

79. (d)

80. (c)

81. (d)

82. (a)

83. (b)

84. (d)

85. (c)

86. (a)

87. (b)

88. (d)

89. (b)

90. (d)

91. (d)

92. (d)

With increasing export prices, the competitiveness of domestic industry is adversely affected. Thus, option (d) is not a consequence of appreciation.

93. (d)

94. (d)

95. (d)

96. (c)

97. (c)

98. (c)

99. (d)

100. (d)

101. (b)

102. (c)

103. (a)

104. (a)

105. (d)

106. (b)

107. (a)

108. (b)

109. (d)

110. (b)

111. (c)

112. (d)

113. (c)

114. (b)

115. (b)



116. (d)

118. (c)

117. (c)

119. (b)



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Library- <https://smart.link/sdfez8ejd80if>



## CA Foundation Sampurna

### Indian Economy

Notes

#### Status of Indian Economy:

##### Pre-Independence Period (1850 -1947)

1. Between the first and the 17th Century AD, India was prosperous and self-radiant and is believed to have controlled \_\_\_\_\_ of the world's wealth.
  - (a) One Tenth
  - (b) One Third
  - (c) One Fourth
  - (d) Between one third and one fourth
2. In British era, what was the reason for virtual collapse of Indian agriculture?
  - (a) Absentee landlordism
  - (b) High indebtedness of agriculturists, growth of a class of exploitative money lenders
  - (c) Low attention to productivity enhancing measures
  - (d) All of the above
3. In British era, which of the following factors forced many to depend on agriculture for livelihood?
  - (a) Large scale unemployment
  - (b) Absence of alternate sources of employment
  - (c) Both (a) and (b)
  - (d) None of these
4. In British era, the increased pressure on land led to \_\_\_\_\_.
  - (a) Sub-division and fragmentation of land holdings
  - (b) Subsistence farming
  - (c) Reduced agricultural productivity and poverty
  - (d) All of the above
5. Which of the following cause is reducing the ability of Indian agriculturalists to participate in domestic as well as export market? [June 2024]
  - (a) Low farming productivity and subsistence farming.
  - (b) Large amount of marketable sur-plus with farmers
  - (c) Dominated by big farmers and farm productivity
  - (d) Big landholdings by small farmers
6. Before 1950, the factory-based production \_\_\_\_\_ in India.
  - (a) Did not exist
  - (b) Existed in petroleum
  - (c) Existed in digital products
  - (d) Existed in agriculture
7. At the end of the 19th century, the Indian jute mill industry was the \_\_\_\_\_ in the world in terms the of the amount of raw jute consumed in production.
  - (a) Largest
  - (b) Second Largest
  - (c) Negligible
  - (d) Lowest
8. Heavy industries such as the iron industry were established as early as 1814 by British capital. India's iron industry was ranked \_\_\_\_\_ in the world in terms of output in 1930.
  - (a) First
  - (b) Fifth
  - (c) Seventh
  - (d) Eight





9. Just before the Great Depression, India was ranked as the \_\_\_\_\_ largest industrialized country measured by the value of manufactured products.

- (a) 10th (b) 11th  
(c) 12th (d) 13th

#### Indian Economy: Post Independence (1947-1991)

10. The post-independence economic policy was rooted in:

- (a) A capitalist mode of production with heavy industrialization  
(b) Social and economic redistribution and industrialization directed by the state  
(c) Social and economic redistribution through private sector initiative  
(d) Industrialization led by private entrepreneurs and redistribution by state

11. Which of the following was NOT the ideology of industrialization prevailed in the early days of independence?

- (a) Establishing an economic system in which the central government would have authority to design the economic strategy  
(b) To carry out the necessary investments in coordination with the private sector.  
(c) Systematic planning to support industrialization.  
(d) Lowest level of industrialization of the economy

12. In independent India, the comprehensive import controls were maintained until \_\_\_\_\_.

- (a) 1955 (b) 1962  
(c) 1966 (d) 1970

13. Rapid industrialization of the economy was the cornerstone of whose development strategy?

- (a) Nehru (b) Patel  
(c) Indira (d) None of these

14. The 'Hindu growth rate' is a term used to refer to \_\_\_\_\_.

- (a) The high rate of growth achieved after the new economic policy of 1991  
(b) The low rate of economic growth of India from the 1950's to the 1980's, which averaged around 3.5 per cent per year  
(c) The low growth of the economy during British period marked by an average 3.5 per cent  
(d) The growth rate of the country because India is referred to as 'Hindustan'

15. In 1954, India signed a long-term agreement with the US for food aid. What was the name of this agreement?

- (a) PL-480  
(b) PL-440  
(c) PL-420  
(d) PL-400

16. The policies in 1950's were guided by \_\_\_\_\_.

- (a) Nehruvian philosophy of visualizing a socialistic society with emphasis on heavy industries  
(b) Gandhian philosophy of stress-ing on small scale and cottage industry and village republics  
(c) Both (a) and (b)  
(d) None of these

17. Which revolution was materialized by innovative farm technologies including high yielding seed varieties and intensive use of water, fertilizers & pesticides? [June 2024]

- (a) The Green revolution  
(b) The Kisan revolution  
(c) The Agricultural revolution  
(d) The Fasal revolution



18. The economic performance during the period of 1965-81 is the worst in independent India's history the decline in growth during this period is attributed mainly to decline in productivity. Which of the following factors contributed to the decelerated growth that lasted two decades?

- (i) The license-raj, the autarchic policies that dominated the 1960s and 1970s
- (ii) The external shocks of three wars (in 1962, 1965, and 1971)
- (iii) The major droughts (especially 1966 and 1967)
- (iv) The oil shocks of 1973 and 1979
- (a) (i) only
- (b) Both (i) and (ii)
- (c) (i), (ii) and (iii)
- (d) (i), (ii), (iii) and (iv)

19. The government nationalized 14 banks in \_\_\_\_\_ and then followed it up with nationalizing another 6 in \_\_\_\_\_.

- (a) 1967, 1977
- (b) 1969, 1980
- (c) 1980, 1969
- (d) None of the above

20. MRTP Act, 1969, is aimed at regulation of \_\_\_\_\_ which had relatively \_\_\_\_\_ market power [June 2024]

- (a) Large firms, large
- (b) Large firms, small
- (c) Small firms, small
- (d) Small firms, medium

21. In which year, the policy of reservation of many products for exclusive manufacture by the small scale sector was initiated with the objective of promotion of small-scale industries.

- (a) 1967
- (b) 1969
- (c) 1971
- (d) 1973

### The Era of Reforms

22. The first wave of liberalization starts in India \_\_\_\_\_.

- (a) In 1951
- (b) In 1980's
- (c) In 1990's
- (d) In 1966

23. The number of capital goods items included in the OGL list expanded steadily reaching 1,329 in April 1990. What is the full form of OGL?

- (a) Open General License
- (b) Other Goods List
- (c) Open Goods List
- (d) Other General List

24. Based on the Real Effective Exchange Rate (REER), the rupee was depreciated by about 30 per cent from \_\_\_\_\_.

- (a) 1980-81 to 1990-91
- (b) 1982-83 to 1990-91
- (c) 1985-86 to 1989-90
- (d) None of these

25. The budget for 1986 introduced policies of \_\_\_\_\_.

- (a) Cutting taxes further
- (b) Liberalizing imports
- (c) Reducing tariffs
- (d) All of the above

26. What is the main cause attributed to the immediate need for economic reforms in 1991?

[June 2024]

- (a) Fiscal deficit was financed by huge amounts of domestic and external debts
- (b) Forex reserves touched the highest point
- (c) Persistent huge deficit led to declining public debt
- (d) Government's revenue expenditure consistently lowering revenue receipts.



27. To manage the economic crises of 1991, Indian Government approached World Bank and IMF. What is the amount of loan received by India?
- \$ 10 billion
  - \$ 7 billion
  - \$ 5 billion
  - None of these
28. Which of the following was the objective of the LPG reforms, taken in 1991?
- Reorientation of the economy from a centrally directed and highly controlled one to a 'market friendly' or market-oriented economy
  - Macroeconomic stabilization by substantial reduction in fiscal deficit
  - Both (a) and (b)
  - None of these
29. Which of the following is a part of fiscal reforms of 1991?
- Introduction of a stable and transparent tax structure
  - Ensuring better tax compliance
  - Reduction in subsidies and abolition of unnecessary subsidies
  - All of the above
30. What was the focus of monetary and fiscal sector reforms (1991)?
- Reducing the burden of non-performing assets on government banks
  - Introducing and sustaining competition
  - Deregulating interest rates
  - All of the above
31. In "New Industrial Policy" of 1991, the public sector was limited to \_\_\_\_\_ sectors based on security and strategic grounds.
- Ten
  - Eight
  - Six
  - Five
32. The New Economic Policy put an end to the 'License Raj' by removing licensing restrictions for all industries except for 18 that related to:
- Security and strategic concerns
  - Social reasons
  - Problems related to safety and overriding environmental issues
  - All of the above
33. In July, 1991 the Indian government devalued the rupee by between \_\_\_\_\_.
- 14 to 15 per cent
  - 15 to 16 per cent
  - 16 to 17 per cent
  - 18 to 19 per cent
- Niti Aayog: A Bold Step for Transforming India**
34. When was NITI AAYOG established?
- 1st January 2013
  - 15th August 2013
  - 1st January 2015
  - 15th August 2015
35. To develop the mechanism to formulate credible plans at village level and aggregate these progressively at higher level of government is an objective of \_\_\_\_\_. [June 2024]
- Ministry of rural development
  - NITI Aayog
  - Commission of policy and planning
  - Planning commission
36. Think tank of the Government of India, that replaced the planning Commission, is \_\_\_\_\_.
- Mission Commission
  - NITI AAYOG
  - NITI Commission
  - None of these
- The Current State of The Indian Economy: A Brief Overview**
37. India has the world's \_\_\_\_\_ area planted under wheat, rice and cotton.
- Smallest
  - Largest
  - Negligible
  - Significantly low



38. India is the world's \_\_\_\_\_ producer of fruits, vegetables, tea, farmed fish, cotton, sugarcane, wheat, rice, cotton and sugar.  
 (a) Largest (b) Second-largest  
 (c) Third Largest (d) Fifth
39. Indian food and grocery market is the world's \_\_\_\_\_ largest, with retail contributing 70% of the sales.  
 (a) Third (b) Fourth  
 (c) Sixth (d) None of these
40. India has the world's \_\_\_\_\_ cattle herd (buffaloes).  
 (a) Largest (b) Second-largest  
 (c) Third Largest (d) Fifth
41. According to the latest estimates, \_\_\_\_\_ of India's population is directly dependent on agriculture for living.  
 (a) 30% (b) 40%  
 (c) 47% (d) 72%
42. India is among the top \_\_\_\_\_ exporters of agricultural products in the world.  
 (a) Three (b) Five  
 (c) Ten (d) Eleven
43. APEDA - full form [June 2024]  
 (a) Agricultural product export development agency  
 (b) Agricultural produce economic development association  
 (c) Animal product export development authority  
 (d) Agricultural & processed food export development authority
44. Paramparagat Krishi Vikas Yojana (PKVY) is the scheme for supporting and promoting \_\_\_\_\_.  
 (a) Organic farming  
 (b) Improvement of soil health  
 (c) Traditional farming methods of agriculture  
 (d) Both (a) and (b)
45. PDMC scheme to increase water use efficiency at the farm level. What is the full form of PDMC?  
 (a) Per Drop More Crop  
 (b) Perfect Drop More Crop  
 (c) Perfect Development Mission Crop  
 (d) None of these
46. E-NAM is \_\_\_\_\_.  
 (a) An electronic name card given to citizens of India  
 (b) National Agriculture Market with the objective of creating a unified national market for agricultural commodities.  
 (c) A pan-India electronic trading portal which networks the existing APMC mandis  
 (d) Both (b) and (c) above
47. What does the E-NAM (Electronic National Agriculture Market) aim to achieve? [June 2024]  
 (a) Increase farm productivity  
 (b) Create a unified national market for agricultural commodities  
 (c) Provide financial support to farmers  
 (d) Promote organic farming
48. E-amrit is related to \_\_\_\_\_. [June 2024]  
 (a) One-stop destination for all information on electric vehicles  
 (b) Facilitates and improve access to Indian government data  
 (c) Improves air quality in India by accelerating the deployment of electronic vehicles.  
 (d) Provides a stimulus to exports and economic growth
49. India's rank in the Global Innovation Index (GII) improved to 40th in in 2015. 2022 from  
 (a) 71st (b) 81st  
 (c) 91st (d) 99th



- 50.** In terms of Ease of Doing Business in 2020 India ranks \_\_\_\_.
- 63
  - 77
  - 45
  - None of the above
- 51.** \_\_\_\_ is to facilitate data-based decisions related to integrated planning of multimodal infrastructure, thereby reducing logistics cost.
- PM Gati Shakti National Master Plan
  - Mission Gati Shakti National Master Plan
  - PM Multi-modal National Master Plan
  - PM Integrated Plan for Multi-Modal
- 52.** PM Gati Shakti is related to [June 2024]
- Empowerment of MSMEs
  - Data based decisions related to integrated planning of multimodal infrastructure thereby reducing the logistic cost
  - Manufacturing of electric and hybrid vehicle technology
  - Automatic route for FDI
- 53.** FAME-India Scheme aims to:
- Enhance faster industrialization through private participation
  - To promote manufacturing of electric and hybrid vehicle technology
  - To spread India's fame among its trading partners
  - None of the above
- 54.** \_\_\_\_ aims at the empowerment of Micro Small and Medium Enterprises (MSMEs).
- Naya Bharat
  - Viksit Bharat
  - Udyog Bharat
  - Udyami Bharat
- 55.** The Foreign Investment Promotion Board (FIPB) \_\_\_\_.
- A government entity through which inward investment proposals were routed to obtain required government approvals
  - No more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal
  - No more exists as all inward investments are through automatic route and need no approval
  - Is the body which connects different ministries in respect of foreign portfolio investments
- 56.** The Government of India has allowed 100% FDI in marketing of food products and in food product E-commerce under the \_\_\_\_ route. [June 2024]
- Automatic
  - Green channel route
  - Priority route
  - Trade route
- 57.** Merchandise Exports from India Scheme was replaced by \_\_\_\_.
- Remission of Duties and Taxes on Export Products (RODTEP) in 2021
  - National Logistics Policy (NLP) in 2020
  - Remission of Duties and Taxes on Export Products (RODTEP) in 2019
  - None of the above
- 58.** Which of the following Sector contributes maximum to India's Gross value added? [June 2024]
- Primary sector
  - Secondary sector
  - Tertiary sector
  - All of the above



- 59.** Which of the following are fiscal reforms?
- Ensuring better tax compliance
  - Reinvestment of funds in more profitable options
  - Encouraging private sector participation
  - Thrust on curbing government expenditure
- [May 2025]
- (a) Only i and iii      (b) Only i, ii, iii  
(c) Only i, iii, iv      (d) Only i, ii, iv
- 60.** Which of the following best describes the pre-British Indian economy? [May 2025]
- Dependent on imports for goods
  - Self-sufficient villages and cities which were centers of commerce
  - Focus on industrial production
  - Dominated by foreign trade
- 61.** The trade policy reforms include \_\_\_\_\_. [May 2025]
- Inclusion of licensing restrictions for imports
  - Removal of licensing procedure for imports
  - Complication of tariffs.
  - Inclusion of quantitative restrictions on imports and exports
- 62.** Which initiative by NITI Aayog aims to promote electric vehicles ? [May 2025]
- E-Amrit
  - Shoonya Campaign
  - Methanol Economy Program
  - India Policy Insights (IPI)
- 63.** An appreciation of currency or strong currency makes the domestic currency more \_\_\_\_\_ therefore it can be exchanged for a \_\_\_\_\_ amount of foreign currency. [May 2025]
- (a) Weaker, smaller      (b) Valuable, larger  
(c) Weaker, larger      (d) Valuable, smaller
- 64.** What percentage of India's population depends on agriculture for livelihood as per latest estimates ? [May 2025]
- (a) 18%      (b) 25%  
(c) 47%      (d) 60%
- 65.** Which government scheme focuses on providing financial support to farmers suffering crop loss or damage ? [May 2025]
- PM KISAN
  - Pradhan Mantri Fasal Bima Yojana (PMFBY)
  - Soil Health Card Scheme
  - Paramparagat Krishi Vikas Yojana (PKVY)
- 66.** Which regime replaced the Foreign Investment Promotion Board (FIPB)? [May 2025]
- SEBI
  - FIF Portal
  - NITI Aayog
  - DPIIT
- 67.** What was India's rank in 2022 as per Global Innovation Index? [May 2025]
- (a) 81st      (b) 40th  
(c) 63rd      (d) 25th
- 68.** Which policy replaced the Merchandise Exports from India Scheme (MEIS) in 2021? [May 2025]
- NDAP
  - GST
  - PLI Scheme
  - RoDTEP
- 69.** The early liberalization and reforms started in India in \_\_\_\_\_. [May 2025]
- (a) 1980s      (b) 1970s  
(c) 1960s      (d) 1990s
- 70.** \_\_\_\_\_ facilitates and improves access to Indian Government data. [Jan. 2025]
- E-Amrit
  - E-NAM
  - NDAP
  - MIDH





71. Which scheme is aimed at promoting manufacture of electric and hybrid vehicle technology and to ensure sustainable growth for the same? [Jan. 2025]
- (a) FAME India (b) E-Amrit  
(c) FIPB (d) PDMC
72. Which Act was initially aimed for regulation of large firms which had relatively large market power? [Jan. 2025]
- (a) RBI Act (b) FEMA  
(c) RERA (d) MRTP Act, 1969
73. From which year onwards, India followed the managed floating exchange rate system? [Jan. 2025]
- (a) 1990 (b) 1991  
(c) 1995 (d) 1993
74. Minimum Support Price (MSP) is fixed by the Government of India at \_\_\_\_\_ of the cost of production. [Jan. 2025]
- (a) Two and a half times  
(b) Half  
(c) One and a half time  
(d) Twice
75. Which policy was adopted to ensure world class industrial infrastructure which would attract cutting edge technology and boost FDI and local investment in the textile sector? [Jan. 2025]
- (a) PM-MITRA  
(b) PM Gati Shakti National Master Plan  
(c) National Logistic Policy  
(d) Production Linked Incentive (PLI) Scheme
76. During the British period modern industrial sector saw lopsided growth with the dominance of \_\_\_\_\_ industries. [Jan. 2025]
- (a) Wool and cotton (b) Nylon and silk  
(c) Cotton and jute (d) Silk and cotton
77. Statutory recognition was granted to \_\_\_\_\_ to facilitate mobilization of adequate resources and their efficient allocation in the capital markets. [Jan. 2025]
- (a) RBI (b) BSE  
(c) SEBI (d) NSE
78. In which of the following sector FDI is not permissible? [Jan. 2025]
- (a) Telecom (b) Aviation  
(c) Atomic energy (d) Defense
79. Production of milk is included in which sector? [Jan. 2025]
- (a) Tertiary Sector (b) Service Sector  
(c) Primary Sector (d) Secondary Sector





## Answer Key

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



## Hints and Solution

1. (d)

2. (d)

3. (c)

4. (d)

5. (a)

6. (a)

7. (a)

8. (d)

9. (c)

10. (b)

11. (d)

12. (c)

13. (a)

14. (b)

15. (a)

India signed a long-term Public Law (PL) 480 agreement to get food aid under Government agricultural trade development assistance, with the US in 1954.

16. (c)

17. (a)

18. (d)

19. (b)

20. (a)

21. (a)

22. (b)

23. (a)

24. (c)

25. (d)

26. (a)

27. (b)

28. (c)

29. (d)

30. (d)

31. (b)

32. (d)

33. (d)

34. (c)

35. (b)

36. (b)

37. (b)

38. (b)

39. (c)

40. (a)



41. (c)

42. (c)

43. (d)

44. (d)

45. (a)

46. (d)

47. (b)

48. (a)

49. (b)

50. (a)

51. (a)

52. (b)

53. (b)

54. (d)

55. (b)

56. (a)

57. (a)

58. (c)

59. (c)

60. (b)

61. (b)

62. (b)

63. (b)

64. (c)

65. (b)

66. (b)

67. (b)

68. (d)

69. (a)

70. (c)

71. (a)

72. (d)

73. (d)

74. (c)

75. (a)

76. (c)

77. (c)

78. (c)

79. (c)

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