

Business Cycles

- 1) The term business cycle refers to
 - a. the ups and downs in production of commodities
 - b. the fluctuating levels of economic activity over a period of time**
 - c. decline in economic activities over prolonged period of time
 - d. increasing unemployment rate and diminishing rate of savings
- 2) A significant decline in general economic activity extending over a period of time is
 - a. business cycle
 - b. contraction phase**
 - c. recession
 - d. recovery
- 3) The trough of a business cycle occurs when ____ hits its lowest point.
 - a. inflation in the economy
 - b. the money supply
 - c. aggregate economic activity**
 - d. the unemployment rate
- 4) The lowest point in the business cycle is referred to as the
 - a. Expansion
 - b. Boom
 - c. Peak
 - d. Trough**
- 5) A leading indicator is
 - a. a variable that tends to move along with the level of economic activity
 - b. a variable that tends to move in advance of aggregate economic activity**
 - c. a variable that tends to move consequent on the level of aggregate economic activity
 - d. None of the above
- 6) A variable that tends to move later than aggregate economic activity is called
 - a. a leading variable
 - b. a coincident variable.
 - c. a lagging variable.**
 - d. a cyclical variable
- 7) Industries that are extremely sensitive to the business cycle are the
 - a. Durable goods and service sectors.
 - b. Non-durable goods and service sectors.
 - c. Capital goods and non-durable goods sectors.
 - d. Capital goods and durable goods sectors.**

- 8) A decrease in government spending would cause
- a. the aggregate demand curve to shift to the right.
 - b. the aggregate demand curve to shift to the left**
 - c. a movement down and to the right along the aggregate demand curve.
 - d. a movement up and to the left along the aggregate demand curve.
- 9) Which of the following does not occur during an expansion?
- a. Consumer purchases of all types of goods tend to increase.
 - b. Employment increases as demand for labour rises.
 - c. Business profits and business confidence tend to increase
 - d. None of the above**
- 10) Which of the following best describes a typical business cycle?
- a. Economic expansions are followed by economic contractions.**
 - b. Inflation is followed by rising income and unemployment.
 - c. Economic expansions are followed by economic growth and development.
 - d. Stagflation is followed by inflationary economic growth
- 11) During recession, the unemployment rate _____ and output _____.
- a. Rises; falls**
 - b. Rises; rises
 - c. Falls; rises
 - d. Falls; falls
- 12) The four phases of the business cycle are
- a. expansion, peak, contraction and trough**
 - b. contraction, expansion, trough and boom
 - c. expansion contraction, peak, and trough
 - d. peak, depression, bust, and boom
- 13) Leading economic indicators
- a. are used to forecast probable shifts in economic policies
 - b. are generally used to forecast economic fluctuations**
 - c. are indicators of stock prices existing in an economy
 - d. are indicators of probable recession and depression
- 14) When aggregate economic activity is declining, the economy is said to be in
- a. Contraction**
 - b. an expansion
 - c. a trough
 - d. a turning point

15) Peaks and troughs of the business cycle are known collectively as

- a. Volatility
- b. Turning points.**
- c. Equilibrium points.
- d. Real business cycle events

16) The most probable outcome of an increase in the money supply is

- a. interest rates to rise, investment spending to rise, and aggregate demand to rise
- b. interest rates to rise, investment spending to fall, and aggregate demand to fall
- c. interest rates to fall, investment spending to rise, and aggregate demand to rise**
- d. interest rates to fall, investment spending to fall, and aggregate demand to fall

17) Which of the following is not a characteristic of business cycles?

- a. Business cycles have serious consequences on the well-being of the society.
- b. Business cycles occur periodically, although they do not exhibit the same regularity.
- c. Business cycles have uniform characteristics and causes**
- d. Business cycles are contagious and unpredictable.

18) Economic recession shares all of these characteristics except

- a. Fall in the levels of investment, employment
- b. Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
- c. Investor confidence is adversely affected and new investments may not be forthcoming
- d. Increase in the price of inputs due to increased demand for inputs**

19) The different phases of a business cycle

- a. do not have the same length and severity**
- b. expansion phase always last more than ten years
- c. last many years and are difficult to get over in short periods
- d. none of the above

20) Which of the following is not an example of coincident indicator?

- a. Industrial production
- b. Inflation
- c. Retail sales
- d. New orders for plant and equipment**

21) According to _____ trade cycles occur due to onset of innovations.

- a. Hawtrey
- b. Adam Smith
- c. J M Keynes
- d. Schumpeter**

22) Economic indicators are –

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

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

- a. Leading indicator
- b. Lagging indicator
- c. Coincident
- d. All of the above**

24) Business cycle generally originate in free market economies, what is a free market economy?

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

25) Which of the following statements is correct?

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

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

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

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

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

28) An important indicator of a nation's well-being is _____

- a. Gross Domestic Product (GDP)**
- b. Gross National Product (GNP)
- c. Gross National Income (GNI)
- d. Growth rate of GDP or GNP

29) In order to influence spending on the goods and services in the short run, monetary policy is directed at directly influencing _____.

- a. Unemployment rate
- b. Inflation rate
- c. Interest rate**
- d. Economic growth rate

30) During business cycles the opposite of a trough is _____

- a. an inflation
- b. a hyperinflation
- c. a trend
- d. a peak**

31) Cost of living increases when business cycle is _____

- a. at peak
- b. contracting
- c. expanding**
- d. at lowest point

32) Post war reconstruction

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

33) Suppose in an economy the population growth rate remained 6% during last 5 years while the economic growth rate during the same period was just 3%.

What will be the consequences of it? Select the right option from the options given below.

- a. Lesser savings → Lower investment → Low income & employment → Low effective demand → Overall slowdown in economic activities**
- b. More consumption expenditure → more demand → more production → more employment & income → Overall boom in economic activities
- c. Increase in labour supply → Lower wage rate → Low income → Low savings & investments → Low production → Overall slowdown in economic activities
- d. None of the above

34) Which of the following statements is correct regarding business cycles?

- a. Business cycles always affect all sectors uniformly.
- b. Business cycles may affect all sectors uniformly.
- c. Business cycles do not affect all sectors uniformly.**
- d. None of these

35) Cyclical business refers to

- a. The business where demand fluctuates seasonally
- b. The business which keeps on changing their product
- c. **The business whose fortunes are closely related to the rate of economic growth.**
- d. All of the above

36) Match List I with List II and choose the correct answer using the codes given below.

	List I		List II
I	Leading indicator	A	Industrial production
II	Lagging indicator	B.	Changes in stock price
III.	Coincident indicator	C.	Corporate profit

- a. I-A, II-B, III-C
- b. **I-B, II-C, III-A**
- c. I-C, II-B, III-A
- d. I-A, II-C, III-B

37) According to British Economist J. M. Keynes _____ was the main cause of massive decline in income and employment during Great Depression of 1930.

- a. **Lower aggregate expenditure in the economy.**
- b. Banking crises and low money supply
- c. Overdebtiness
- d. Lower profits & pessimism

38) Business cycle emerges in _____.

- a. Socialist economy
- b. **Free market economy**
- c. Mixed economic system
- d. None of the above

39) During an upturn in the business cycle the negative output gap does not become much more negative than it was. This is because of the fact that:

- a. **Capacity increases because of the rise in investment.**
- b. Expenditure decreases because of the rise in the interest rate.
- c. The government lowers the taxes during an upturn.
- d. Labour productivity decreases during upturn.

40) The government and industry try to predict the business cycle by using indicators. These are:

- a. Variable that can explain the growth of production capacity.
- b. Variables that precede the actual movements in expenditure and production.
- c. The expenditure categories of consumption, investment and exports.
- d. **Domestic and foreign indications relating to the business cycle and the tendency.**

41) Which of the following is not a variable in the index of leading indicators?

- a. New consumer goods orders
- b. Delayed deliveries
- c. New building permits
- d. **Prime rate**

42) When aggregate economic activity is increasing, the economy is said to be in

- a. **an expansion**
 - b. a contraction.
 - c. a peak.
 - d. a turning point.
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