Ca Foundation MAY - 2025

Paper 4: Business Economics

Most Important Questions List

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Chapter 1: Nature & Scope of Business Economics

1. *Administered prices refer to:*
   - (a) *Prices determined by forces of demand and supply*
   - (b) *Prices determined by sellers in the market*
   - (c) *Prices determined by an external authority which is usually the government*
   - (d) *None of the above*
2. *Scarcity definition of Economics is given by-*
   - (a) *Alfred Marshall*
   - (b) *Samuelson*
   - (c) *Robinson*
   - (d) *Adam Smith*
3. *The benefit of economic study is –*
   - (a) *It ensure that all problems will be appropriately tackled*
   - (b) *It helps in identifying problems*
   - (c) *It enable to examine a problem in its right perspective*
   - (d) *It gives exact solutions to every problem*
4. *Profit motive is a merit of*
   - (a) *Socialism*
   - (b) *Capitalism*
   - (c) *Mixed economy*
   - (d) *None of the above*
5. *Unlimited ends and limited means together present the problem of_______________.*
   - (a) *Scarcity of resources*
   - (b) *Choice*
   - (c) *Distribution*
   - (d) *None of the above*
6. *Economic goods are considered scarce resources because they.*
   - (a) *cannot be increased in quantity.*
   - (b) *do not exist in adequate quantity to satisfy the requirements of the society.*
   - (c) *are of primary importance in satisfying social requirements.*
   - (d) *are limited to man made goods.*
7. *In a mixed economy -*

(a) all economic decisions are taken by the central authority.

(b) all economic decisions are taken by private entrepreneurs.

(c) economic decisions are partly taken by the state and partly by the privateentrepreneurs.

(d) none of the above.

8. Larger production of ____goods would lead to higher production in future.

(a) consumer goods

(b) capital goods

(c) agricultural goods

(d) public goods

9. In Economics, we use the term scarcity to mean -

(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.

10. Macroeconomics is also called——— economics.

(a) applied

(b) aggregate

(c) experimental

(d) none of the above

11. The branch of economic theory that deals with the problem of allocation of resources is-

(a) Micro-Economic theory.

(b) Macro-economic theory.

(c) Econometrics.

(d) None of the above.

12. Which of the following would be considered a topic of study in Macroeconomics?

(a) The effect of increase in wages on the profitability of cotton industry

(b) The effect on steel prices when more steel is imported

(c) The effect of an increasing inflation rate on living standards of people in India

(d) The effect of an increase in the price of coffee on the quantity of tea consumed

13 *In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be:*

(a) 0

(b) 1

(c) 1.5

(d) 2

14. *If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:*

a. Remain the same.

b. Increase.

c. Decrease.

d. Any of these.

15. *If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for:*

a. Coke will decrease.

b. 7-Up will decrease.

c. Coke and 7-UP will increase.

d. Coke and 7-Up will decrease.

16. *If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is*

a. -0.25

b. 0.25

c. -4

d. 4

17. *If the local pizzeria raises the price of a medium pizza from ` 60 to ` 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is :(Use Arc Elasticity Method)*

a. .67

b. 1.5

c. 2.0

d. 3.0

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

a. The percentage change in quantity demanded is less than the percentage change in price.

b. The percentage change in quantity demanded is greater than the percentage change in price.

c. Demand is elastic.

d. The consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low.

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

a. Operation of the law of demand.

b. Consumer surplus enjoyed in hobbies and rare collections

c. Exception to the law of diminishing utility.

d. None of the above

20. Which of the following is a property of an indifference curve?

a. It is convex to the origin due to diminishing marginal rate of substitution

b. The marginal rate of substitution is constant as you move along an indifference curve.

c. Marginal utility is constant as you move along an indifference curve.

d. Total utility is greatest where the budget line cuts the indifference curve.

21. Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:

a. Demand.

b. Price.

c. Cost of production.

d. State of technology.

22. Conspicuous goods are also known as

a. Prestige goods

b. Snob goods

c. Veblen goods

d. All of the above

23. The luxury goods like jewellery and fancy articles will have

a. low income elasticity of demand

b. high income elasticity of demand

c. *zero income elasticity of demand*

d. *none of the above*

24. *Suppose potatoes have (-).0.4 as income elasticity. We can say from the data given that:*

    a. *Potatoes are superior goods.*

    b. *Potatoes are necessities.*

    c. *Potatoes are inferior goods.*

    d. *There is a need to increase the income of consumers so that they can purchase potatoes.*

25. *If the price of orange Juice increases, the demand for apple Juice will ______.*

    a. *increase because they are substitutes*

    b. *decrease because they are substitutes*

    c. *remain the same because real income is increased*

    d. *decrease as real income decreases*

26. *An example of goods that exhibit direct price-demand relationship is*

    a. *Giffen goods*

    b. *Complementary goods*

    c. *Substitute goods*

    d. *None of the above*

27. *An increase in the number of sellers of bikes will increase the*

    a. *The price of a bike*

    b. *Demand for bikes*

    c. *The supply of bikes*

    d. *Demand for helmets*

28. *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. *Decrease in quantity of camera demanded*

    d. *Decrease the price and decrease in the number of cameras bought.*

29. *The elasticity of supply is defined 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*

30. *If the quantity supplied is exactly equal to the relative change in price then the elasticity of supply is*

    a. *Less than one*

    b. *Greater than one*

    c. *One*

    d. *None of the above*

31. *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

32. *The supply curve shifts to the right because of————————*

    a. *improved technology*

    b. *increased price of factors of production*

    c. *increased excise duty*

    d. *all of the above*

33. *Supply is a ___concept.*

    a. *Stock*

    b. *Flow and stock*

    c. *Flow*

    d. *None of the above*

34. *The cross elasticity between Bread and DVDs is:*

    a. *Positive*

    b. *Negative*

    c. *Zero*

    d. *One*

35. *If roller- coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls*

    a. *The demand for roller- coaster rides will rise and the demand curve will* *shift to right*

b. *The demand for roller coaster ride cannot be predicted as it depends on the tastes of consumers for the ride*

c. *There will be an expansion in the demand for roller coaster drive as it complementary*

d. *None of the above*

36. *In the production of wheat, all of the following are variable factors that are used by the farmer except:*

    a. *the seed and fertilizer used when the crop is planted.*

    b. *the field that has been cleared of trees and in which the crop is planted.*

    c. *the tractor used by the farmer in planting and cultivating not only wheat but also corn and barley.*

    d. *the number of hours that the farmer spends in cultivating the wheat fields.*

37. *Diminishing marginal returns implies:*

    a. *decreasing average variable costs.*

    b. *decreasing marginal costs.*

    c. *increasing marginal costs.*

    d. *decreasing average fixed costs.*

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

    a. *The relationship between market price and quantity supplied.*

    b. *The relationship between the firm's total revenue and the cost of production.*

    c. *The relationship between the quantities of inputs needed to produce a given level of output.*

    d. *The relationship between the quantity of inputs and the firm's marginal cost of production.*

39. *Which of the following cost curves is never 'U' shaped?*

    a. *Average cost curve.*

    b. *Marginal cost curve.*

    c. *Average variable cost curve.*

    d. *Average fixed cost curve.*

40. *Which one of the following is also known as planning curve?*

    a. *Long run average cost curve.*

    b. *Short run average cost curve.*

    c. *Average variable cost curve.*

    d. *Average total cost curve.*

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

a. Variable cost.

b. Fixed cost.

c. Opportunity cost.

d. Economic cost.

42. Which of the following is not a determinant of the firm's cost function?

a. The production function.

b. The price of labour.

c. Taxes.

d. The price of the firm's output.

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

a. Diseconomies of scale.

b. Increasing returns.

c. The firm being able to take advantage of large-scale production techniques as itexpands its output.

d. The increase in productivity that results from specialization.

44. Which of the following is a function of an entrepreneur?

a. Initiating a business enterprise.

b. Risk bearing.

c. Innovating.

d. All of the above.

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

a. equals the average product of labour.

b. equals zero.

c. is maximized.

d. none of the above.

46. The production function:

a. is the relationship between the quantity of inputs used and the resulting quantity of a product.

b. Tells us the maximum attainable output from a given combination of inputs.

c. Expresses the technological relationship between inputs and output of a product.

d. All the above.

47. Average product is defined as

a. total product divided by the total cost.

b. total product divided by marginal product.

c. total product divided by the number of units of variable input.

d. marginal product divided by the number of units of variable input.

48. Suppose the first four units of a variable input generate corresponding total outputs of200, 350, 450, 500. The marginal product of the third unit of input is:

(a) 50

(b) 100

(c) 150

(d) 200

49. When marginal costs are below average total costs,

a. average fixed costs are rising.

b. average total costs are falling.

c. average total costs are rising.

d. average total costs are minimized.

50. Marginal cost changes due to changes in ————

a. Total cost

b. Average cost

c. Variable cost

d. Quantity of output

51. Which of the following statements is incorrect?

a. The LAC curve is also called the planning curve of a firm.

b. Total revenue = price per unit × number of units sold.

c. Opportunity cost is also called alternative cost.

d. If total revenue is divided by the number of units sold we get marginal revenue.

52. Which one of the following is an external economies of scale in long run?

a. Risk bearing economies

b. *Financial economies*

c. *Development of skill labour*

d. *None of the above*

53. *Suppose a firm is producing a level of output such that MR > MC, what should be firmdo to maximize its profits?*
    - a. *The firm should do nothing.*
    - b. *The firm should hire less labour.*
    - c. *The firm should increase price.*
    - d. *The firm should increase output.*
54. *Which of the following is not an essential condition of pure competition?*
    - a. *Large number of buyers and sellers*
    - b. *Homogeneous product*
    - c. *Freedom of entry*
    - d. *Absence of transport cost*
55. *Which of the following is not a characteristic of a "price-taker"?*
    - a. *TR = P x Q*
    - b. *AR = Price*
    - c. *Negatively – sloped demand curve*
    - d. *Marginal Revenue = Price*
56. *With a given supply curve, a decrease in demand causes*
    - a. *an overall decrease in price but an increase in equilibrium quantity.*
    - b. *an overall increase in price but a decrease in equilibrium quantity.*
    - c. *an overall decrease in price and a decrease in equilibrium quantity.*
    - d. *no change in overall price but a reduction in equilibrium quantity.*
57. *Which of the following is not a condition of perfect competition?*
    - a. *A large number of firms.*
    - b. *Perfect mobility of factors.*
    - c. *Informative advertising to ensure that consumers have good information.*
    - d. *Freedom of entry and exit into and out of the market.*
58. *Oligopolistic industries are characterized by:*
    - a. *a few dominant firms and substantial barriers to entry.*
    - b. *a few large firms and no entry barriers.*
    - c. *a large number of small firms and no entry barriers.*

d. one dominant firm and low entry barriers.

59. For a price-taking firm:

a. marginal revenue is less than price.

b. marginal revenue is equal to price.

c. marginal revenue is greater than price.

d. the relationship between marginal revenue and price is indeterminate.

60. Average revenue curve is also known as:

a. Profit Curve

b. Demand Curve

c. Average Cost Curve

d. Indifference Curve

61. Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:

a. uniform

b. different

c. less

d. zero

62. A firm encounters its "shutdown point" when:

a. average total cost equals price at the profit-maximising level of output.

b. average variable cost equals price at the profit-maximising level of output.

c. average fixed cost equals price at the profit-maximising level of output.

d. marginal cost equals price at the profit-maximising level of output.

63. A purely competitive firm's supply schedule in the short run is determined by

a. its average revenue.

b. its marginal revenue.

c. its marginal utility for money curve.

d. its marginal cost curve.

64. Under perfect competition, in the long run, there will be no ___ ___.

a. normal profits

b. supernormal profits.

c. production

d. costs.

65. Agricultural goods markets depict characteristics close to

a. perfect competition.

b. oligopoly.

c. monopoly.

d. monopolistic competition.

66. Which of the following is not a characteristic of a monopolistically competitive market?

a. Free entry and exit

b. Abnormal profits in the long run

c. Many sellers

d. Differentiated products

67. Total revenue =

a. price × quantity

b. price × income

c. income × quantity

d. none of the above

68. When e > 1 then MR is

a. zero

b. negative

c. positive

d. one

69. A Monopolist is a

a. price-maker

b. price-taker

c. price-adjuster

d. none of the above

70. Stock exchange market is an example of

a. unregulated market

b. regulated market

c. spot market

d. none of the above

71. When the products are sold through a centralized body, oligopoly is known as

a. organized oligopoly

b. partial oligopoly

c. competitive oligopoly

d. syndicated oligopoly

72. The firm and the industry are one and the same in_____________

a. Perfect competition

b. Monopolistic competition

c. Duopoly

d. Monopoly

73. Conditions for equilibrium of a firm are:

a. MR = MC

b. MC should cut MR from below.

c. MR = AR and MC should cut MR from below.

d. MR = MC and MC should have a positive slope.

74. Price varies by attributes such as location or by Customer Segment is_______ degreeof Price Discrimination.

a. First

b. Second

c. Third

d. Fourth

Chapter 5: Business Cycles

75. *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*

76. *The lowest point in the business cycle is referred to as the*

    a. *Expansion.*

    b. *Boom.*

    c. *Peak.*

    d. *Trough.*

77. *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.*

78. *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.*

79. *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*

80. *Peaks and troughs of the business cycle are known collectively as*

    a. *Volatility.*

    b. *Turning points.*

c. Equilibrium points.

d. Real business cycle events.

81. 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

82. 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

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

a. The economy where government is in possession of major assets

b. The economy where private firms control major assets

c. The economy where decisions of productions are taken by public sector undertakings

d. The economy where price is controlled by government.

84. 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

85. The cobweb theory was propounded by ________

a. Hawtrey

b. Adam Smith

c. J M Keynes

d. Nicholas Kaldor

Chapter 6: Determination of National Income

86. *Gross Domestic Product (GDP) of any nation*

   a. *excludes capital consumption and intermediate consumption*

   b. *is inclusive of capital consumption or depreciation*

   c. *is inclusive of indirect taxes but excludes subsidies*

   d. *None of the above*

87. *Non-economic activities are*

   a. *those activities whose value is excluded from national income calculation as itwill involve double counting*

   b. *those which produce goods and services, but since these are not exchanged in amarket transaction they do not command any market value*

   c. *those which do not involve production of goods and services as they are meantto provide hobbies and leisure time activities*

   d. *those which result in production for self consumption and therefore not includedin national income calculation*

88. *Which of the following enters into the calculation of national income?*

   a. *The value of the services that accompany the sale*

   b. *Additions to inventory stocks of final goods and materials*

   c. *Stocks and bonds sold during eth current year*

   d. *(a) and (b) above*

89. *Gross National Product at market prices GNP $_{MP}$ is*

   a. *GDP $_{MP}$ + Net Factor Income from Abroad*

   b. *GDP $_{MP}$ - Net Factor Income from Abroad*

   c. *GDP $_{MP}$ - Depreciation*

   d. *GDP $_{MP}$ + Net Indirect Taxes*

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

   a. *net factor income from abroad*

   b. *net indirect taxes (i.e., Indirect taxes - Subsidies)*

   c. *net indirect taxes (i.e., Indirect taxes + Subsidies)*

   d. *depreciation (consumption of fixed capital)*

91. *Which of the following is an example of transfer payment?*

   a. *Old age pensions and family pensions*

b. *Scholarships given to deserving diligent students.*

c. *Compensation given for loss of property due to floods*

d. *All the above*

92. *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*

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

a. *a change in spending due to a change in income*

b. *a change in income that is saved after consumption*

c. *part of income that is spent on consumption.*

d. *part of income that is not saved.*

94. *If the consumption function is expressed as C = a + bY then a represents*

a. *autonomous consumer expenditure.*

b. *the marginal propensity to consume.*

c. *the consumption income relationship*

d. *Non- linear consumption function*

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

a. *25*

b. *70*

c. *50*

d. *100*

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

a. *aggregate demand*

b. *consumption function*

c. *the national demand for labor*

d. *the price level*

97. *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

98. According to Keynes, consumption expenditure is determined by

a. the level of interest rates

b. extent of government taxes and subsidies

c. disposable income

d. autonomous investment expenditure

Chapter 7: Public Finance

99. *The justification for government intervention is best described by*
    - a. *The need to prevent recession and inflation in the economy*
    - b. *The need to modify the outcomes of private market actions*
    - c. *The need to bring in justice in distribution of income and wealth*
    - d. *All the above*

100. *Which function does the government perform when it provides transfer payments to offersupport to the underprivileged*
    - a. *Allocation*
    - b. *Efficiency*
    - c. *Distribution*
    - d. *None of the above*

101. *In a federal set up, the stabilization function can be effectively performed by*
    - a. *Respective state governments*
    - b. *Ministry of taxes*
    - c. *The government at the centre*
    - d. *None of the above*

102. *Fiscal Federalism refers to ________________.*
    - a. *Organizing and implementing development plans*
    - b. *Sharing of political power between centers and states*
    - c. *The management of fiscal policy by a nation*
    - d. *Division of economic functions and resources among different layers of the government*

103. *Which of the following is not a criterion for determining distribution of central taxesamong states for 2021-26 period*
    - a. *Demographic performance*
    - b. *Forest and ecology*
    - c. *Infrastructure performance*
    - d. *Tax and fiscal efforts*

104. *Providing social sector services such as health and education is*

a. the responsibility of the central government

b. the responsibility of the respective state governments

c. the responsibility of local administrative bodies

d. none of the above

105. Macroeconomic stabilization may be achieved through

a. Free market economy

b. Fiscal policy

c. Monetary policy

d. (b) and (c) above

106. Which of the following is an example of market failure?

a. Prices of goods tend to rise because of shortages

b. Merit goods are not sufficiently produced and supplied

c. Prices fall leading to fall in profits and closure of firms

d. None of the above

107. 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

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

a. free riding

b. moral hazard

c. poor upbringing

d. Inefficiency

109. 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

110. The Competition Act, 2002 aims to -

a. *protect monopoly positions of firms that have developed unique innovations*

b. *to promote and sustain competition in markets*

c. *to determine pricing under natural monopoly.*

d. *None of the above*

111.*A government subsidy*

a. *is a market-based policy*

b. *involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities*

c. *is generally provided for merit goods*

d. *all the above*

112.*The argument for education subsidy is based on*

a. *Education is costly*

b. *the ground that education is merit good*

c. *education creates positive externalities*

d. *b) and c) above*

113.*In NITI Aayog, NITI stands for*

a. *National Initiative for Transforming India*

b. *National Institution for Transforming India*

c. *National Institute for Technology and Innovation*

d. *None of the above*

114.*Public debt management aims at*

a. *An efficient budgetary policy to avail of domestic debt facilities*

b. *Raising loans from international agencies at lower rates of interest*

c. *Raising the required amount of funding at the desired risk and cost levels*

d. *Management of public expenditure to reduce public debt*

115.*Corporate tax*

a. *is collected by the union government and can be a capital receipt or revenuereceipt*

b. *may be collected by the respective states and fall under revenue receipts*

c. *may be collected either by the centre or states and fall under revenue receipts*

d. *is collected by the union government and is a revenue receipt*

116. 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

117. Which of the following is a capital receipt?

a. Licence fee received
b. Sale proceeds from disinvestment
c. Assistance from Japan for covid vaccine
d. Dividend from a public sector enterprise

118. 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

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

a. Increasing the taxes and reducing the aggregate demand
b. Decreasing taxes to ensure higher disposable income
c. Increasing government expenditure and increasing taxes
d. None of the above

120. A recession is characterized by

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

121. 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

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

a. the government may cut interest rates to encourage consumption and investment

b. the government may cut taxes to increase aggregate demand

c. the government may follow a policy of balanced the budget.

d. None of the above will work

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

a. The time required to identify the appropriate policy

b. The time required to identify to pass a legislation

c. The time required to identify the need for a policy change

d. The time required to establish the outcomes of fiscal policy

Chapter 8: Money Market

124. *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*

125. *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*

126. *The Cambridge approach to quantity theory is also known as*

   a. *Cash balance approach*

   b. *Fisher's theory of money*

   c. *Classical approach*

   d. *Keynesian Approach*

127. *Demand for money is*

   a. *Derived demand*

   b. *Direct demand*

   c. *Real income demand*

   d. *Inverse demand*

128. *Reserve money is also known as*

   a. *central bank money*

   b. *base money*

   c. *high powered money*

   d. *all the above*

129. *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

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

a. to provide the necessary reserves for the functioning of the central bank

b. to meet the demand for money by the banking system

c. to meet the central bank prescribed reserve requirements and to meet settlement obligations.

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

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

a. required reserve ratio.

b. money multiplier.

c. deposit ratio.

d. discount rate.

132. 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.

133. The main objective of monetary policy in India is ______:

a. reduce food shortages to achieve stability

b. economic growth with price stability

c. overall monetary stability in the banking system

d. reduction of poverty and unemployment

134. 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

135. RBI provides financial accommodation to the commercial banks through repos/reverserepos under

a. Market Stabilisation Scheme (MSS)

b. The Marginal Standing Facility (MSF)

c. Liquidity Adjustment Facility (LAF).

d. Statutory Liquidity Ratio (SLR)

136. The Monetary Policy Framework Agreement is on

a. the maximum repo rate that RBI can charge from government

b. the maximum tolerable inflation rate that RBI should target to achieve pricestability.

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

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

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

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

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

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

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

Chapter 9: International Trade

138. *Which of the following theories advocates that countries should produce those goods forwhich 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*

139. *Which of the following holds that a country can increase its wealth by encouragingexports and discouraging imports*

   a. *Capitalism*

   b. *Socialism*

   c. *Mercantilism*

   d. *Laissez faire*

140. *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*

141. *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*

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

   a) *preferential tariff*

   b) *ad valorem tariff*

   c) *specific tariff*

   d) *mixed or compound tariff*

143. *Anti-dumping duties are*

   a) *additional import duties so as to offset the effects of* exporting firm's unfair charging of prices in the foreign market which are lower than production costs.

b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government

c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market

d) Both (a) and (c) above

144. 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

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

a) import quotas

b) tariffs

c) export subsidies

d) technical standards of products

146. 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

147. 'Bound tariff' refers to

a. clubbing of tariffs of different commodities into one common measure

b. the lower limit of the tariff below which a nation cannot be taxing its imports

c. the upper limit on the tariff that a country can levy on a particular good,according to its commitments under the GATT and WTO.

d. the limit within which the country's export duty should fall so that there are cheaper exports

148. The World Trade Organization (WTO)

a. has now been replaced by the GATT

b. *has an inbuilt mechanism to settle disputes among members*

c. *was established to ensure free and fair trade internationally.*

d. *(b) and c) above*

149. *The WTO commitments*

a. *affect developed countries adversely because they have comparatively less agricultural goods*

b. *affect developing countries more because they need to make radical adjustments*

c. *affect both developed and developing countries equally*

d. *affect none as they increase world trade and ensure prosperity to all*

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

a. *The Doha Round*

b. *The Tokyo Round*

c. *The Uruguay Round*

d. *The Kennedy Round*

151. *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*

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

a. *wholly correct*

b. *partially correct*

c. *wholly incorrect*

d. *None of the above*

153. *An increase in the supply of foreign exchange*

a. *shifts the supply curve to the right and as a consequence, the exchange rate declines*

b. *shifts the supply curve to the right and as a consequence, the exchange rate increases*

c. *more units of domestic currency are required to buy a unit of foreign exchange*

d. *the domestic currency depreciates and the foreign currency appreciates*

154. *At any point of time, all markets tend to have the same exchange rate for a given currency due to*

a. *Hedging*

b. *Speculation*

c. *Arbitrage*

d. *Currency futures*

155. *Which is the leading country in respect of inflow of FDI to India?*

a. *Mauritius*

b. *USA*

c. *Japan*

d. *USA*

156. *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*

157. *A foreign direct investor*

a. *May enter India only through automatic route*

b. *May enter India only through government route*

c. *May enter India only through equity in domestic enterprises*

d. *Any of the above*

158. *Which of the following statements is incorrect?*

a. *Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.*

b. Foreign portfolio investments involve flow of 'financial capital'.

c. Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services.

d. Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.

159. Which of the following would be an example of foreign direct investment from Country X?

a. A firm in Country X buys bonds issued by a Chinese computer manufacturer.

b. A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors

c. Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm

d. *None of the above*

Chapter 10: Indian Economy

160. *The first wave of liberalization starts in India*

   a. *In 1951*

   b. *In 1980's*

   c. *In 1990*

   d. *In 1966*

161. *Merchandise Exports from India Scheme was replaced by -*

   a. *Remission of Duties and Taxes on Export Products (RoDTEP) in 2021*

   b. *National Logistics Policy (NLP) in 2020*

   c. *Remission of Duties and Taxes on Export Products (RoDTEP) in 2019*

   d. *None of the above*

162. *FAME-India Scheme aims to*

   a. *Enhance faster industrialization through private participation*

   b. *to promote manufacturing of electric and hybrid vehicle technology*

   c. *to spread India's fame among its trading partners*

   d. *None of the above*

163. *E-NAM is -*

   a. *An electronic name card given to citizens of India*

   b. *National Agriculture Market with the objective of creating a unified nationalmarket for agricultural commodities.*

   c. *a pan-India electronic trading portal which networks the existing APMC mandis*

   d. *b) and c) above*

164. *Imports of foreign goods and entry of foreign investments were restricted in India because -*

   a. *The government wanted people to follow the policy of' Be Indian; Buy Indian'*

   b. *Because foreign goods were costly and meant loss of precious foreign exchange*

   c. *Government policy was directed towards protection of domestic industries fromforeign competition*

   d. *Government wanted to preserve Indian culture and to avoid influence of foreignculture*

165. *Which one of the following is a feature of green revolution -*

a.use of soil friendly green manure to preserve fertility of soil

b.grow more crops by redistributing land to landless people

c.High yielding varieties of seeds and scientific cultivation

d.Diversification to horticulture

166. *The new economic policy of 1991 manifest in -*

  a. *State led industrialization and import substitution*
  b. *Rethinking the role of markets versus the state*
  c. *Emphasized the role of good governance*
  d. *Bringing about reduction in poverty and redistributive justice*