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- N/A - Means MCQ not in chapter

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Nature and Scope of Business Economics

Chapter 1.2 Basic Problems Of An Economy And Role Of Price Mechanism

1. Economists regard decision making as important because:

- (a) The resources required to satisfy our unlimited wants and needs are finite, or scarce.
- (b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.
- (c) Resources have alternative uses.
- (d) All the above.

Answer: (d)

2. Business Economics is -

- (a) Abstract and applies the tools of Microeconomics.
- (b) Involves practical application of economic theory in business decision making.
- (c) Incorporates tools from multiple disciplines.
- (d) (b) and (c) above.

Answer: (d)

3. 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.

Answer: (b)

4. What implication(s) does resource scarcity have for the satisfaction of wants?

- (a) Not all wants can be satisfied.
- (b) We will never be faced with the need to make choices.
- (c) We must develop ways to decrease our individual wants.
- (d) The discovery of new natural resources is necessary to increase our ability to satisfy

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wants.

Answer: (a)

5. Which of the following is a normative statement?

- (a) Planned economies allocate resources via government departments.
- (b) Most transitional economies have experienced problems of falling output and rising prices over the past decade.
- (c) There is a greater degree of consumer sovereignty in market economies than planned economies.
- (d) Reducing inequality should be a major priority for mixed economies.

Answer: (d)

6. In every economic system, scarcity imposes limitations on

- (a) households, business firms, governments, and the nation as a whole.
- (b) households and business firms, but not the governments.
- (c) local and state governments, but not the federal government.
- (d) households and governments, but not business firms.

Answer: (a)

7. Macroeconomics is also called——— economics.

- (a) applied
- (b) aggregate
- (c) experimental
- (d) none of the above

Answer: (b)

8. An example of 'positive' economic analysis would be:

- (a) an analysis of the relationship between the price of food and the quantity purchased.
- (b) determining how much income each person should be guaranteed.
- (c) determining the 'fair' price for food.
- (d) deciding how to distribute the output of the economy.

Answer: (a)

9. A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of -

- (a) Macro-Economics.
- (b) Descriptive Economics.
- (c) Micro-economics.
- (d) Normative economics.

Answer: (a)

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10. Which of the following does not suggest a macro approach for India?

- (a) Determining the GNP of India.
- (b) Finding the causes of failure of ABC Ltd.
- (c) Identifying the causes of inflation in India.
- (d) Analyse the causes of failure of industry in providing large scale employment

Answer: (b)

11. Ram: My corn harvest this year is poor.

Krishan: Don't worry. Price increases will compensate for the fall in quantity supplied.

Vinod: Climate affects crop yields. Some years are bad, others are good.

Madhu: The Government ought to guarantee that our income will not fall.

In this conversation, the normative statement is made by -

- (a) Ram
- (b) Krishan
- (c) Vinod
- (d) Madhu

Answer: (d)

12. Consider the following and decide which, if any, economy is without scarcity:

- (a) The pre-independent Indian economy, where most people were farmers.
- (b) A mythical economy where everybody is a billionaire.
- (c) Any economy where income is distributed equally among its people.
- (d) None of the above.

Answer: (d)

13. 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.

Answer: (d)

14. 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.

Answer: (a)

15. Which of the following is not the subject matter of Business Economics?

- (a) Should our firm be in this business?
- (b) How much should be produced and at price should be kept?
- (c) How will the product be placed in the market?

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(d) How should we decrease unemployment in the economy?

Answer: (d)

16. Which of the following is a normative economic statement?

- (a) Unemployment rate decreases with industrialization
- (b) Economics is a social science that studies human behaviour.
- (c) The minimum wage should be raised to ₹ 200/- per day
- (d) India spends a huge amount of money on national defence.

Answer: (c)

17. 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

Answer: (c)

18. The difference between positive and normative Economics is:

- (a) Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.
- (b) Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.
- (c) Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.
- (d) Positive Economics prescribes while normative Economics describes.

Answer: (b)

19. Which of the following is not within the scope of Business Economics?

- (a) Capital Budgeting
- (b) Risk Analysis
- (c) Business Cycles
- (d) Accounting Standards

Answer: (d)

20. Which of the following statements is incorrect?

- (a) Business economics is normative in nature.
- (b) Business Economics has a close connection with statistics.
- (c) Business Economist need not worry about macro variables.
- (d) Business Economics is also called Managerial Economics.

Answer: (c)

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21. 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.

Answer: (b)

22. In a free market economy the allocation of resources is determined by

- (a) voting done by consumers.
- (b) a central planning authority.
- (c) consumer preferences.
- (d) the level of profits of firms.

Answer: (c)

23. A capitalist economy uses _____ as the principal means of allocating resources.

- (a) demand
- (b) supply
- (c) efficiency
- (d) prices

Answer: (d)

24. Which of the following is considered as a disadvantage of allocating resources using the market system?

- (a) Income will tend to be unevenly distributed.
- (b) People do not get goods of their choice.
- (c) Men of Initiative and enterprise are not rewarded.
- (d) Profits will tend to be low.

Answer: (a)

25. Which of the following statements does not apply to a market economy?

- (a) Firms decide whom to hire and what to produce.
- (b) Firms aim at maximizing profits.
- (c) Households decide which firms to work for and what to buy with their incomes.
- (d) Government policies are the primary forces that guide the decisions of firms and households.

Answer: (d)

26. 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 private entrepreneurs.

- (d) none of the above.

Answer: (c)

27. The central problem in economics is that of

- (a) comparing the success of command versus market economies.
- (b) guaranteeing that production occurs in the most efficient manner.
- (c) guaranteeing a minimum level of income for every citizen.
- (d) allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.

Answer: (d)

28. Capital intensive technique would get chosen in a

- (a) labour surplus economy where the relative price of capital is lower.
- (b) capital surplus economy where the relative price of capital is lower.
- (c) developed economy where technology is better.
- (d) developing economy where technology is poor.

Answer: (b)

29. Which of the following is not one of the four central questions that the study of economics is supposed to answer?

- (a) Who produces what?
- (b) When are goods produced?
- (c) Who consumes what?
- (d) How are goods produced?

Answer: (b)

30. Larger production of _____ goods would lead to higher production in future.

- (a) consumer goods
- (b) capital goods
- (c) agricultural goods
- (d) public goods

Answer: (b)

31. The economic system in which all the means of production are owned and controlled by private individuals for profit.

- (a) Socialism
- (b) Capitalism
- (c) Mixed economy
- (d) Communism

Answer: (b)

32. Macro Economics is the study of _____.

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- (a) all aspects of scarcity.
- (b) the national economy and the global economy as a whole.
- (c) big businesses.
- (d) the decisions of individual businesses and people.

Answer: (b)

33. Freedom of choice is the advantage of -

- (a) Socialism
- (b) Capitalism
- (c) Communism
- (d) None of the above

Answer: (b)

34. Exploitation and inequality are minimal under:

- (a) Socialism
- (b) Capitalism
- (c) Mixed economy
- (d) None of the above

Answer: (a)

35. 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

Answer: (c)

36. In Economics, the central economic problem means:

- (a) Output is restricted to the limited availability of resources
- (b) Consumer do not have as much money as they would wish
- (c) There will always be certain level of unemployment
- (d) Resources are not always allocated in an optimum way

Answer: (a)

37. Scarcity definition of Economics is given by-

- (a) Alfred Marshall
- (b) Samuelson
- (c) Robinson
- (d) Adam Smith

Answer: (c)

38. The definition "Science which deals with wealth of Nation" was given by:

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- (a) Alfred Marshall
- (b) A C Pigou
- (c) Adam Smith
- (d) J B Say

Answer: (c)

39. Which of the following is not one of the features of capitalist economy?

- (a) Right of private property
- (b) Freedom of choice by the consumers
- (c) No profit, No Loss motive
- (d) Competition

Answer: (c)

40. There is need of economic study, because –

- (a) The resources are limited
- (b) The wants are unlimited
- (c) The resources are unlimited
- (d) Both a and b

Answer: (d)

41. 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

Answer: (c)

42. The managerial economics –

- (a) Is Applied Economics that fills the gap between economic theory and business practice
- (b) Is just a theory concept
- (c) Trains managers how to behave in recession
- (d) Provides the tools which explain various concepts

Answer: (a)

43. Which of the following statements is correct?

- (a) Micro economics is important for study of a particular household and a particular firm
- (b) Macro economics is important for study of economic conditions of a country
- (c) None of the above
- (d) Both a and b

Answer: (d)

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44. Mr. Satish hired a business consultant to guide him for growth of his business. The consultant visited his factory and suggested some changes with respect to staff appointment, loan availability and so on. Which approach is that consultant using?

- (a) Micro economics
- (b) Macro economics
- (c) None of the above
- (d) Both a and b

Answer: (a)

45. Profit motive is a merit of

- (a) Socialism
- (b) Capitalism
- (c) Mixed economy
- (d) None of the above

Answer: (b)

46. _____ is also called as command economy

- (a) Socialist
- (b) Capitalist
- (c) Mixed economy
- (d) None of the above

Answer: (a)

47. Which of the following statements is/are correct regarding business economics?

- (a) Business economics attempts to indicate how business policies are firmly rooted in economic principles.
- (b) Business economics uses micro economic analysis of the business unit and macro economic analysis of business environment.
- (c) Business economics takes a pragmatic approach towards facilitating an integration between economic theory and business practices.
- (d) All the above.

Answer: (d)

48. Unlimited ends and limited means together present the problem of _____.

- (a) Scarcity of resources
- (b) Choice
- (c) Distribution
- (d) None of the above

Answer: (b)

Theory of Demand and Supply

Chapter 2.3 Supply

1. Demand for a commodity refers to:

- (a) desire backed by ability to pay for the commodity.
- (b) need for the commodity and willingness to pay for it
- (c) the quantity demanded of that commodity at a certain price.
- (d) the quantity of the commodity demanded at a certain price during any particular period of time.

Answer: (d)

2. Contraction of demand is the result of :

- (a) decrease in the number of consumers.
- (b) increase in the price of the good concerned.
- (c) increase in the prices of other goods.
- (d) decrease in the income of purchasers.

Answer: (b)

3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?

- (a) The preference of the individual.
- (b) His monetary income.
- (c) Price of the commodity
- (d) Price of related goods.

Answer: (c)

4. Which of the following pairs of goods is an example of substitutes?

- (a) Tea and sugar.
- (b) Tea and coffee.
- (c) Pen and ink.
- (d) Shirt and trousers.

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Answer: (b)

5. 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

Answer: (b)

6. The Law of Demand, assuming other things to remain constant, establishes the relationship between:

- (a) income of the consumer and the quantity of a good demanded by him.
- (b) price of a good and the quantity demanded.
- (c) price of a good and the demand for its substitute.
- (d) quantity demanded of a good and the relative prices of its complementary goods.

Answer: (b)

7. Identify the factor which generally keeps the price-elasticity of demand for a good low:

- (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.

Answer: (b)

8. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:

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

Answer: (c)

9. In the case of an inferior good, the income elasticity of demand is:

- (a) Positive.
- (b) Zero.
- (c) Negative.
- (d) infinite.

Answer: (c)

10. 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.

Answer: (b)

11. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:

- (a) horizontal.
- (b) Vertical.
- (c) positively sloped.
- (d) negatively sloped.

Answer: (b)

12. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:

- (a) Shift towards left since these are substitutes
- (b) Shift towards right since these are substitutes
- (c) Remain at the same level
- (d) None of the above

Answer: (b)

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

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

Answer: (b)

14. A movement along the demand curve for soft drinks is best described as:

- (a) An increase in demand.
- (b) A decrease in demand.
- (c) A change in quantity demanded.
- (d) A change in demand.

Answer: (c)

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.

Answer: (d)

16. If a good is a luxury, its income elasticity of demand is:

- (a) Positive and less than 1.
- (b) Negative but greater than -1.
- (c) Positive and greater than 1.
- (d) Zero.

Answer: (c)

17. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%.

This indicates that demand for hot dogs is:

- (a) Elastic.
- (b) Inelastic.
- (c) Unitarily elastic.
- (d) Perfectly elastic.

Answer: (a)

18. 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

Answer: (b)

19. Given the following four possibilities, which one results in an increase in total consumer expenditure?

- (a) Demand is unitary elastic and price falls.
- (b) Demand is elastic and price rises.
- (c) Demand is inelastic and price falls.
- (d) Demand is inelastic and prices rises.

Answer: (d)

20. Which of the following statements about price elasticity of supply is correct?

- (a) Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good
- (b) Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price
- (c) Price elasticity of supply in the long run would be different from that of the short run
- (d) All the above

Answer: (d)

21. Which of the following is an incorrect statement?

- (a) When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes.
- (b) When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise
- (c) As the income of the consumer increases, the demand for the commodity increases always and vice versa.
- (d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases

Answer: (c)

22. Suppose the price of movies seen at a theatre rises from ₹ 120 per person to ₹ 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)

- (a) .5
- (b) .8
- (c) 1.0
- (d) 1.2

Answer: (b)

23. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from ₹ 300 to ₹ 200 and the quantity demanded increases from 3,000 plate- settings to 5,000 plate-settings, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)

- (a) .8
- (b) 1.0
- (c) 1.25
- (d) 1.50

Answer: (c)

24. When the numerical value of cross elasticity between two goods is very high, it means

- (a) The goods are perfect complements and therefore have to be used together
- (b) The goods are perfect substitutes and can be used with ease in place of one another
- (c) There is a high degree of substitutability between the two goods
- (d) The goods are neutral and therefore cannot be considered as substitutes

Answer: (c)

25. 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

Answer: (d)

26. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?

- (a) Quantity demanded will fall by a relatively large amount.
- (b) Quantity demanded will fall by a relatively small amount.
- (c) Quantity demanded will rise in the short run, but fall in the long run.
- (d) Quantity demanded will fall in the short run, but rise in the long run.

Answer: (b)

27. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:

- (a) Large fall in quantity demanded.
- (b) Large fall in demand.
- (c) Small fall in quantity demanded.
- (d) Small fall in demand.

Answer: (a)

28. 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 percent.
- (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.

Answer: (c)

29. A decrease 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 inelastic.
- (d) The consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.

Answer: (b)

30. 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.

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- 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.

Answer: (a)

31. Demand for a good will tend to be more elastic if it exhibits which of the following characteristics?

- (a) It represents a small part of the consumer's income.
- (b) The good has many substitutes available.
- (c) It is a necessity (as opposed to a luxury).
- (d) There is little time for the consumer to adjust to the price change.

Answer: (b)

32. Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?

- (a) The good has many substitutes.
- (b) The good is a luxury (as opposed to a necessity).
- (c) The good is a small part of the consumer's income.
- (d) There is a great deal of time for the consumer to adjust to the change in prices.

Answer: (c)

33. Suppose a consumer's income increases from ₹ 30,000 to ₹ 36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Use Arc Elasticity Method)

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

Answer: (b)

34. Total utility is maximum when:

- (a) Marginal utility is zero.
- (b) Marginal utility is at its highest point.
- (c) Marginal utility is negative
- (d) None of the above

Answer: (a)

35. 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) Diminishing marginal utility of money
- (d) Consumers would always prefer more of a particular good to less of it, other things remaining the same.

Answer: (c)

36. An indifference curve slopes down towards right since more of one commodity and less of another result in:

- (a) Same level of satisfaction.
- (b) Greater satisfaction.
- (c) Maximum satisfaction.
- (d) Any of the above

Answer: (a)

37. Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same?

- (a) Supply curve will shift to the left.
- (b) Supply curve will shift to the right.
- (c) Supply will not shift, but the quantity of cars produced per month will decrease.
- (d) Supply will not shift, but the quantity of cars produced per month will increase.

Answer: (a)

38. Which of the following statements is incorrect?

- (a) An indifference curve must be downward-sloping to the right.
- (b) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
- (c) The income elasticity for inferior goods to a consumer is positive
- (d) The total effect of a change in the price of a good on its quantity demanded is called the price effect.

Answer: (c)

39. 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

Answer: (c)

40. What will happen in the rice market if buyers are expecting higher rice prices in the near future?

- (a) The demand for rice will increase and the demand curve will shift to the right
- (b) The demand for rice will decrease and the demand curve will shift to the left
- (c) The demand for rice will be unaffected as it is a necessity

- (d) The demand for wheat will increase and the demand curve will shift to the right

Answer: (a)

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

- (a) horizontal.
- (b) downward-sloping to the right.
- (c) vertical.
- (d) upward-sloping to the right.

Answer: (d)

42. By consumer surplus, economists mean

- (a) The area inside the budget line above the price of the commodity
- (b) The area between the average revenue and marginal revenue curves.
- (c) The difference between the maximum amount that a person is willing to pay for a good and its market price.
- (d) The difference between the market price and the supply curve

Answer: (c)

43. 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.

Answer: (a)

44. When economists speak of the utility of a certain good, they are referring to

- (a) The demand for the good.
- (b) The usefulness of the good in consumption.
- (c) The expected satisfaction derived from consuming the good.
- (d) The rate at which consumers are willing to exchange one good for another.

Answer: (c)

45. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:

- (a) Zero
- (b) Infinity
- (c) Equal to one
- (d) Greater than zero but less than infinity.

Answer: (a)

46. For a normal good with a downward sloping demand curve:

- (a) The price elasticity of demand is negative; the income elasticity of demand is negative.
- (b) The price elasticity of demand is positive; the income elasticity of demand is negative.
- (c) The price elasticity of demand is positive; the income elasticity of demand is positive.
- (d) The price elasticity of demand is negative; the income elasticity of demand is positive.

Answer: (d)

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

- (a) Improvements in its production technology
- (b) Fall in the prices of other goods which can be produced using the same inputs.
- (c) Fall in the prices of factors of production used in its production.
- (d) all of the above.

Answer: (d)

48. 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.

Answer: (b)

49. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:

- (a) Zero.
- (b) Infinite.
- (c) Equal to one.
- (d) Greater than zero but less than one.

Answer: (b)

50. Contraction of supply is the result of:

- (a) Decrease in the number of producers.
- (b) Decrease in the price of the good concerned.
- (c) Increase in the prices of other goods.
- (d) Decrease in the outlay of sellers.

Answer: (b)

51. Conspicuous goods are also known as

- (a) Prestige goods
- (b) Snob goods
- (c) Veblen goods
- (d) All of the above

Answer: (d)

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52. 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

Answer: (c)

53. As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means inferior goods have

- (a) income elasticity of demand less than one
- (b) negative income elasticity of demand
- (c) zero income elasticity of demand
- (d) unitary income elasticity of demand

Answer: (b)

54. When income increases the money spent on necessities of life may not increase in the same proportion. This means

- (a) income elasticity of demand is zero
- (b) income elasticity of demand is one
- (c) income elasticity of demand is greater than one
- (d) income elasticity of demand is less than one

Answer: (d)

55. 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

Answer: (b)

56. A good which cannot be consumed more than once is known as

- (a) Durable good
- (b) Non-durable good
- (c) Producer good
- (d) None of the above

Answer: (b)

57. A relative price is

- (a) price expressed in terms of money
- (b) what you get paid for babysitting your cousin

- (c) the ratio of one money price to another
- (d) equal to a money price

Answer: (c)

58. A point below the budget line of a consumer

- (a) Represents a combination of goods which costs the whole of consumer's income
- (b) Represents a combination of goods which costs less than the consumer's income
- (c) Represents a combination of goods which is unattainable to the consumer given his/her money income
- (d) Represents a combination of goods which costs more than the consumers' income

Answer: (b)

59. Demand is the

- (a) the desire for a commodity given its price and those of related commodities
- (b) the entire relationship between the quantity demanded and the price of a good other things remaining the same
- (c) willingness to pay for a good if income is larger enough
- (d) ability to pay for a good

Answer: (b)

60. 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.

Answer: (c)

61. The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are

- (a) Normal goods
- (b) Complements
- (c) Substitutes
- (d) Inferior goods

Answer: (c)

62. Chicken and fish are substitutes. If the price of chicken increases, the demand for fish will

- (a) Increase or decrease but the demand curve for chicken will not change
- (b) Increase and the demand curve for fish will shift rightwards.
- (c) Not change but there will be a movement along the demand curve for fish.
- (d) Decrease and the demand curve for fish will shift leftwards.

Answer: (b)

63. Potato chips and popcorn are substitutes. A rise in the price of potato chips will _____ the demand for popcorn and the quantity of popcorn sold will _____

- (a) increase; increase
- (b) increase; decrease
- (c) decrease; decrease
- (d) decrease; increase

Answer: (a)

64. 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

Answer: (a)

65. An increase in the demand for 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 computers.
- (d) Increase the price and number of computers bought.

Answer: (d)

66. When total demand for a commodity whose price has fallen increases, it is due to:

- (a) Income effect.
- (b) Substitution effect
- (c) Complementary effect
- (d) Price effect

Answer: (d)

67. With a fall in the price of a commodity:

- (a) Consumer's real income increases
- (b) Consumer's real income decreases
- (c) There is no change in the real income of the consumer
- (d) None of the above

Answer: (a)

68. With an increase in the price of diamond, the quantity demanded also increases. This is because it is a:

- (a) Substitute good

- (b) Complementary good
- (c) Conspicuous good
- (d) None of the above

Answer: (c)

69. 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

Answer: (a)

70. In Economics, when demand for a commodity increases with a fall in its price it is known as:

- (a) Contraction of demand
- (b) Expansion of demand
- (c) No change in demand
- (d) None of the above

Answer: (b)

71. The quantity supplied of a good or service is the amount that

- (a) is actually bought during a given time period at a given price
- (b) producers wish they could sell at a higher price
- (c) producers plan to sell during a given time period at a given price
- (d) people are willing to buy during a given time period at a given price

Answer: (c)

72. Supply is the

- (a) limited resources that are available with the seller
- (b) cost of producing a good
- (c) entire relationship between the quantity supplied and the price of good.
- (d) Willingness to produce a good if the technology to produce it becomes available

Answer: (c)

73. In the book market, the supply of books will decrease if any of the following occurs except

- (a) a decrease in the number of book publishers
- (b) a decrease in the price of the book
- (c) an increase in the future expected price of the book
- (d) an increase in the price of paper used.

Answer: (b)

74. 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

Answer: (a)

75. 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

Answer: (c)

76. If the supply of bottled water decreases, other things remaining the same, the equilibrium price _____ and the equilibrium quantity _____

- (a) increases; decreases
- (b) decreases; increases
- (c) decreases; decreases
- (d) increases; increases

Answer: (a)

77. 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.

Answer: (c)

78. Which of the following statements about inferior goods is/are false?

- I. Inferior goods are those that we will never buy, no matter how cheap they are.
 - II. Inferior goods are those that we buy more of, if we become poorer.
 - III. Inferior goods are those that we buy more of, if we become richer.
- (a) I and III only.
 - (b) I only
 - (c) III only.
 - (d) I, II, and III.

Answer: (a)

79. Comforts lie between

- (a) inferior goods and necessities
- (b) luxuries and inferior goods
- (c) necessities and luxuries

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- (d) none of the above

Answer: (c)

80. In a very short period, the supply

- (a) can be changed
 (b) can not be changed
 (c) can be increased
 (d) none of the above

Answer: (b)

81. When supply curve moves to the left, it means

- (a) lesser quantity is supplied at a given price
 (b) larger quantity is supplied at a given price
 (c) prices have fallen and quantity is supplied at a lower price
 (d) none of the above

Answer: (a)

82. When supply curve moves to right, it means

- (a) supply increases and more quantity is supplied at a given price
 (b) supply decreases and less quantity is supplied at a given price
 (c) supply remains constant at a given price
 (d) none of the above

Answer: (a)

83. 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

Answer: (a)

84. Elasticity of supply is measured by dividing the percentage change in quantity supplied of a good by _____

- (a) Percentage change in income
 (b) Percentage change in quantity demanded of goods
 (c) Percentage change in price
 (d) Percentage change in taste and preference

Answer: (c)

85. Elasticity of supply is zero means

- (a) perfectly inelastic supply

- (b) perfectly elastic supply
- (c) imperfectly elastic supply
- (d) none of the above

Answer: (a)

86. Elasticity of supply is greater than one when

- (a) Proportionate change in quantity supplied is more than the proportionate change in price.
- (b) Proportionate change in price is greater than the proportionate change in quantity supplied.
- (c) change in price and quantity supplied are equal
- (d) None of the above

Answer: (a)

87. 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

Answer: (c)

88. The price of a commodity decreases from ₹ 6 to ₹ 4 and the quantity demanded of the good increases from 10 units to 15 units. Find the coefficient of price elasticity.

- (a) 1.5
- (b) 2.5
- (c) -1.5
- (d) 0.5

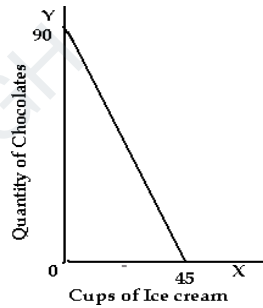
Answer: (a)

89. 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

Answer: (d)

90. The figure below shows the budget constraint of a consumer with an income of ₹ 900/- to spend on two commodities, namely ice cream and chocolates.



The prices of these two commodities respectively are:

- (a) ₹ 10 and ₹ 20
- (b) ₹ 20 and ₹ 10
- (c) ₹ 10 and ₹ 5
- (d) Any of the above

Answer: (b)

91. 'No matter what the price of coffee is, Arjun always spend a total of exactly 100 per week on coffee.' The statement implies that:

- (a) Arjun is very fond of coffee and therefore he has an inelastic demand for coffee
- (b) Arjun has elastic demand for coffee
- (c) Arjun's demand for coffee is relatively less elastic
- (d) Arjun's demand for coffee is unit elastic

Answer: (d)

92. A firm learns that the own price elasticity of a product it manufactures is 3.5. What would be the correct action for this firm to take if it wishes to raise its total revenue?

- (a) Lower the price because demand for the good is elastic.
- (b) Raise the price because demand for the product is inelastic.
- (c) Raise the price because demand is elastic.
- (d) We need information in order to answer this question.

Answer: (a)

93. At higher prices people demand more of certain goods not for their worth but for their prestige value – This is called

- (a) Veblen effect
- (b) Giffens paradox
- (c) Speculative effect
- (d) None of the above

Answer: (a)

94. If the price of air-conditioner increases from ₹ 30,000 to ₹ 30,010 and resultant change in demand is negligible, we use the measure of _____ to measure elasticity.

- (a) Point elasticity of demand since it is a small change

- (b) Arc elasticity of demand since it is a small change
- (c) Price elasticity based on average prices method
- (d) Any of the above

Answer: (a)

95. Given the following four possibilities, which one will result in an increase in total expenditure of the consumer?

- (a) Demand is unit elastic and price rises
- (b) Demand is elastic and price rises
- (c) Demand is inelastic and price falls
- (d) demand is inelastic and price rises

Answer: (d)

96. 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

Answer: (a)

97. Which of the following statements is correct?

- (a) When the price falls the quantity demanded falls
- (b) Seasonal changes do not affect the supply of a commodity
- (c) Taxes and subsidies do not influence the supply of the commodity
- (d) With lower cost, it is profitable to supply more of the commodity.

Answer: (d)

98. If the demand is more than supply, then the pressure on price will be

- (a) Upward
- (b) Downward
- (c) Constant
- (d) None of the above

Answer: (a)

99. The supply curve for highly perishable commodities during very short period is generally _____

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

Answer: (d)

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100. Supply is a _____ concept.

- (a) Stock
- (b) Flow and stock
- (c) Flow
- (d) None of the above

Answer: (c)

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

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

Answer: (a)

102. The cross elasticity between personal computers and soft wares is:

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

Answer: (c)

103. The cross elasticity between Bread and DVDs is:

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

Answer: (c)

104. Which of the following statements is correct?

- (a) With the help of statistical tools, the demand can be forecasted with perfect accuracy
- (b) The more the number of substitutes of a commodity, the more elastic is the demand.
- (c) Demand for butter is perfectly elastic.
- (d) Gold jewellery will have negative income elasticity.

Answer: (b)

105. Suppose the income elasticity of education in private school in India is 3.6. What does this indicate:

- (a) Private school education is highly wanted by rich
- (b) Private school education is a necessity.
- (c) Private school education is a luxury.

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- (d) We should have more private schools.

Answer: (c)

106. If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is;

- (a) The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
- (b) The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold
- (c) The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
- (d) (a) and (c) above are true

Answer: (b)

107. Data on production of vegetables for the past two years showed that, despite stable prices, there is a substantial decline in output of cabbage leading to lower supply into the market. Which of the following can possibly be the reason?

- (a) An increase in the price of cauliflower which is equally preferred by consumers
- (b) Announcement of a subsidy by government on vegetable production
- (c) More farmers producing cabbage and the increasing competition among them
- (d) A substantial decrease in the price of capsicum

Answer: (a)

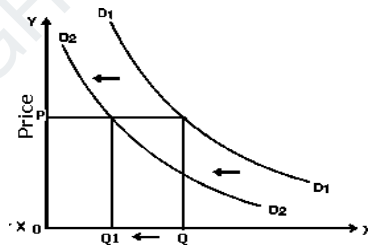
108. The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is;



- (a) Good X and Good Y are perfect complements
- (b) Good X and Good Y are perfect substitutes
- (c) Good X and Good Y are remote substitutes
- (d) Good X and Good Y are close substitutes

Answer: (d)

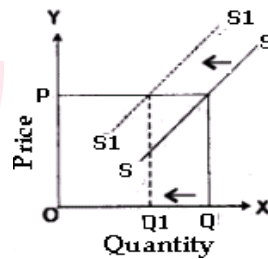
109. The diagram given below shows



- (a) A change in demand which may be caused by a rise in income and the good is a normal good
- (b) A shift of demand curve caused by a fall in the price of a complementary good
- (c) A change in demand which is caused by a rise in income and the good is an inferior good
- (d) A shift of demand curve caused by a rise in the price of a substitute and the good is a normal good.

Answer: (c)

110. Which of the following alternatives would be true if the event presented in the following diagram



occurs?

- (a) A fall in wage costs of the firm along with a fall in consumer incomes
- (b) A shortage of raw materials and consequent increase in raw material price
- (c) An increase in subsidy by the government and a reduction in taxes
- (d) Decrease in the market price of the commodity in question

Answer: (b)

111. The demand curve of a normal good has shifted to the right. Which of the four events would have caused the shift?

- (a) A fall in the price of a substitute with the price of the good unchanged
- (b) A fall in the nominal income of the consumer and a fall in the price of the normal good
- (c) A fall in the price of a complementary good with the price of the normal good unchanged
- (d) A fall in the price of the normal good, other things remaining the same

Answer: (c)

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112. 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

Answer: (a)

113. If a short run supply curve is plotted for the following table which presents price and quantity of fighter aircrafts, what will be its shape?

Price in millions of \$	Number of Aircrafts
124	28
140	28
150	28
160	28
175	28

- (a) Horizontal straight line parallel to the quantity axis
- (b) Steeply rising with elasticity less than one
- (c) Vertical straight line parallel to Y axis
- (d) A perfectly elastic supply curve

Answer: (c)

114. 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?

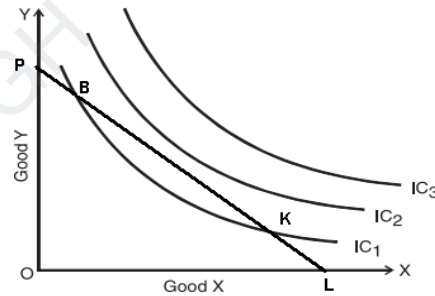
City	%Increase In Income	% change in demand for Good X	% change in demand for Good Y
A	12	6.5	- 2.3
B	9	5.6	1.6

- (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 good in both cities; good Y is an inferior good in city B
- (d) Need more information to make an accurate comment

Answer: (b)

Refer to the figure below. Answer questions 115 and 116

115. If this consumer is spending her entire income and consuming at point B, what advise will you



give her?

- (a) No advise needed, as she is maximizing her utility at B
- (b) Consume more of Good X and less of Good Y
- (c) Consume more of X and less of Y and reach point K
- (d) Consume same quantity of Good Y and more of Good X

Answer: (b)

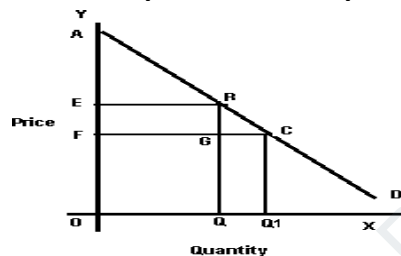
116. Which of the following statements is true about this consumer?

- (a) The consumer is not maximizing her utility at point K
- (b) The consumer is spending her entire income on both goods
- (c) The consumer gets equal pleasure at points B and K
- (d) All the above

Answer: (d)

Refer to the figure below. Answer questions 117 and 118

117. The effect on consumer surplus of a fall in price from E to F is



- (a) A decrease in consumer surplus by EFGR
- (b) A decrease in consumer surplus by AER
- (c) A decrease in consumer surplus by EFCR
- (d) None of the above

Answer: (d)

118. When price rises from F to E, the increase in revenue earned by the seller is

- (a) Equivalent to area EFGR
- (b) Equivalent to area EFCR
- (c) Equivalent to area AER

(d) None of the above

Answer: (a)

119. How would that budget line be affected if the price of both goods fell?

- (a) The budget line would not shift.
- (b) The new budget line must be parallel to the old budget line.
- (c) The budget line must be shifting to the left
- (d) The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion.

Answer: (d)

120. During a recession, economies experience increased unemployment and a reduced level of income. How would a recession likely to affect the market demand for new cars?

- (a) Demand curve will shift to the right.
- (b) Demand curve will shift to the left.
- (c) Demand will not shift, but the quantity of cars sold per month will decrease.
- (d) Demand will not shift, but the quantity of cars sold per month will increase.

Answer: (b)

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Theory of Production and Cost

Chapter 3.2 Theory Of Cost

1. Which of the following is considered production in Economics?

- (a) Tilling of soil.
- (b) Singing a song before friends.
- (c) Preventing a child from falling into a manhole on the road.
- (d) Painting a picture for pleasure.

Answer: (a)

2. Identify the correct statement:

- (a) The average product is at its maximum when marginal product is equal to average product.
- (b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
- (c) Economies of scale arise only because of indivisibilities of factor proportions.
- (d) Internal economies of scale can accrue when industry expands beyond optimum.

Answer: (a)

3. Which of the following is not a characteristic of land?

- (a) Its supply for the economy is limited.
- (b) It is immobile.
- (c) Its usefulness depends on human efforts.
- (d) It is produced by our forefathers.

Answer: (d)

4. Which of the following statements is true?

- (a) Accumulation of capital depends solely on income of individuals.
- (b) Savings can be influenced by government policies.
- (c) External economies go with size and internal economies with location.
- (d) The supply curve of labour is an upward slopping curve.

Answer: (b)

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5. 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.

Answer: (b)

6. The marginal product of a variable input is best described as:

- (a) total product divided by the number of units of variable input.
- (b) the additional output resulting from a one unit increase in the variable input.
- (c) the additional output resulting from a one unit increase in both the variable and fixed inputs.
- (d) the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.

Answer: (b)

7. Diminishing marginal returns implies:

- (a) decreasing average variable costs.
- (b) decreasing marginal costs.
- (c) increasing marginal costs.
- (d) decreasing average fixed costs.

Answer: (c)

8. The short run, as economists use the phrase, is characterized by:

- (a) at least one fixed factor of production and firms neither leaving nor entering the industry.
- (b) generally a period which is shorter than one year.
- (c) all factors of production are fixed and no variable inputs.
- (d) all inputs are variable and production is done in less than one year.

Answer: (a)

9. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:

- (a) when total product is rising, average and marginal product may be either rising or falling.
- (b) when marginal product is negative, total product and average product are falling.
- (c) when average product is at a maximum, marginal product equals average product, and total product is rising.
- (d) when marginal product is at a maximum, average product equals marginal product, and total product is rising.

Answer: (d)

10. To economists, the main difference between the short run and the long run is that:

- (a) In the short run all inputs are fixed, while in the long run all inputs are variable.
- (b) In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
- (c) In the short run, at least one of the firm's input levels is fixed.
- (d) In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.

Answer: (c)

11. 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.

Answer: (c)

12. The "law of diminishing returns" applies to:

- (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.

Answer: (a)

13. Diminishing returns occur:

- (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.

Answer: (b)

Use the following information to answer questions 14-16.

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

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14. What is the total output when 2 hours of labour are employed?

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

Answer: (c)

15. What is the marginal product of the third hour of labour?

- (a) 60
- (b) 80
- (c) 100
- (d) 240

Answer: (a)

16. What is the average product of the first three hours of labour?

- (a) 60
- (b) 80
- (c) 100
- (d) 240

Answer: (b)

17. Which cost increases continuously with the increase in production?

- (a) Average cost.
- (b) Marginal cost.
- (c) Fixed cost.
- (d) Variable cost.

Answer: (d)

18. 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.

Answer: (d)

19. Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?

- (a) Cost of raw materials.
- (b) Cost of equipment.
- (c) Interest payment on past borrowings.
- (d) Payment of rent on building.

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Answer: (a)

20. In the short run, when the output of a firm increases, its average fixed cost:

- (a) increases.
- (b) decreases.
- (c) remains constant.
- (d) first declines and then rises.

Answer: (b)

21. 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.

Answer: (a)

22. If a firm moves from one point on a production isoquant to another, which of the following will not happen.

- (a) A change in the ratio in which the inputs are combined to produce output.
- (b) A change in the ratio of marginal products of the inputs.
- (c) A change in the marginal rate of technical substitution.
- (d) A change in the level of output.

Answer: (d)

23. 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.

Answer: (a)

24. Which of the following statements is correct?

- (a) When the average cost is rising, the marginal cost must also be rising.
- (b) When the average cost is rising, the marginal cost must be falling.
- (c) When the average cost is rising, the marginal cost is above the average cost.
- (d) When the average cost is falling, the marginal cost must be rising.

Answer: (c)

25. 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) The payment of wages by the firm.
- (d) The normal profit earned by a firm.

Answer: (c)

26. 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.

Answer: (a)

Use the following data to answer questions 27-29.

Output (O)	0	1	2	3	4	5	6
Total Cost (TC)	₹ 240	₹ 330	₹ 410	₹ 480	₹ 540	₹ 610	₹ 690

27. The average fixed cost of 2 units of output is:

- (a) ₹ 80
- (b) ₹ 85
- (c) ₹ 120
- (d) ₹ 205

Answer: (c)

28. The marginal cost of the sixth unit of output is:

- (a) ₹ 133
- (b) ₹ 75
- (c) ₹ 80
- (d) ₹ 450

Answer: (c)

29. Diminishing marginal returns start to occur between units:

- (a) 2 and 3.
- (b) 3 and 4.
- (c) 4 and 5.
- (d) 5 and 6.

Answer: (c)

30. 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.

Answer: (a)

31. Which of the following is true of the relationship between the marginal cost function and the average cost function?

- (a) If MC is greater than ATC, then ATC is falling.
- (b) The ATC curve intersects the MC curve at minimum MC.
- (c) The MC curve intersects the ATC curve at minimum ATC.
- (d) If MC is less than ATC, then ATC is increasing.

Answer: (c)

32. Which of the following statements is true of the relationship among the average cost functions?

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

Answer: (d)

33. 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.

Answer: (d)

34. Which of the following statements is correct concerning the relationships among the firm's cost functions?

- (a) $TC = TFC - TVC$.
- (b) $TVC = TFC - TC$.
- (c) $TFC = TC - TVC$.
- (d) $TC = TVC - TFC$.

Answer: (c)

35. Suppose output increases in the short run. Total cost will:

- (a) increase due to an increase in fixed costs only.
- (b) increase due to an increase in variable costs only.
- (c) increase due to an increase in both fixed and variable costs.
- (d) decrease if the firm is in the region of diminishing returns.

Answer: (b)

36. Which of the following statements concerning the long-run average cost curve is false?

- (a) It represents the least-cost input combination for producing each level of output.
- (b) It is derived from a series of short-run average cost curves.

- (c) The short-run cost curve at the minimum point of the long-run average cost curve represents the least-cost plant size for all levels of output.
- (d) As output increases, the amount of capital employed by the firm increases along the curve.

Answer: (c)

37. The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?

- (a) Diseconomies of scale.
- (b) Diminishing returns.
- (c) The difficulties encountered in coordinating the many activities of a large firm.
- (d) The increase in productivity that results from specialization.

Answer: (d)

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

- (a) Diseconomies of scale.
- (b) Increasing returns.
- (c) The firm being able to take advantage of large-scale production techniques as it expands its output.
- (d) The increase in productivity that results from specialization.

Answer: (a)

39. A firm's average total cost is ₹ 300 at 5 units of output and ₹ 320 at 6 units of output. The marginal cost of producing the 6th unit is:

- (a) ₹ 20
- (b) ₹ 120
- (c) ₹ 320
- (d) ₹ 420

Answer: (d)

40. 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 whether it produces or not. How much of the average total cost is made up of variable costs?

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

Answer: (d)

41. A firm has a variable cost of ₹ 1000 at 5 units of output. If fixed costs are ₹ 400, what will be the average total cost at 5 units of output?

- (a) ₹ 280
- (b) ₹ 60
- (c) ₹ 120
- (d) ₹ 1400

Answer: (a)

42. A firm's average fixed cost is ₹ 20 at 6 units of output. What will it be at 4 units of output?

- (a) ₹ 60
- (b) ₹ 30
- (c) ₹ 40
- (d) ₹ 20

Answer: (b)

43. Which of the following statements is true?

- (a) The services of a doctor are considered production.
- (b) Man can create matter.
- (c) The services of a housewife are considered production.
- (d) When a man creates a table, he creates matter.

Answer: (a)

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.

Answer: (d)

45. In describing a given production technology, the short run is best described as lasting:

- (a) up to six months from now.
- (b) up to five years from now.
- (c) as long as all inputs are fixed.
- (d) as long as at least one input is fixed.

Answer: (d)

46. If decreasing returns to scale are present, then if all inputs are increased by 10% then:

- (a) output will also decrease by 10%.
- (b) output will increase by 10%.
- (c) output will increase by less than 10%.
- (d) output will increase by more than 10%.

Answer: (c)

47. The production function is a relationship between a given combination of inputs and:

- (a) another combination that yields the same output.
- (b) the highest resulting output.
- (c) the increase in output generated by one-unit increase in one output.
- (d) all levels of output that can be generated by those inputs.

Answer: (b)

48. If the marginal product of labour is below the average product of labour, it must be true that:

- (a) the marginal product of labour is negative.
- (b) the marginal product of labour is zero.
- (c) the average product of labour is falling.
- (d) the average product of labour is negative.

Answer: (c)

49. 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.

Answer: (a)

50. The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:

- (a) the technology is changing.
- (b) there must be some inputs whose quantity is kept fixed.
- (c) we consider only physical inputs and not economically profitability in monetary terms.
- (d) the technology is given and stable.

Answer: (a)

51. What is a production function?

- (a) Technical relationship between physical inputs and physical output.
- (b) Relationship between fixed factors of production and variable factors of production.
- (c) Relationship between a factor of production and the utility created by it.
- (d) Relationship between quantity of output produced and time taken to produce the output.

Answer: (a)

52. Laws of production does not include

- (a) returns to scale.
- (b) law of diminishing returns to a factor.
- (c) law of variable proportions.
- (d) least cost combination of factors.

Answer: (d)

53. An iso quant shows

- (a) 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.
- (b) All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- (c) All the alternative combinations of two inputs that yield the same total product.
- (d) Both (b) and (c).

Answer: (c)

54. Economies of scale exist because as a firm increases its size in the long run:

- (a) Labour and management can specialize in their activities more.
- (b) As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost.
- (c) The firm can afford to employ more sophisticated technology in production.
- (d) All of these.

Answer: (d)

55. 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.

Answer: (d)

56. The production process described below exhibits.

Number of Workers	Output
0	0
1	23
2	40
3	50

- (a) constant marginal product of labour.
- (b) diminishing marginal product of labour.
- (c) increasing return to scale.
- (d) increasing marginal product of labour.

Answer: (b)

57. Which of the following is a variable cost in the short run?

- (a) rent of the factory.
- (b) wages paid to the factory labour.
- (c) interest payments on borrowed financial capital.
- (d) payment on the lease for factory equipment.

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Answer: (b)

58. The efficient scale of production is the quantity of output that minimizes

- (a) average fixed cost.
- (b) average total cost.
- (c) average variable cost.
- (d) marginal cost.

Answer: (b)

59. In the short run, the firm's product curves show that

- (a) Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.
- (b) When marginal product is equal to average product, average product is decreasing but at its highest.
- (c) When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.
- (d) In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.

Answer: (d)

60. A fixed input is defined as

- (a) That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
- (b) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
- (c) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
- (d) That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.

Answer: (b)

61. 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.

Answer: (c)

62. Which of the following statements is true?

- (a) After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.
- (b) Before reaching the inevitable point of decreasing marginal returns, the quantity of

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- output obtained can increase at an increasing rate.
- (c) The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.
 - (d) All the above.

Answer: (d)

63. Marginal product, mathematically, is the slope of the

- (a) total product curve.
- (b) average product curve.
- (c) marginal product curve.
- (d) implicit product curve.

Answer: (a)

64. Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:

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

Answer: (b)

65. Which of the following statements is false in respect of fixed cost of a firm?

- (a) As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.
- (b) TFC continue to exist even when production is stopped in the short run, but they exist in the long run even when production is not stopped.
- (c) Total Fixed Costs (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with production in the short run.
- (d) In the short run, a firm's fixed cost cannot be escaped even when production is stopped.

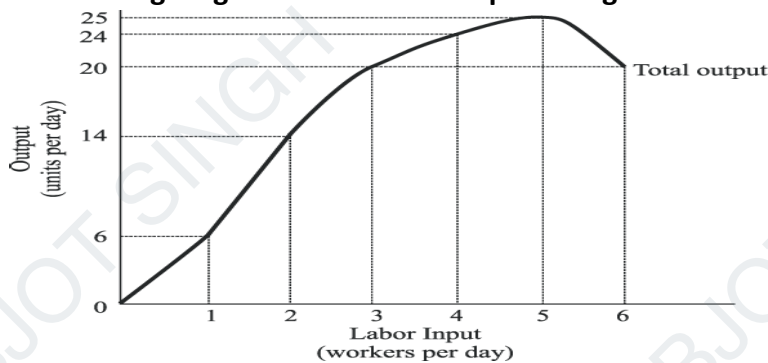
Answer: (b)

66. Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence:

- (a) 50, 50, 50, 50
- (b) 50, 110, 180, 260
- (c) 50, 100, 150, 200
- (d) 50, 90, 120, 140

Answer: (d)

67. Use the following diagram to answer the question given below it



The marginal physical product of the third unit of labour is _____, the MP of the _____ labour is Negative

- (a) Six; fourth
- (b) Six; third
- (c) Six; fifth
- (d) Six; sixth

Answer: (d)

68. In the third of the three stages of production:

- (a) the marginal product curve has a positive slope.
- (b) the marginal product curve lies completely below the average product curve.
- (c) total product increases.
- (d) marginal product is positive.

Answer: (b)

69. 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.

Answer: (b)

70. A firm's long-run average total cost curve is

- (a) Identical to its long-run marginal-cost curve.
- (b) Also its long-run supply curve because it explains the relationship between price and quantity supplied.
- (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
- (d) Tangent to all the curves of short-run average total cost.

Answer: (d)

71. In the long run, if a very small factory were to expand its scale of operations, it is likely that it

would initially experience

- (a) an increase in pollution level.
- (b) diseconomies of scale.
- (c) economies of scale.
- (d) constant returns to scale.

Answer: (c)

72. A firm's long-run average total cost curve is.

- (a) Identical to its long-run marginal-cost curve as all factors are variable.
- (b) Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run.
- (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
- (d) Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.

Answer: (d)

73. Which of the following statements describes increasing returns to scale?

- (a) Doubling of all inputs used leads to doubling of the output.
- (b) Increasing the inputs by 50% leads to a 25% increase in output.
- (c) Increasing inputs by $1/4$ leads to an increase in output of $1/3$.
- (d) None of the above.

Answer: (c)

74. The marginal cost for a firm of producing the 9th unit of output is ₹ 20. Average cost at the same level of output is ₹ 15. Which of the following must be true?

- (a) marginal cost and average cost are both falling
- (b) marginal cost and average cost are both rising
- (c) marginal cost is rising and average cost is falling
- (d) it is impossible to tell if either of the curves are rising or falling

Answer: (b)

75. Implicit cost can be defined as

- (a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.
- (b) Money not paid out to the owners of the firm for the self-owned factors employed in a business and therefore not entered into books of accounts.
- (c) Money payments which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.
- (d) Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts.

Answer: (b)

76. The most important function of an entrepreneur is to _____.

- (a) Innovate
- (b) Bear the sense of responsibility
- (c) Finance
- (d) Earn profit

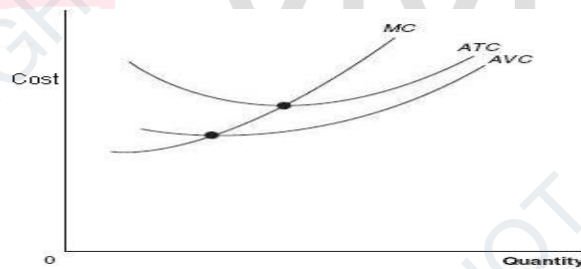
Answer: (a)

77. Economic costs of production differ from accounting costs of production because

- (a) Economic costs include expenditures for hired resources while accounting costs do not.
- (b) Accounting costs include opportunity costs which are deducted later to find paid out costs.
- (c) Accounting costs include expenditures for hired resources while economic costs do not.
- (d) Economic costs add the opportunity cost of a firm which uses its own resources.

Answer: (d)

78. In figure below, possible reason why the average variable cost curve approaches the average total cost curve as output rises is:



- (a) Fixed costs are falling while total costs are rising at rising output.
- (b) Total costs are rising and average costs are also rising.
- (c) Marginal costs are above average variable costs as output rises.
- (d) Average fixed costs are falling as output rises.

Answer: (d)

79. Marginal cost changes due to changes in _____

- (a) Total cost
- (b) Average cost
- (c) Variable cost
- (d) Quantity of output

Answer: (c)

80. Which of the following statements is correct?

- (a) Fixed costs vary with change in output.

- (b) If we add total variable cost and total fixed cost we get the average cost.
- (c) Marginal cost is the result of total cost divided by number of units produced.
- (d) Total cost is obtained by adding up the fixed cost and total variable cost.

Answer: (d)

81. 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 \times 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.

Answer: (d)

82. The vertical difference between TVC and TC is equal to-

- (a) MC
- (b) AVC
- (c) TFC
- (d) None of the above

Answer: (c)

83. The falling part of long run average cost curve is tangent to the _____ of corresponding short run average cost curve(s).

- (a) falling part
- (b) rising part
- (c) minimum point
- (d) None of the above

Answer: (a)

84. 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

Answer: (c)

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Price Determination in Different Markets

Chapter 4.3 Price-Output Determination Under Different Market Forms

1. In the table below what will be equilibrium market price?

Price (₹)	Demand (tonnes per annum)	Supply (tonnes per annum)
1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1000
8	300	1100

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

Answer: (c)

2. Assume that when price is ₹ 20, the quantity demanded is 9 units, and when price is ₹ 19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.

- (a) ₹ 20
- (b) ₹ 19
- (c) ₹ 10
- (d) ₹ 1

Answer: (c)

3. Assume that when price is ₹ 20, the quantity demanded is 15 units, and when price is ₹ 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?

- (a) ₹ 18

- (b) ₹ 16
- (c) - ₹ 12
- (d) ₹ 28

Answer: (c)

4. Suppose a firm is producing a level of output such that $MR > MC$, what should be firm do 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.

Answer: (d)

5. Marginal Revenue is equal to:

- (a) The change in price divided by the change in output.
- (b) The change in quantity divided by the change in price.
- (c) The change in $P \times Q$ due to a one unit change in output.
- (d) Price, but only if the firm is a price searcher.

Answer: (c)

6. Suppose that a sole proprietorship is earning total revenues of ₹ 1,00,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that :

- (a) The firm is incurring an economic loss.
- (b) Implicit costs are ₹ 25,000.
- (c) The total economic costs are ₹ 1,00,000.
- (d) The individual is earning an economic profit of ₹ 25,000.

Answer: (a)

7. 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

Answer: (d)

8. What is the shape of the demand curve faced by a firm under perfect competition?

- (a) Horizontal
- (b) Vertical
- (c) Positively sloped
- (d) Negatively sloped

Answer: (a)

9. Which is the first order condition for the profit of a firm to be maximum?

- (a) $AC = MR$
- (b) $MC = MR$
- (c) $MR = AR$
- (d) $AC = AR$

Answer: (b)

10. Which of the following is not a characteristic of a “price-taker”?

- (a) $TR = P \times Q$
- (b) $AR = \text{Price}$
- (c) Negatively – sloped demand curve
- (d) Marginal Revenue = Price

Answer: (c)

11. Which of the following statements is false?

- (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 be 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.

Answer: (d)

12. 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.

Answer: (c)

13. It is assumed in economic theory that

- (a) decision making within the firm is usually undertaken by managers, but never by the owners.
- (b) the ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organisation.
- (c) as the firm’s size increases, so do its goals.
- (d) the basic decision making unit of any firm is its owners.

Answer: (b)

14. Assume that consumers’ incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:

- (a) price will increase.

- (b) price will decrease.
- (c) quantity will increase.
- (d) quantity will decrease.

Answer: (d)

15. If supply increases in a greater proportion than demand

- (a) The new equilibrium price and quantity will be greater than the original equilibrium price and quantity.
- (b) The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher.
- (c) The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
- (d) The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.

Answer: (d)

16. Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be:

- (a) an increase in equilibrium price and quantity.
- (b) a decrease in equilibrium price and quantity.
- (c) an increase in equilibrium quantity and uncertain effect on equilibrium price.
- (d) a decrease in equilibrium price and increase in equilibrium quantity.

Answer: (c)

17. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?

- (a) Price will increase; quantity cannot be determined.
- (b) Price will decrease; quantity cannot be determined.
- (c) Quantity will increase; price cannot be determined.
- (d) Quantity will decrease; price cannot be determined.

Answer: (c)

18. 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.

Answer: (c)

19. Which of the following is not a characteristic of a perfectly competitive market?

- (a) Large number of firms in the industry.
- (b) Outputs of the firms are perfect substitutes for one another.
- (c) Firms face downward-sloping demand curves.
- (d) Resources are very mobile.

Answer: (c)

20. Which of the following is not a characteristic of monopolistic competition?

- (a) Ease of entry into the industry.
- (b) Product differentiation.
- (c) A relatively large number of sellers.
- (d) A homogeneous product.

Answer: (d)

21. Monopoly may arise in a product market because

- (a) A significantly important resource for the production of the commodity is owned by a single firm.
- (b) The government has given the firm patent right to produce the commodity.
- (c) The costs of production and economies of scale makes production by a single producer more efficient.
- (d) All the above.

Answer: (d)

22. 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.

Answer: (a)

23. Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be "small" relative to the market. Which of the following best describes this smallness?

- (a) The individual firm must have fewer than 10 employees.
- (b) The individual firm faces a downward-sloping demand curve.
- (c) The individual firm has assets of less than ₹ 20 lakhs.
- (d) The individual firm is unable to affect market price through its output decisions.

Answer: (d)

24. 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.

Answer: (b)

25. Monopolistic competition differs from perfect competition primarily because

- (a) in monopolistic competition, firms can differentiate their products.
- (b) in perfect competition, firms can differentiate their products.
- (c) in monopolistic competition, entry into the industry is blocked.
- (d) in monopolistic competition, there are relatively few barriers to entry.

Answer: (a)

26. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures

- (a) the efficient output level will be produced in the long run.
- (b) firms will be producing at minimum average cost.
- (c) firms will only earn a normal profit.
- (d) firms realise all economies of scale.

Answer: (c)

27. Which of the following is the distinguishing characteristic of oligopolies?

- (a) A standardized product
- (b) The goal of profit maximization
- (c) The interdependence among firms
- (d) Downward-sloping demand curves faced by firms.

Answer: (c)

28. In which form of the market structure is the degree of control over the price of its product by a firm very large?

- (a) Monopoly
- (b) Imperfect Competition
- (c) Oligopoly
- (d) Perfect competition

Answer: (a)

29. Average revenue curve is also known as:

- (a) Profit Curve
- (b) Demand Curve
- (c) Average Cost Curve
- (d) Indifference Curve

Answer: (b)

30. Under which of the following forms of market structure does a firm have no control over the price of its product?

- (a) Monopoly
- (b) Monopolistic competition

- (c) Oligopoly
- (d) Perfect competition

Answer: (d)

31. Discriminating monopoly implies that the monopolist charges different prices for his commodity:

- (a) from different groups of consumers
- (b) for different uses
- (c) at different places
- (d) any of the above.

Answer: (d)

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

- (a) uniform
- (b) different
- (c) less
- (d) zero

Answer: (b)

33. In the context of oligopoly, the kinked demand hypothesis is designed to explain

- (a) Price and output determination
- (b) Price rigidity
- (c) Price leadership
- (d) Collusion among rivals.

Answer: (b)

34. The firm in a perfectly competitive market is a price-taker. This designation as a price- taker is based on the assumption that -

- (a) the firm has some, but not complete, control over its product price.
- (b) there are so many buyers and sellers in the market that any individual firm cannot affect the market.
- (c) each firm produces a homogeneous product.
- (d) there is easy entry into or exit from the market place.

Answer: (b)

35. Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that

- (a) the firm operates in a perfectly competitive market.
- (b) the firm can sell all that it wants to at the established market price.
- (c) the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output.

- (d) the XYZ Co. will not be able to maximise profits because price and revenue are subject to change.

Answer: (c)

36. If firms in the toothpaste industry have the following market shares, which market structure would best describe the industry?

Market share	(% of market)
Toothpaste	18.7
Dentipaste	14.3
Shinibright	11.6
I can't believe its not toothpaste	9.4
Brighter than white	8.8
Pastystuff	7.4
Others	29.8

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

Answer: (c)

37. The kinked demand curve model of oligopoly assumes that

- (a) the response (of consumers) to a price increase is less than the response to a price decrease.
 (b) the response (of consumers) to a price increase is more than the response to a price decrease.
 (c) the elasticity of demand is constant regardless of whether price increases or decreases.
 (d) the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases.

Answer: (b)

38. 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.

Answer: (b)

39. Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?

- (a) The firm should shutdown in order to minimise its losses.

- (b) The firm should raise its price enough to cover its losses.
- (c) The firm should move its resources to another industry.
- (d) The firm should continue to operate in the short run in order to minimize its losses.

Answer: (d)

40. When price is less than average variable cost at the profit-maximising level of output, a firm should:

- (a) produce where marginal revenue equals marginal cost if it is operating in the short run.
- (b) produce where marginal revenue equals marginal cost if it is operating in the long run.
- (c) shut down, since it will lose nothing in that case.
- (d) shut down, since it cannot even cover its variable costs if it stays in business.

Answer: (d)

41. 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.

Answer: (d)

42. One characteristic not typical of oligopolistic industry is

- (a) horizontal demand curve.
- (b) too much importance to non-price competition.
- (c) price leadership.
- (d) a small number of firms in the industry.

Answer: (a)

43. The structure of the toothpaste industry in India is best described as

- (a) perfectly competitive.
- (b) monopolistic.
- (c) monopolistically competitive.
- (d) oligopolistic.

Answer: (c)

44. The structure of the cold drink industry in India is best described as

- (a) perfectly competitive.
- (b) monopolistic.
- (c) monopolistically competitive.
- (d) oligopolistic.

Answer: (d)

45. Which of the following statements is incorrect?

- (a) Even a monopolistic firm can have losses.
- (b) Firms in a perfectly competitive market are price takers.
- (c) It is always beneficial for a firm in a perfectly competitive market to discriminate prices.
- (d) Kinked demand curve is related to an oligopolistic market.

Answer: (c)

46. Under perfect competition, in the long run, there will be no _____.

- (a) normal profits
- (b) supernormal profits.
- (c) production
- (d) costs.

Answer: (b)

47. When _____, we know that the firms are earning just normal profits.

- (a) $AC = AR$
- (b) $MC = MR$
- (c) $MC = AC$
- (d) $AR = MR$

Answer: (a)

48. When _____, we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.

- (a) $AC = AR$
- (b) $MC = AC$
- (c) $MC = MR$
- (d) $AR = MR$

Answer: (b)

49. When _____, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.

- (a) $MC = MR$
- (b) $MC = AC$
- (c) $MC = AR$
- (d) $AR = MR$

Answer: (c)

50. Agricultural goods markets depict characteristics close to

- (a) perfect competition.
- (b) oligopoly.
- (c) monopoly.

- (d) monopolistic competition.

Answer: (a)

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

- (a) There are many buyers and sellers in the market.
- (b) The goods offered for sales are largely the same.
- (c) Firms generate small but positive supernormal profits in the long run.
- (d) Firms can freely enter or exit the market.

Answer: (c)

52. Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?

- (a) Electricity
- (b) Cable television
- (c) Cola
- (d) Milk

Answer: (d)

53. Which of the following statements is accurate regarding a perfectly competitive firm?

- (a) Demand curve is downward sloping
- (b) The demand curve always lies above the marginal revenue curve
- (c) Average revenue need not be equal to price
- (d) Price is given and is determined by the equilibrium in the entire market

Answer: (d)

54. The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as

- (a) Monopolistically competitive
- (b) a monopoly
- (c) an oligopoly
- (d) perfectly competitive

Answer: (c)

55. A market structure in which many firms sell products that are similar but not identical is known as

- (a) monopolistic competition
- (b) monopoly
- (c) perfect competition
- (d) oligopoly

Answer: (a)

56. When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is

- (a) more than the price charged by either monopoly or a competitive market
- (b) less than the price charged by either monopoly or a competitive market
- (c) more than the price charged by a monopoly and less than the price charged by a competitive market
- (d) less than the price charged by a monopoly and more than the price charged by a competitive market.

Answer: (d)

57. In the long-run equilibrium of a competitive market, firms operate at

- (a) the intersection of the marginal cost and marginal revenue
- (b) their efficient scale
- (c) zero economic profit
- (d) all of these answers are correct

Answer: (d)

58. 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

Answer: (b)

59. In a very short period market:

- (a) the supply is fixed
- (b) the demand is fixed
- (c) demand and supply are fixed
- (d) none of the above

Answer: (a)

60. Time element was conceived by

- (a) Adam Smith
- (b) Alfred Marshall
- (c) Pigou
- (d) Lionel Robinson

Answer: (b)

61. Total revenue =

- (a) price \times quantity
- (b) price \times income
- (c) income \times quantity

- (d) none of the above

Answer: (a)

62. Average revenue is the revenue earned

- (a) per unit of input
- (b) per unit of output
- (c) different units of input
- (d) different units of output

Answer: (b)

63. AR can be symbolically written as:

- (a) MR / Q
- (b) Price \times quantity
- (c) TR / Q
- (d) none of the above

Answer: (c)

64. AR is also known as:

- (a) price
- (b) income
- (c) revenue
- (d) none of the above

Answer: (a)

65. Marginal revenue can be defined as the change in total revenue resulting from the:

- (a) purchase of an additional unit of a commodity
- (b) sales of an additional unit of a commodity
- (c) sale of subsequent units of a product
- (d) none of the above

Answer: (b)

66. When $e > 1$ then MR is

- (a) zero
- (b) negative
- (c) positive
- (d) one

Answer: (c)

67. When $e = 1$ then MR is

- (a) positive
- (b) zero

- (c) one
- (d) negative

Answer: (b)

68. When $e < 1$ then MR is

- (a) negative
- (b) zero
- (c) positive
- (d) one

Answer: (a)

69. In Economics, the term 'market' refers to a:

- (a) place where buyer and seller bargain a product or service for a price
- (b) place where buyer does not bargain
- (c) place where seller does not bargain
- (d) none of the above

Answer: (a)

70. Under perfect competition a firm is the

- (a) price-maker and not price-taker
- (b) price-taker and not price-maker
- (c) neither price-maker nor price-taker
- (d) none of the above

Answer: (b)

71. A Monopolist is a

- (a) price-maker
- (b) price-taker
- (c) price-adjuster
- (d) none of the above

Answer: (a)

72. Price discrimination is one of the features of

- (a) monopolistic competition
- (b) monopoly
- (c) perfect competition
- (d) oligopoly

Answer: (b)

73. Under monopoly, the degree of control over price is:

- (a) none
- (b) some

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- (c) very considerable
- (d) none of the above

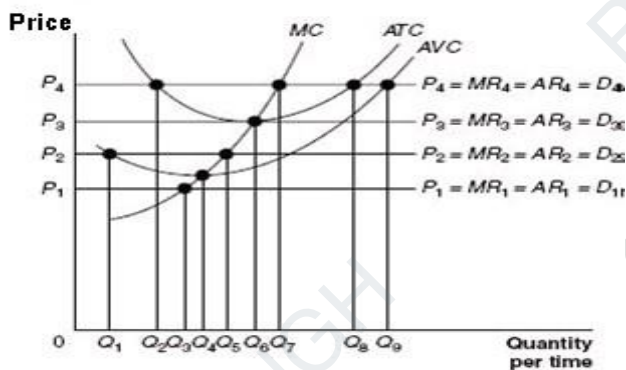
Answer: (c)

74. Generally, perishable goods like butter, eggs, milk, vegetables etc., will have

- (a) regional market
- (b) local market
- (c) national market
- (d) none of the above

Answer: (b)

75. At price P_1 , the firm in the figure would produce



- (a) Zero output
- (b) Q_3 .
- (c) Q_5 .
- (d) Q_6 .

Answer: (a)

76. Secular period is also known as

- (a) very short period
- (b) short period
- (c) very long period
- (d) long period

Answer: (c)

77. Stock exchange market is an example of

- (a) unregulated market
- (b) regulated market
- (c) spot market
- (d) none of the above

Answer: (b)

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78. The market for the ultimate consumers is known as

- (a) whole sale market
- (b) regulated market
- (c) unregulated market
- (d) retail market

Answer: (d)

79. The condition for pure competition is

- (a) large number of buyer and seller, free entry and exist
- (b) homogeneous product
- (c) both (a) and (b)
- (d) large number of buyer and seller, homogeneous product, perfect knowledge about the product

Answer: (c)

80. Pure oligopoly is based on the _____ products

- (a) differentiated
- (b) homogeneous
- (c) unrelated
- (d) none of the above

Answer: (b)

81. In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, Then it is called:

- (a) full oligopoly
- (b) collusive oligopoly
- (c) partial oligopoly
- (d) syndicated oligopoly

Answer: (c)

82. 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

Answer: (d)

83. When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as

- (a) first degree of price discrimination
- (b) second degree of price discrimination
- (c) third degree of price discrimination

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(d) none of the above.

Answer: (c)

84. Under _____ the monopolist will fix a price which will take away the entire consumers' surplus.

- (a) second degree of price discrimination
- (b) first degree of price discrimination
- (c) third degree of price discrimination
- (d) none of the above.

Answer: (b)

85. Price discrimination is related to

- (a) time
- (b) size of the purchase
- (c) income
- (d) any of the above

Answer: (d)

86. The firm and the industry are one and the same in _____ .

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

Answer: (d)

87. The demand curve of a monopoly firm will be

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

Answer: (b)

88. If the average cost is higher than the average revenue then the firm incurs _____ .

- (a) Normal profit
- (b) Abnormal profit
- (c) Loss
- (d) No profit, no loss

Answer: (c)

89. Which of the following statements is correct?

- (a) Price rigidity is an important feature of monopoly.

- (b) Selling costs are possible under perfect competition.
- (c) Under perfect competition factors of production do not move freely as there are legal restrictions.
- (d) An industry consists of many firms.

Answer: (d)

90. Which of the following statements is incorrect?

- (a) Under monopoly there is no difference between a firm and an industry.
- (b) A monopolist may restrict the output and raise the price.
- (c) Commodities offered for sale under a perfect competition will be heterogeneous.
- (d) Product differentiation is peculiar to monopolistic competition.

Answer: (c)

91. For market the essential condition is –

- (a) A particular geographical place
- (b) Control of the government
- (c) Close contact between buyers and sellers
- (d) None of these

Answer: (c)

92. Assume that when Price is ₹ 10, the quantity demanded is 5 units and when Price is ₹ 12 the quantity demanded is 4 units. Based on this information, what is the Marginal Revenue resulting from increase in output from 4 units to 5 units.

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

Answer: (c)

93. Average revenue is equal to.

- (a) The change in P & Q due to a one unit change in output.
- (b) Nothing but price of one unit of output.
- (c) The change in quantity divided by change in price.
- (d) Graphically it denotes the firm's supply curve.

Answer: (b)

94. Example of a commodity said to have an International Market.

- (a) Perishable Goods.
- (b) High Value and Small Bulk Commodities.
- (c) Product whose trading is restricted by government.
- (d) Bulky Articles.

Answer: (b)

95. Weekly market is example of _____ Market:

- (a) Regulated Market
- (b) Spot Market
- (c) Forward Market
- (d) Unregulated Market

Answer: (d)

96. 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.

Answer: (d)

97. Natural Monopoly arises when

- (a) There is enormous goodwill enjoyed by a firm.
- (b) There are stringent legal and regulatory requirement.
- (c) There are very large Economies of Scale.
- (d) There are Business Combinations and Cartels.

Answer: (c)

98. Price Discrimination cannot persist under the following market form:

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

Answer: (a)

99. Sweezy's Model explains the concept of price rigidity relating to following market form:

- (a) Oligopoly Market
- (b) Perfect Competition Market
- (c) Monopoly Market
- (d) Monopolistic Market

Answer: (a)

100. Combination of Monopoly Market and Monopsony Market is called as:

- (a) Duopoly Market
- (b) Oligopoly Market
- (c) Bilateral Monopoly Market
- (d) Monopolistic Market

Answer: (c)

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101. Price varies by attributes such as location or by Customer Segment is _____ degree of Price Discrimination.

- (a) First
- (b) Second
- (c) Third
- (d) Fourth

Answer: (c)



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Chapter 5

Business Cycles

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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

Answer: (b)

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

Answer: (b)

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

Answer: (c)

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

- (a) Expansion.
- (b) Boom.
- (c) Peak.
- (d) Trough.

Answer: (d)

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

Answer: (b)

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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.

Answer: (c)

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.

Answer: (d)

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.

Answer: (b)

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.

Answer: (d)

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.

Answer: (a)

11. During recession, the unemployment rate _____ and output _____.

- (a) Rises; falls
- (b) Rises; rises
- (c) Falls; rises
- (d) Falls; falls

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Answer: (a)

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

Answer: (a)

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

Answer: (b)

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.

Answer: (a)

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.

Answer: (b)

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

Answer: (c)

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.

Answer: (c)

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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

Answer: (d)

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

Answer: (a)

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

Answer: (d)

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

- (a) Hawtrey
- (b) Adam Smith
- (c) J M Keynes
- (d) Schumpeter

Answer: (d)

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

Answer: (c)

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

Answer: (d)

24. 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.

Answer: (b)

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

Answer: (c)

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

Answer: (a)

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

Answer: (d)

28. Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called _____.

- (a) Signals
- (b) Indicators
- (c) Barometer
- (d) Clues

Answer: (b)

29. If the growth rate of population is higher than the rate of economic growth, there will be _____ in the economy.

- (a) more savings
- (b) no effect on savings
- (c) lesser savings
- (d) none of these

Answer: (c)

30. The cobweb theory was propounded by _____.

- (a) Hawtrey
- (b) Adam Smith
- (c) J M Keynes
- (d) Nicholas Kaldor

Answer: (d)



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Chapter 6.1 National Income Accounting

1. The concept of 'resident unit' involved in the definition of GDP denotes

- (a) A business enterprise which belongs to a citizen of India with production units solely situated in India
- (b) The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status
- (c) A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India
- (d) Households and business enterprises composed of citizens of India alone living in India during the accounting year

Answer: (b)

2. Read the following statements and answer the following question.

- I. Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production,
- II. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.

- (a) Only I is true
- (b) Both I and II are true
- (c) Only II is true
- (d) Neither I nor II is true

Answer: (b)

3. Gross Domestic Product (GDP) of any nation

- (a) excludes capital consumption and intermediate consumption
- (b) is inclusive of capital consumption or depreciation
- (c) is inclusive of indirect taxes but excludes subsidies
- (d) None of the above

Answer: (b)

4. Read the following statements

- I. 'Value added' refers to the difference between value of output and purchase of intermediate goods.
 - II. 'Value added' represents the contribution of labour and capital to the production process.
- (a) Statements I and II are incorrect
 - (b) Statements I and II are correct
 - (c) Statement I is correct and II is incorrect
 - (d) Statement II is correct and I is incorrect

Answer: (b)

5. Non-economic activities are

- (a) those activities whose value is excluded from national income calculation as it will involve double counting
- (b) those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value
- (c) those which do not involve production of goods and services as they are meant to provide hobbies and leisure time activities
- (d) those which result in production for self consumption and therefore not included in national income calculation

Answer: (b)

6. Which of the following does not enter into the calculation of national income?

- (a) Exchange of previously produced goods
- (b) Exchange of second hand goods
- (c) Exchange of stocks and bonds
- (d) All the above

Answer: (d)

7. Which of the following enters into the calculation of national income?

- (a) The value of the services that accompany the sale
- (b) Additions to inventory stocks of final goods and materials
- (c) Stocks and bonds sold during the current year
- (d) (a) and (b) above

Answer: (d)

8. Gross National Product at market prices GNP_{MP} is

- (a) $GNP_{MP} + \text{Net Factor Income from Abroad}$
- (b) $GNP_{MP} - \text{Net Factor Income from Abroad}$
- (c) $GNP_{MP} - \text{Depreciation}$
- (d) $GNP_{MP} + \text{Net Indirect Taxes}$

Answer: (a)

9. Choose the correct statement

- (a) GNP includes earnings of Indian corporations overseas and Indian residents working overseas; but GDP does not include these
- (b) $NNP_{FC} = \text{National Income} = \text{FID (factor income earned in domestic territory)} - \text{NFIA}$.
- (c) Capital goods and inventory investment are excluded from computation of GDP
- (d) $NDP_{MP} = GDP_{MP} + \text{Depreciation}$

Answer: (a)

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

- (a) net factor income from abroad
- (b) net indirect taxes (i.e., Indirect taxes - Subsidies)
- (c) net indirect taxes (i.e., Indirect taxes + Subsidies)
- (d) depreciation (consumption of fixed capital)

Answer: (b)

11. If net factor income from abroad is positive, then

- (a) national income will be greater than domestic factor incomes.
- (b) national income will be less than domestic factor incomes.
- (c) net exports will be negative
- (d) domestic factor incomes will be greater than national income

Answer: (a)

12. The GDP per capita is

- (a) a measure of a country's economic output per person
- (b) actual current income receipts of persons
- (c) national income divided by population
- (d) (a)and (c) above

Answer: (d)

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

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

Answer: (d)

14. Mixed income of the self -employed means

- (a) net profits received by self -employed people
- (b) outside wages received by self- employed people
- (c) combined factor payments which are not distinguishable,

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- (d) wages due to non- economic activities

Answer: (c)

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

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

Answer: (a)



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Chapter 6.2

The Keynesian Theory Of Determination Of National Income

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

- (a) aggregate demand
- (b) consumption function
- (c) the national demand for labor
- (d) the price level

Answer: (a)

2. Keynes believed that an economy may attain equilibrium level of output

- (a) only at the full-employment level of output
- (b) below the full-employment level of output
- (c) only if prices were inflexible
- (d) a) and c) above

Answer: (b)

3. According to Keynes, consumption expenditure is determined by

- (a) the level of interest rates
- (b) extent of government taxes and subsidies
- (c) disposable income
- (d) autonomous investment expenditure

Answer: (c)

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

- (a) a change in spending due to a change in income
- (b) a change in income that is saved after consumption
- (c) part of income that is spent on consumption.
- (d) part of income that is not saved.

Answer: (a)

5. If the consumption function is expressed as $C = a + bY$ then b represents

- (a) autonomous consumer expenditure when income is zero
- (b) the marginal propensity to consume.
- (c) the expenditure multiplier when consumption is increased
- (d) part of disposable income

Answer: (b)

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6. If the consumption function is expressed as $C = a + bY$ then a represents

- (a) autonomous consumer expenditure.
- (b) the marginal propensity to consume.
- (c) the consumption income relationship
- (d) Non- linear consumption function

Answer: (a)

7. If the consumption function is $C = 20 + 0.5Y_d$, then an increase in disposable income by ₹ 100 will result in an increase in consumer expenditure by ₹ _____

- (a) 25
- (b) 70
- (c) 50
- (d) 100

Answer: (c)

8. If the autonomous consumption equals ₹ 2,000 and the marginal propensity to consume equals 0.8. If disposable income equals ₹ 10,000, then total consumption will be ₹ _____

- (a) 8,000
- (b) 6,000
- (c) 10,000
- (d) None of the above

Answer: (c)

9. In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45-degree line indicates the

- (a) level of full employment income.
- (b) less than full employment level of income.
- (c) equilibrium level of income which may or may not be full employment level of income
- (d) autonomous level of income which may not be full employment level of income

Answer: (c)

10. In a closed economy, aggregate demand is the sum of

- (a) consumer expenditure, demand for exports and government spending.
- (b) consumer expenditure, planned investment spending and government spending.
- (c) consumer expenditure, actual investment spending, government spending and net exports.
- (d) consumer expenditure, planned investment spending, government spending, and net exports.

Answer: (b)

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



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

Answer: (c)



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Chapter 7.1 Fiscal Functions: An Overview, Centre And State Finance

1. Redistribution policies are likely to have efficiency costs because

- (a) They will reduce the efficiency of governments
- (b) They may create disincentives to work and save
- (c) Governments have to forego taxes
- (d) They are likely to make the poor people dependent on the rich

Answer: (b)

2. Macroeconomic stabilization may be achieved through

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

Answer: (d)

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

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

Answer: (b)

4. Choose the correct statement

- (a) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of price and profit controls.
- (b) Fiscal policy involves the use of price and profit controls; while monetary policy involves the use of taxation and government spending.
- (c) Fiscal policy involves the use of changes in taxation and government spending; while

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- monetary policy involves the use of changes in the supply of money and interest rates.
- (d) Fiscal policy involves the use of changes in the supply of money and interest rates; while monetary policy involves the use of changes in taxation and government spending.

Answer: (c)

5. 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

Answer: (d)

6. Read the following statements:

- 1. The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy**
- 2. Market failures can at all times be corrected through government intervention**
- 3. Public goods will not be produced in sufficient quantities in a market economy**

Of the three statements above:

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

Answer: (b)

7. When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?

- (a) It is trying to establish stability in an economy
- (b) It is trying to redistribute income and wealth
- (c) It is trying to allocate resources to their most efficient use
- (d) It is creating a source of market failure

Answer: (b)

8. 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

Answer: (b)

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

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

Answer: (c)

10. Which of the following is true in respect of centre and state government finances?

- (a) The centre can tax agricultural income and mineral rights
- (b) Finance commission recommends distribution of taxes between the centre and states
- (c) GST subsumes majority of direct taxes and a few indirect taxes
- (d) IGST is collected by the state governments

Answer: (b)

11. GST compensation is given to

- (a) to the industries which have made losses due to the introduction of GST
- (b) to compensate for the lower rates of GST on essential items
- (c) to the states to compensate for the loss of revenue due to the introduction of GST
- (d) to compensate for the loss of input tax credit in manufacturing

Answer: (c)

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

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

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

Answer: (a)

13. 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

Answer: (c)

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14. Which of the following is concerned with division of economic responsibilities between the central and state Government of India?

- (a) NITI Aayog
- (b) central bank
- (c) Finance Commission
- (d) Parliament

Answer: (c)

15. 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

Answer: (d)

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

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

Answer: (d)

17. The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is

- (a) 38 percent
- (b) 41 percent
- (c) 42 percent
- (d) The commission has not submitted its report

Answer: (b)

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

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

Answer: (c)

19. As per the supreme court verdict in May 2022

- (a) The union has greater powers than the states for enacting GST laws
- (b) The union and state legislatures have "equal, simultaneous powers" to make laws

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- on Goods and Services Tax
- (c) The union legislature's enactments will prevail in case of a conflict between those of union and states
 - (d) The state legislatures can make rules only with the permission of central government

Answer: (b)

20. 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

Answer: (b)



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Market Failure/ Government Intervention To Correct Market Failure

1. 'Market failure' is a situation which occurs when

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

Answer: (c)

2. 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

Answer: (b)

3. Which of the following is an outcome of market power?

- (a) makes price equal to marginal cost and produce a positive external benefit on others
- (b) can cause markets to be efficient due to reduction in costs
- (c) makes the firms price makers and restrict output so as to make allocation inefficient
- (d) (b) and(c) above

Answer: (c)

4. Markets do not exist

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

Answer: (b)

5. Which of the following is the right argument for provision of public good by government?

- (a) Governments have huge resources at their disposal
- (b) Public goods will never cause any type of externality
- (c) Markets are unlikely to produce sufficient quantity of public goods
- (d) Provision of public goods are very profitable for any government

Answer: (c)

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- 6. Adequate amount of a pure public good will not be provided by the private market because of**
- (a) the possibility of free riding
 - (b) the existence of very low prices and low profits
 - (c) governments would any way produce them, so there will be overproduction
 - (d) there are restrictions as well as taxes on production of public goods

Answer: (a)

- 7. 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

Answer: (c)

- 8. A chemical factory has full information regarding the risks of a product, but continues to sell it. This is possible because of**

- (a) asymmetric information
- (b) moral hazard
- (c) free riding
- (d) (a) and (c) above

Answer: (a)

- 9. 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

Answer: (b)

- 10. Smoking in public is a case of**

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

Answer: (a)

- 11. Read the following statements**

- I. The market-based approaches to control externalities operate through price mechanism
- II. When externalities are present, the welfare loss would be eliminated
- III. The key is to internalizing an externality is to ensure that those who create the

externalities include them while making decisions Of the above statements

- (a) II and III are correct
- (b) I only is correct
- (c) II only is correct
- (d) I and III are correct

Answer: (d)

12. Which of the following statements is false?

- (a) Tradable permits provide incentive to innovate and reduce negative externalities
- (b) A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower
- (c) Substantial negative externalities are involved in the consumption of merit goods.
- (d) Merit goods are likely to be under-produced and under consumed through the market mechanism

Answer: (c)

13. 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

Answer: (c)

14. 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

Answer: (d)

15. If governments make it compulsory to avail insurance protection, it is because

- (a) Insurance companies need to be running profitably
- (b) Insurance will generate moral hazard and adverse selection
- (c) Insurance is a merit good and government wants people to consume it
- (d) None of the above

Answer: (c)

16. 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

Answer: (b)

17. Rules regarding product labelling

- (a) Seeks to correct market failure due to externalities
- (b) Is a method of solving the problem of public good
- (c) May help solve market failure due to information failure
- (d) Reduce the problem of monopolies in the product market

Answer: (c)

18. Identify the incorrect statement

- (a) A minimum support price for agricultural goods is a market intervention method to guarantee steady and assured incomes to farmers.
- (b) An externality is internalised if the ones that generated the externality incorporate them into their private cost- benefit analysis
- (c) The production and consumption of demerit goods are likely to be less than optimal under free markets
- (d) Compared to pollution taxes, the cap and trade method is administratively cheap and simple to implement and ensures that pollution is minimised in the most cost-effective way.

Answer: (c)

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

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

Answer: (c)

20. 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

Answer: (d)

21. The production and consumption of demerit goods are

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

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Answer: (d)

22. 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

Answer: (d)

23. Read the following statements

- I. Social costs are the total costs incurred by the society when a good is consumed or produced.
 - II. The external costs are not included in firms' income statements or consumers' Decisions
 - III. Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs
 - IV. Production and consumption decisions are efficient only when private costs are considered
- Of the above**
- (a) Statements I and III are correct
 - (b) Statements I, II and III are correct
 - (c) Statement I only is correct
 - (d) All the above are correct

Answer: (b)

24. Government failure occurs when

- (a) Government fails to implement its election promises on policies
- (b) A government is unable to get reelected
- (c) Government intervention is ineffective and produces fresh and more serious problems
- (d) None of the above

Answer: (c)

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Chapter 7.3

The Process Of Budget Making: Sources Of Revenue, Expenditure Management And

97

(a) The difference between the budget deficit of a government and its debt service payments is

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

Answer: (c)

The following hypothetical figures relate to country A

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

(b) The revenue deficit for country A is

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

Answer: (c)

(c) Fiscal deficit of country A is

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

Answer: (b)

(d) Primary deficit of Country A is

- (a) 26,000

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

Answer: (c)

(e) 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

Answer: (b)

(f) The Appropriation Bill is intended to

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

Answer: (b)

(g) 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

Answer: (c)

(h) The railway budget is

- (a) Part of the general budget, but is presented by the railway minister
- (b) Part of the general budget from the budget for financial year 2017 -18.
- (c) Part of the general budget from the budget for financial year 2021 -22
- (d) Part of the general budget but presented on the next day of the general budget

Answer: (b)

(i) Outcome budgeting

- (a) shares information about the money allocated for various purposes in a budget
- (b) establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators
- (c) establishes a direct link between budgetary performance targets and public account disbursements
- (d) shares information about public policies and programmes under the budget

Answer: (b)

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(j) Corporate tax

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

Answer: (d)

(k) 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

Answer: (a)

The following table relates to the revenue and expenditure figures of a hypothetical economy

(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

(l) The capital receipts are

- (a) 23.5
- (b) 19.7
- (c) 11.3
- (d) None of the above

Answer: (a)

(m) Revenue deficit is

- (a) 23.6
- (b) 13.0
- (c) 7.0
- (d) 2.6

Answer: (c)

(n) The non-debt capital receipts of this country is

- (a) 45.1
- (b) 16.7
- (c) 15.8
- (d) None of the above

Answer: (b)

(o) A budget is said to be unbalanced when

- (a) when government's revenue exceeds government's expenditure
- (b) when government's expenditure exceeds government's revenue
- (c) either budget surplus of budget deficit occurs
- (d) All the above

Answer: (d)

(p) Fiscal deficit refers to

- (a) the excess of government's revenue expenditure over revenue receipts
- (b) The excess of total expenditure over total receipts excluding borrowings
- (c) Primary deficit - interest payments
- (d) None of these

Answer: (d)

(q) Budget of the government generally impacts

- (a) the resource allocation in the economy
- (b) redistribution of income and enhance equity
- (c) stability in the economy by measures to control price fluctuations
- (d) all the above

Answer: (d)

(r) Which of the following is a statement submitted along with the budget 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

Answer: (d)

(s) Government borrowing is treated as capital receipt because

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

Answer: (b)

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(t) '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

Answer: (d)

(u) 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

Answer: (b)

(v) 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

Answer: (b)

(w) Grants given by the central government to state governments is

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

Answer: (b)

(x) 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

Answer: (c)

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1. Fiscal policy refers to the

- (e) use of government spending, taxation and borrowing to influence the level of economic activity
- (f) government activities related to use of government spending for supply of essential goods
- (g) use of government spending, taxation and borrowing for reducing the fiscal deficits
- (h) and (b) above

Answer: (a)

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

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

Answer: (c)

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

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

Answer: (b)

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4. 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

Answer: (b)

5. According to Keynesian economics, when we have inflation an effective fiscal policy should not include

- (a) increase corporate taxes.
- (b) decrease aggregate demand.
- (c) Increase government purchases.
- (d) None of the above is correct

Answer: (c)

6. Keynesian economists believe that

- (a) fiscal policy can have very powerful effects in altering aggregate demand, employment and output in an economy
- (b) when the economy is operating at less than full employment levels and when there is a need to offer stimulus to demand fiscal policy is of great use
- (c) Wages are flexible and therefore business fluctuations would be automatically adjusted
- (d) (a) and (b) above

Answer: (d)

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

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

Answer: (a)

8. 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

Answer: (c)

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

- (a) A tax cut aimed at increasing the disposable income and spending
- (b) A reduction in government expenditure to contain inflation

- (c) An increase in taxes and decrease in government expenditure to control inflation
- (d) All the above

Answer: (d)

10. 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

Answer: (c)

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

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

Answer: (a)

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

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

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

Answer: (c)

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

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

Answer: (d)

14. Identify the incorrect statement

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

Answer: (a)

15. Read the following statements

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

Of the above statements

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

Answer: (b)

16. While resorting to expansionary fiscal policy

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

Answer: (b)

17. 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

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- (d) is designed to restrain the levels of economic activity of the economy during an inflationary phase

Answer: (d)

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

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

Answer: (d)

19. 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

Answer: (d)

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

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

Answer: (d)

21. 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

Answer: (b)

22. While if governments compete with the private sector to borrow money for securing resources for expansionary fiscal policy

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

Answer: (d)

Money Market

Chapter 8.1 The Concept Of Money Demand: Important Theories

1. Choose the incorrect statement

- (a) Anything that would act as a medium of exchange is money
- (b) Money has generalized purchasing power and is generally acceptable in settlement of all transactions
- (c) Money is a totally liquid asset and provides us with means to access goods and services
- (d) Currency which represents money does not necessarily have intrinsic value.

Answer: (a)

2. Money performs all of the three functions mentioned below, namely

- (a) medium of exchange, price control, store of value
- (b) unit of account, store of value , provide yields
- (c) medium of exchange, unit of account, store of value
- (d) medium of exchange, unit of account, income distribution

Answer: (c)

3. Demand for money is

- (a) Derived demand
- (b) Direct demand
- (c) Real income demand
- (d) Inverse demand

Answer: (a)

4. Higher the _____ , higher would be _____ of holding cash and lower will be the _____

- (a) demand for money, opportunity cost, interest rate
- (b) price level , opportunity cost, interest rate
- (c) real income , opportunity cost, demand for money
- (d) interest rate, opportunity cost, demand for money

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Answer: (d)

5. The quantity theory of money holds that

- (a) changes in the general level of commodity prices are caused by changes in the quantity of money
- (b) there is strong relationship between money and price level and the quantity of money is the main determinant of the price
- (c) changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation
- (d) All the above

Answer: (d)

6. The Cambridge approach to quantity theory is also known as

- (a) Cash balance approach
- (b) Fisher's theory of money
- (c) Classical approach
- (d) Keynesian Approach

Answer: (a)

7. Fisher's approach and the Cambridge approach to demand for money consider

- (a) money's role in acting as a store of value and therefore, demand for money is for storing value temporarily.
- (b) money as a means of exchange and therefore demand for money is termed as for liquidity preference
- (c) money as a means of transactions and therefore, demand for money is only transaction demand for money.
- (d) None of the above

Answer: (c)

8. Real money is

- (a) nominal money adjusted to the price level
- (b) real national income
- (c) money demanded at given rate of interest
- (d) nominal GNP divided by price level

Answer: (a)

9. The precautionary money balances people want to hold

- (a) as income elastic and not very sensitive to rate of interest
- (b) as income inelastic and very sensitive to rate of interest

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- (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

Answer: (a)

10. Speculative demand for money

- (a) is not determined by interest rates
- (b) is positively related to interest rates
- (c) is negatively related to interest rates
- (d) is determined by general price level

Answer: (c)

11. According to Keynes, if the current interest rate is high

- (a) people will demand more money because the capital gain on bonds would be less than return on money
- (b) people will expect the interest rate to rise and bond price to fall in the future.
- (c) people will expect the interest rate to fall and bond price to rise in the future.
- (d) Either a) or b) will happen

Answer: (c)

12. The inventory-theoretic approach to the transactions demand for money

- (a) explains the negative relationship between money demand and the interest rate.
- (b) explains the positive relationship between money demand and the interest rate.
- (c) explains the positive relationship between money demand and general price level
- (d) explains the nature of expectations of people with respect to interest rates and bond prices

Answer: (a)

13. According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:

- (a) a positive function of income Y and the price level P
- (b) a positive function of transactions costs c,
- (c) a negative function of the nominal interest rate i
- (d) All the above

Answer: (d)

14. _____ considered demand for money is as an application of a more general theory of demand for capital assets

- (a) Baumol
- (b) James Tobin
- (c) J M Keynes
- (d) Milton Friedman

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Answer: (d)

15. The nominal demand for money rises if

- (a) the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively- decline and vice versa
- (b) the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively- rises and vice versa
- (c) the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively remain constant
- (d) b) and c) above

Answer: (a)



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Chapter 8.2

The Concept Of Money

Demand: Important Theories

111

1. Reserve money is also known as

- (a) central bank money
- (b) base money
- (c) high powered money
- (d) all the above

Answer: (d)

2. 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.

Answer: (c)

3. 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.

Answer: (b)

4. M1 is the sum of

- (a) currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.
- (b) currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.
- (c) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI

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- (d) none of the above

Answer: (a)

5. 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

Answer: (b)

6. 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

Answer: (b)

7. The supply of money in an economy depends on

- (a) the decision of the central bank based on the authority conferred on it.
- (b) the decision of the central bank and the supply responses of the commercial banking system.
- (c) the decision of the central bank in respect of high powered money.
- (d) both a) and c) above.

Answer: (b)

8. 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

Answer: (c)

9. If the behaviour of the public and the commercial banks is constant, then

- (a) the total supply of nominal money in the economy will vary directly with the supply of the nominal high-powered money issued by the central bank
- (b) the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money

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- (c) the total supply of nominal money in the economy will vary inversely with the supply of high powered money
- (d) all the above are possible

Answer: (a)

10. 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

Answer: (a)

11. The money multiplier and the money supply are

- (a) positively related to the excess reserves ratio e.
- (b) negatively related to the excess reserves ratio e.
- (c) not related to the excess reserves ratio e.
- (d) proportional to the excess reserves ratio e.

Answer: (b)

12. The currency ratio represents

- (a) the behaviour of central bank in the issue of currency.
- (b) the behaviour of central bank in respect cash reserve ratio.
- (c) the behaviour of the public.
- (d) the behaviour of commercial banks in the country.

Answer: (c)

13. The size of the money multiplier is determined by

- (a) the currency ratio (c) of the public,
- (b) the required reserve ratio (r) at the central bank, and
- (c) the excess reserve ratio (e) of commercial banks.
- (d) all the above

Answer: (d)

14. _____ 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

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(d) The currency ratio (c)

Answer: (c)

15. 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

Answer: (c)

16. 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.

Answer: (b)

17. 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

Answer: (a)

18. 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

Answer: (c)

19. 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.

Answer: (c)

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1. Which of the following is the function of monetary policy?

- (a) regulate the exchange rate and keep it stable
- (b) regulate the movement of credit to the corporate sector
- (c) regulate the level of production and prices
- (d) regulate the availability, cost and use of money and credit

Answer: (d)

2. 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

Answer: (b)

3. The monetary transmission mechanism refers to

- (a) how money gets circulated in different sectors of the economy post monetary policy
- (b) the ratio of nominal interest and real interest rates consequent on a monetary policy
- (c) the process or channels through which the evolution of monetary aggregates affects the level of product and prices
- (d) none of the above

Answer: (c)

4. 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

Answer: (b)

5. 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

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- 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

Answer: (a)

6. Which of the following statements is correct?

- (a) The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same
- (b) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself
- (c) When repo rates increase, it means that banks can now borrow money through open market operations (OMO)
- (d) None of the above

Answer: (b)

7. RBI provides financial accommodation to the commercial banks through repos/reverse repos under

- (a) Market Stabilisation Scheme (MSS)
- (b) The Marginal Standing Facility (MSF)
- (c) Liquidity Adjustment Facility (LAF).
- (d) Statutory Liquidity Ratio (SLR)

Answer: (c)

8. _____ is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.

- (a) OMO
- (b) CRR
- (c) SLR
- (d) repo

Answer: (d)

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

- (a) The bank rate prescribed by the RBI in its half yearly monetary policy statement
- (b) The CRR and SLR prescribed by RBI in its monetary policy statement
- (c) the fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)
- (d) the fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)

Answer: (c)

10. Reverse repo operation takes place when

- (a) RBI borrows money from banks by giving them securities
- (b) banks borrow money from RBI by giving them securities
- (c) banks borrow money in the overnight segment of the money market
- (d) RBI borrows money from the central government

Answer: (a)

11. The Monetary Policy Framework Agreement is on

- (a) the maximum repo rate that RBI can charge from government
- (b) the maximum tolerable inflation rate that RBI should target to achieve price stability.
- (c) the maximum repo rate that RBI can charge from the commercial banks
- (d) the maximum reverse repo rate that RBI can charge from the commercial banks

Answer: (b)

12. An open market operation is an instrument of monetary policy which involves buying or selling of _____ from or to the public and banks

- (a) bonds and bills of exchange
- (b) debentures and shares
- (c) government securities
- (d) none of these

Answer: (c)

13. Which statement (s) is (are) true about Monetary Policy Committee?

- I. The Reserve Bank of India (RBI) Act, 1934 was amended on June 27, 2016, for giving a statutory backing to the Monetary Policy Framework Agreement and for setting up a Monetary Policy Committee
- II. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of experts required to achieve the inflation target.
- III. The Monetary Policy Committee shall determine the policy rate through consensus from the governor of RBI
- IV. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of bankers chosen for eth purpose

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

Answer: (b)

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Chapter 9.1 Theories Of International Trade

1. Which of the following does not represent a difference between internal 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

Answer: (b)

2. 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 economic 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

Answer: (b)

3. 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

Answer: (d)

4. 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

Answer: (c)

- 5. Given the number of labour hours to produce cloth and grain in two countries, which country should produce grain?**

Labour cost (hours) for production of one unit

	Country A	Country B
Cloth	40	80
Grain	80	40

- (a) Country A
- (b) Country B
- (c) Neither A nor B
- (d) Both A and B

Answer: (b)

- 6. According to the theory of comparative advantage**

- (a) trade is a 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

Answer: (b)

- 7. Given the number of labour hours to produce wheat and rice in two countries and that these countries specialise and engage in trade at a relative price of 1:1 what will be the gain of country X?**

Labour cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

- (a) 20 labour hours
- (b) 10 labour hours
- (c) 30 labour hours
- (d) Does not gain anything

Answer: (b)

- 8. Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:**

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

- (a) Bangladesh has a comparative advantage in mats
- (b) India has a comparative advantage in tables
- (c) Bangladesh has an absolute advantage in mats
- (d) All the above are true

Answer: (d)

9. Comparative advantage refers to

- (a) a country's ability to produce some good or service at the lowest possible cost compared to other countries
- (b) a country's ability to produce some good or service at a lower opportunity cost than other countries.
- (c) Choosing a productive method which uses minimum of the abundant factor
- (d) (a) and (b) above

Answer: (b)

10. Ricardo explained the law of comparative advantage on the basis of

- (a) opportunity costs
- (b) the law of diminishing returns
- (c) economies of scale
- (d) the labour theory of value

Answer: (d)

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Chapter 9.2

The Instruments Of Trade Policy

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1. 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

Answer: (d)

2. 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

Answer: (b)

3. 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

Answer: (b)

4. 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

Answer: (b)

5. Voluntary export restraints involve:

- (a) an importing country voluntarily restraining the quantity of goods that can be exported into the country during a specified period of time

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- (b) domestic firms agreeing to limit the quantity foreign products sold in their domestic markets
- (c) an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time
- (d) quantitative restrictions imposed by the importing country's government.

Answer: (c)

6. 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

Answer: (d)

7. A countervailing duty is

- (a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country
- (b) charged by importing countries to ensure fair and market-oriented pricing of imported products
- (c) charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies
- (d) All the above

Answer: (d)

8. 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

Answer: (c)

9. SPS measures and TBTs are

- (a) permissible under WTO to protect the interests of countries
- (b) may result in loss of competitive advantage of developing countries
- (c) increases the costs of compliance to the exporting countries
- (d) All the above

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Answer: (d)

10. 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

Answer: (c)

11. Under tariff rate quota

- (a) countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement
- (b) a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate
- (c) lower tariff is charged from goods imported from a country which is given preferential treatment
- (d) none of the above

Answer: (b)

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

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

Answer: (b)

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Chapter 9.3

Trade Negotiations

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1. 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

Answer: (c)

2. Choose the correct statement

- (a) The GATT was meant to prevent exploitation of poor countries by richer countries
- (b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.
- (c) All members of the World Trade Organization are required to avoid tariffs of all types
- (d) All the above

Answer: (b)

3. The 'National treatment' principle stands for

- (a) the procedures within the WTO for resolving disagreements about trade policy among countries
- (b) the principle that imported products are to be treated no worse in the domestic market than the local ones
- (c) exported products are to be treated no worse in the domestic market than the local ones
- (d) imported products should have the same tariff, no matter where they are imported from

Answer: (b)

4. '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

Answer: (c)

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5. The essence of 'MFN principle' is

- (a) equality of treatment of all member countries of WTO in respect of matters related to trade
- (b) favour one, country, you need to favour all in the same manner
- (c) every WTO member will treat all its trading partners equally without any prejudice and discrimination
- (d) all the above

Answer: (d)

6. 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

Answer: (d)

7. The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments

- (a) on increasing agricultural productivity and rural development
- (b) market access and agricultural credit support
- (c) market access, domestic support and export subsidies
- (d) market access, import subsidies and export subsidies

Answer: (c)

8. The Agreement on Textiles and Clothing

- (a) provides that textile trade should be deregulated gradually and the tariffs should be increased
- (b) replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974
- (c) granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries
- (d) stipulated that tariffs in all countries should be the same

Answer: (b)

9. The Agreement on Trade-Related Aspects of Intellectual Property Rights

- (a) stipulates to administer a system of enforcement of intellectual property rights.
- (b) provides for most-favoured-nation treatment and national treatment for intellectual properties
- (c) mandates to maintain high levels of intellectual property protection by all members
- (d) all the above

Answer: (d)

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10. The most controversial topic in the yet to conclude Doha Agenda is

- (a) trade in manufactured goods
- (b) trade in intellectual property rights-based goods
- (c) trade in agricultural goods
- (d) market access to goods from developed countries

Answer: (c)

11. 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

Answer: (b)



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Chapter 9.4

Exchange Rate And Its Economic Effects

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1. Based on the supply and demand model of determination of exchange rate, which of the following ought to cause the domestic currency of Country X to appreciate against dollar?

- (a) The US decides not to import from Country X
- (b) An increase in remittances from the employees who are employed abroad to their families in the home country
- (c) Increased imports by consumers of Country X
- (d) Repayment of foreign debts by Country X

Answer: (b)

2. All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?

- (a) The demand curve for dollars shifts to the right and Indian Rupee appreciates
- (b) The supply of US dollars shrinks and, therefore, import prices decrease
- (c) The demand curve for dollars shifts to the right and Indian Rupee depreciates
- (d) The demand curve for dollars shifts to the left and leads to an increase in exchange rate

Answer: (c)

3. '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

Answer: (a)

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

i)	floating exchange rate	ii)	fixed exchange rate
iii)	pegged exchange rate	a)	depreciation
iv)	devaluation	b)	revaluation
v)	appreciation	c)	flexible exchange rate

(a) (i c); (ii d); (iii b); (iv a))

(b) (i b); (ii a); (iii d); (iv c)

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- (c) (i a); (ii d) ; (iii b); (iv c)
 (d) (i d); (ii a); (iii b); (iv c)

Answer: (d)

5. Choose the correct statement

- (a) An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency
 (b) the fixed exchange rate regime is said to be efficient and highly transparent.
 (c) A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency
 (d) Exchange rates are generally fixed by the central bank of the country

Answer: (c)

6. Which of the following statements is true?

- (a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency
 (b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency
 (c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.
 (d) All the above

Answer: (d)

7. 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

Answer: (a)

8. 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

Answer: (b)

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9. 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

Answer: (c)

10. 'Vehicle Currency' refers to

- (a) a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties
- (b) a currency that is traded internationally and, therefore, is in high demand
- (c) a type of currency used in euro area for synchronization of exchange rates
- (d) a currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties

Answer: (d)



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Chapter 9.5 International Capital Movements

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1. 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.

Answer: (c)

2. Which of the following is a component of foreign capital?

- (a) Direct inter government loans
- (b) Loans from international institutions (e.g. World Bank, IMF, ADB)
- (c) Soft loans for e.g. from affiliates of World Bank such as IDA
- (d) All the above

Answer: (d)

3. 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

Answer: (c)

4. Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?

- (a) Brownfield investment
- (b) Merger and acquisition
- (c) Greenfield investment
- (d) Strategic alliances

Answer: (c)

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

- (a) Mauritius
- (b) USA
- (c) Japan
- (d) USA

Answer: (a)

6. 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

Answer: (b)

7. Which of the following is a reason for foreign direct investment?

- (a) secure access to minerals or raw materials
- (b) desire to capture of large and rapidly growing emerging markets
- (c) desire to influence home country industries
- (d) (a) and (b) above

Answer: (d)

8. 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

Answer: (d)

9. Foreign investments are prohibited in

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

Answer: (c)

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

- (a) portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments
- (b) is effected largely by individuals and institutions through the mechanism of capital market
- (c) is difficult to recover as it involves purely long-term investments and the investors have controlling interest

- (d) investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.

Answer: (c)



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1. The Indian industry stagnated under the colonial rule because

- (e) Indians were keen on building huge structures and monuments only
- (f) Deterioration was caused by high prices of inputs due to draught
- (g) The Indian manufactures could not compete with the imports of cheap machine made goods
- (h) None of the above

Answer: (c)

2. The first wave of liberalization starts in India

- (a) In 1951
- (b) In 1980's
- (c) In 1990
- (d) In 1966

Answer: (b)

3. The sequence of growth and structural change in Indian economy is characterized by

- (a) The historical pattern of prominence of sectors as agriculture, industry, services
- (b) The historical pattern of prominence of sectors as industry, services, agriculture
- (c) Unique experience of the sequence as agriculture, services, industry
- (d) All the above are correct

Answer: (c)

4. Merchandise Exports from India Scheme was replaced by -

- (a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021
- (b) National Logistics Policy (NLP) in 2020
- (c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019
- (d) None of the above

Answer: (a)

5. The Foreign Investment Promotion Board (FIPB)

- (a) a government entity through which inward investment proposals were routed to obtain required government approvals

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- (b) no more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal
- (c) no more exists as all inward investments are through automatic route and need no approval
- (d) is the body which connects different ministries in respect of foreign portfolio investments

Answer: (b)

6. FAME-India Scheme aims to

- (a) Enhance faster industrialization through private participation
- (b) to promote manufacturing of electric and hybrid vehicle technology
- (c) to spread India's fame among its trading partners
- (d) None of the above

Answer: (b)

7. In terms of Ease of Doing Business in 2020 India ranks

- (a) 63
- (b) 77
- (c) 45
- (d) None of the above

Answer: (a)

8. E-NAM is -

- (a) An electronic name card given to citizens of India
- (b) National Agriculture Market with the objective of creating a unified national market for agricultural commodities.
- (c) a pan-India electronic trading portal which networks the existing APMC mandis
- (d) b) and c) above

Answer: (d)

9. Which of the following is not a policy reform included in the new economic policy of 1991 -

- (a) removing licensing requirements for all industries
- (b) Foreign investment was liberalized
- (c) Liberalisation of international trade
- (d) The disinvestment of government holdings of equity share capital of public sector enterprises

Answer: (a)

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

- (a) The government wanted people to follow the policy of 'Be Indian; Buy Indian'
- (b) Because foreign goods were costly and meant loss of precious foreign exchange
- (c) Government policy was directed towards protection of domestic industries from

- foreign competition
- (d) Government wanted to preserve Indian culture and to avoid influence of foreign culture

Answer: (c)

11. The 'Hindu growth rate' is a term used to refer to -

- (a) the high rate of growth achieved after the new economic policy of 1991
- (b) the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year
- (c) the low growth of the economy during British period marked by an average of 3.5 percent
- (d) the growth rate of the country because India is referred to as 'Hindustan'

Answer: (b)

12. In the context of the new economic policy of 1991, the term 'disinvestment' stands for -

- (a) A policy whereby government investments are reduced to correct fiscal deficit
- (b) The policy of sale of portion of the government shareholding of a public sector enterprise
- (c) The policy of public partnership in private enterprise
- (d) A policy of opening up government monopoly to the privates sector

Answer: (b)

13. The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -

- (a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few
- (b) to provide for the control of monopolies
- (c) to prohibit monopolistic and restrictive trade practice
- (d) all the above

Answer: (d)

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

- (a) use of soil friendly green manure to preserve fertility of soil
- (b) grow more crops by redistributing land to landless people
- (c) High yielding varieties of seeds and scientific cultivation
- (d) Diversification to horticulture

Answer: (c)

15. The strategy of agricultural development in India before green revolution was -

- (a) High yielding varieties of seeds and chemical fertilizers to boost productivity
- (b) Institutional reforms such as land reforms
- (c) Technological up gradation of agriculture
- (d) All the above

Answer: (b)

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16. The Industrial Policy Resolution (1948) aimed at -

- (a) Market oriented economic reforms and opening up of economy
- (b) A shift from state led industrialization to private sector led industrialisation
- (c) an expanded role for the public sector and licensing to the private sector
- (d) an expanded role of private sector a limited role of public sector

Answer: (c)

17. The new economic policy of 1991 manifest in -

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

Answer: (b)

18. 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 initiatives
- (d) Industrialization led by private entrepreneurs and redistribution by state

Answer: (b)

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