

CA FOUNDATION
ECONOMICS

100 MOST EXPECTED QUESTIONS

**PRE EXAM
MARATHON**

CA Hardik Manchanda

Most Expected MCQs

- 1) According to Hicks and Allen the demand curve slope downwards due to
 - a. Law of diminishing marginal utility
 - b. Income effect and substitution effect
 - c. Either (a) or (b)
 - d. None of these
- 2) Coincident indicator is not indicated as:
 - a. Inflation
 - b. Industrial Production
 - c. Retail Sales
 - d. New order for Plant and equipment
- 3) In an economy, a change in the reserve ratio will directly affect the:
 - a. Level of interest rates in the market
 - b. Supply of money in circulation
 - c. Demand for money at different income levels
 - d. Government's budgetary balance
- 4) Which of the following is NOT a key assumption of Ricardo's theory of comparative advantage?
 - a. Two countries, each specializing in the good it can produce most efficiently, will both gain from trade.
 - b. Resources are immobile between countries but mobile within a country.
 - c. Trade occurs only due to differences in technology between countries.
 - d. Both countries in trade can benefit even if one country is less efficient in producing both goods.
- 5) If a country's currency is depreciating, it means that:
 - a. The domestic currency is increasing in value relative to foreign currencies.
 - b. The country's exports will become more expensive to foreign buyers.
 - c. The country's exports become cheaper for foreign buyers, potentially boosting trade.
 - d. The central bank is actively increasing the supply of money.

6) Fiscal federalism primarily deals with:

- a. Distribution of financial resources among different levels of government
- b. Distribution of power between Legislature and Executive
- c. Relationship between Judiciary and Legislature
- d. Conduct of elections in a federal country

7) _____ is concerned with welfare proposition.

- a. Normative Economics
- b. Positive Economics
- c. Both (a) and (b)
- d. None of these

8) According to Keynes, inflationary gap is caused by

- a. excess supply
- b. excess demand
- c. deficiency of demand
- d. deficiency of supply

9) Find nominal GDP if real GDP = 450 and price index = 120

- a. 500
- b. 450
- c. 540
- d. None of these

$$450 \times \frac{120}{100}$$

GDP Deflator

$$\frac{N}{R} \times 100$$

10) Snob effect is explained as:

- a. It is a function of consumption of others
- b. It is a function of price
- c. Both a and b
- d. None of these

L. Veblen

11) 'Who gave 'The Theory of Public Finance' (1959)?

- a. Adam Smith
- b. Richard Musgrave
- c. A.C. Pigou
- d. Alfred Marshall

12) Who defined Business economics in terms of the use of economic analysis in the formulation of business policies?

- a. Adam Smith
- b. Robbins
- c. Joel Dean
- d. Alfred Marshall

13) If the price of a commodity raised by 12% and E_d is $(-) 0.63$, the expenditure made on the commodity by a consumer will — P&E - Direct

- a. Decrease
- b. Increase
- c. Remain same
- d. Can't Say

14) Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?

- a. consumption and government purchases went up since you bought a used car and government bonds
- b. consumption and investment went up since you bought a used car and government bonds
- c. investment and government purchases went up since you built a new house and bought government bonds
- d. investment went up since you built a new house

15) Public goods are characterized by:

- a. Excludability and rivalry
- b. Excludability and non-rivalry
- c. Non-excludability and rivalry
- d. Non-excludability and non-rivalry

16) Under the law of variable proportion, stage I is known as the stage of increasing returns because:

- a. Marginal product of the variable factor increases throughout this stage ~~x~~
- b. Average product of the variable factor increases throughout this stage
- c. Marginal product increases at increasing rate throughout this stage
- d. Total increases at increasing rate throughout this stage

MP ↑ dec.

17) Under which union they have or follow a common monetary policy and fiscal policy:

- a. Economic Union
- b. Custom Union
- c. Common market
- d. All the above

18) The total member countries under WTO currently:

- a. 164
- b. 171
- c. 169
- d. 161

19) The Supply of Money is a:

- a. Flow variable
- b. Stock variable ✓
- c. Combination of a and b
- d. Cannot be categorized

H / mb

20) Reserve money is supplied by:

- a. RBI
- b. Government
- c. Commercial banks
- d. World bank

21) If the required reserve ratio is 20 percent, currency in circulation is Rs. 800 billion, demand deposits are Rs. 2000 billion, and excess reserves total Rs. 2 billion, find the value of money multiplier:

- a. 2.50
- b. 2.33
- c. 2.60
- d. 2.50

$$L = \frac{C+1}{C+e+r} = 0.2$$

$$C = \frac{800}{2000} = 0.4$$

$$e = \frac{2}{2000} = 0.001$$

$$\frac{0.4+1}{0.4+0.001+0.2}$$

22) Which of the following statement is false regarding FPI? ✓

- a. Speculative in nature
- b. Investment in financial assets
- c. Setting up of factory **FDI**
- d. short term investment

23) If rupee is depreciating against the \$:

- a. RBI will sell the \$
- b. RBI will cut the repo rate
- c. Govt prints more currency
- d. RBI will purchase the \$

\$ Supply ↓
Dep- \$ opp

24) 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

S ↑

D ↓ Supply

25) If supply increases while demand decreases:

- a. the equilibrium price will definitely increase.
- b. the equilibrium quantity will definitely increase.
- c. the equilibrium price will definitely decrease.
- d. the equilibrium quantity will definitely decrease

26) If marginal product of labour is below average product of labour, then:

- a. average product of labour is flat.
- b. average product of labour is increasing.
- c. average product of labour is decreasing.
- d. may be increasing, decreasing or flat

MP < AP

MP ↓ AP

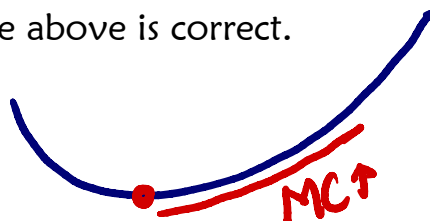
27) The law of diminishing returns begins at the level of output where:

- a. marginal cost is at a minimum.
- b. average variable cost is at a minimum.
- c. average fixed cost is at a maximum.
- d. None of the above is correct.

LMP ↓

MP - Max-Inflexion

MC - Min



28) Mr Amit, a stock market trader through inside information, comes to know that share price of X Ltd is likely to go up in future, so he purchases the shares to make a gain by selling them later at higher price. It is a case of:

- a. Moral Hazard
- b. Asymmetric Information
- c. Free Riding
- d. None of the above

29) Which of the following measures involve total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period?

- a. Import Quotas
- b. Anti-Dumping Duties
- c. Escalated Tariffs
- d. Embargos

30) According to Hawtrey trade cycle is a _

- a. Monetary Phenomenon
- b. Unplanned Phenomenon
- c. Fiscal Phenomenon
- d. All the above

31) Collectively peaks and troughs together is known as:

- a. Turning Points
- b. Contraction
- c. Expansion
- d. A trough

32) The WTO comprises majorly:

- a. developed countries
- b. under developed countries
- c. developing countries
- d. None of these.

33) 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

34) _____ scheme to promote manufacturing of electric and hybrid vehicle technology

- a. Udyami Bharat
- b. FAME-India
- c. PLI Scheme
- d. PM Gati Shakti national master plan

35) An investment in which one investor establishes a business activity in a foreign country which is different from investor's main business activity but in some way supplements its major activity is called _____

- a. Horizontal direct investment
- b. Vertical investment
- c. Conglomerate type of FDI
- d. Two-way direct foreign investment

36) _____ is a form of FDI which makes use of the existing infrastructure by merging, acquiring or leasing, instead of developing a completely new one

- a. Greenfield investment
- b. Brownfield investment
- c. Both a & b
- d. None of the above

37) _____ takes place when there is a decrease in the home currency price of the foreign currency (or, alternatively, an increase in the foreign currency price of the home currency)

- a. Home-currency appreciation
- b. Foreign-currency appreciation
- c. Home-currency depreciation
- d. Both b & c

1\$ = 85

1\$ = 80

New ✓

- 38) Fixed beings in more currency and monetary stability and credibility but lacks flexibility. On the contrary, _____ has greater policy flexibility but lacks stability.
- a. Fixed rate; floating rate
 - b. Floating rate; fixed rate
 - c. Free floating; managed floating
 - d. Managed floating; free floating
- 39) _____ marked the birth of the Trade Organization (WTO)
- a. July 1, 1996
 - b. July 1, 1994
 - c. July 1, 1995
 - d. None of the above
- 40) Demand Curve in the monopolistic competition is _____
- a. Infinitely elastic
 - b. Downward sloping and highly inelastic
 - c. Downward sloping and more elastic demand curve.
 - d. None of these.
- 41) 'Time' element in market was conceived by:
- a. Alfred Marshall
 - b. Pigou
 - c. Allen
 - d. one of these
- 42) The system wherein the nominal tariff rates on imports of manufactured goods are higher than the nominal tariff rates on intermediate inputs and raw materials is known as _____
- a. Applied tariff
 - b. Escalated tariff
 - c. Bound tariff
 - d. Preferential tariff

- 43) A duty typically fixed to bring the price of an imported commodity up to the level of the domestic support price for the commodity.
- a. Tariff Rate quota
 - b. Variable Tariff
 - c. Technical Tariff
 - d. Bound Tariff
- 44) Who introduced the New International Trade Theory?
- a. David Ricardo
 - b. Adam Smith
 - c. Eli Heckscher
 - d. Paul Krugman
- 45) _____ was the first one to put across the possibility that international trade is not a zero sum game and international trade was absolute cost advantage?
- a. David Ricardo
 - b. Adam Smith
 - c. Eli Heckscher
 - d. Paul Krugman
- 46) Inflation target is set by Govt. of India, in consultation with RBI, once in every _____ years.
- a. 2
 - b. 5
 - c. 3
 - d. 4
- 47) _____ rate is the penal rate at which the Central Bank lends money to banks, over the rate available under the repo policy.
- a. Repo Rate
 - b. MSF Rate
 - c. Reverse-Repo rate
 - d. Bank Rate
- 1.1.06 SLR

48) As per Exchange Rate Channel, a reduction in interest rates in India (compared with rest of world) results in a weaker exchange rate, making foreign goods and services more exp. compared with those produced in India.

- a. Higher, affordable
- b. Lower, expensive
- c. Higher, expensive
- d. Lower, affordable

Dep ↓

49) Calculate Currency with Public respectively-

Notes in Circulation - Rs. 45,000 cr

Circulation of Rupee Coins - Rs. 1,500 cr

Circulation of Small Coins - Rs. 750 cr

Cash on hand with Banks – Rs. 27,500 cr

- a. Rs. 74,750 cr
- b. Rs. 19,750 cr
- c. Rs. 73,250 cr
- d. Rs. 29,750 cr

50) Calculate Money Multiplier, if:

Reserve Ratio (r) = 10%

Currency = Rs 500 crores

Deposits = Rs 800 crores

Excess Reserve = Rs 4 crores

- a. 2.08
- b. 2.22
- c. 1.99
- d. None of the above

51) As per _____, demand for money is determined by the permanent income and not the current income

- a. Irving fisher
- b. JM Keynes
- c. Baumol
- d. Friedman

52) _____ is a situation when expansionary monetary policy does not increase interest rate, or income & hence does not stimulate economic growth.

- a. Expansion
- b. Liquidity Trap
- c. Crowding out
- d. None of the above

53) Command economy is another name for

- a. Capitalist Economy
- b. Socialist Economy
- c. Mixed Economy
- d. Macro Economy

54) Commodities for which the quantity demanded rises only up to a certain level of income and decreases with an increase in income beyond this level are called:

- a. Normal goods
- b. Inferior goods
- c. Essential goods
- d. Luxury goods

55) A consumer buys 100 units of a goods at a price of 6 per unit. Suppose price elasticity of demand is -3. At what price will he buy 80 units?

- a. 5.8
- b. 6.2
- c. 6.4
- d. 6.75

$$\begin{aligned} -3 &= -\frac{\Delta P}{P} \times \frac{P}{\Delta Q} \\ -3 &= -\frac{\Delta P}{6} \times \frac{6}{100-80} \\ \Delta P &= 0.4 \\ P_1 - P_0 &= 0.4 \\ P_1 - 6 &= 0.4 \end{aligned}$$

56) When two goods are complementary, the cross elasticity between them is:

- a. Infinite
- b. Positive and large
- c. Zero
- d. Negative

57) Due to an increase in price of product X from 100 to 110 quantity supplied increases from 150 units to 200 units. Calculate elasticity of supply using arc-elasticity method.

- a. 2.3
- b. 3
- c. 3.33
- d. 3.5

$$\frac{50}{10} \times \frac{210}{350}$$

58) The rate at which a consumer is prepared to exchange goods X and Y, holding the level of satisfaction constant is called as _____. **MC**

- a. Indifference curve
- b. Marginal rate of substitution
- c. Diminishing marginal utility
- d. Consumer surplus

59) Which of the following is not true about relationship between average product and marginal product?

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

60) Linear Homogeneous Production function is another name for _____.

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

61) If the primary deficit is 20,500 crores and the net interest liabilities of a country are 3,500 crores, then what will be the fiscal deficit?

- a. ₹17,000 crores
- b. ₹21,500 crores
- c. 19,500 crores
- d. 24,000 crores

$$\text{FD} = \text{PD} + \text{Int}$$
$$20500 + 3500$$

- 62) _____ is intended to give authority to the government to incur expenditure from and out of the Consolidated Fund of India
- a. Finance Bill
 - b. Appropriation Bill
 - c. Cut Motion
 - d. None of the above
- 63) Smoking cigarettes in public places causes passive smoking by others. This is an example of _____
- a. negative production externality is received in consumption
 - b. negative production externality is received in production
 - c. negative consumption externality is received in production
 - d. negative consumption externality is received in consumption
- 64) Who introduced the concept of "collective consumption good" in his paper "The Pure Theory of Public Expenditure"?
- a. Paul A. Samuelson
 - b. Adam Smith
 - c. JM Keynes
 - d. Alfred Marshall
- 65) _____ is entrusted with providing social sector services such as health and education, and police protection.
- a. Central Government
 - b. State Government
 - c. Local self-government
 - d. All of the above
- 66) In order to control high inflation, the government may
- a. Decrease expenditure & raise tax
 - b. Increase expenditure & raise tax
 - c. Decrease expenditure & reduce tax
 - d. Increase expenditure & reduce tax

67) Article _____ of the Constitution delineates powers of union & state by classifying their powers into three lists

- a. 268
- b. 269
- c. 246
- d. 275

68) Recently, in this year's budget, the Government increased the Tax on Cigarettes. This is an example of which function of public finance?

- a. Allocation Function
- b. Redistribution Function
- c. Stabilization Function
- d. All of the above

69) $C = 60 + 0.9Y_d$
 $I = 10$

$M = 10 + 0.05Y$

What is the foreign trade multiplier?

- a. 0.98
- b. 3.97
- c. 6.66
- d. None of these.

$$\frac{1}{1 - b(1 - t) + m}$$
$$\frac{1}{1 - 0.9 + 0.05}$$

70) Consider the following: Consumption function (C) = $40 + 0.8Y$

$T = 0.1Y$

$I = 60$ crores

$G = 40$ Crores

$X = 58$

$M = 0.05Y$

What will be the equilibrium level of National Income?

- a. 800 crores
- b. 600 crores
- c. 545 crores
- d. None of these.

$$Y = C + I + G + (X - M)$$
$$40 + 0.8(0.9Y) +$$

71) If the GDP Deflator of a country in the year 2020 is 140.75 and in the year 2021 is 157.33, then what is the inflation rate in the year 2021?

- a. 9.09%
- b. 10.97%
- c. 11.78%
- d. 12.34%

$$\frac{157.33 - 140.75}{140.75} \times 100$$

72) Consider the following data:

Sales: 1,050

Opening Stock: 750

Intermediate Consumption: 525

Closing Stock: 600

Net factor Income from Abroad: 45

Depreciation: 225

Excise Tax: 165

Subsidies: 75

value of output - Int
↳ Sales + Cl. st - op.

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

- a. 900
- b. 375
- c. 105
- d. None of these

↳ GDP_{MP}
↳ NNP_{FC}

73) _____ is the income received by the household sector including Non-Profit institutions serving households.

- a. National income
- b. Private income
- c. Personal income
- d. Personal disposable income

74) _____ is a measure of the market value of all final economic goods and services, produced within the domestic territory of a country by normal residents during an accounting year including net factor incomes from abroad & excluding Depreciation

- a. GDP_{MP}
- b. NDF_{FC}
- c. GNP_{MP}
- d. NNP_{MP}

$$\text{GDP}_{MP} + \text{NFIA} - \text{Dep} = \text{NNP}_{MP}$$

75) Business cycle emerge in _____.

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

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

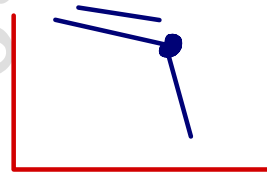
- a. Hawtrey
- b. Adam Smith
- c. J M Keynes
- d. Schumpeter

77) When a few firms in the oligopolistic market come to a common understanding with each other in fixing price and output, it is called:

- a. Syndicate oligopoly
- b. Collusive oligopoly
- c. Perfect oligopoly
- d. Open oligopoly

78) The elasticity of demand on the upper segment of a kinked demand curve will be:

- a. Infinite
- b. Equal to one
- c. Greater than one
- d. Less than one



79) This type of oligopoly tends to process raw materials or produce intermediate goods that are used as inputs by other industries.

- a. Open oligopoly
- b. Collusive oligopoly
- c. Pure oligopoly
- d. Full oligopoly

homof

80) Marginal Revenue will be zero in imperfect competitive market, if the elasticity of demand is:

- a. Equal to zero
- b. Equal to 1
- c. Greater than 1
- d. Less than 1

$$MR = AR \times \frac{-1}{e}$$

= 0

81) If a seller realizes Rs. 10,000 after selling 100 units and Rs. 14,000 after selling 120 units. What is the marginal revenue here?

- a. Rs. 4,000
- b. Rs. 450
- c. Rs. 200
- d. Rs. 100

$$\frac{4000}{20}$$

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

- a. First
- b. Second
- c. Third
- d. Fourth

83) 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.

$$\underline{\underline{AR = MC}}$$

84) When _____, there will be allocative efficiency

- a. $MC = MR$
- b. $MC = AC$
- c. $MC = AR$
- d. $AR = MR$

$$\underline{\underline{MC = AC}}$$

85) Average Cost of Producing 50 units of a Commodity is 250 and variable cost is 10,000. What will be the average fixed cost of producing 100 units of the Commodity?

- a. 10
- b. 30
- c. 20
- d. 25

$$AC, 250$$

$$VC: \underline{\underline{10,000}}$$

$$TC = 12,500$$

$$FC = 2,500$$

$$AFC = \frac{2500}{100}$$

86) In Cobb-Douglas production function, if labour elasticity and capital elasticity is more than 1, it refers to:

- a. Increasing return to factor
- b. Constant return to scale
- c. Increasing return to scale
- d. Decreasing return to scale

87) Slope of supply curve is 0.6, calculate elasticity of supply when initial price is Rs. 30 per unit and initial quantity is 100 units

- a. 0.5
- b. 5.5
- c. -0.5
- d. -0.18

$$\frac{1}{0.6} \times \frac{30}{100}$$

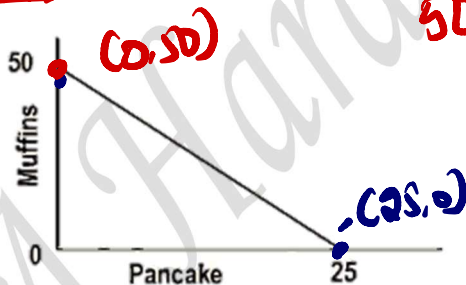
$$Q = -50 + 15 \times 20 = 250$$

88) The supply function is given as $Q = -50 + 15p$. Find the elasticity using point method, when price is Rs. 20.

- a. 1.2
- b. 0.83
- c. 0.86
- d. None of the above

$$E_s = \frac{15 \times 20}{250}$$

89) When the total income of a consumer is Rs. 750, find out the prices of pancake & muffins respectively if:



- a. 15, 30
- b. 30, 15
- c. 50, 25
- d. 25, 50

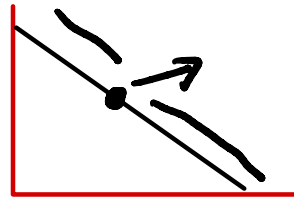
$$50 \times P = 750$$

$$P = 15$$

$$25 \times P = 750$$
$$P = 30$$

90) 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



91) Goods which are required for immediate or urgent consumption are:

- a. Less elastic
- b. Unit elastic
- c. More elastic
- d. None of the above

92) In the case of an inferior good, the income elasticity of demand is:

- a. Positive
- b. Zero
- c. Negative
- d. Infinite

93) _____ economics explains cause and effect relationship between economic phenomena

- a. Positive
- b. Normative
- c. Negative
- d. Applied

94) 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.

95) Short -term credit from the Reserve bank to state government:

- a. RBI credit to states
- b. Commercial credit of RBI
- c. Ways and Means Advances
- d. Short term facility

96) What can be the minimum value of investment multiplier?

- a. 10
- b. 1
- c. infinity
- d. 0

$$\frac{MPC=0}{MPS=1}$$

$$\frac{1}{MPS} = 1$$

97) Mr. A, who is self-employed decided to keep more money in his savings account, considering the prevailing economic & political conditions. What is the motive for such a move by A? —

- a. Transactions Motive
- b. Speculative Motive
- c. Precautionary Motive
- d. Conservative Motive

98) The kinked demand curve theory explains that even when the demand conditions

Change the price Stable

- a. Change, changes
- b. Change, remains stable
- c. Remain stable, changes
- d. Remain stable, falls

99) 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

100) Aaj ka exam kaisa hoga?

- a. Shandaaar
 - b. Bhot Shandaaar
 - c. Ek dum First class
 - d. Bench pe khade hoke nachenge
-

Carefully
options

100

70+

3 Round

1st Round - ✓

2nd Round - ✓

3rd