



CA FOUNDATION JAN 2026

धाकड़

MCQ MARATHON

Business Economics

ONESHOT

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ALL CHAPTERS

Business Economics

Chapter - 1

Nature and Scope of Business Economics

#Q. Which economic system is the predominant in the modern global economy?

- A Socialism
- ☒ B Capitalism
- C Mixed
- D All of the above





2.1

CAPITALIST ECONOMY

Capitalism, the predominant economic system in the modern global economy, is an economic system in which all means of production are owned and controlled by private individuals for profit. In short, private property is the mainstay of capitalism and profit motive is its driving force. Decisions of consumers and businesses determine economic activity. Ideally, the government has a limited role in the management of the economic affairs under this system. Some examples of a capitalist economy may include United States and United Kingdom, Hong Kong, South Korea etc. However, many of them are not pure form of capitalism but show some features of being a capitalist economy.



- A Human wants are limited and the resources are unlimited
- B Human wants are unlimited and the resources are ~~absolutely~~ scarce
- C Human wants as well as resources are unlimited
- D Human wants are unlimited but the resources are relatively scarce

Limited

D

- ☒ **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 **(B)**
- C** Scarcity during times of business failure and natural calamities
- D** Scarcity caused on account of excessive consumption by the rich



#Q. 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



→ Imagination

- A** Abstract and applies the tools of Microeconomics
 - B** Involves practical application of economic theory in business decision making
 - C** शामिल Incorporates tools from multiple disciplines
 - D** (B) and (C) above
- ↓
Subject



- 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

ought to be



Question

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



- A** Macro-Economics **A**
- B** Descriptive Economics
- C** Micro-economics
- D** Normative economics



☒ A Normative Economics

☐ B Positive Economics

☐ C Both (A) and (B)

☐ D None of these



#Q. 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

A



#Q. 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?
- D How should we decrease unemployment in the economy? (D)



- 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.



#Q. 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



Question

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



A Demand

B Supply

C Efficiency

☒ D Prices



- A** Socialism ✓ (A)
- B** Capitalism
- C** Mixed economy
- D** None of the above



Question

#Q. Economics is a branch of _____ focused on the production, distribution and consumption of goods and services



A Natural science

B Physical science

C Social science



D None of these



#Q. Which of the following is not an example of Capitalist economy?

- A USA
- B Germany
- C North Korea
- D South Korea



A Karl Marx and Frederic Engels

A

B Marshall

C Adam Smith

D Joel Dean

given

1848

Manifesto



Question

#Q. Under the pragmatic approach, economics is abstract and purely theoretical in nature and takes assumptions: *Business Eco*



A Practical, Unrealistic

B Practical, Realistic (B)

C Theoretical, Unrealistic

D Theoretical, Realistic

Practical



- A Applied Economics
- B Managerial Economics
- C Micro Economics
- D Macro Economics

Heart of Business Eco.

largely - heavily



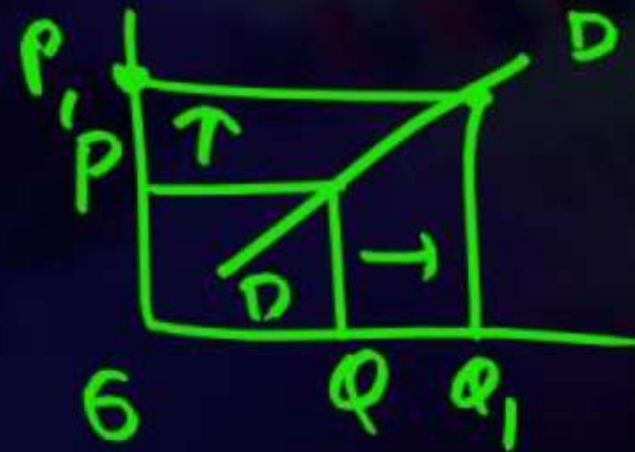
Chapter - 2

Theory of Demand

10 Marks

- A** Horizontal
- B** Downward-sloping to the right
- C** Vertical
- D** Upward-sloping to the right

$P \uparrow D \uparrow$
 $P \downarrow D \downarrow$



A Positive sloped

B Vertical

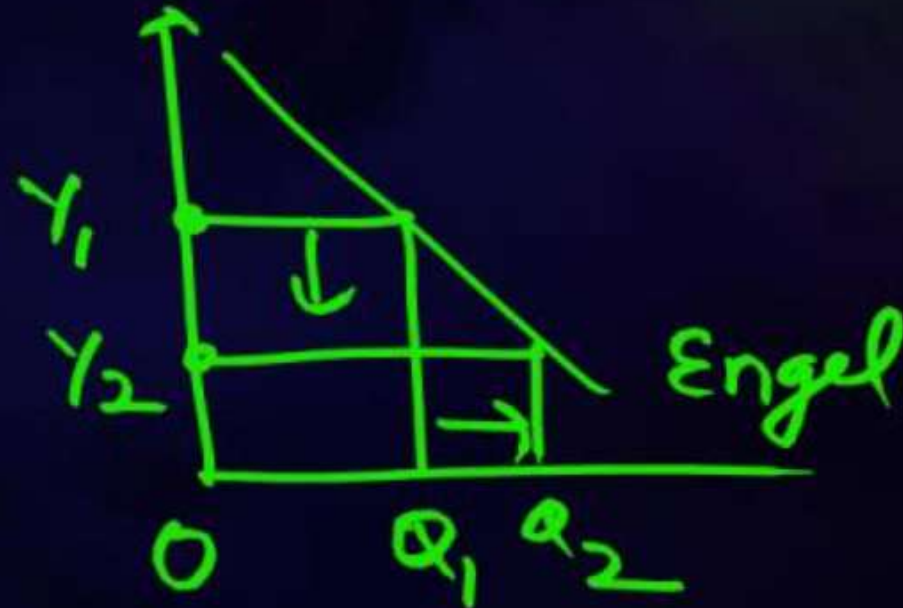
C Horizontal

D Negative sloped

D

$Y \uparrow \quad D \downarrow$

$Y \downarrow \quad D \uparrow$



#Q. 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



- ☐ A Prestige goods
- ☐ B Snob goods
- ☐ C Veblen goods
- ☒ D All of the above



Question

#Q. 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 D



Cross-DD Curve



$P_x \uparrow \rightarrow D_y \uparrow$



- A** Consumer's real income increases **A**
- B** Consumer's real income decreases
- C** There is no change in the real income of the consumer
- D** None of the above

$$\underline{\underline{₹10}} \quad M = \underline{\underline{100}}$$

$$Q = \frac{100}{10} = 10 \text{ unit}$$

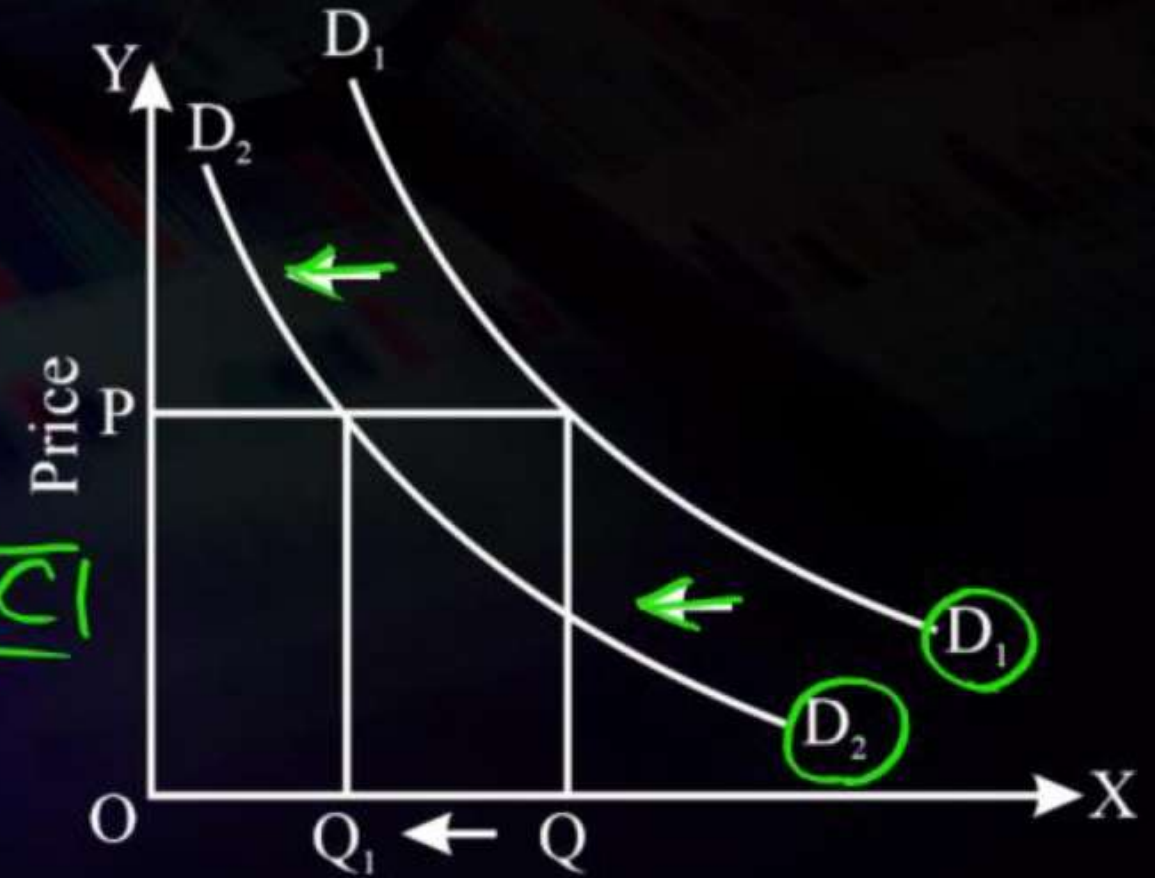
$$\underline{\underline{₹5}}$$

$$Q = \frac{100}{5} = 20 \text{ unit}$$

Purchasing
Power \uparrow



- 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 $(Y \uparrow \Rightarrow D \downarrow)$ C
- D** A shift of demand curve caused by a rise in the price of a substitute and the good is a normal good



Question



#Q. In case of unequal distribution of income in the country, the propensity to consume will be higher, and demand for Consumer Goods will be low.

A Higher; Higher

B Higher; Lower (B)

C Lower; Higher

D Lower; Lower

100 → 90 | 95 | 100 ^{90%}

Slack → 50 → 10%



#Q. According to Hicks and Allen the demand curve slope downwards due to _____

- A Law of diminishing marginal utility → Marshall
- B Income effect and substitution effect (B)
- C Either (A) or (B)
- D None of these



A It is a function of consumption of others

snob

B It is a function of price **(B)**

C Both (A) and (B)

D None of these



#Q. The tendency of people to imitate the consumption pattern of other people is known as

☒ A Demonstration

☐ B Bandwagon

☐ C Prestige

☐ D Veblen

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fact others are also consuming



Question



#Q. Mr. X and Mr. Y are rich rivals and, in a party, Mr. X wears an expensive dress and on seeing it Mr. Y who also has the same dress decided to reject the use of the same dress further. Rather Mr. Y will try to use an even more expensive one. Which effect affects Mr. Y?

- A** Bandwagon Effect ✗
- B** Demonstration Effect ✗
- C** Snob Effect ✓
- D** Veblen Effect



Question



#Q. Identify the ^{value} 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

$$\% \underline{\underline{\Delta D}} < \% \underline{\underline{\Delta P}}$$

$$\epsilon_p = \frac{\% \Delta D}{\% \Delta P} = \frac{10}{20} = -0.5$$



Question

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

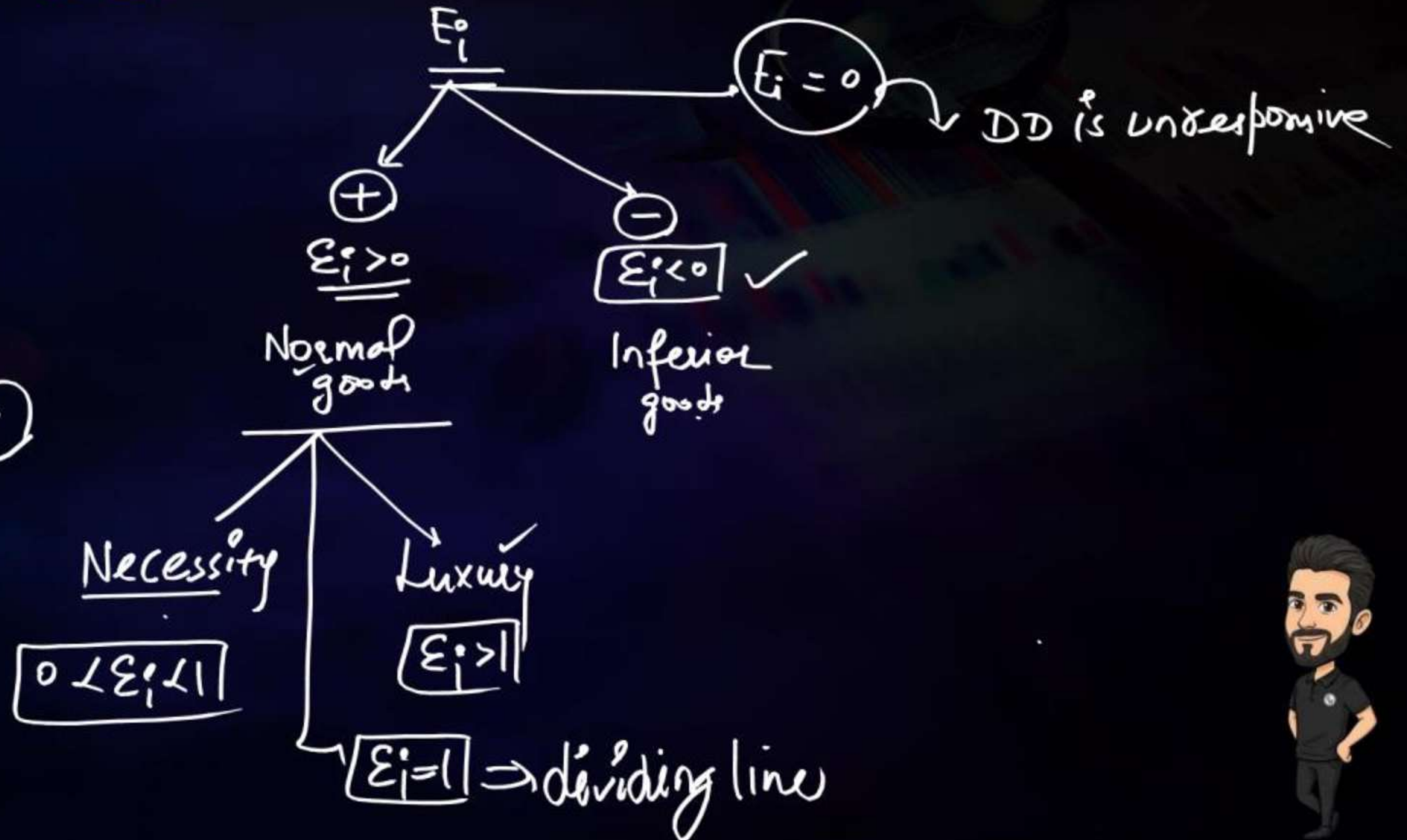


A Positive

B Zero

C Negative

D Infinite



Question

#Q. 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:



$$\epsilon_p < 1$$

A Remain the same

B Increase (B)

C Decrease

D Any of these

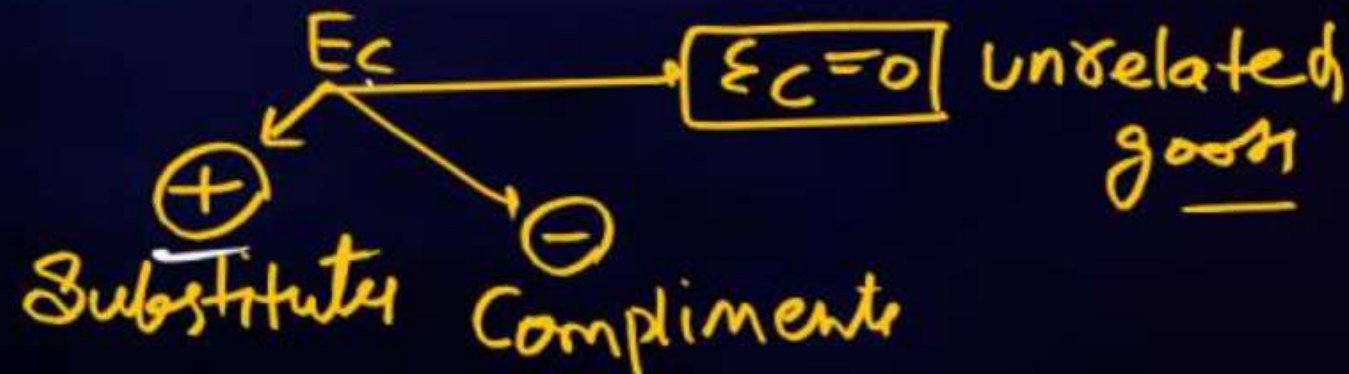
$$\begin{array}{cc} P \uparrow & T \epsilon \uparrow \\ \hline P \downarrow & T \epsilon \downarrow \end{array} \Rightarrow \epsilon_p < 1$$

$$\begin{array}{cc} P \uparrow & T \epsilon \downarrow \\ P \downarrow & T \epsilon \uparrow \end{array} \Rightarrow \epsilon_p > 1$$



#Q. 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



#Q. 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

Very small
↓
Infinitesimal
↓
Negligible



#Q. 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 ☒
- D We should have more private schools



#Q. 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 ^{Price} will be always greater than the percentage decrease in tickets sold _{Qty.} (B)
- C The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
- D (A) and (C) above are true

$$\underline{P \uparrow} \rightarrow \underline{TR \uparrow}$$

$$\underline{\epsilon_p < 1}$$

$$\epsilon_p = \frac{\% \Delta Q^D}{\% \Delta P} = \frac{10}{20} = -0.5$$



Question

#Q. Let $Q_x = 1500 / P_x$, the elasticity of demand of the good X when its price falls from ₹ 8 to ₹ 2 per unit, will be



$$Q = \frac{1500}{P_x} = \frac{1500}{8} = 187.5, \quad q = \frac{1500}{2} = 750$$

- ☒ A Greater than one
- ☐ B Less than one
- ☐ C Equal to one
- ☐ D Can't say

P	Q
8	187.5
2	750

$$\begin{aligned} \varepsilon_p &= \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} \\ &= \frac{562.5}{6} \times \frac{8}{187.5} \end{aligned}$$



Question

#Q. Calculate the price elasticity of demand when the price increases from ₹ 20 to ₹ 22 and quantity demanded falls from 300 to 200 units (Midpoint method):



P	Q
20	300
22	200

$$\epsilon_p = \frac{Q_2 - Q_1}{P_2 - P_1} \times \frac{P_1 + P_2}{Q_1 + Q_2}$$

$$= \frac{-100}{2} \times \frac{42}{500} = -4.2$$

A 4.2

☒ B -4.2

C 4

D -4



#Q. Demand for electricity is elastic because_____.

↓
Milk

- A It is very expensive
- B It has a number of close substitutes
- C It has alternative uses
- D None of the above

multiple many uses [C]



Question

#Q. The elasticity of substitution between two perfect substitutes is:



Gross

- A Zero
- B Greater than zero
- C Less than infinity
- D Infinite ✓

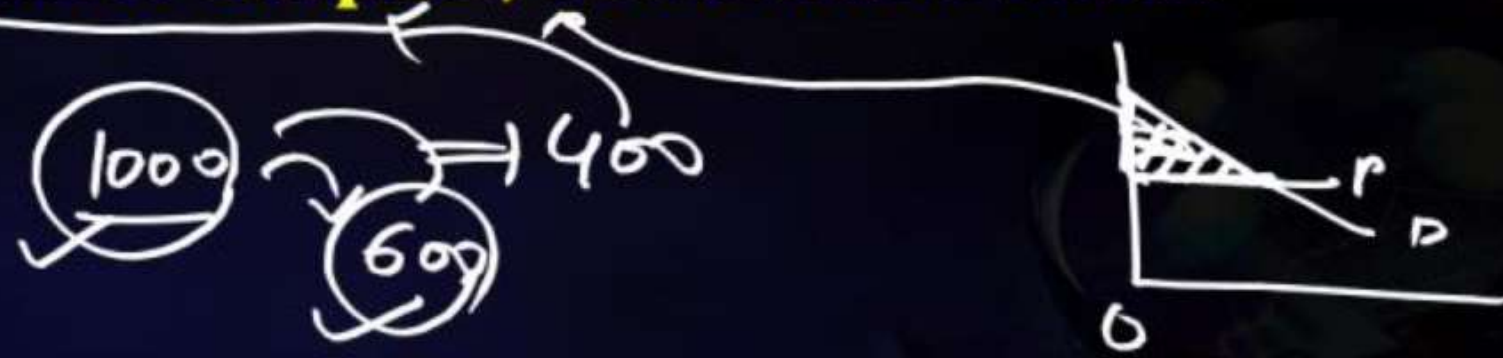
$$E_c = \infty$$



$$\frac{P_x}{P_y} = \frac{P_A}{P_B}$$

- 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





- 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 a person is willing to pay for a good and its market price ☒
- D** The difference between the market price and the supply curve



#Q. Which one is not an assumption of the theory of consumer behaviour based on analysis of indifference curves?

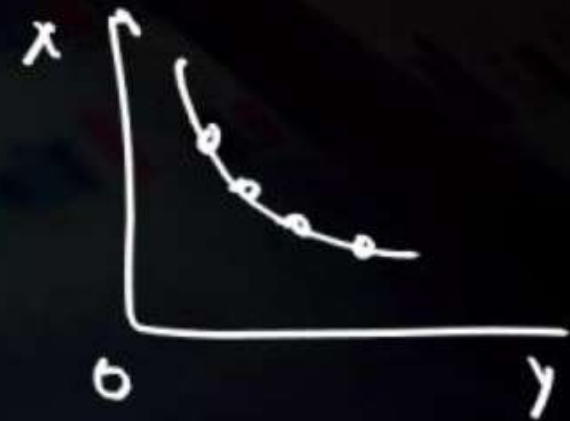
A Given scale of preferences as between different combinations of two goods

B Diminishing marginal rate of substitution DMRS

C Diminishing marginal utility of money $MU_M \downarrow$ \square

D Consumers would always prefer more of a particular good to less of it, other things remaining the same

→ monotonic



#Q. 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

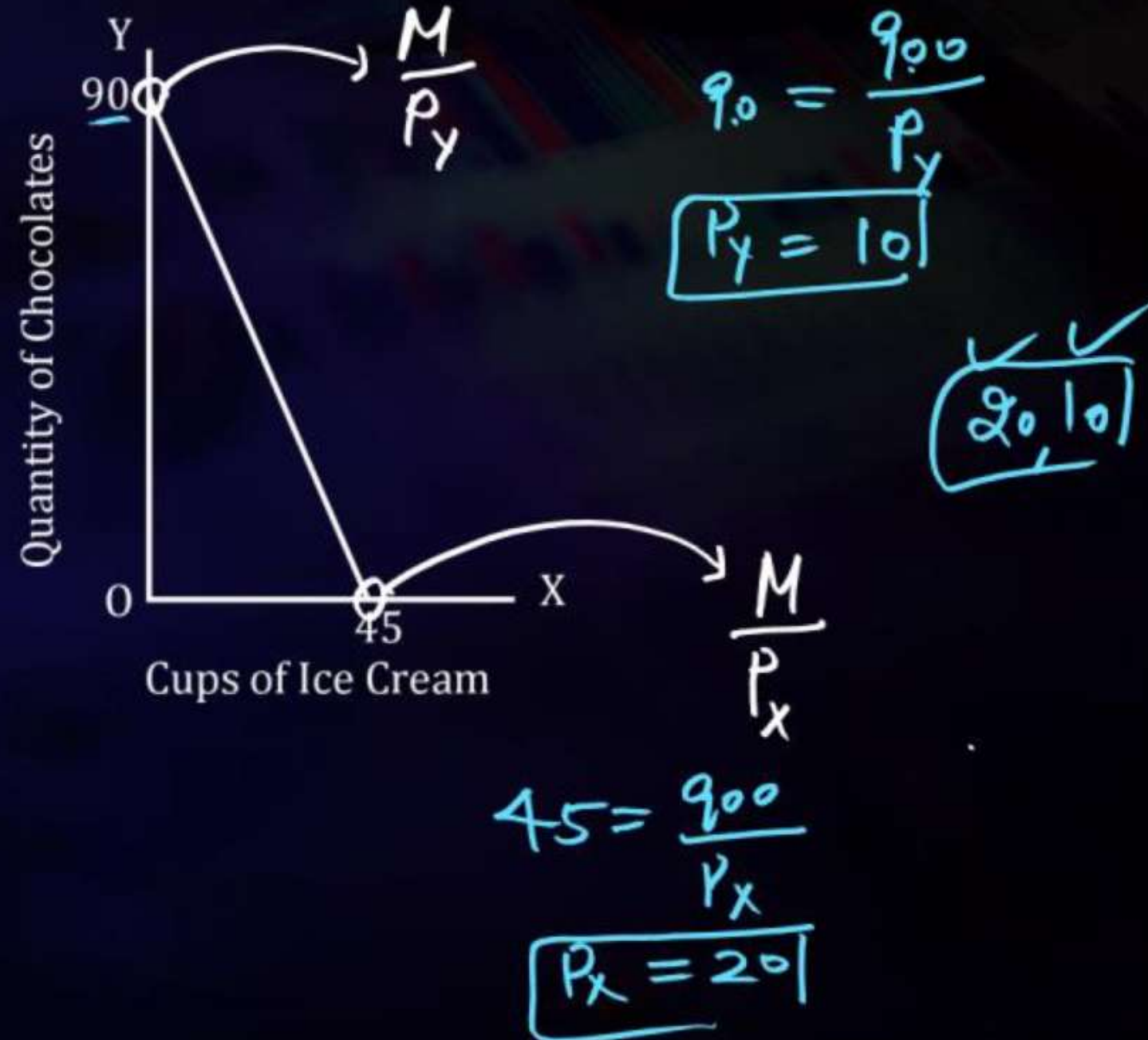


Question

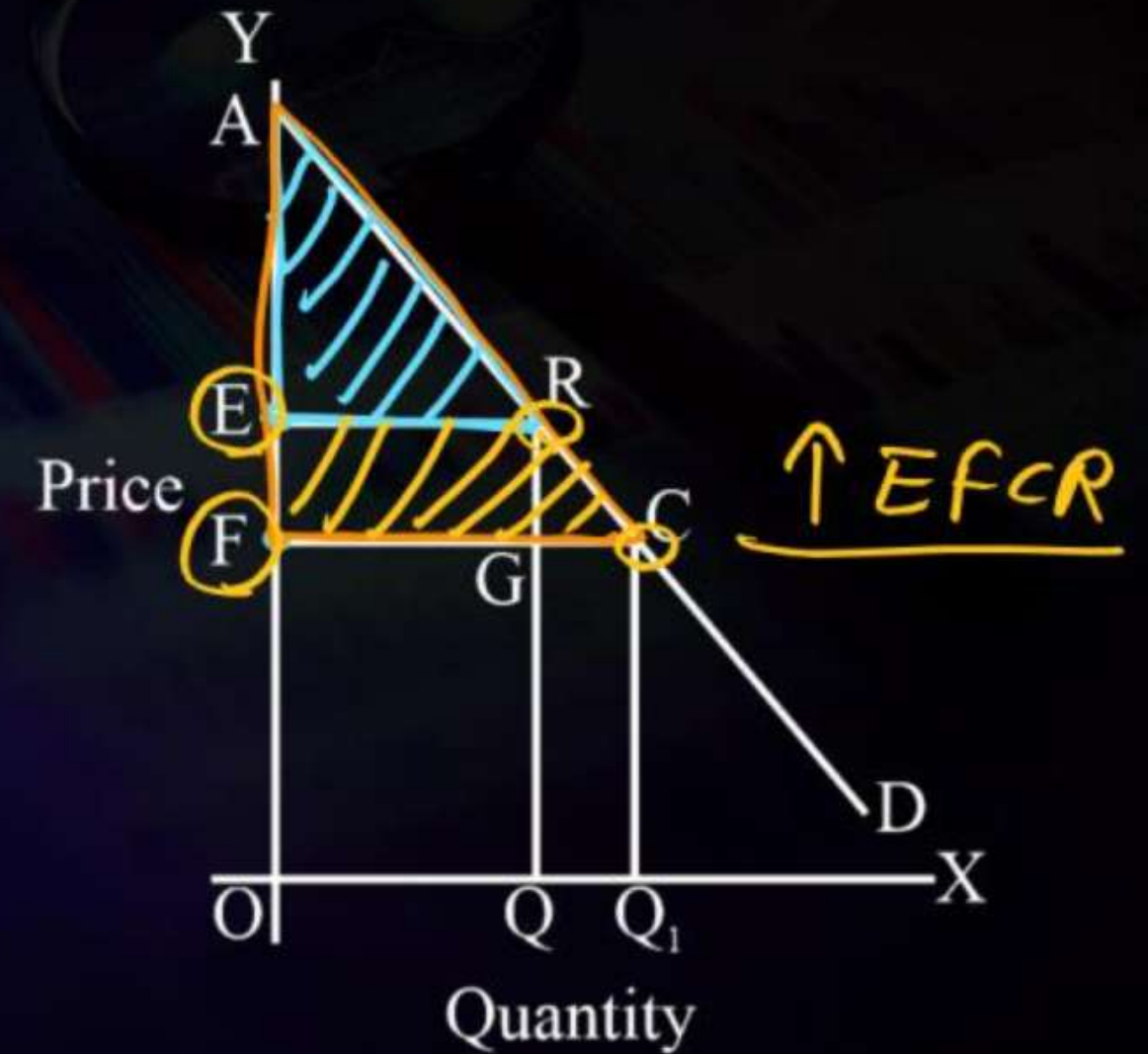


#Q. The figure below shows the budget constraint of a consumer with an income of ₹ 900/- to spend on two commodities, namely ice cream and chocolates. The prices of these two commodities respectively are:

- A ₹ 10 and ₹ 20
- ☒ B ₹ 20 and ₹ 10
- C ₹ 10 and ₹ 5
- D Any of the above



- A ~~decrease~~ in consumer surplus by EFGR
- B ~~decrease~~ in consumer surplus by AER
- C decrease in consumer surplus by EFCR
- D None of the above D



Question

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



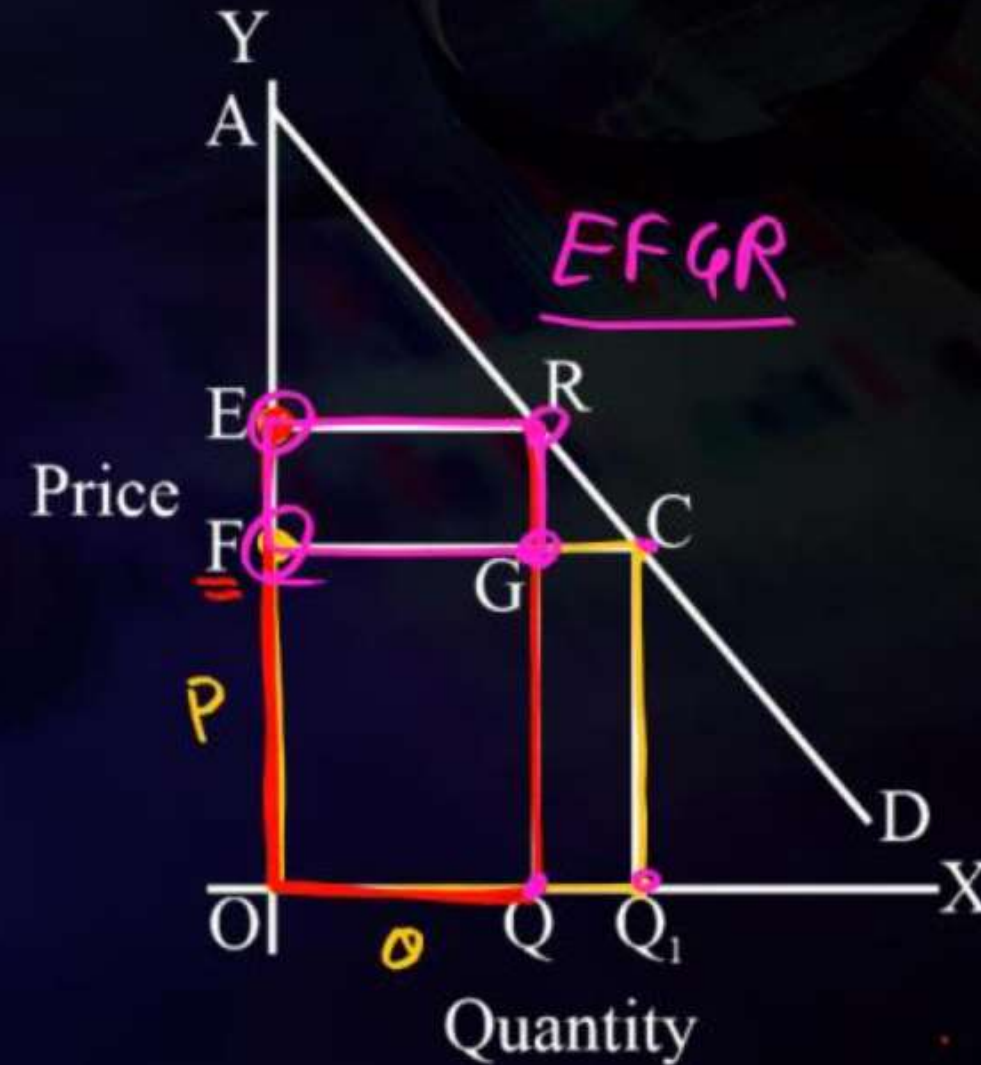
$$P \times Q$$

A Equivalent to area EFGR

B Equivalent to area EFCR

C Equivalent to area AER

D None of the above



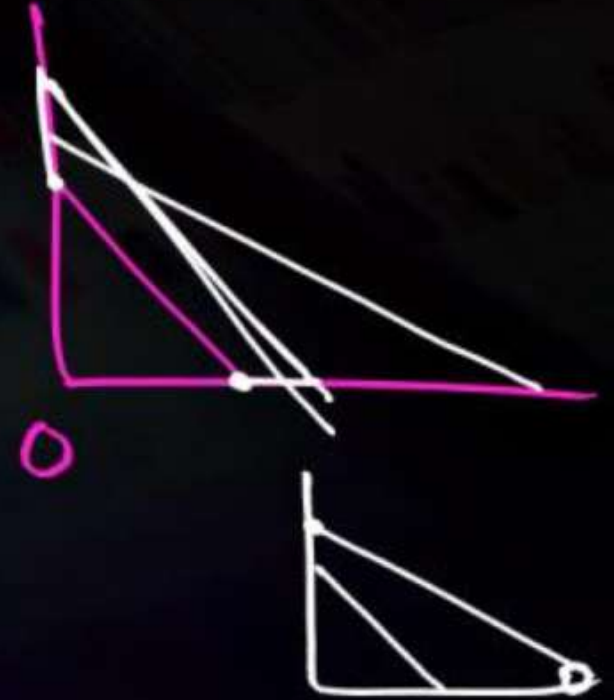
$$P \times Q = TR$$



#Q. How would the 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 ^x
- C** The budget line must be shifting to the left ^x
- 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

$P_x \downarrow P_y \downarrow$
 \downarrow
 $Q_x \uparrow Q_y \uparrow$



Equal Ratio



A The lower is the satisfaction level

B The higher is the satisfaction level **(B)**

C Same satisfaction level

D None of the above



$$\underline{3} > 2 > \underline{1}$$



List - I	List - II
(A) <u>Two perfect substitute goods</u>	(1) <u>Linear Indifference Curve</u>
(B) <u>Two perfect complementary goods</u>	(2) <u>Monotonic Preference</u>
(C) <u>Indifference curve is always</u>	(3) <u>L-Shape Indifference Curve</u>
(D) <u>Higher IC gives higher level of Satisfaction</u>	(4) <u>Convex to the origin</u>

A

~~(A)(1), (B)(2), (C)(3), (D)(3)~~

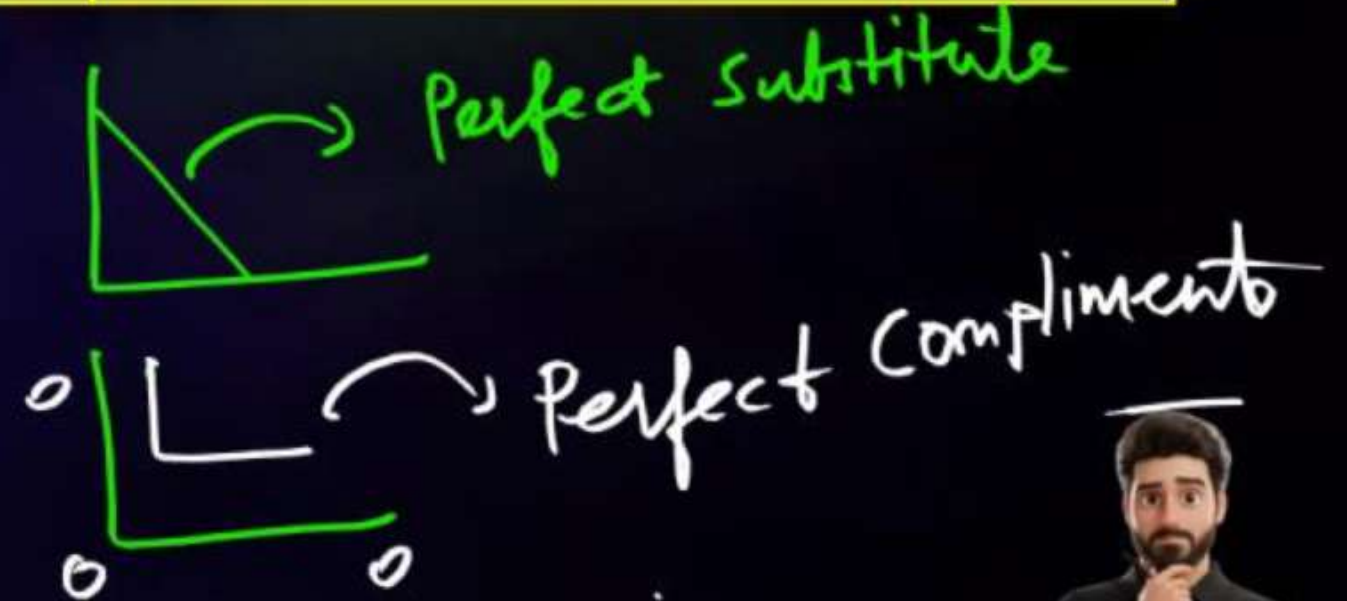
B

~~(A)(3), (B)(1), (C)(4), (D)(2)~~

C

(A)(1), (B)(3), (C)(4), (D)(2) C

D

(A)(1), (B)(3), (C)(2), (D)(4)


#Q. With respect to the properties of the indifference curve, which of the following statements is false?

- A Higher indifference curve represents higher level of satisfaction
- B Indifference curve is a negatively sloped line
- C Intersecting point of two indifference curves represents highest level of satisfaction ☒
- D An indifference curve is convex to the origin



Question

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



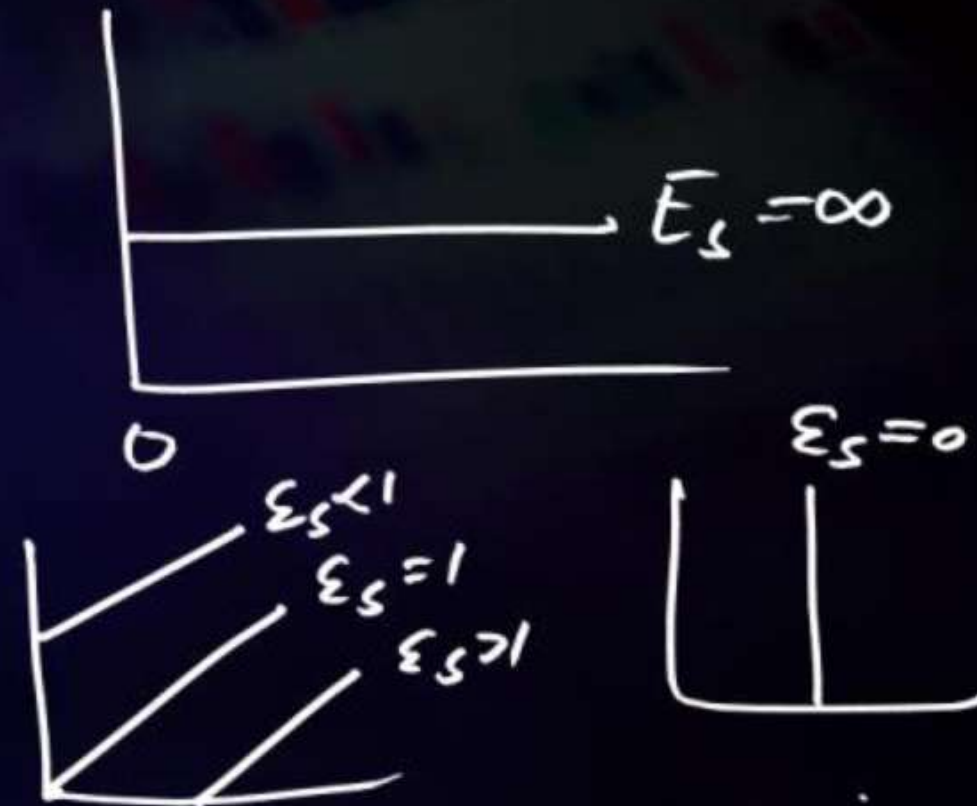
X-axis

A Zero

☒ B Infinite

C Equal to one

D Greater than zero but less than one



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

$S \downarrow$ — $P \downarrow$

B



#Q. 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 \Rightarrow Contraction (B)
- C An increase in the future expected price of the book
- D An increase in the price of paper used



Question

#Q. 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

$$Q = -100 + 10(15) \\ = \underline{\underline{50}}$$

$$\epsilon_s = \left(\frac{dQ}{dP} \right) \times \frac{P}{Q}$$

$$= 10 \times \frac{15}{50} = (3)$$



- A Improved technology **A**
- B Increased price of factors of production
- C Increased excise duty
- D All of the above



#Q. Supply is a concept.

- A** Stock
- B** Flow and stock
- C** Flow
- D** None of the above



#Q. Relationship between slope of supply curve and elasticity of supply can be defined as

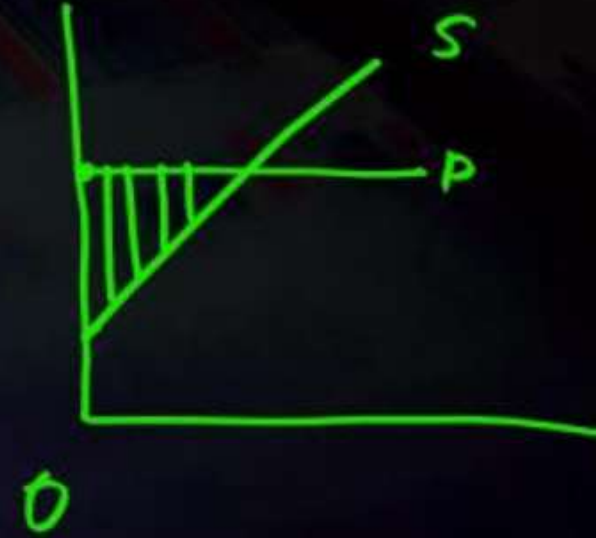
- A Product of slope of supply curve and ratio of quantity supply to price
- B Elasticity of supply is equal to the slope of supply curve
- ☒ C Product of reciprocal of supply curve and ratio of price to quantity supplied
- D Elasticity of supply is equal to reciprocal of slope of supply curve

$$\epsilon_s = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q} = \frac{1}{\text{slope}} \times \frac{P}{Q}$$

Slope = $\Delta P / \Delta Q$



- A** Above the supply curve and below the demand curve
- B** Below the supply curve and above the demand curve
- C** Above the supply curve and below the price line
- D** Below the supply curve and above the price line



Chapter - 3

Theory of Production

#Q. According to _____, land has certain original and indestructible powers and these properties of land cannot be destroyed

☒ A

Ricardo

☐ B

James bates

☐ C

James bates

☐ D

J.R. Parkinson



- A Its supply for the economy is limited ✓
- B It is immobile
- C Its usefulness depends on human efforts ↗ Passive factor
- D It is produced by our forefathers D

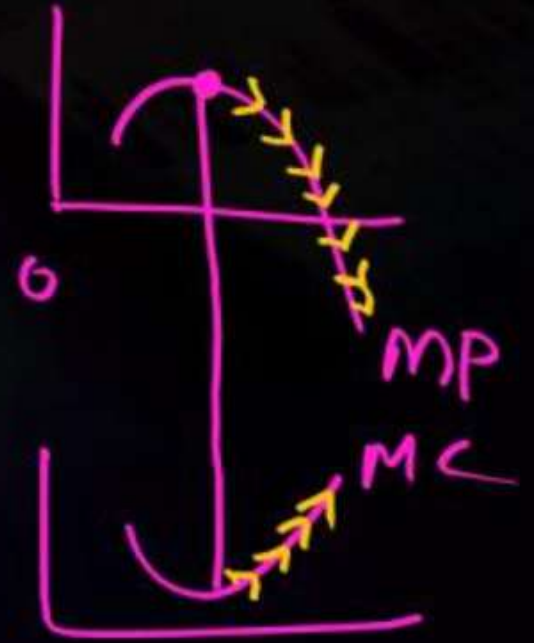
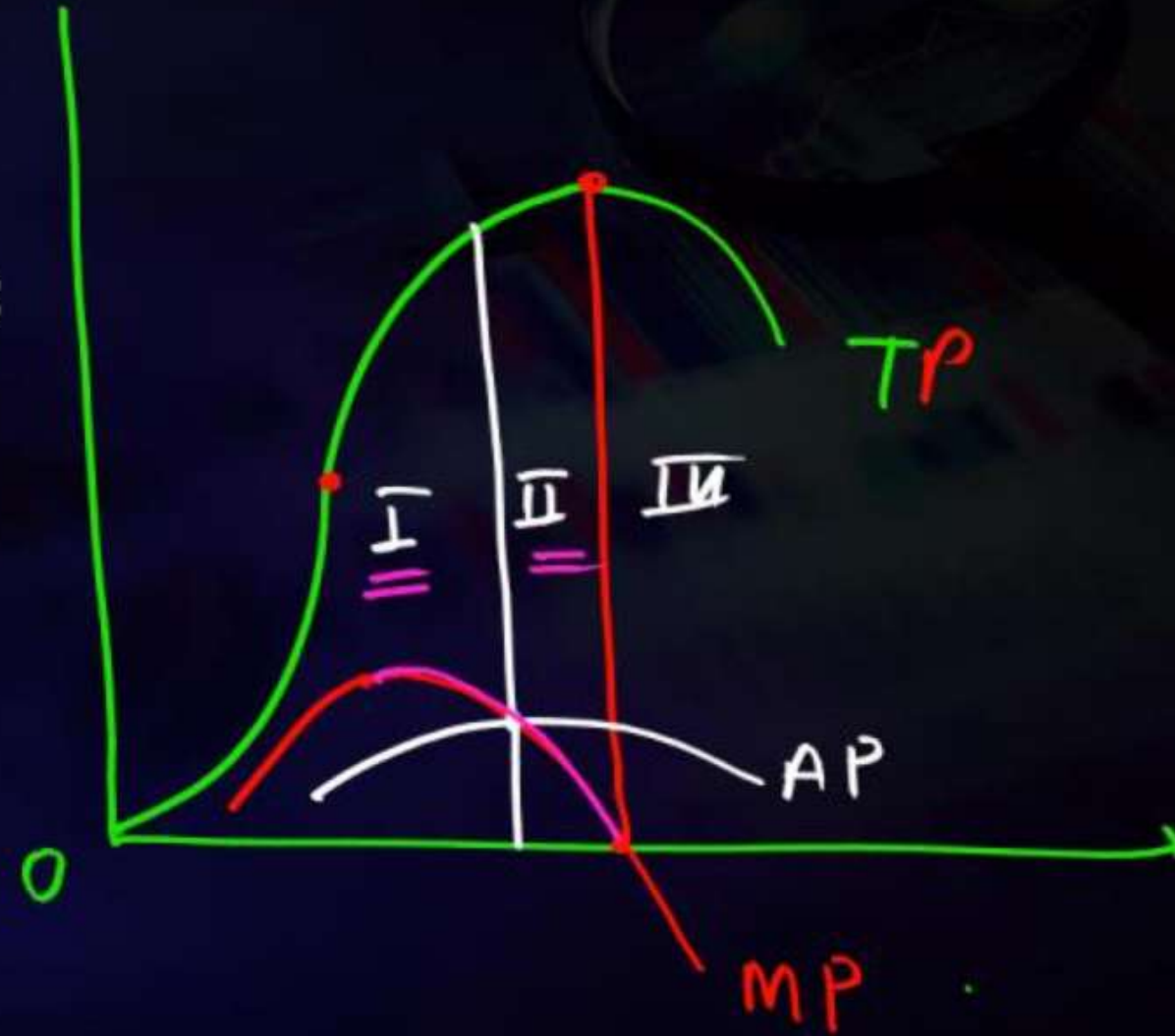


- A** Accumulation of capital depends solely on income of individuals ✓
- B** Savings can be influenced by government policies (B) ↑ tax ↑
- C** External economies go with size ✗ and internal economies with location
- D** The supply curve of labour is an upward slopping curve ✗

Backward Bending




- A** Decreasing average variable costs
- B** Decreasing marginal costs
- C** Increasing marginal costs C
- D** Decreasing average fixed costs



- A** The short run, but not the long run **A**
- 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



Question

#Q. Use the following information to answer the questions



Hours of Labour	Total Output ^{TP}	Marginal product
0	—	—
1	100	100
2	—	80
3	240	60

A

80

B

100

C

180

D

200

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

TP

$$TP = \sum MP$$



#Q. 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% C
- D Output will increase by more than 10%

$$\begin{array}{l} \textcircled{1} \quad \textcircled{0} \\ \hline 10\% = 10\% \Rightarrow \text{CRS} \\ 10\% = 11\% \Rightarrow \text{IRS} \\ 10\% = \underline{\underline{9\%}} \Rightarrow \textcircled{\text{DRS}} \end{array}$$



Number of Workers	Output TP	MP MP
0	0	—
1	23	23
2	40	17
3	50	10

(MP↓)

- A** Constant marginal product of labour
- B** Diminishing marginal product of labour (B)
- C** Increasing return to scale
- D** Increasing marginal product of labour



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

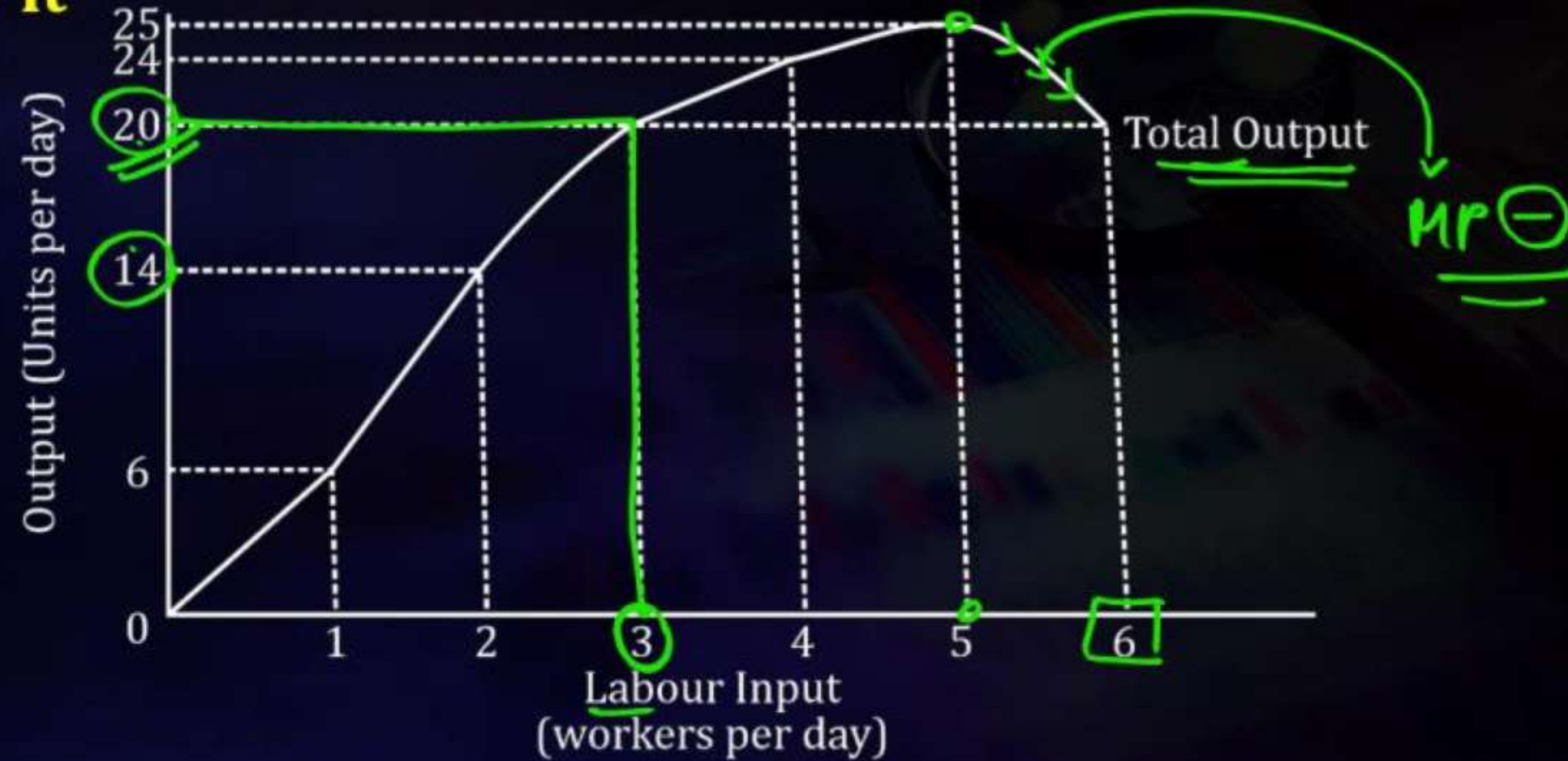
- A The technology is changing ✓
- B There must be some inputs whose quantity is kept fixed
- C We consider only physical inputs and not economically profitability in monetary terms
- D The technology is given and stable



- A** Total product curve **A**
- B** Average product curve
- C** Marginal product curve
- D** Implicit product curve



#Q. Use the following diagram to answer the question given below it



- A** Six; fourth
- B** Six; third
- C** Six; fifth
- D** Six; sixth

The marginal physical product of the third unit of labour is ✓ 6, the MP of the ✓ 4 labour is Negative

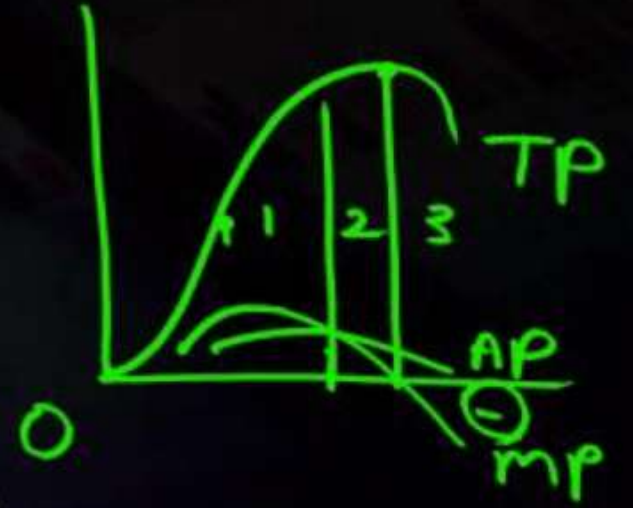


#Q. The most important function of an entrepreneur is to
_____.

- A** Innovate (A) Schumpeter
- B** Bear the sense of responsibility
- C** Finance
- D** Earn profit



#Q. Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns where average product of variable factor is declining (T)
Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative. (F)



- A (A) is true and (R) is false (A)
- B Both (A) and (R) are true and (R) is the correct explanation of (A)
- C Both (A) and (R) are true and (R) is not the correct explanation of (A)
- D (A) is false and (R) is true



#Q. The Cobb-Douglas homogeneous production function given as: $Q = L^{1/2} k^{1/2}$ exhibits.

CRS

- A Constant returns to scale **A**
- B Decreasing returns to scale
- C Increasing returns to scale
- D All of the above at various level of output



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

A Increasing return to ^xfactor

B Constant return to scale

C Increasing return to scale [C]

D Decreasing return to scale

$$Q = A L^a C^b$$

$$a + b = 1 \Rightarrow CRS$$

$$a + b > 1 \Rightarrow IRS$$

$$a + b < 1 \Rightarrow DRS$$



Question

#Q. Iso-Quants shown in the above figure exhibits:

1. Perfect substitutability of factors ✗
2. Perfect complementarity of factors ✓
3. Fixed proportion production function ✓
4. Variable proportion production function

A 1 and 2 only

B 1 and 3 only

C 3 and 4 only

D 2 and 3 only



Question

#Q. Match List I with List II and choose the correct answer using the codes given below.



List - I	List - II
(A) <u>MP is larger than AP</u>	(1) <u>AP is at its maximum</u>
(B) <u>MP is equal to AP</u>	(2) AP is falling
(C) MP is smaller than AP	(3) <u>AP is rising</u>

A

(A)(1), (B)(2), (C)(3)

B

(A)(3), (B)(1), (C)(2)

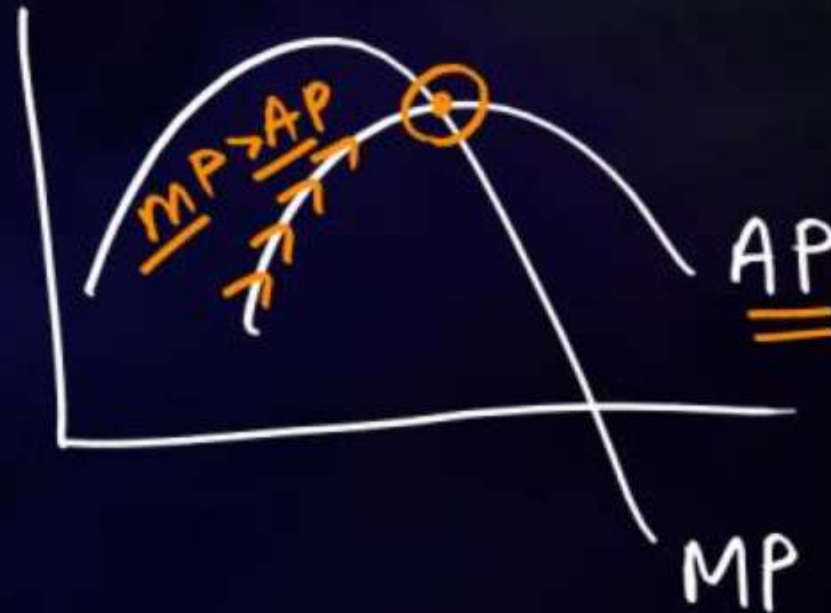
(B)

C

(A)(2), (B)(3), (C)(1)

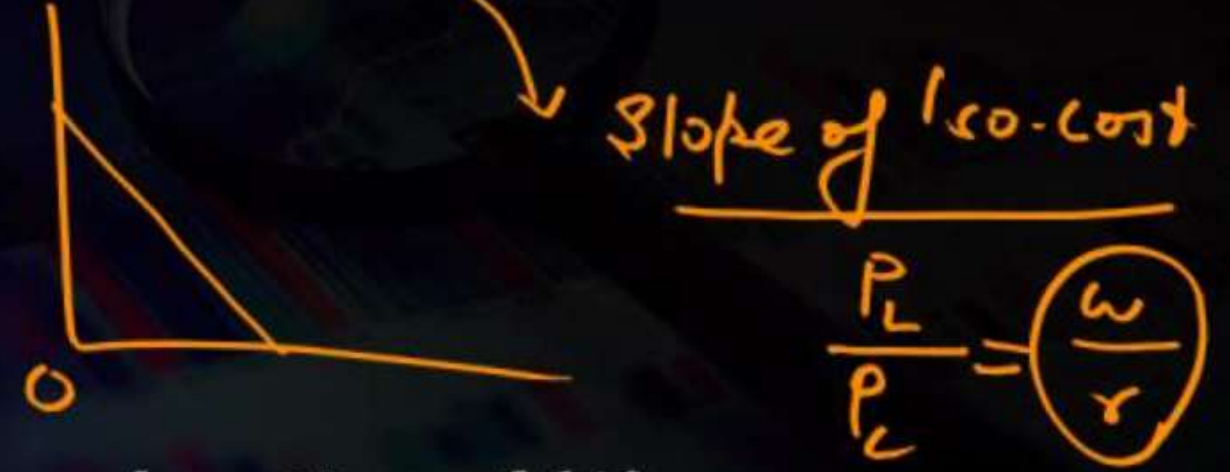
D

(A)(3), (B)(2), (C)(1)



#Q. **Assertion (A):** An Iso-cost line is a straight line.

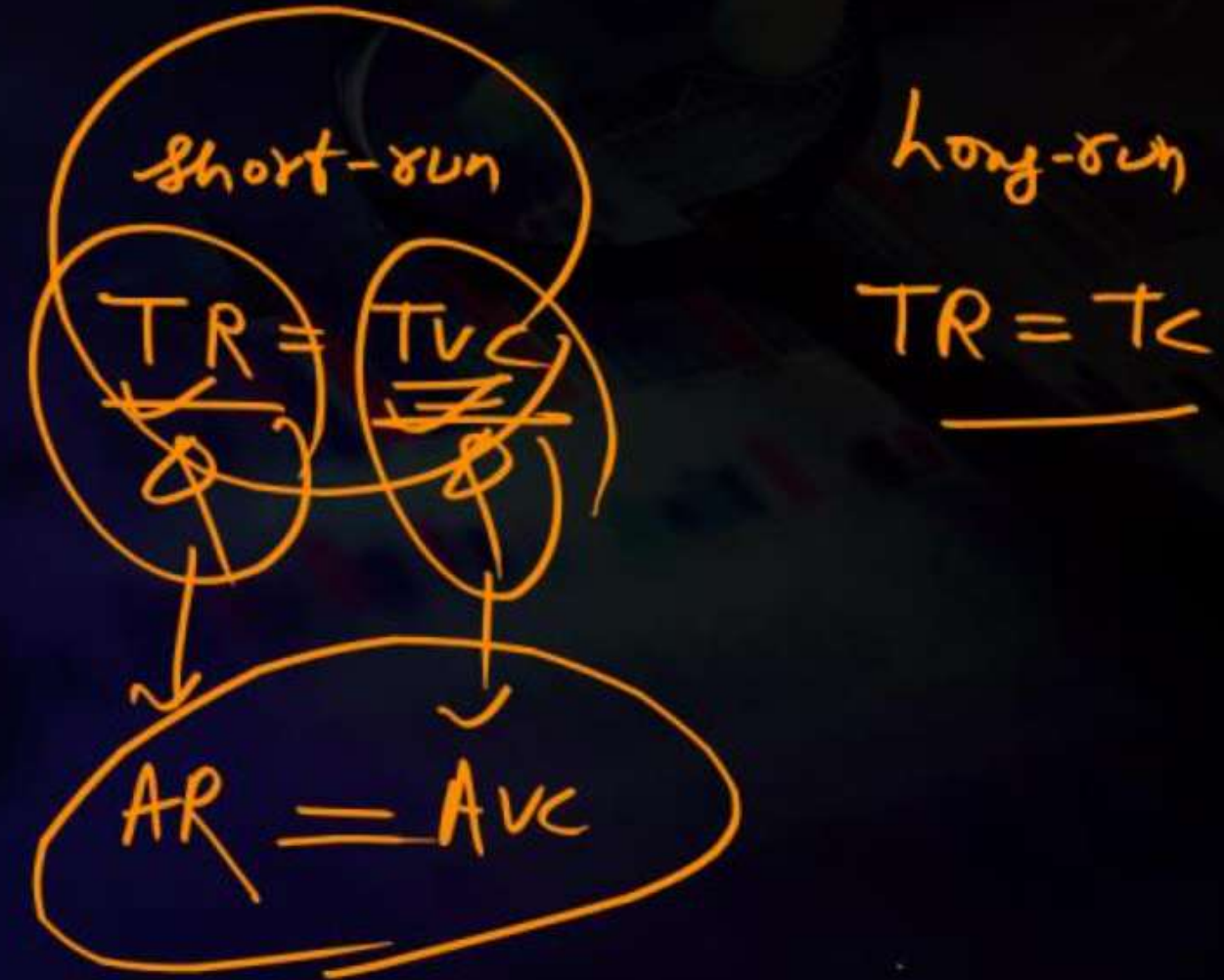
Reason (R): The market rate of exchange between the two inputs is constant.



- A** (A) is true and (R) is false
- B** Both (A) and (R) are true and (R) is the correct explanation of (A)
- C** Both (A) and (R) are true and (R) is not the correct explanation of (A)
- D** (A) is false and (R) is true



- A** Price is equal to AVC
- B** Total revenue is equal to TVC
- C** Total loss of the firm is equal to TFC
- D** All of the above D



Question

#Q. The marginal cost curve intersects the average cost curve when average cost is:



A Maximum

B Minimum

C Raising

D Falling

B



Question

#Q. If the total cost of manufacturing commodity 'A' is ₹ 1,50,000. Out of this implicit cost is ₹ 80,000 what will be explicit cost:



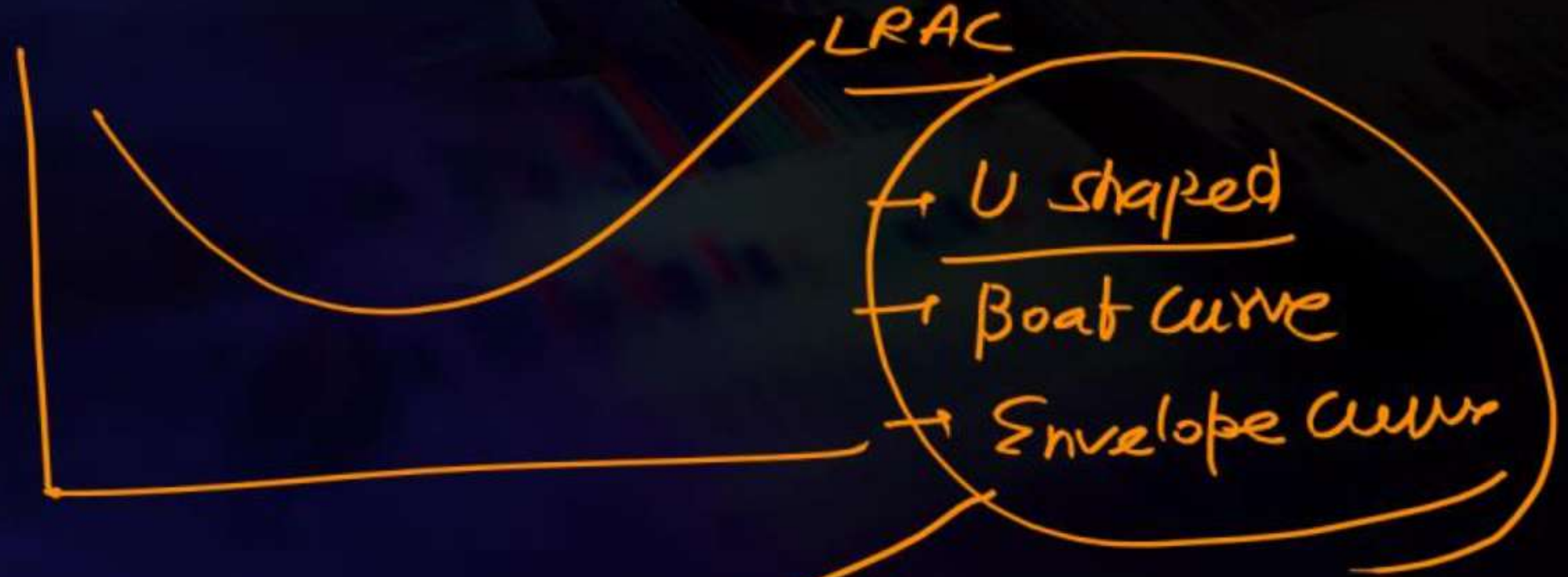
- A ₹ 95,000
- B ₹ 1,25,000
- C ₹ 80,000
- ☒ D ₹ 70,000

$$\begin{array}{ccc} \text{Imp} + \text{Exp} & = & \text{TC} \\ \downarrow & & \downarrow \\ \underline{\underline{80,000}} & & \underline{\underline{1,50,000}} \\ & & \downarrow \\ & & \underline{\underline{70,000}} \end{array}$$



#Q. Which is the other name that is given to the long run average cost curve?

- A** Profit curve
- B** Planning curve **(B)**
- C** Demand curve
- D** Indifference curve



#Q. Which of the following function can never be delegated by the entrepreneur?

Transfer

A Initiating the business enterprise

B Innovation

C Risk bearing

D All of the above

D



A Foreseeable risk

Insurance

B Uncertainties

B

C Both of the above

D None of the above



As per frank knight , Profit is the reward for bearing Uncertainties
As Foreseeable risk like fire, theft can be insured.



#Q. Under the law of variable proportion, Stages I and III are called

☒ A Economic Absurdity — Non-Sense

☐ B Economic Stability

☐ C Economic Equilibrium

☐ D All of the above

Stage II → Stage of operation



- A** Capital is a durable source which gives returns for a specific period
- B** Interest generated from capital and reinvested to earn more interest
- C** Capital performs its production function in single use and is not used further (C)
- D** Used for a series of services over a period of time



Question

#Q. Given the following data, calculate the missing values:



L	TP	MP
1	200	200
2	380	180
3		160
4	680	
5	800	120

A 200

☒ B 160

C 190

D 800

What is the Average Product of the 5th unit?

$$AP = \frac{TP}{L} = \frac{800}{5} = \underline{\underline{160}}$$



A Output

B Capacity

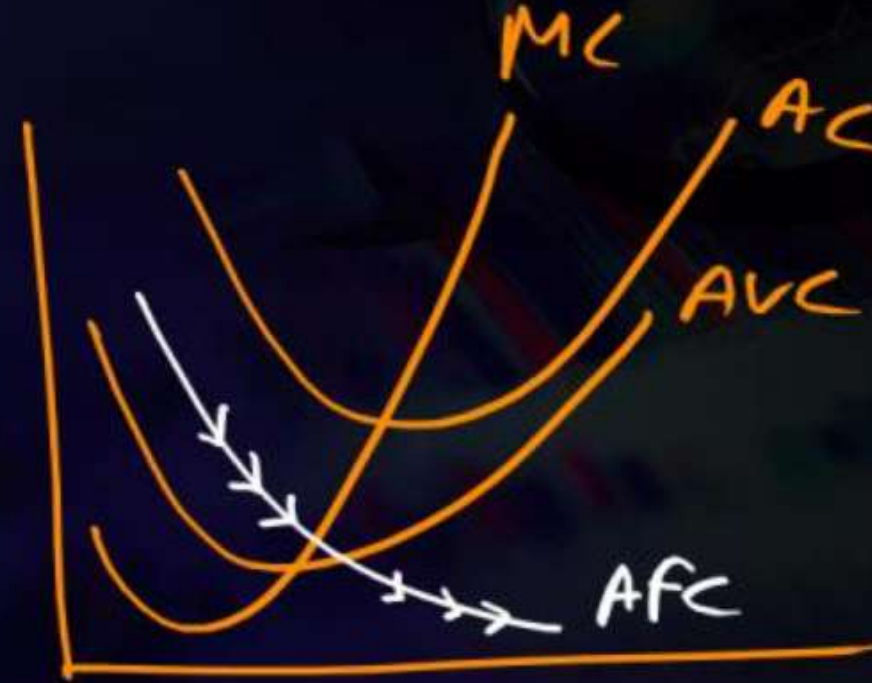
B,

C Time

D They can never be changed



- A Average cost curve
- B Marginal cost curve
- C Average variable cost curve
- D Average fixed cost curve ✓ D



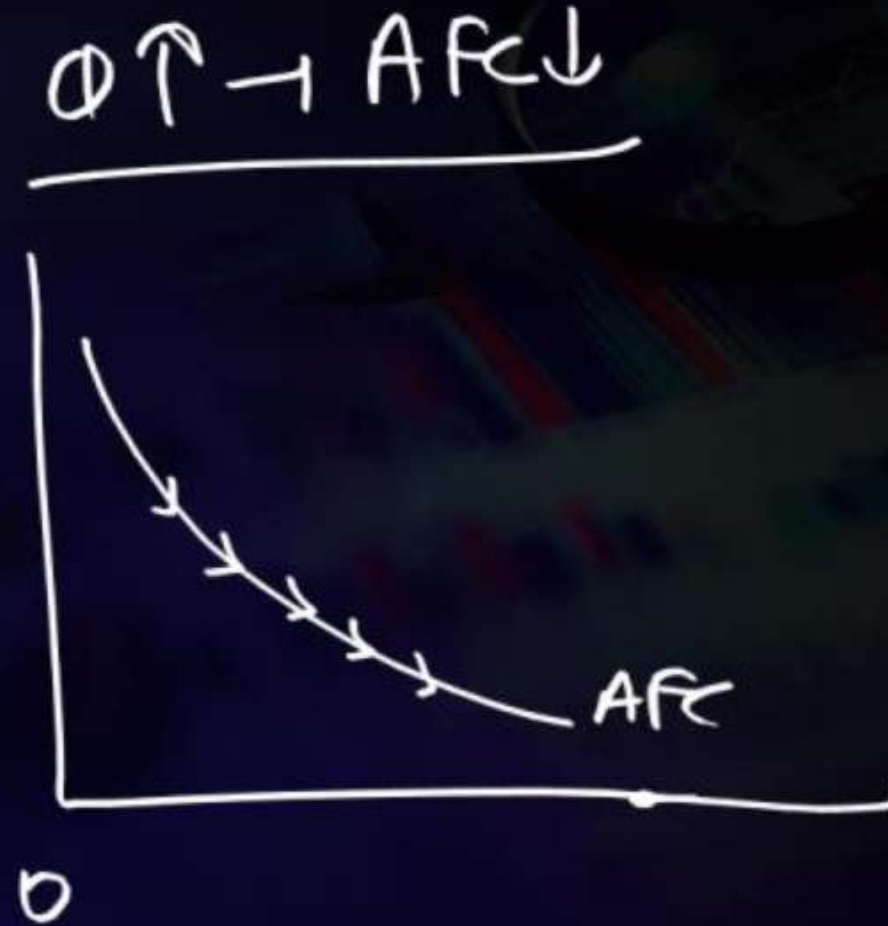
#Q. Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?

- A** Cost of raw materials ✓
- B** Cost of equipment
- C** Interest payment on past borrowings
- D** Payment of rent on building



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

- A Increases
- B Decreases (B)
- C Remains constant
- D First declines and then rises



#Q. Use the following data to answer questions

Output	0	1	2	3	4	5	6
Total Cost	240	330	410	480	540	610	690

The average fixed cost of 2 units of output is:

TC at zero output = TFC

$$AFC = \frac{TFC}{Q} = \frac{240}{2} = \underline{120}$$

A ₹ 80

B ₹ 85

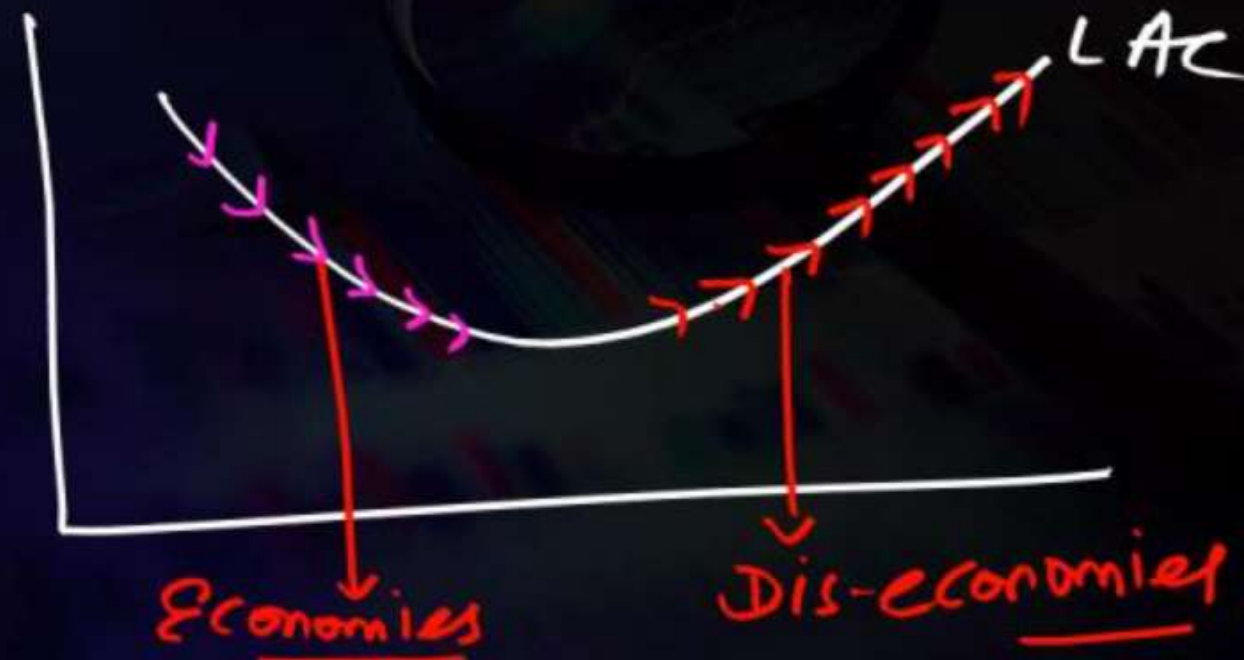
☒ C ₹ 120

D ₹ 205



#Q. 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



D



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

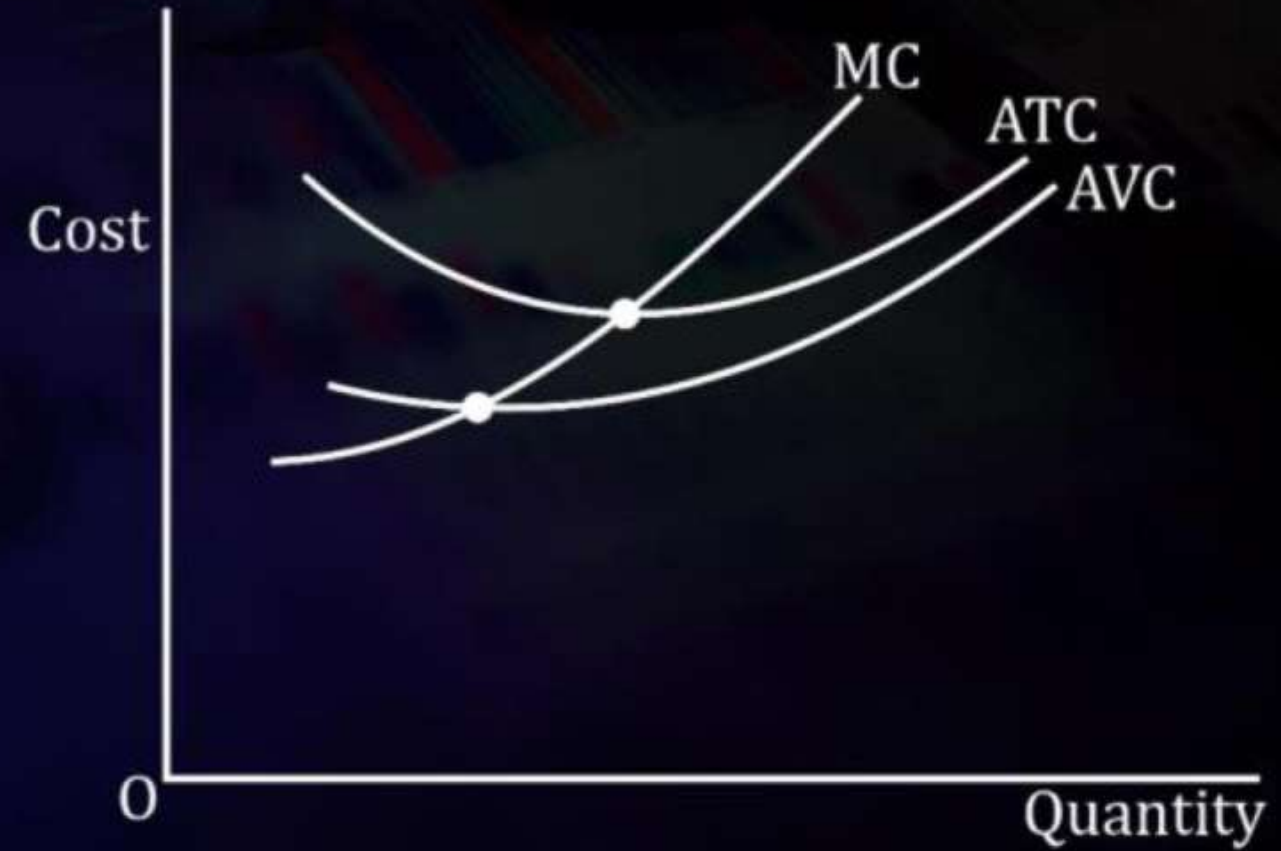


- A** Diseconomies of scale **(A)**
- B** Increasing returns
- C** The firm being able to take advantage of large-scale production techniques as it expands its output
- D** The increase in productivity that results from specialization



#Q. 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



#Q. The LAC curve which envelops the family of SAC curve, is “U” shape because:

A All SAC curves are U shaped

Tfz
 Afz

B Law of variable proportions

C Law of Return to scale C

D All of the above



Question

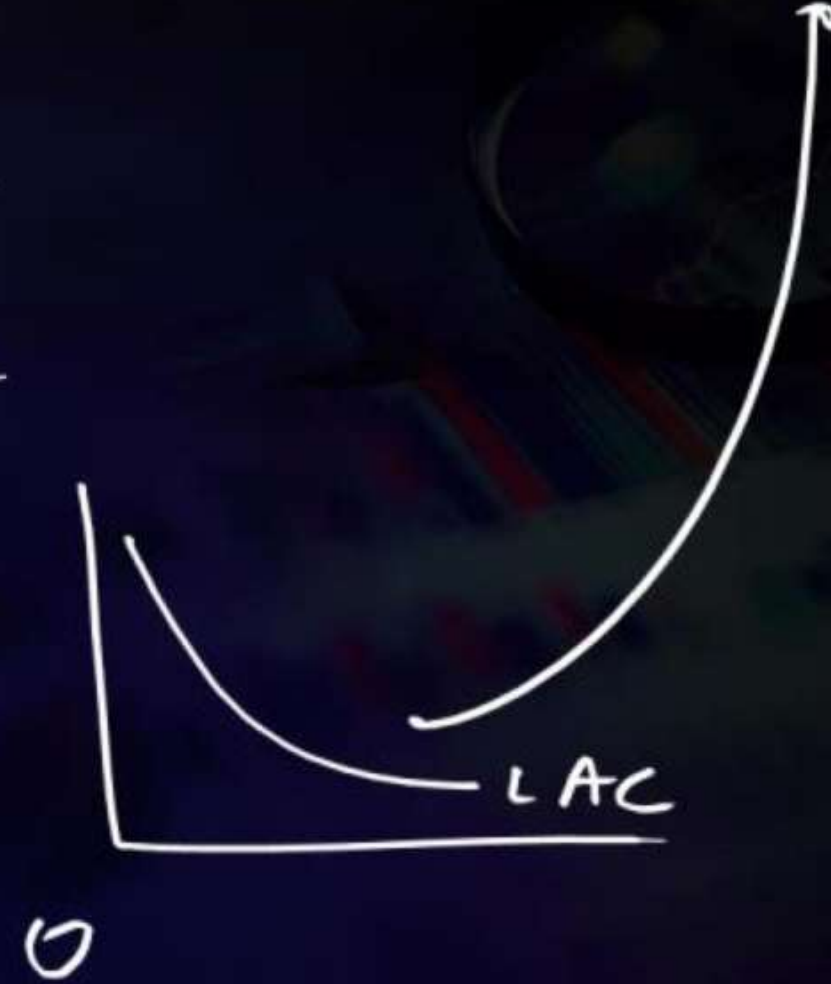
#Q. Empirical evidence shows that the modern firms face



LAC



- A** U- shaped
- B** Boat shaped
- C** L- shaped ☒
- D** Linear



#Q. _____ arises due to endogenous factors?

Internal

A External economies

B Internal economies

B

C Both (A) and (B)

D None of the above



Chapter - 4

15 marks

- A Sentimental
~~Value in use only~~
- B Exchange value only \Rightarrow Price (B)
- C Both value in use and exchange value
- D None of the above



A Very short period → Market Period

B Short period

C Very long period ☒

D Long period



A Unregulated market

B Regulated market → SEBI

C Spot market

D None of the above



#Q. 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



#Q. Women primarily wear Traditional Assamese Saree in Assam and adjoining areas, is an example of:

- A National Market ✗
- B Regional Market ✓
- C Local Market ✗
- D International Market



- A Whole sale market
- B Regulated market
- C Unregulated market
- D Retail market



- A** The supply is fixed
- B** The demand is fixed
- C** Demand and supply are fixed
- D** None of the above



A Adam Smith

B Alfred Marshall (B)

C Pigou

D Lionel Robinson



A Zero

B Negative

C Positive C

D One

$$MR = AR \left(\frac{e-1}{e} \right)$$

$e < 1 \Rightarrow 0.8$

$$MR = AR \left(\frac{0.8-1}{0.8} \right)$$

-0.2
-

✓

e=1

$$\underline{AR} \left(\frac{1-1}{1} \right) = \underline{0}$$

e > 1 $\Rightarrow e=2$ + ✓

$$AR \left(\frac{2-1}{2} \right) = \underline{AR} \left(\frac{1}{2} \right)$$



A Positive

B Zero ☒

C One

D Negative



A Negative **A**

B Zero

C Positive

D One



Question



#Q. 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?

$$P \quad Q \quad TR = P \times Q$$

20	15	300
18	16	288

$$MR = \frac{\Delta TR}{\Delta Q} = \frac{288 - 300}{16 - 15} = \frac{-12}{1} = -12$$

A ₹ 18

B ₹ 16

☒ C - ₹ 12

D ₹ 28



Question

#Q. Suppose a firm is producing a level of output such that $MR > MC$, what should the 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^x
- D The firm should increase output D

$$\underline{MR} > \underline{MC} = \underline{Q \uparrow}$$

$$\underline{MR} < \underline{MC} \Rightarrow \underline{Q \downarrow}$$



#Q. 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 ☒



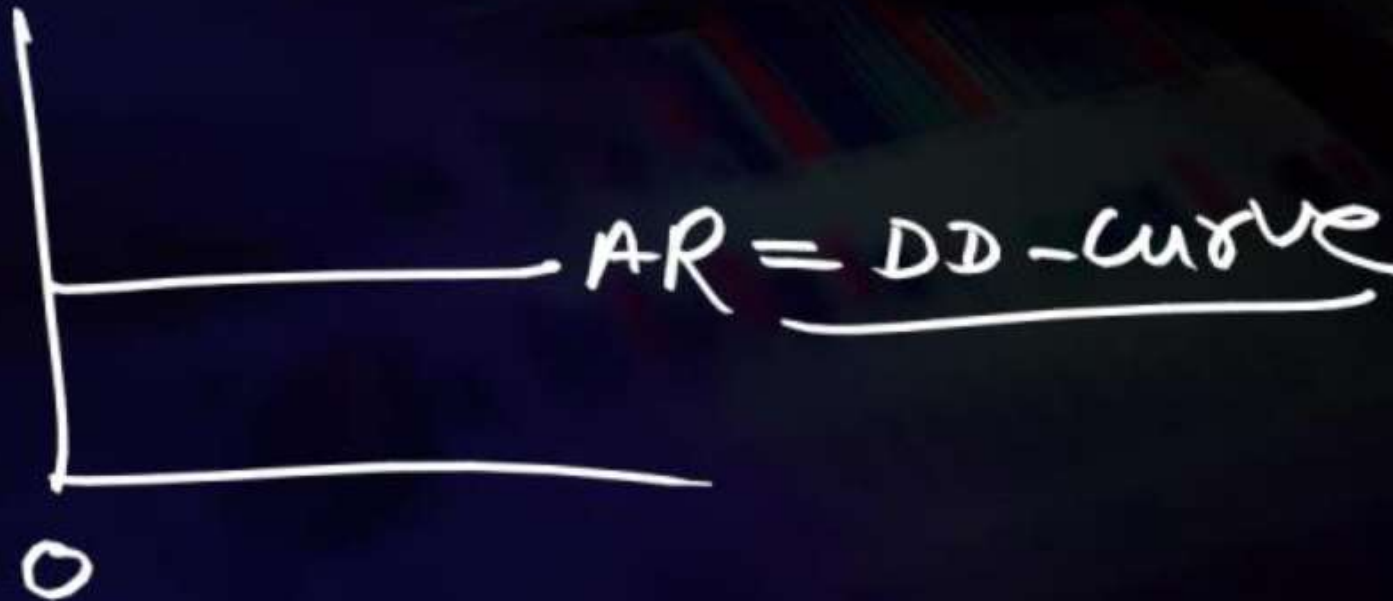
#Q. What is the shape of the demand curve faced by a firm under perfect competition?

A Horizontal **A**

B Vertical

C Positively sloped

D Negatively sloped



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

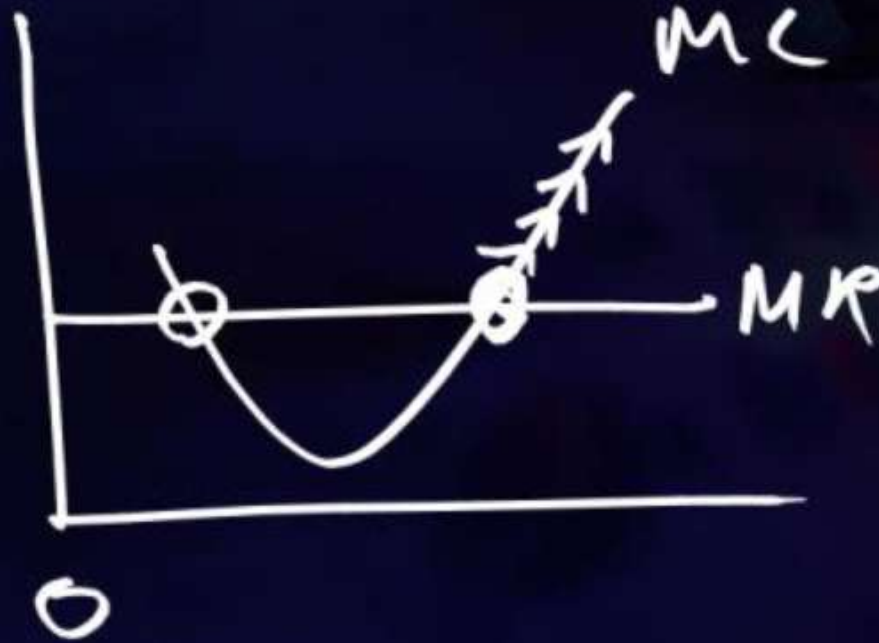
A $AC = MR$

B $MC = MR$

(B)

C $MR = AR$

D $AC = AR$



#Q. Which of the following is not a characteristic of a "price-taker"?

↳ Perfect Competition

A $TR = P \times Q$

B $AR = \text{Price}$

C Negatively – sloped demand curve

C

D $\text{Marginal Revenue} = \text{Price}$

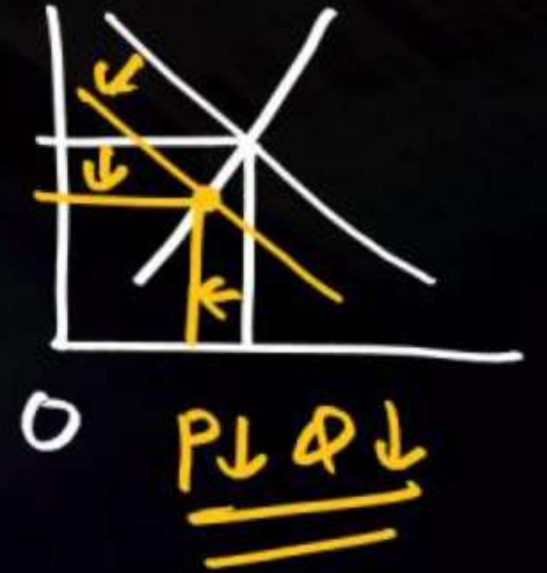


- ☒ A Economic costs include the opportunity costs of the resources owned by the firm ✓
- ☒ B Accounting costs include only explicit costs ✓
- ☐ C Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs
- ☒ D Accounting profit is equal to total revenue less implicit costs

$$TR - \frac{\text{Explicit Cost}}{\text{Cost}} = \text{Accounting Profit}$$



- 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

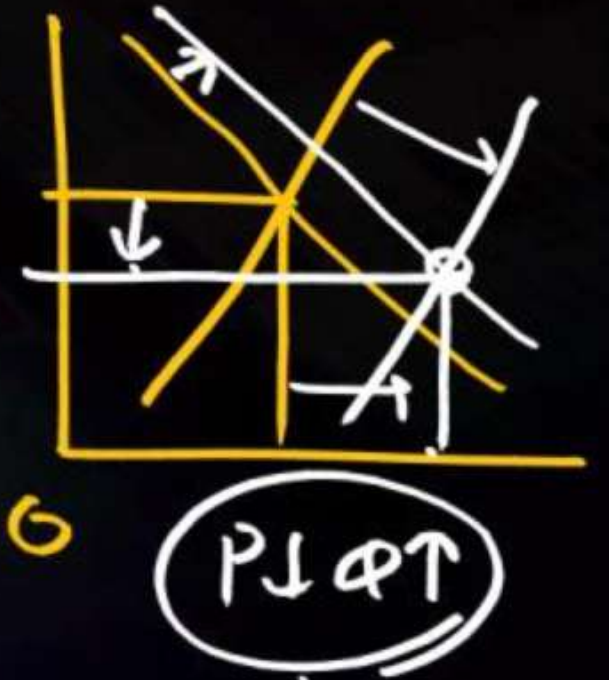


- A** Decision making within the firm is usually undertaken by managers, but never by the owners
- B** The ultimate goal of the firm is to maximize profits regardless of firm size or type of business organization ✓ (B)
- C** As the firm's size increases, so do its goals
- D** The basic decision making unit of any firm is its owners



$$\uparrow S > D \uparrow$$

- 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



Question

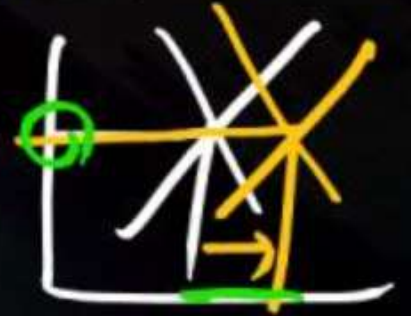


#Q. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilization of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?

$S \uparrow \quad D \uparrow$

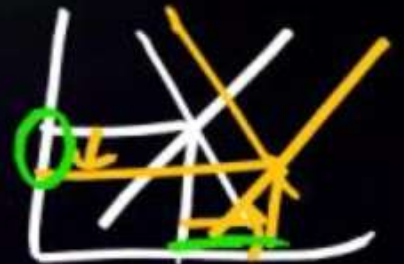
A Price will increase; quantity cannot be determined

$S \uparrow = D \uparrow$



B Price will decrease; quantity cannot be determined

$S \uparrow > D \uparrow$



C Quantity will increase; price cannot be determined

$S \uparrow < D \uparrow$



D Quantity will decrease; price cannot be determined



#Q. 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

→ Perfect

D



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 ✓

→ Natural Monopoly



#Q. 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 ✓

D



- 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

price
↑
AR = MR

AR = MR



- A Profit Curve
- B Demand Curve ✓
- C Average Cost Curve
- D Indifference Curve



#Q. 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 ✓



Question

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



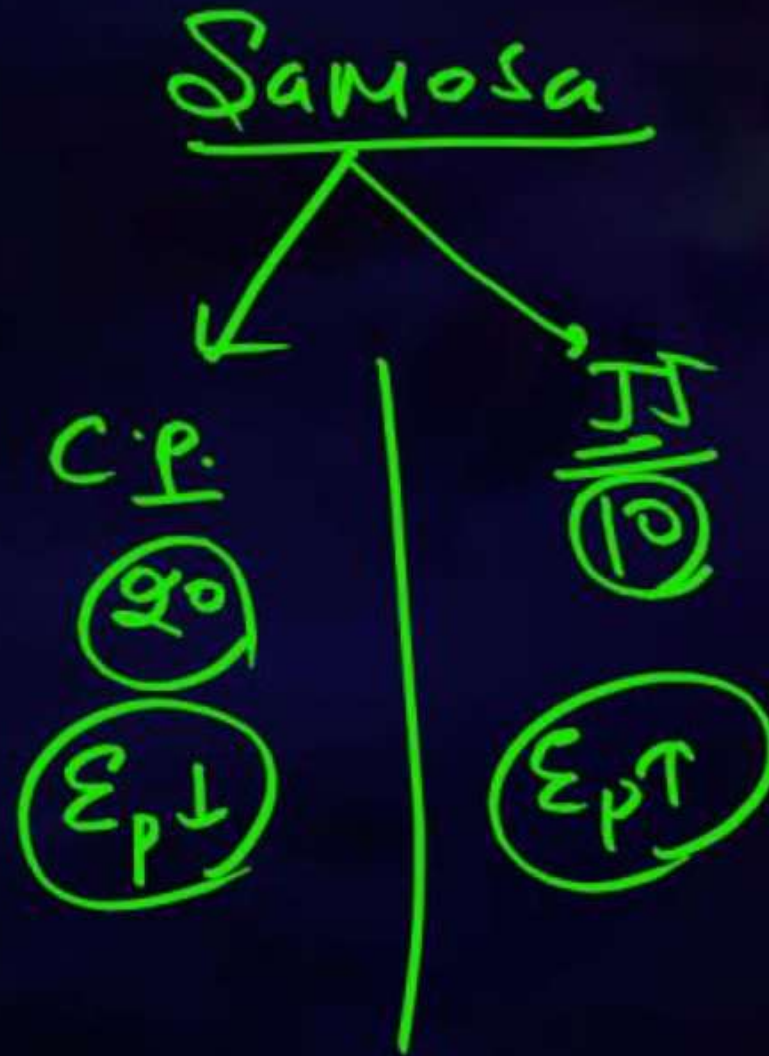
A Uniform

B Different

C Less

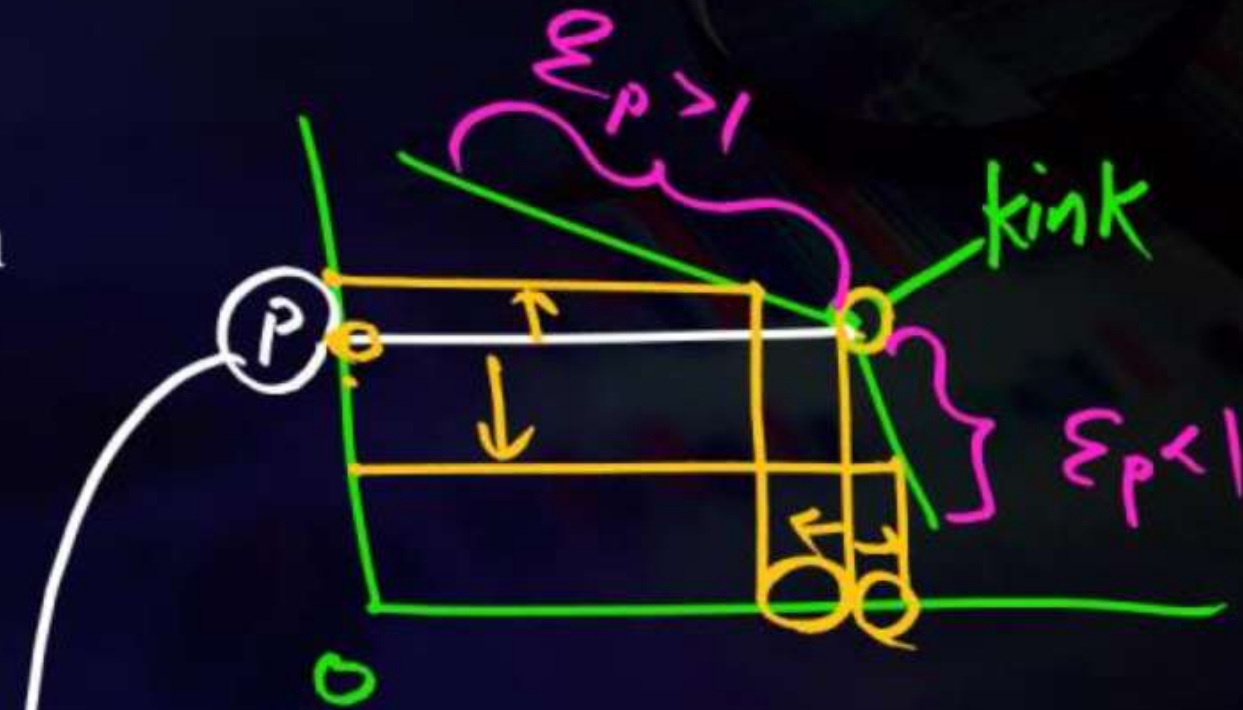
D Zero

(B)



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

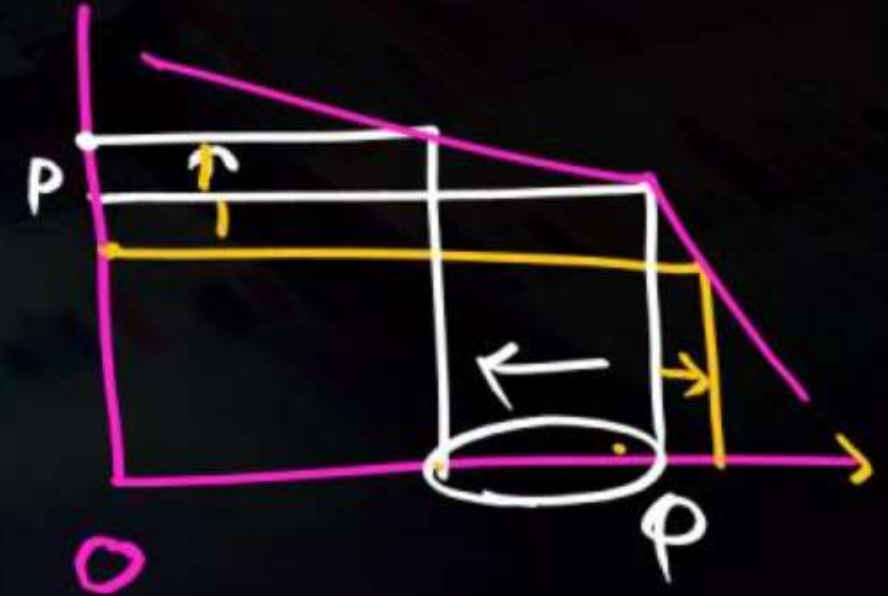
- A Price and output determination
- B Price rigidity **B**
- C Price leadership
- D Collusion among rivals.



fixed / Rigid / Sticky / inflexible

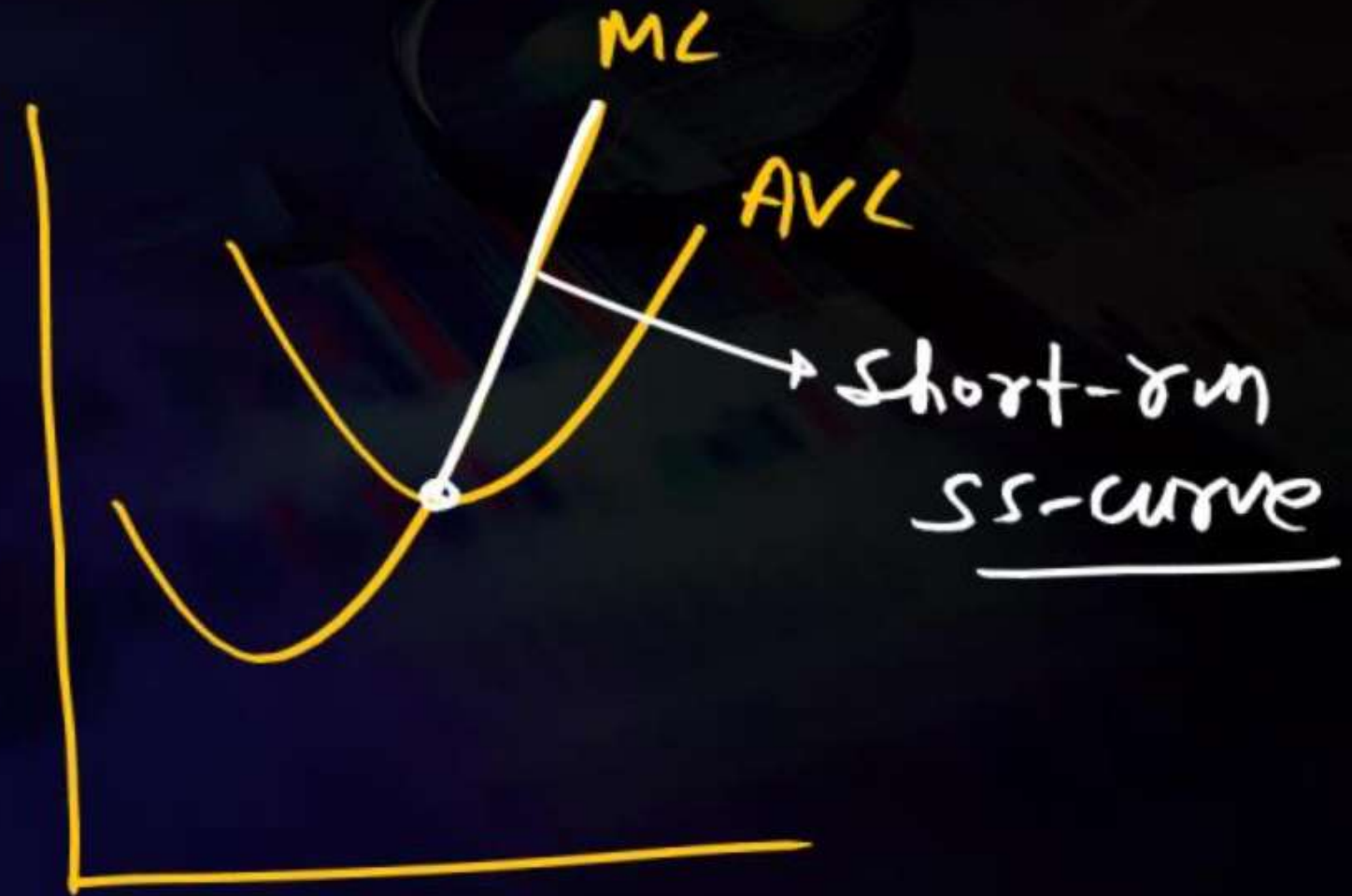


- A** The response (of consumers) to a price increase is less than the response to a price decrease
- B** The response (of consumers) to a price increase is more than the response to a price decrease **(B)**
- C** The elasticity of demand is constant regardless of whether price increases or decreases
- D** the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases



#Q. 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 D



#Q. When [?], we know that the firms are earning just normal profits.

A

$$\underline{AC = AR}$$

(A)

AR = AC → Normal Profit

B

$$MC = MR$$

AR > AC → Abnormal Profit / SNP

C

$$MC = AC$$

AR < AC → Economic Loss

D

$$AR = MR$$



Question

#Q. 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

C

D Perfectly competitive

2-10



- A** Monopolistic competition
- B** Monopoly ✓
- C** Perfect competition
- D** Oligopoly



Question

#Q. At price P1, the firm in the figure would produce

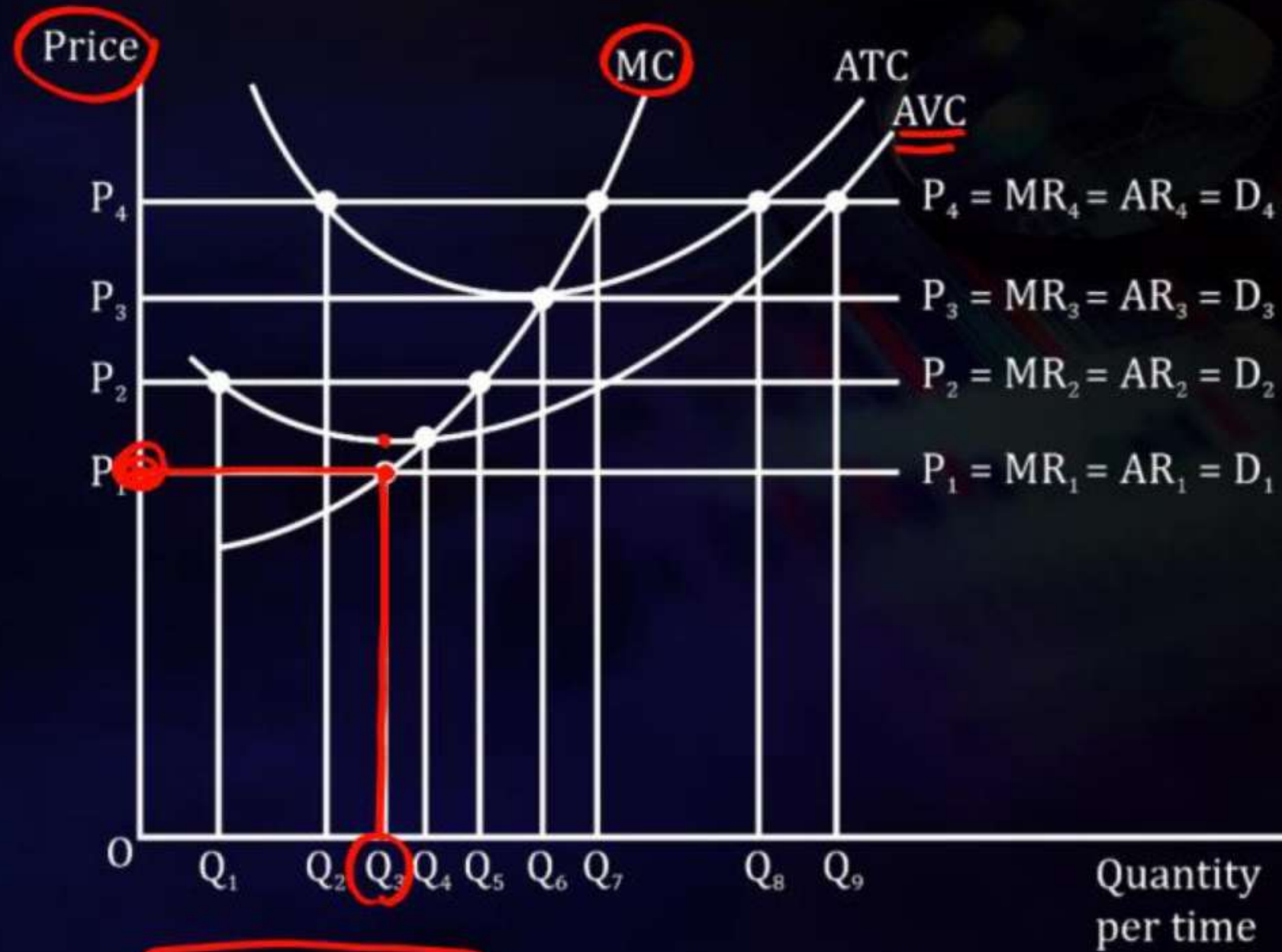


A Zero output

B Q3

C Q5

D Q6



$P < AVC$

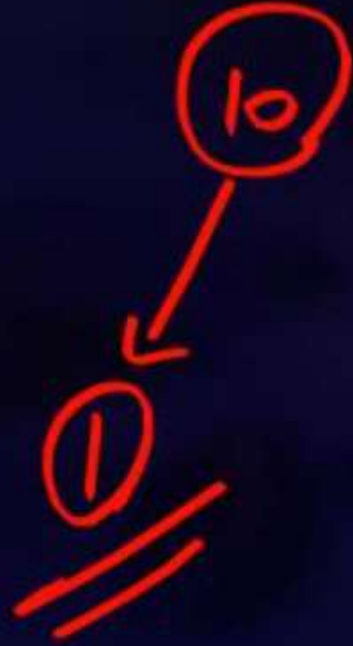


- A Differentiated
- B Homogeneous **B**
- C Unrelated
- D None of the above



#Q. 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. ☒ C
- D Syndicated oligopoly



Centralized body
☒ D - 4



#Q. 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

DI



#Q. 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 ✓
- D None of the above



#Q. 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



- A Time ✓
- B Size of the purchase ✓
- C Income ✓
- D Any of the above D



- A Perfect competition
- B Monopolistic competition
- C Duopoly
- D Monopoly

D



- A Upward sloping
- B Downward sloping ✓
- C Horizontal
- D Vertical



- 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



#Q. Combination of Monopoly Market and Monopsony Market is called as

- A Duopoly Market
- B Oligopoly Market
- C Bilateral Monopoly Market
- D Monopolistic Market

Poly \rightarrow firm \rightarrow seller

Psony \rightarrow buyer

Mono \rightarrow Single

Single seller — single buyer



#Q. A firm reaches a break-even point (normal profit position) where,

- ☐ A Marginal revenue curve cuts the horizontal axis ✗
- ☐ B Marginal cost curve intersects the average variable cost curve ✗
- ☒ C Total revenue equals total variable cost $TR = TVC \rightarrow \text{short-run}$
- ☐ D Total revenue and total cost are equal $TR = TC \rightarrow \text{long run}$



#Q. Which of the following is an essential condition for price discrimination? Choose the correct answer using the codes given below:

1. Existence of two or more than two markets ✓
2. Full control over the supply ✓
3. Communication between buyers in different sectors of the monopolist's market ✗
4. Existence of different elasticity of demand in different markets. ✓
5. No possibility of reselling a commodity at a higher price in another market. ✓

A

1, 2, 3 and 4

B

2, 3, 4 and 5

C

3, 4 and 5

D

1, 2, 4 and 5

#Q. In monopoly, the relationship between average and marginal revenue curves is as follows:

A AR curve lies above the MR curve **A**

B AR curve coincides with the MR curve

C AR curve lies below the MR curve

D AR curve is parallel to the MR curve



#Q. In long run equilibrium the pure monopolist can make pure profits because of

- A** Blocked entry **A**
- B** The high price he charges
- C** The low LAC costs
- D** Advertising

Super
Normal

Abnormal



A Alfred Marshall

B Prof. Pigou ✓ (B)

C Hickes and Allen

D Adam smith



Chapter - 5

Business Cycles

Trade Cycles

- ① The Great Depression
1929-33
- ② Dot-Com bubble
IT Bubble
2000
- ③ 2008-09 [↓] Sub-prime
Crisis
- ④ Covid-19



- A** The ups and downs in production of commodities
- B** The fluctuating levels of economic activity over a period of time **B**
- C** Decline in economic activities over prolonged period of time
- D** Increasing unemployment rate and diminishing rate of savings

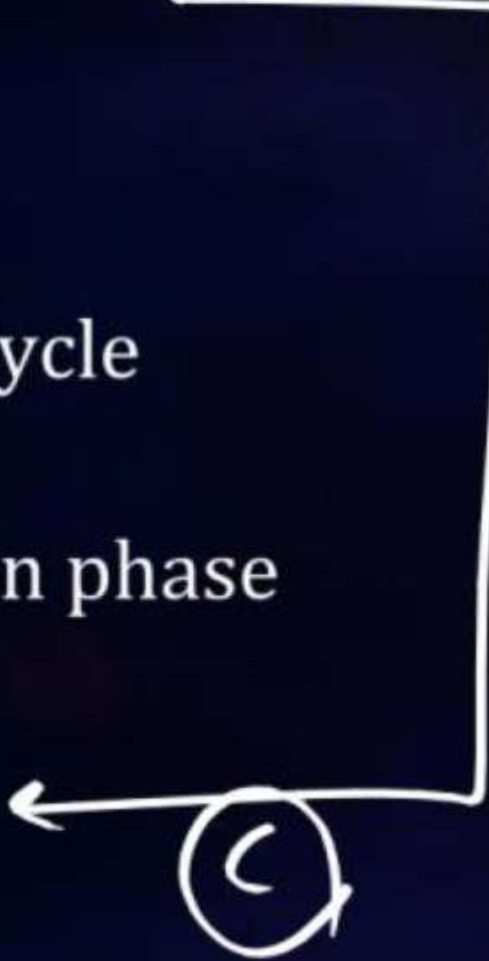


Question

#Q. A significant decline in general economic activity extending over a period of time is



- A Business cycle
- B Contraction phase
- C Recession
- D Recovery



#Q. 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



Question

#Q. The highest point in the business cycle is referred to as the



A Expansion

B Boom

C Peak

D Trough



#Q. 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



#Q. 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 ✓



- 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 ☒ D



Question

#Q. During recession, the unemployment rate ↑ and output ↓.



A Rises; falls

A

B Rises; rises

C Falls; rises

D Falls; falls



A Are used to forecast probable shifts in economic policies ^x

B Are generally used to forecast economic fluctuations ^(B)

C Are indicators of stock prices existing in an economy

D Are indicators of probable recession and depression



#Q. Peaks and troughs of the business cycle are known collectively as

- A Volatility
- B Turning points ✓
- C Equilibrium points
- D Real business cycle events



#Q. 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



#Q. 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 C
- D Business cycles are contagious and unpredictable



#Q. According to 2 trade cycles occur due to onset of innovations.

- A** Hawtrey
- B** Adam Smith
- C** J M Keynes
- D** Schumpeter

(D)



#Q. Which economic indicator is required to predict the turning point of business cycle?

अद्विजा

- A Leading indicator (future)
- B Lagging indicator (past)
- C Coincident (current)
- D All of the above

forecast - future



#Q. Business cycle generally originate in free market economies,
what is a free market economy?

- A The economy where government is in possession of major assets
- B The economy where private firms control major assets (B)
- C The economy where decisions of productions are taken by public sector undertakings
- D The economy where price is controlled by government



- 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 ✗



#Q. According to Keynes, fluctuations in Economic activities are due to-.

A Fluctuation in aggregate effective demand

A

B Innovations

C Changes in money supply

D Fluctuation in agricultural output



- A Fluctuations in aggregate effective demand
- B Fluctuations in investments
- C Fluctuations in government spending
- D All of the above

D



Question



$$\underline{6\%} > \underline{3\%}$$

#Q Suppose in an economy the population growth rate remained 6% during last 5 years while the economic growth rate during the same period was just 3%. What will be the consequences of it? Select the right option from the options given below.

- A** Lesser savings → Lower investment → Low income and employment → Low effective demand → Overall slowdown in economic activities **(A)**
- B** More consumption expenditure → more demand → more production → more employment and income → Overall boom in economic activities
- C** Increase in Labour supply → Lower wage rate → Low income → Low savings and investments → Low production → Overall slowdown in economic activities
- D** None of the above



#Q. Which of the following statements is correct regarding business cycles?

A Business cycles always affect all sectors uniformly

B Business cycles may affect all sectors uniformly

C Business cycles do not affect all sectors uniformly

D None of these

Industries > Agri

C



- A** The business where demand fluctuates seasonally
- B** The business which keep on changing their product
- C** The business whose fortunes are closely related to the rate of economic growth ☒
- D** All of the above



#Q. In Recovery phase of business cycle, the process of reversal is initially felt in the:

- A Capital market
- B Labour market**
- C Agriculture market
- D Financial market



Chapter - 6

DETERMINATION OF NATIONAL INCOME

15 Marks

#Q. National Income Accounting was pioneered by _____.

given

- A Simon Kuznets
- B Simon Kuznets and Richard Stone (B)
- C Simon Kuznets, Richard Stone, and Alfred Marshall
- D None of these



#Q. Which of the following ministries is responsible in India for the compilation of National Accounts Statistics?

- A Ministry of Commerce and Industry
- B Ministry of Social Affairs
- C Ministry of Finance
- D Ministry of Statistics and Program Implementation

D

MOSPI
↓
CSO



#Q. The state-level estimates are typically prepared by the State Income Units of the respective states. Which organization is primarily responsible for this task?

- A** Directorates of Economics and Statistics (DESSs) Ⓐ
- B** Central Statistical Organization (CSO) ← Advise
- C** Ministry of Finance
- D** Reserve Bank of India



#Q. Which of the following is not the limitation in the computation of the national income?

- A Issue of transfer payments
- B Services of durable goods
- C Difficulty of incorporating the distribution of income
- D Quality improvements due to technological innovations

D



Question



#Q. In preparation of state income estimates, certain activities railways, communications, banking, etc. that cut across state and thus their economic contribution cannot be assigned to any one state directly are known as

A Super regional sectors

B Super sectors

C Supra Regional Sectors

D Regional sectors



#Q. _____ method may be most suitable for developed economies

- A Expenditure method
- B Income method ✓
- C Production method
- D None of the above



#Q. The GDP per capita is = $\frac{GDP}{Pop^n}$

A A measure of a country's economic output per person

capita

B Actual current income receipts of persons

C National income divided by population

$\frac{NNP_Fc}{Pop^n} = \text{Per capita Income}$

☒ **D** (A) and (C) above



- 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

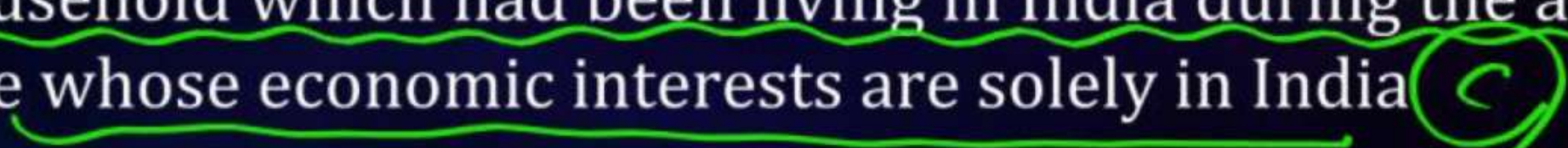
D



- A** Net profits received by self-employed people
- B** Outside wages received by self-employed people
- C** Combined factor payments which are not distinguishable
- D** Wages due to non-economic activities



#Q. 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 territory in 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 during the accounting year India



- A** ✓ GNP includes earnings of Indian corporations overseas and Indian residents working overseas, but GDP does not include these (A)
- B** ✗ $NNP_{FC} = \text{National Income} = \text{FID income}$ (factor earned domestic territory) \div NFIA
- C** ✗ Capital goods and inventory Investment are excluded from computation of GDP
- D** ✗ $NDP_{MP} = \text{GDP}_{MP} \div \text{Depreciation}$



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

(A)

$$NI > DI$$

+

$$DI + NFIA = NI$$

-

$$NI < DI$$



- A** Increase in production of goods **A**
- B** Increase in the prices of goods
- C** Both (A) and (B) .
- D** None of the above



Question

#Q. _____ is a price index that is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100.



- A** GDP Deflator
- B** GDP Inflator
- C** GDP Velocity
- D** GDP Accelerator

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



Question

#Q. What is Real GDP if Nominal GDP is ₹ 5,75,000 and GDP Deflator is 143.75.



- ☒ A ₹ 4,00,000
- ☐ B ₹ 8,26,563
- ☐ C ₹ 1,25,000
- ☐ D None of these

$$\text{GDP deflator} = \frac{N.}{R.} \times 100$$

$$\begin{aligned} \text{Real} &= \frac{575000}{143.75} \times 100 \\ &= 400000 \end{aligned}$$



Question

#Q. Since nominal GDP and real GDP must be the same in the base year, the deflator for the base year is



- A Always Zero
- B Always 100 (B)
- C Always Equal to Nominal GDP
- D Always Equal to Real GDP

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



Question



#Q. Considering the data given in the table below calculate the Inflation rate of year **3**

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

$$\frac{144 - 125}{125} \times 100$$

Inflation rate ³

$$= \frac{\text{GDP deflator}_3 - \text{GDP deflator}_2}{\text{GDP deflator}_2} \times 100$$

A 13.19%

B 15.20% ✓

C 19%

D -19%

B

#Q. _____ 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

HH + NPISH

$$100 - 2 = 98$$




A The total income earned by individuals before taxes

B The income individuals have for consumption or saving **B**

C The total savings accumulated by individuals

D The total income of a country's government



- A Production, Saving and Expenditure
- B Production, Income and Taxation
- C ^{Output} Production, ^{Income} Distribution and ^{Expⁿ} Disposition 
- D Income, Saving and Investment



#Q. _____ is the flow of goods and services between firms and households.

- A Real Flow ✓
- B Money Flow
- C Consumption Flow
- D Generation Flow



Question

#Q. In respect of the following data, what will be the national income using the expenditure method?



Private final consumption:	25,000
Government final consumption:	12,000 (9)
<u>Dep</u> + Net Domestic capital formation:	6,500 + 0
Net Export:	5,000
Net factor income <u>from</u> Abroad:	1,000
Net Indirect Taxes:	1,500

A ₹ 49,500

☒ B ₹ 48,000

C ₹ 47,000

D ₹ 45,500

$$\begin{aligned} \text{GDP}_{MP} &= C + I + \underline{G} + (X - M) \\ &= \underline{25000} + \underline{6500} + \underline{12000} + \underline{5000} \\ &= \underline{48500} \end{aligned}$$

$$\begin{aligned} \checkmark \text{NNP}_{FC} &= \checkmark \text{GDP}_{MP} - \text{NIT} + \text{NFIA} - \text{Dep} \\ &= \underline{48500} - \underline{1500} + \underline{1000} - \underline{0} \end{aligned}$$



#Q. Which of the following is the correct expression of the Short-run aggregate demand function?

A $AD = \bar{C} + I$

B $AD = \bar{C} + \bar{I}$

C $AD = C + I$

☒ D $AD = C + \bar{I}$

$$AD = C + \bar{I}$$

$$AD = C + I + G$$

$$AD = C + I + G + (X - M)$$



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

A Only at the full-employment level of output

B Above the full-employment level of output

C Below the full-employment level of output



D None of these



Question



#Q. The Keynesian assumption is that consumption increases with an increase in disposable income. If the increase in disposable income is 30%, then what may be the increase in consumption?

A Less than 30%

(A)

B Equal to 30%

C More than 30%

D Any of the above

$$Y_d \uparrow \rightarrow C \uparrow$$

$$\% Y \uparrow > \% C \uparrow$$

Psychological Law of Consumption



Question

#Q. If the consumption function is $20 + 0.5Y_d$, then an increase in disposable income by 100 will result in an increase in expenditure by consumer



A 25

B 70

☒ C 50

D 100

$$\Delta Y = 100$$

$$MPC = \frac{\Delta C}{\Delta Y}$$

$$0.5 = \frac{\Delta C}{100}$$



Question

#Q. If $S = -30 + 0.25 (y)$, then what will be the Consumption Function (C)?



A $C = 30 + 0.25 (y)$

B $C = -30 + 0.75 (y)$

C $C = 30 + 0.75 (y)$

D $C = -30 + 0.25 (y)$

$$C = 30 + 0.75Y$$

$$1 - 0.25 = 0.75$$

↓ ↓
MPS MPC



Question

#Q. Under equation $C = a + by$, $b = 0.8$, what is the value of the 2-sector investment expenditure multiplier?



A 4

B 2

C 5 ✓

D 1

$$K = \frac{\Delta Y}{\Delta I} = \frac{1}{\text{MPS}^-} = \frac{1}{1 - \text{MPC}^+}$$

$$K = \frac{1}{1 - 0.8} = 5$$

$$1 \leq K \leq \infty$$



#Q. Under Keynesian Theory _____ is the amount by which actual aggregate demand exceeds the level of aggregate demand required to establish the full employment equilibrium.

- A Inflationary Gap
- B Deflationary Gap
- C Contractionary Gap
- D None of these

$$\begin{aligned} \text{full} &= 100 \\ \text{Actual} &= 120 \end{aligned} \Rightarrow 20$$



Question

#Q. Consider the following data relating to an economy in equilibrium: -

Autonomous Consumption = 500 \bar{C}

MPS = 0.3 $\Rightarrow MPC = 1 - 0.3 = 0.7$

Investment Expenditure = 1000 \bar{I}

What is national income?

A 1,500

☒ B 5,000

C 150

D 5,650

$$\bar{C} + \bar{I} = Y$$

$$\boxed{\bar{C} + MPC \cdot Y} + \bar{I} = Y$$

$$500 + 0.7Y + 1000 = Y$$

$$1500 = 0.3Y$$

$$\boxed{\frac{1500}{0.3} = Y}$$



Question

#Q. The higher the MPC more will be the value of the multiplier, whereas, the higher the MPC lower will be the value of the multiplier.



A MPS, MPC

B MPC, MPS

B

C APS, APC

D APC, APS

$MPC \uparrow \rightarrow K \uparrow$



Question

#Q. In an economy, the entire increase in income is spent on consumption. What will be the value of the multiplier?



$$MPC = 1$$

$$K = \frac{1}{1 - 1} = \infty$$

A 0

B 1

C Infinity (∞) ✓

D -1



#Q. The following information is available regarding structure model of an economy:

$$C = 40 + 0.8Y_d = 40 + 0.8(Y - T + TR)$$

$$I = 80 = 40 + 0.8(Y - 40 + 15)$$

$$G = T = 40 = 40 + 0.8(Y - 25)$$

$$TR = 15 = 40 + 0.8Y - 20 = 20 + 0.8Y$$

What will be the equilibrium level of income?

$$C + I + G = Y$$

$$20 + 0.8Y + 80 + 40 = Y$$

$$140 = 0.2Y$$

$$\frac{140}{0.2} = Y$$

- ☒ A 700
- ☐ B 610
- ☐ C 175
- ☐ D None of these



Question

#Q. 53. Equilibrium income (Y) = 600; Exports (x) = 20; Imports (M) = $10 + 0.05Y$. Calculate Trade Balance.



A Surplus (20)

☒ B Deficit (20)

C Surplus (30)

D Deficit (30)

$$\begin{aligned} \text{BOT} &= X - M \\ &= 20 - 40 = \underline{-20} \end{aligned}$$

$$\begin{aligned} M &= 10 + 0.05(600) \\ &= 10 + 30 = 40 \end{aligned}$$



#Q. In the Four sector model, which of the following additional flow is considered as compared with three sector model?

- A Exports ✓
- B Imports ✓
- C Net capital Inflow ✓
- D All of the above ☒



Question

#Q. What is the value of Investment Multiplier when saving function is represented as $S = -60 + 0.2Y$?



↓
MPS

$$K = \frac{1}{0.2} = 5$$

A 2

✓ B 5

C 4

D 0.2

Chapter - 7

PUBLIC FINANCE

10 Marks

#Q. Article 112 of Indian Constitution provides that in respect of every financial year the President shall cause to be laid before both houses of the parliament a statement of estimated receipts and expenditure of the government of India for that year. This statement is referred as:

- A** Budget ✕
- B** Annual Financial Statement **B**
- C** Statement of Income & Expenditure
- D** Interim Budget

#Q. Which of the following statement is true in respect of Social cost?

- A** $\text{Social Cost} = \text{Private Cost} + \text{External Cost}$ **A**
- B** $\text{Social Cost} = \text{Private Cost} + \text{External Cost} - \text{Total Negative Externalities}$
- C** $\text{Social Cost} = \text{Private Cost} + \text{External Cost} - \text{Government Taxes}$
- D** $\text{Social Cost} = \text{Private Cost} + \text{Total Negative Externalities} - \text{Government Taxes}$

#Q. Which of the following is not a characteristic of Public Goods?

- A Non-rival in consumption
- B Indivisibility
- C More vulnerable to externalities
- D Excludable



D

#Q. What does the term "lemon" means in the model of "Lemons problem" developed by "George Akerlof" in relation to used car market :

A Only good quality used cars

B Both poor and good quality used cars (B)

C Average quality used cars

D Scrapped used cars

lemon
↓
Second hand goods
↓
Poor quality

Question

#Q. Which of the following is one of the key functions of fiscal policy and aims at eliminating the macroeconomic fluctuations arising from sub optimal allocation of resources?



A The Allocation Function

B The Redistribution Function

C The Stabilization Function

D The Utilization Function

C

#Q. Which of the following is the nodal department for overseeing the public financial management system in the Central Government?

- A** NITI Aayog
- B** Department of Revenue under Finance Ministry
- C** Department of Expenditure under Finance Ministry
- D** Reserve Bank of India

#Q. The statutory disclaimer that "Mutual Fund investments are subject to market risks please read the offer documents carefully before investing" is which of the following type of government intervention ?

- A** Government intervention to correct externalities
- B** Government intervention for equitable distribution
- C** Government intervention to correct information failure
- D** Government intervention in case of public goods

#Q. Which of the following is not true regarding the fiscal policy of Government ?

- A It is deliberate policy of Government
- B An economy producing full employment does not require Government action in the form of fiscal policy. X (B)
- C Taxation policy is part of Fiscal policy
- D Fiscal Policy is supply side policy

- A** Central government
- B** State government ✓
- C** Both central and stage government as they are in concurrent list
- D** Local self-government

#Q. Government's direct production of an economic good e.g. electricity and public transportation services are example of:

- A Allocation function ✓
- B Distribution function
- C Stabilization function
- D Protection function

- A** Economic growth with stability because it distributes the burden of taxes unequally
- B** Those who have greater ability to pay contribute more and the tax burden is distributed fairly among the population
- C** Uniform taxes for all
- D** Luxuries are taxed heavily

- A Market loans for different purposes
- B State provident fund (Net)
- C Securities issued against small savings
- D Recoveries of loans and advances ✓

(A↓) | (LT)^x

(A↓)

#Q. When the outcomes of a policy are not visible for some time, it is called:

- A Recognition lag
- B Decision lag
- C Implementation lag
- D Impact lag ✓

#Q. The excess of the government's total expenditure over its total receipts excluding borrowings is termed as:

- A Revenue deficit
- B Fiscal deficit **(B)**
- C Primary deficit
- D Budgetary deficit

$$T \Sigma > TR \text{ (Excluding Borrowings)}$$

#Q. The receipts which neither create any liability nor cause any reduction in the assets of government are called:

- A Non-debt capital receipts
- B Debt capital receipts
- C Revenue receipts ✓
- D Estimated receipts

Question

#Q. Which of the following is applied on inter-state movement of goods and services and on imports and exports ?



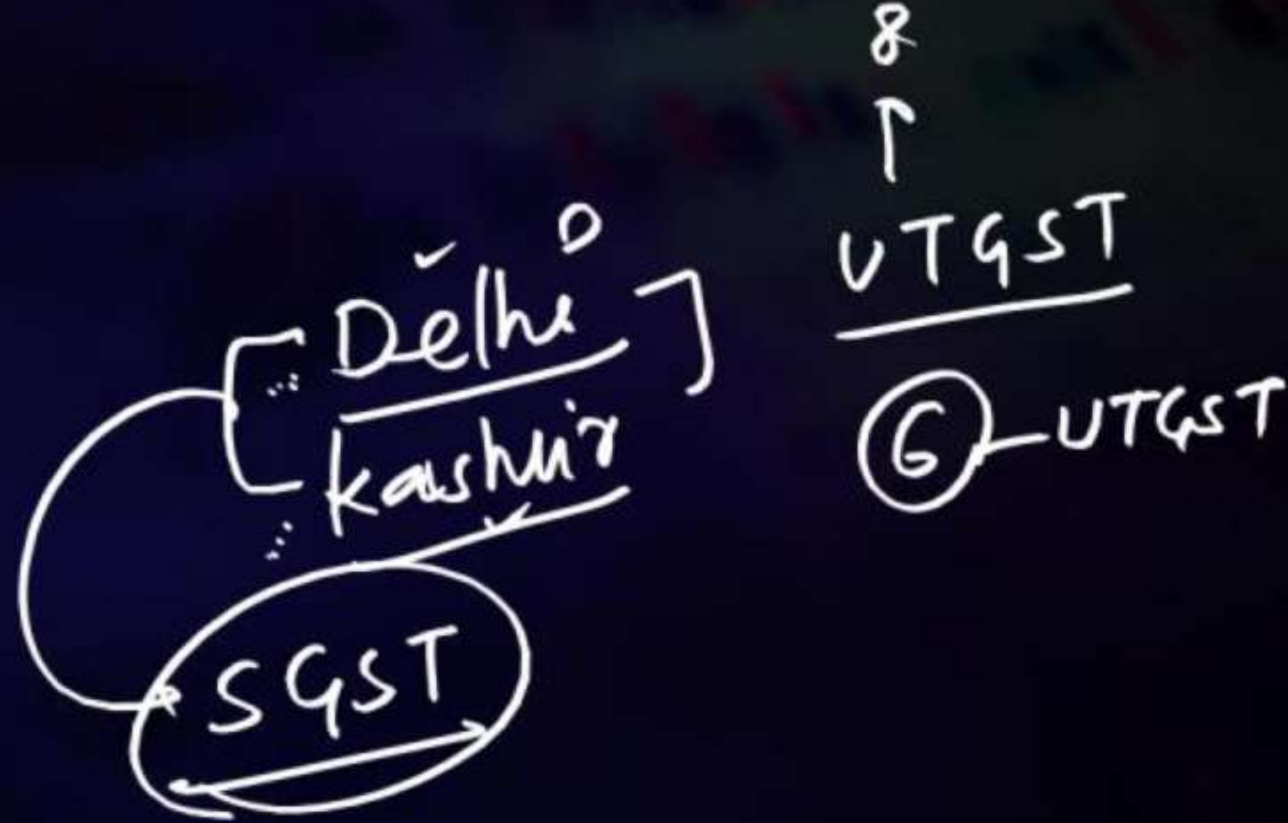
A CGST

B SGST

C IGST ✓

C

D Income Tax



#Q. The cap and trade method used by government to ensure that pollution is minimized in the most cost effective way is an example of:

- A** Government intervention to correct externalities ✓ (A)
- B** Government intervention in the case of merit goods
- C** Government intervention in the case of demerit goods
- D** Government intervention for correcting market failure

#Q. Which constitutional body maintains fiscal federalism in India?

- A Central government
- B Parliament
- C Reserve Bank of India
- D Finance Commission

Article 280

#Q. The increase in cost of food, fuel and fertilizers in countries due to production of weapons in the war between Russia & Ukraine results in which type of externality?

- A** Positive Production Externality
- B** Negative Production Externality ✓
- C** Positive Consumption Externality
- D** Negative Consumption Externality

#Q. Which concept involves a one-shot injection of government expenditure into a depressed economy with the aim of boosting business confidence and encouraging larger private investment?

- A** Pump Priming ✓
- B** Deficit Financing
- C** Compensatory Spending
- D** Public Spending

#Q. Which of the following is used to counter recession as part of Expansionary Fiscal Policy?

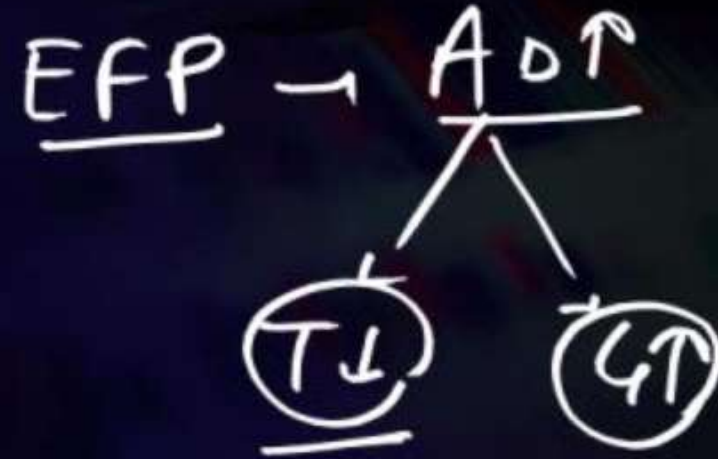
Monetary Policy
↑

A Increase in interest rate

B Decrease in Taxes

C Deficit Financing

D Both (B) and (C)



Chapter - 8

MONEY MARKET

- A Autonomous
- B Derived (B)
- C Both (A) and (B)
- D None of the above



- A It should be generally accepted
- B It should be recognizable
- C It should not be difficult to counterfeit ✓
- D It should possess uniformity



- A It is materially worthless, i.e. no intrinsic value
- B It has value because a nation collectively agrees to ascribe a value to it, as government made it legal tender
- C It works because people believe it will
- ☒ D It is not durable



Cash

A Income of individuals $Y \uparrow \rightarrow D \uparrow$

B General price level $P \uparrow \rightarrow D \uparrow$

C Rate of Interest $i \uparrow \rightarrow D \downarrow$

D All of the above $\text{Innovation} \uparrow \rightarrow D \downarrow$



#Q. Higher the interest rate in the market _____ the demand of money

↑

A Higher

B Lower

B

C No change in

D None of the above



Question

#Q. Innovations such as Internet banking, application-based transfers and ATMs _____ the need for holding liquid money.



- A Increase
- B Reduce ✓ (B)
- C Does not affect
- D None of the above



A Equation of exchange

B Transaction approach

C Cash Balance approach

D Both (A) and (B)

$$MV = PT$$

$$MV + \underline{\underline{M'V'}} = PT$$

Cambridge

DI



Question



#Q. In an economy, the money supply (M) is ₹ 500 crores, the velocity of money (V) is 5 and the total number of transactions (T) is 10,000, Calculate the average price level (P) in the economy.

A 25 thousand

B 25 lakhs (B)

C 50 lakhs

D 50 thousand

$$MV = PT$$

$$P = \frac{MV}{T} = \frac{500 \times 5}{10000} = \frac{1}{4} = 0.25$$

crores

25 lakhs



#Q. Cambridge version holds that money increases utility in the following ways:

- A Enabling the possibility of splitting of sale and purchase to two different points of time rather than being simultaneous
- B Being an uncertainty hedge against uncertainty
- C Both (A) and (B) ✓
- D None of the above

$$M_d = (K) \underline{P} Y$$

Real Income

Nominal Income



- A** Transaction approach
- B** Cash balance approach ✓
- C** Inventory approach
- D** None of the above



A $M_d = k Y$

B $M_d = KP$

C $M_d = k PY$ ✓

D $M_d = k Y$



#Q. Keynesian theory of Demand for Money is also known as_____.

- A Equation of exchange
- B Liquidity Preference Theory (B)
- C Transaction approach
- D Classical Approach



- A Transaction motive
- B Precautionary motive
- C Speculative motive
- D All of the above



#Q. Individuals as well as businesses keep a portion of their income to finance such unanticipated expenditure. This shows_____.

- A Transaction demand for money
- B Precautionary demand for money ✓ (B)
- C Speculative demand for money
- D All of the above



#Q. People demand to hold money balances to take advantage of future changes in the rate of interest.
This shows_____.

Exploit attractive
Investment
opportunities

- A Transaction demand for money
- B Precautionary demand for money
- C Speculative demand for money
- D All of the above



- A Directly related
- B Inversely related
- C Not related
- D None of the above

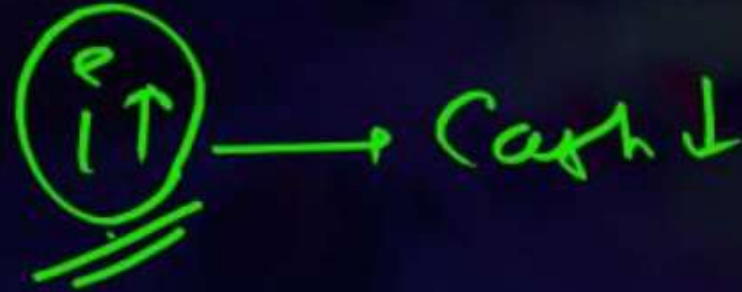


A Directly related

B Inversely related ✓

C Not related

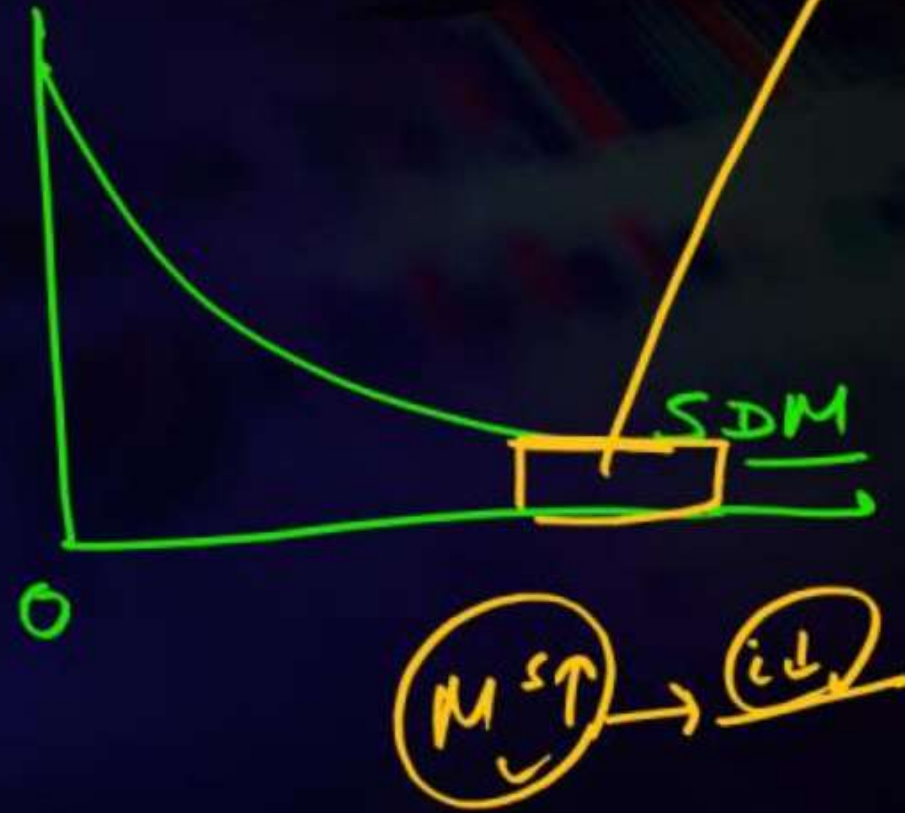
D None of the above



- A Effective Monetary policy
- ☒ B Powerless Ineffective monetary policy
- C Ineffective fiscal policy
- D None of the above

crowding out

Very low i \Rightarrow Cash \rightarrow Liquid Trap



#Q. The speculative demand curve becomes _____ with respect to interest rates in case of liquidity trap

- A** Perfectly elastic
- B** Perfectly inelastic
- C** Parallel to y-axis
- D** None of the above



A J M Keynes

B Milton Friedman → Asset

C Irving Fisher

D Baumol and Tobin D

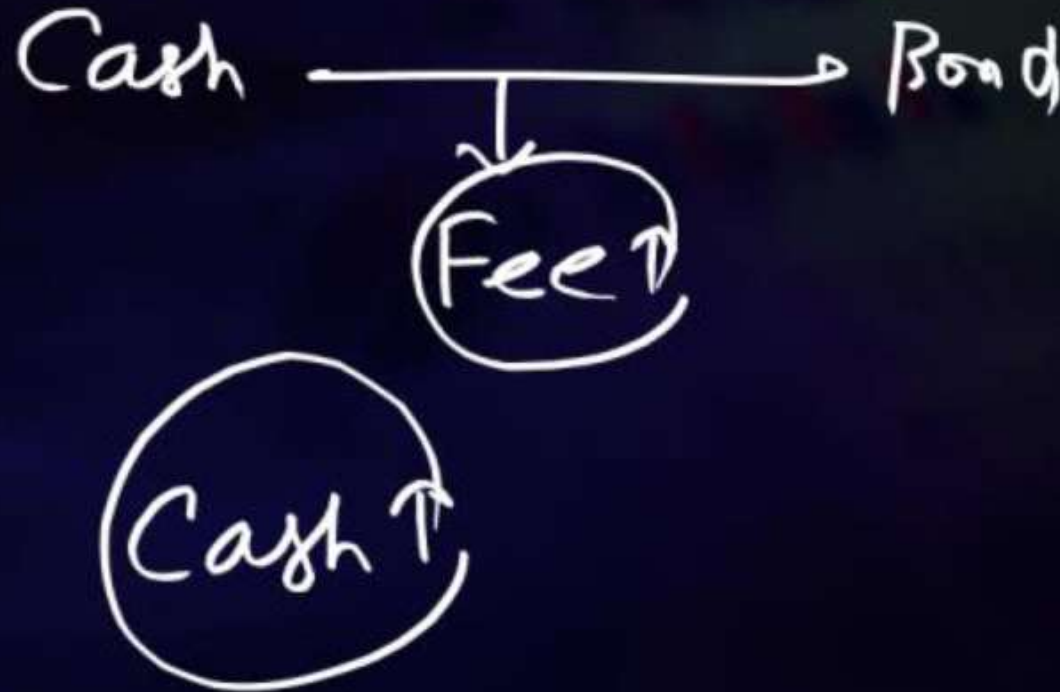


Question

#Q. As per Baumol and Tobin, higher the brokerage fees, _____ the transaction demand for money ✓



- A Lower
- B Higher (B)
- C Can't say
- D No change in



#Q. _____ refers to the total quantity of money available with the public

- A Money Demand
- B Money Supply (B)
- C Demand deposits
- D High powered money



- A Interbank deposits
- B Money held by the government
- C Money held by the banking system
- D All of the above

D



#Q. . Calculate Narrow Money (M1)

Currency with the public -

₹ 222,525

Demand Deposits with Banks -

₹ 1,34,440

Time Deposits with Banks -

₹ 2,80,556

Post office Demand Deposits -

₹ 3,233

Other Deposits with RBI:

₹ 55,655

Time deposits with post office - ₹ 2,345

A

₹ 4,12,600

B

₹ 4,12,620

C

₹ 4,15,853

D

None of the above

$$M_1 = \underline{\underline{CC}} + DD + OD$$



Notes in Circulation -

₹ 43,22,288

Circulation of Rupee Coins – ₹ 26,422

₹ 26,422

Circulation of Small Coins - ₹ 2345

₹ 2345

Cash on hand with Banks - ₹ 12345

₹ 12345

- A** ₹ 43,38,710 **A**
- B** ₹ 43,51,055
- C** ₹ 43,63,400
- D** None of the above

$$\checkmark \dot{M}_I = \checkmark CC + \checkmark DD - \checkmark OD$$





- A** Monetary Base ✓
- B** High powered Money ✓
- C** Reserve money ✓
- D** All of the above D



Question

#Q. If Money supply in the economy is ₹ 100 and monetary base is ₹ 20, then money multiplier is:



A 2000

B 0.2

☒ C 5

D None of the above

$$M = \frac{MS}{MB} = \frac{100}{20} = 5$$

$$M = \frac{MS}{MB} = \frac{MS}{H} = \frac{c+1}{c+\frac{RR}{D}+e} = \frac{1}{R}$$

$$c = \frac{C}{D}, \quad \frac{RR}{D}, \quad \frac{ER}{D}$$



Question

#Q. If required reserve ratio is 10% then money multiplier will be?



A 1

B 0.1

C 10 ✓

D 2

$$M = \frac{1}{R}$$

$$= \frac{1}{10\%} = \frac{1}{0.1} = 10$$



A Directly related

B Inversely related ✓

C Positively related

D Not related

$$M = \frac{C+1}{C+\cancel{r}+e} = \frac{1}{\underline{\underline{R}}}$$

$$\underline{\underline{r \uparrow \rightarrow m \downarrow}}$$



A Directly related

B Inversely related (B)

C Not related

D Positively related

$$M = \frac{C+I}{C+r+e}$$

$$\underline{\underline{ER \uparrow}} \Rightarrow \underline{\underline{M^s \downarrow}}$$



#Q. As per Milton Friedman and Anna Schwartz which of the following factors are the determinants of money supply:

- A Stock of high-powered money → central Bank
- B Reserve-ratio → Bank
- C Currency Deposit Ratio → Public
- D All of the above D



Question



#Q. Fearing shortage of money in ATMs, people decide to withdraw the money from the bank and hold with themselves. This will lead to_____.

A Decrease in currency ratio and decrease in money multiplier

B Decrease in currency ratio and increase in money multiplier

C Increase in currency ratio and decrease in money multiplier (C)

D Increase in currency ratio and increase in money multiplier

$$C = \frac{\text{Cash}}{\text{All}}$$

$$\left(\frac{C}{D} \right) \Rightarrow$$



#Q. ✓ represents degree of adoption of banking habits
by people.

- A Required reserve ratio
- B Excess reserve ratio
- C Currency deposit ratio ☒ $\frac{C}{D}$ habit ↓
- D Time deposit-demand deposit ratio



#Q. When the RBI _____ government securities, the liquidity sucked from the market.

- A Purchases
- B Sells ✓
- C Either (A) or (B)
- D None of the above



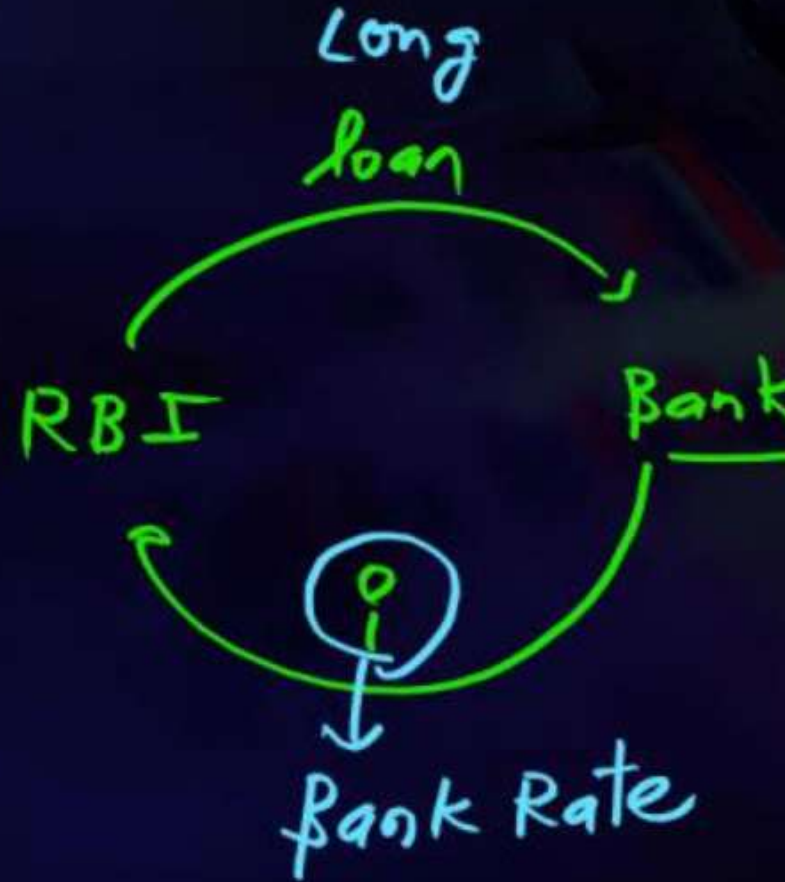
#Q. ✓ tools are selective tools that have an effect on a specific sector of the economy

- A** Quantitative tools
- B** Qualitative tools ✓
- C** Both (A) and (B)
- D** None of the above



#Q. The interest rate at which RBI lends long term funds to banks is referred to as the _____.

- ☐ A Repo Rate
- ☐ B Reverse-Repo Rate
- ☐ C Interest rate
- ☒ D Bank Rate



#Q. _____ is used to prescribe penalty to the bank if it does not maintain the prescribed SLR or CRR

- A Repo Rate
- B Reverse-Repo Rate
- C Interest rate
- D Bank Rate ✓



#Q. _____ is the rate at which banks borrow from RBI on a short-term basis against a repurchase agreement.

- A Repo Rate ✓
- B Reverse-Repo Rate
- C Bank Rate
- D None of the above



#Q. If Repo rate is 4%, then reverse repo rate will be:

$$RRR = 4 - 1 = 3\%$$

A 5%

B 3% ✓

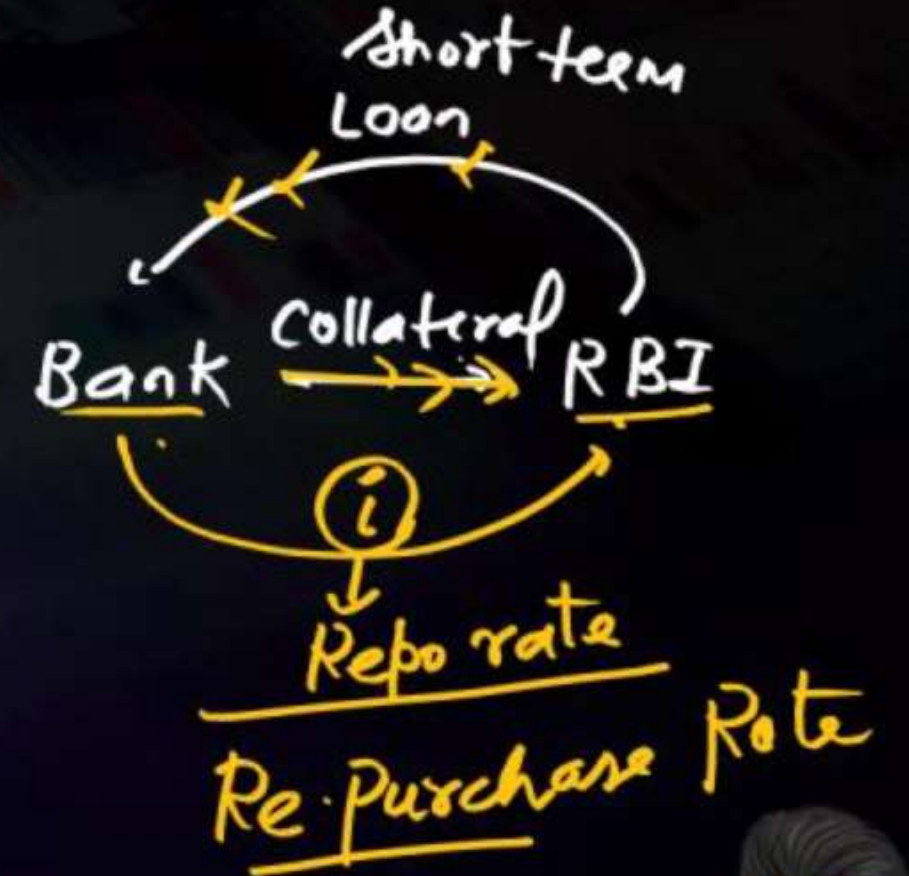
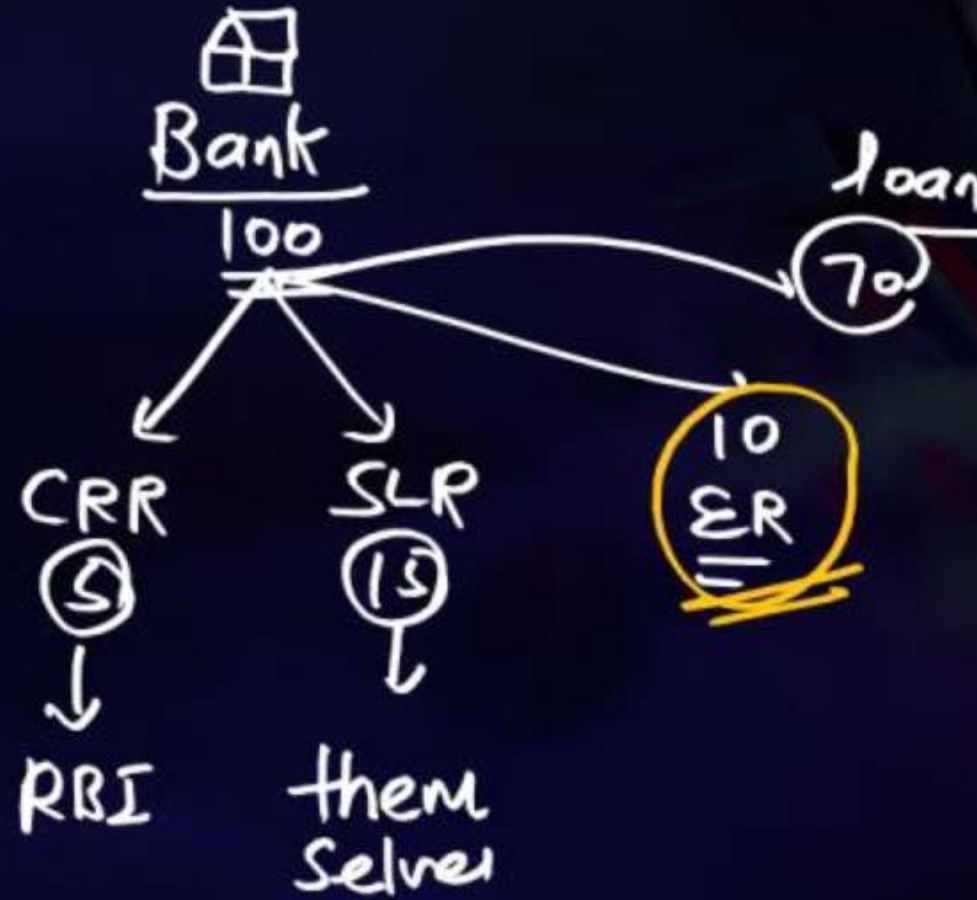
C 4%

D Reverse repo rate is not linked to repo rate



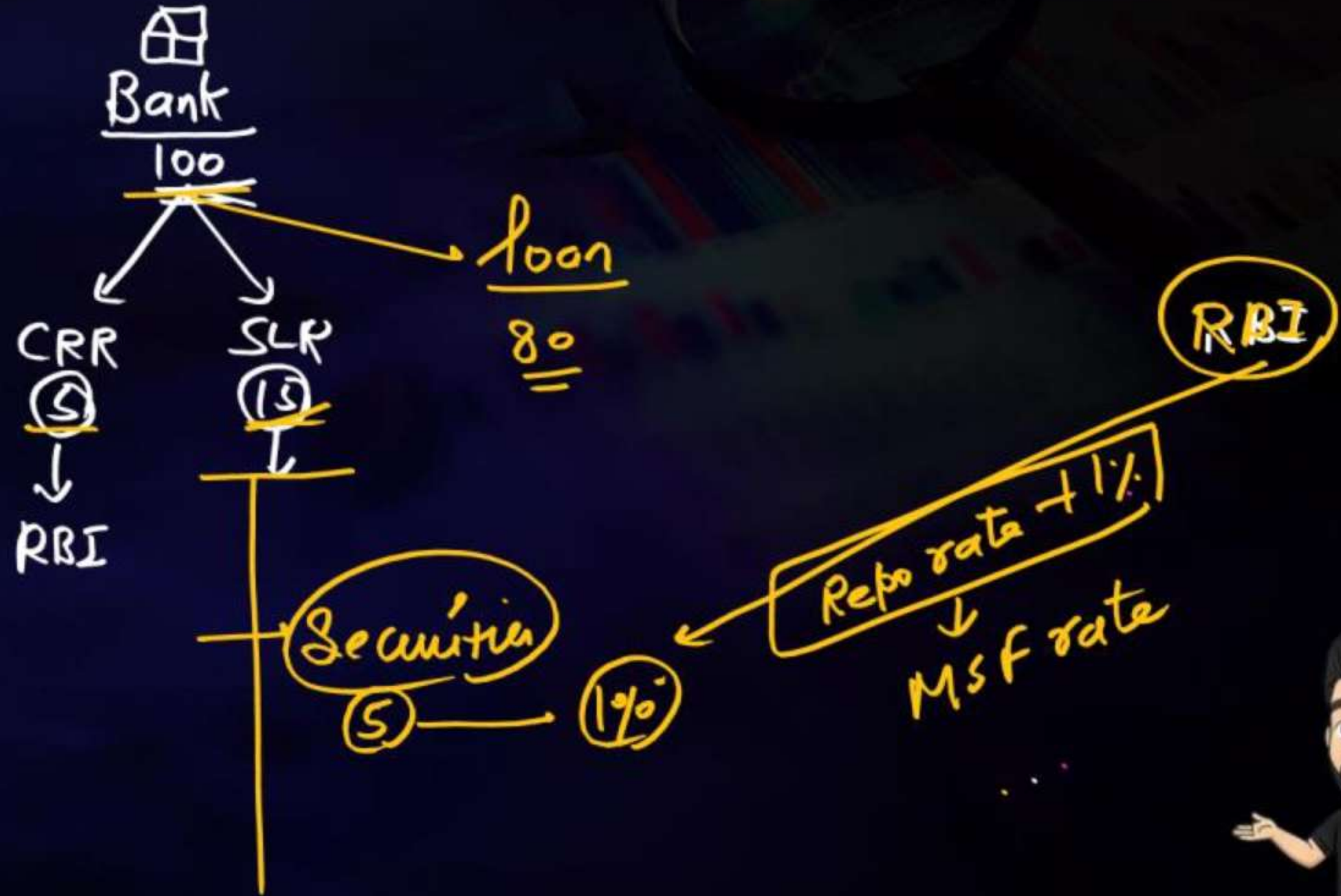
#Q. _____ rate is the penal rate at which the Central Bank lends money to banks, over the rate available under the repo policy.

- A** Repo Rate
- B** MSF Rate
- C** Reverse-Repo rate
- D** Bank Rate



#Q. _____ 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 **B**
- C Reverse-Repo rate
- D Bank Rate



Question

#Q. Inflation target is set by Govt. of India, in consultation with RBI, once in every _____ years.



A 2

☒ B 5

C 3

D 4

2016-21
4.1



#Q. What does RBI publish every six months, providing explanations of the sources of inflation and forecasts for the upcoming period of six to eighteen months?

- A Economic Outlook Report
- B Financial Stability Report
- C Monetary Policy Report ☒
- D Inflation Targeting Framework



Question

#Q. RBI is mandated to publish a Monetary policy report every _____ months, explaining the source of inflation and the forecast of inflation for the coming period of six to eighteen months.



A 12

B 6 ✓

C 18

D 2



#Q. Among the following identified by Friedman, which one is not one of the four determinants of demand for money?

A Average return on five asset classes \Rightarrow Total wealth

B Price level in the economy

C Inflation Rate

☒ D Export

Income



- 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 ✓ (A)
- B** The RBI ^xincreases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
- C** The RBI reduces the CRR in order to enable the banks to contract^x credit and increase the supply of money available in the economy
- D** The RBI reduces the CRR but ^xincrease SLR in order to enable the banks to contract credit and increase the supply of money available in the economy

$$\underline{AD \uparrow} \rightarrow \frac{M^S \uparrow}{L \downarrow} \rightarrow \underline{EMP}$$



- A Reverse Repo Rate = Repo Rate + 1
- ☒ B Reverse Repo Rate = Repo Rate - 1
- C Reverse Repo Rate = Repo Rate \times 0.1%
- D Reverse Repo Rate Repo Rate \times 0.01%

Repo rate + 1% = MSF rate

Repo rate - 1% = Reverse Repo rate



Chapter - 9

INTERNATIONAL TRADE

10 Marks

Question

The Nominal Exchange rate of India is ₹ 56/1\$, Price Index in India is 116 and Price Index in USA is 112. What will be the Real Exchange Rate of India?



A 54.06

B 60

☒ C 58

D 68

Domestic

$$NER = 56$$

foreign

$$\begin{aligned} RER &= NER \times \frac{D_p}{F_p} \\ &= 56 \times \frac{116}{112} \end{aligned}$$

$$\begin{aligned} RER &= 56 \times \frac{F_p}{D_p} \\ &= 56 \times \frac{112}{116} \\ &= \underline{54.06} \end{aligned}$$

Question

An increase in REER implies that exports become Expensive and imports become _____.



A Expensive, expensive

B Cheaper, cheaper

C Expensive, cheaper

D Cheaper, expensive

REER ↑
↘
Domestic goods Expensive
↓
Export Expensive

REAL EFFECTIVE EXCHANGE RATE (REER) → Inflation Adjusted NEER

Increase in REER
(Appreciation of rupee)

Exports → Expensive
Imports → Cheaper

Net Exports ↓

Decrease in REER
(Depreciation of rupee)

Exports → Cheaper
Imports → Expensive

Net Exports ↑

- A** Makes the domestic currency cheaper relative to other currencies ✓
- B** Makes the domestic ^{Expensive} currency dearer relative to other currencies ✗
- C** Makes the foreign currency Cheaper relative to other currencies
- D** Leaves the relative value unchanged

Question

As of 1TM February 2021, how many Regional Trade Agreements (RTAs) were in force worldwide?



A 239 RTA

B 339 RTA ✓

C 439 RTA

D 539 RTA

- A** The ability to produce a greater quantity of a goods using fewer resources
- B** The ability to produce a greater quantity of a goods using the same amount of resources as competitors **B**
- C** The ability to produce a lesser quantity of a goods using the same amount of resources as competitors
- D** The ability to produce a greater variety of goods than competitors

- A** United States of America and Canada
- B** United States of America, Canada, and Mexico
- C** United States of America and Mexico
- D** Canada and Mexico

3

- A** Trade – related agreement on investment policies ✓
- B** Trade-Related Aspects of Intellectual Property Rights (B)
- C** Transnational Regulations for International Product Standards
- D** Trade Regulations for International Patent Systems

Question

What is the main difference between foreign direct investment (FDI) and foreign portfolio investment (FPI) ?



- A** FDI creates physical assets, while FPI involves only financial assets ✓
- B** FDI involves financial assets, while FPI creates physical assets
- C** Both FDI and FPI create physical assets
- D** Both FDI and FPI involve only financial assets

Question

Foreign corporations invest in India to benefit from the country's particular investment privileges such as tax breaks and comparatively lower salaries. This type of investment is an example of:



A Foreign Portfolio Investment

B Joint Venture

C Foreign Direct Investment



D Strategic Alliance

Question

A tariff which a WTO member binds itself with a legal commitment not to raise tariff rate above a certain level is known as:



- A** Applied tariff
- B** Bound tariff **B**
- C** Specific tariff
- D** Most- favored nation tariffs

Which of the following is covered under Technical Barriers to Trade (TBT)?

- A** Only food products
- B** Only non-food traded trade products
- C** Only technical standard products
- D** Both food and non-food traded products ☒

Question

What term is used for the rate between currencies Y and Z, which is derived from the given rates of another set of two pairs of currency (say X and Y, and, X and Z)?



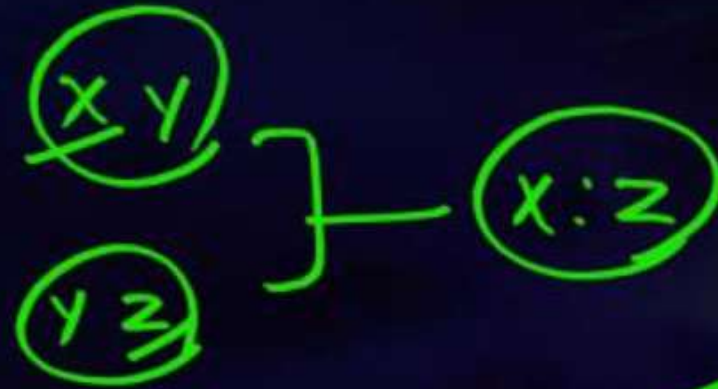
A Bid rate

B Ask rate

C Spot rate

D Cross rate

D



Dollar : Euro

Yen : Euro

- A** Aggressive exports over imports to accumulate wealth ✓
- B** Comparative advantage
- C** Absolute cost advantage
- D** Factor endowment

Question

Group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries is referred as

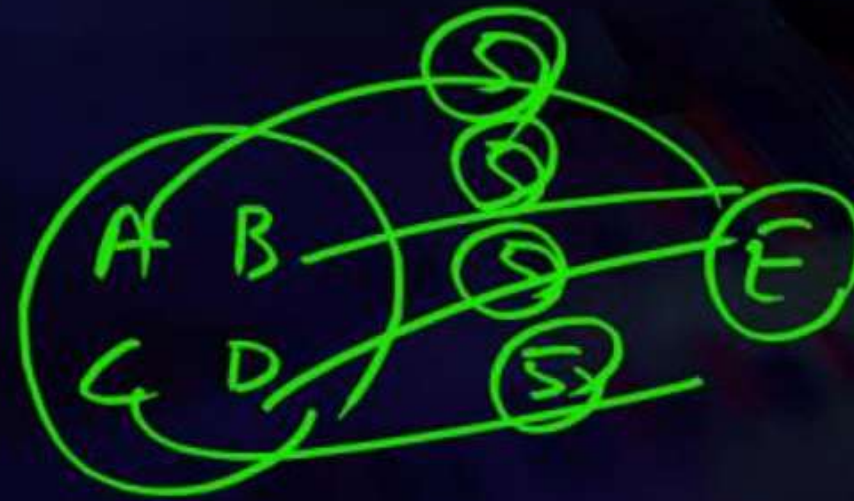


A Trading Block **A**

B Free-trade area

C Customs union.

D Economic and monetary union



Question

A total ban imposed by the government on imports or export of some or all commodities to particular country or regions for a specified or indefinite period is termed as



- A** Embargos ✓
- B** Safeguard measure
- C** Distribution restrictions
- D** Restrictive measures

Question

Which of the following is levied as a fixed/constant percentage on the money value of an imported or exported good?



A Ad valorem Tariff ✓

B Compound Tariff

C Specific Tariff

D Bound Tariff

Question

Number of units of a foreign currency can be exchanged for one unit of local currency is referred to as _____



A Direct Quote

B Indirect Quote

C European Currency

D Cross Quotes

$$90 = 1$$

(B)

$$₹1 = 0.01$$

local

- A** Prisoners dilemma ✗
- B** Competition for market share
- C** Pricing strategy
- D** None of the above is correct.

→ Mercantilism

Question

In Heckscher Ohlin theory factors of production are in number.



A one

B two

B

C three

D four

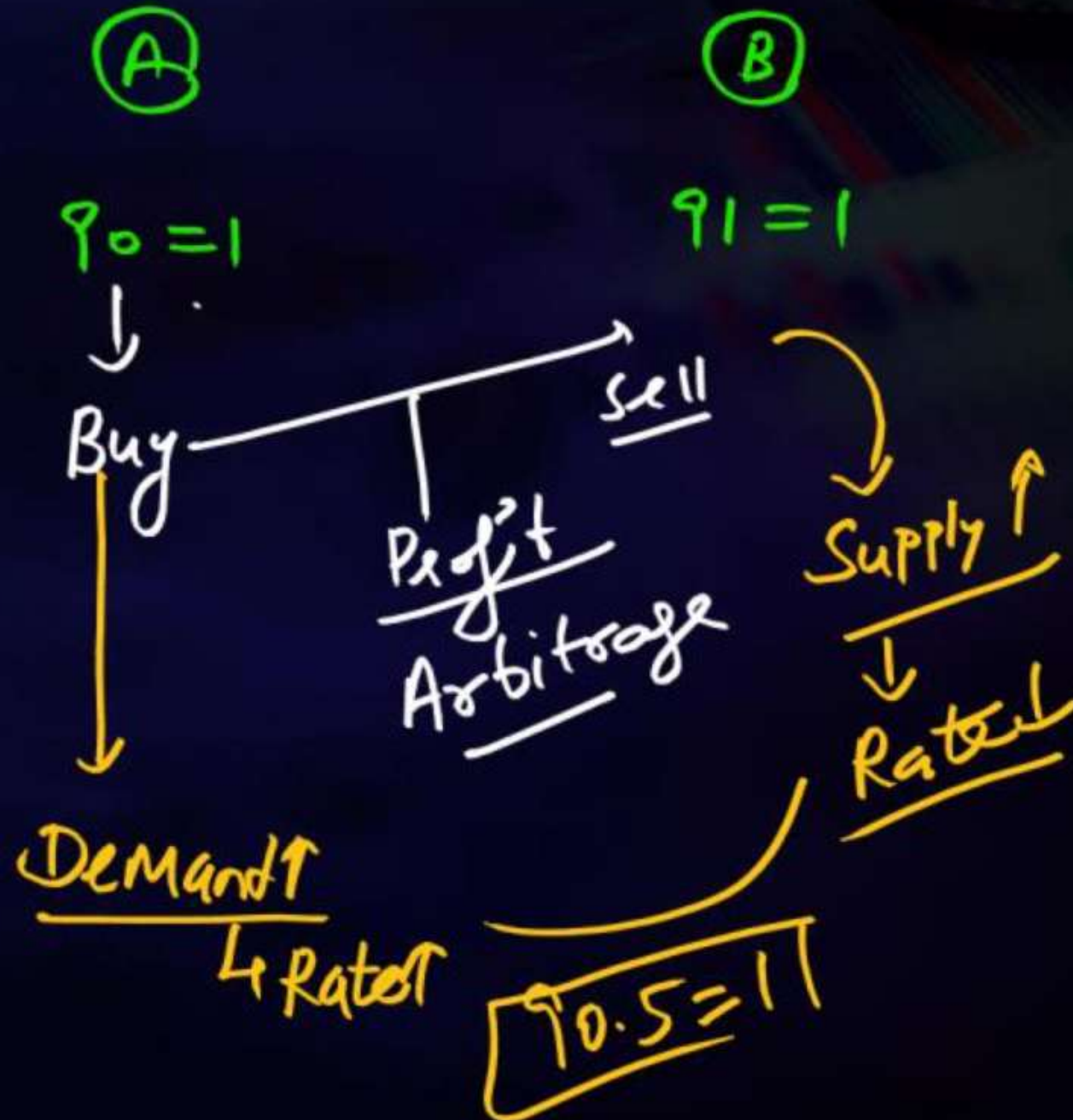
- A Complex documentation requirement
- B Countervailing duties charged by importing country Tariff (B)
- C Pre-Shipment product inspection and certification on requirements
- D None of these

Question

At any point of time all markets tend to have the same exchange rate for a given currency due to:



- ☐ A Hedging
- ☒ B Arbitrage
- ☐ C Speculation
- ☐ D None of these



Question

A group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries:



- A** Free trade area
- B** Custom union
- C** Trade bloc
- D** Regional preferential trade agreements

- A** Imported goods and domestic goods should be treated equally
- B** Exported goods and imported goods should be treated equally
- C** Imported goods and domestic goods should be treated differently
- D** Internal trade is more important than international trade

A Flexible exchange rate

B Fixed exchange rate ✓

C Gold

D ECB

- 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

Which of the following is an example of a multilateral trade agreement?

- A** North American Free Trade Agreement (NAFTA)
- B** European Union (EU) Trade Policies
- C** World Trade Organization (WTO) agreements ✓
- D** Bilateral Trade Agreement between two countries

Chapter - 10

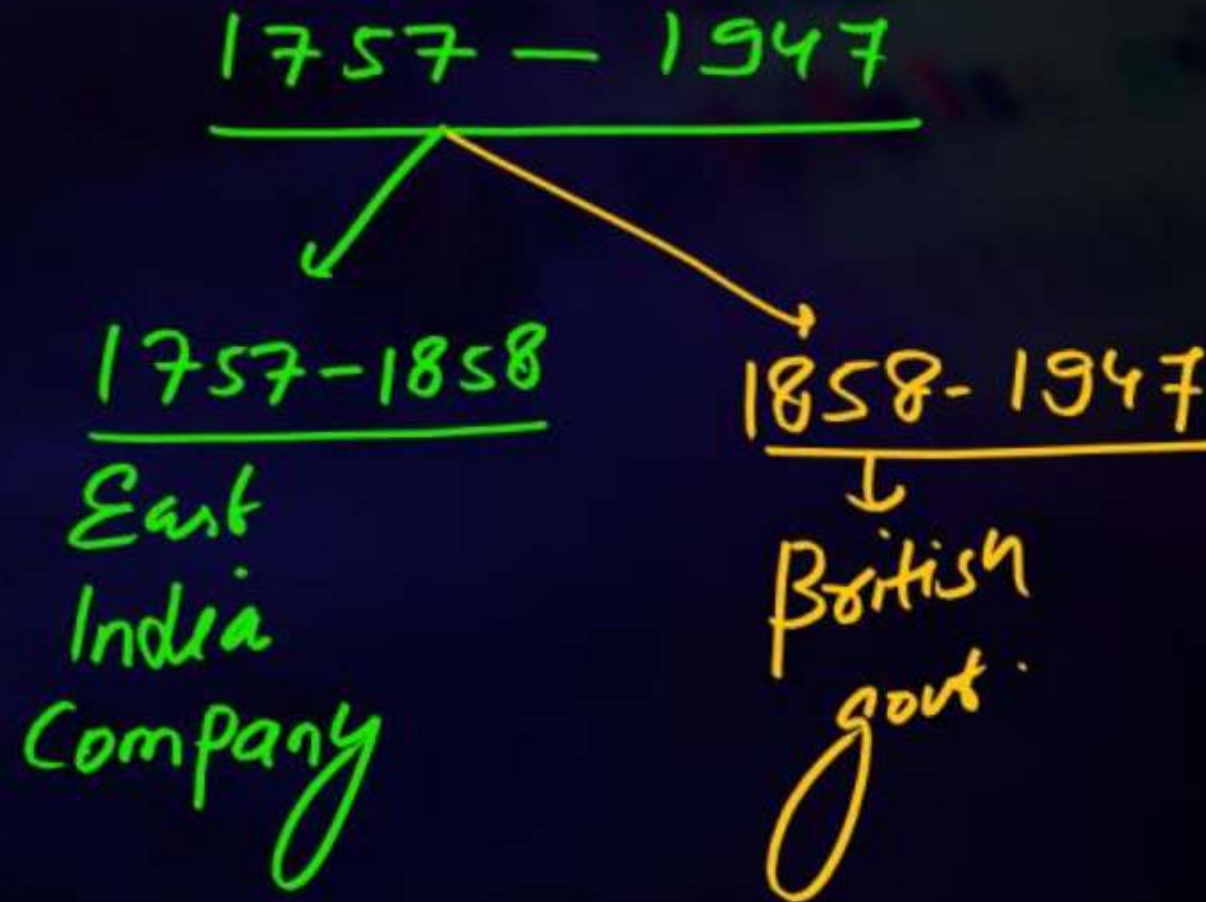
#Q. _____ is believed to be a kind of handbook for King Chandragupta Maurya

- A Karmashastra
- B Yuddhashastra
- C Arthashastra →
- D None of the above

Chanakya → Kautilya



- ☒ **A** 1858 to 1947
- ☐ **B** 1757 to 1947
- ☐ **C** 1850 to 1947
- ☐ **D** None of the above



Question

#Q. During 1950-80, Hindu growth rate was around _____



A 5%

B 3.8%

C 3.5%

D 3%

(C)

1950-80
↓
3.5%



#Q. These initiatives, spanning 1981 to 1989, were practically referred to as _____.

A 'early liberalization'

B 'reforms by stealth'

छद्म

C Both (A) and (B)

D None of the above

1981-89



- A Delicensing of 25 broad categories of industries was done
- B Multipoint excise duties were converted into MODVAT ✓
- C Price and distribution controls on all the industries were entirely abolished C
- D Open general license was steadily expanded





Topic: The Era of Reforms



The Era of Reforms

Early Liberalization <u>(1981-1989)</u>	Shift from inward-oriented practices
GDP Growth Rates	<u>5.7%</u> (<u>1980-1985</u>), <u>5.8%</u> (<u>1985-1990</u>)
Industrial Policy Initiatives	<u>Delicensing</u> , <u>broad-banding</u> , <u>MRTTP limit increase</u>
MODVAT Tax ✓	Reduced taxation on inputs
SEBI	Established April 12, 1988
OGL Expansion ✓	1,329 capital goods items by April 1990
Export Incentives	Introduced and expanded
Exchange Rate Policy	Rupee depreciated ~30% (1985-1990)
Price Controls	Abolished on cement and aluminum
1986 Budget Policies	Tax cuts, import liberalization, reduced tariffs

Question

#Q. Before the 1991 reforms, the foreign exchange reforms touched the lowest point with a reserve on ~~only~~ only _____ which was barely sufficient for _____ of imports



A \$1.5 billion; 4 weeks

B \$1.2 billion; 2 weeks ✓

C \$1.2 billion; 4 weeks

D \$1.5 billion; 2 weeks



The foreign exchange reserves touched the lowest point with a reserve of only \$1.2 billion which was barely sufficient for two weeks of imports. This was the major context that triggered economic reforms.

#Q. New Economic policy focused on Stabilization measure which were _____ measures and structural reforms measures which were _____

A Long term; short term

B Short term; long term B

C Long term; long term

D Short term; short term



Question

#Q. The SEBI which was setup in 1988 was given statutory recognition in _____



A 1990

B 1991

C 1992 ✓ (C)

D 1988



Question

#Q. The New Industrial Policy was announced by the government on



A 24 Aug 1991

B 24 July 1990

C 24 July 1991

D 22 July 1991



A 15%

B 10%

C 18%

D 20%

[C]

18-19



Based on the real effective exchange rate (REER), the rupee was depreciated by about 30.0 per cent from 1985-86 to 1989-90. This reflects a considerable change in the official attitude towards exchange rate depreciation

the international markets. In 1991, India still had a fixed exchange rate system, under which the rupee was pegged to the value of a basket of currencies of major trading partners. In July 1991 the Indian government devalued the rupee by between 18 and 19 percent. In March 1992 the government decided to establish a dual exchange rate regime. The government allowed importers to pay for some imports with foreign exchange valued at free-market rates and other imports could be purchased with foreign exchange purchased at a government-

mandated rate. In March 1993 the government unified the exchange rate and allowed, for the first time, the rupee to float. From 1993 onwards, India has followed a managed floating exchange rate system.

#Q. From 1993 onwards, India has followed a _____ exchange rate system

- A Fixed
- B Free Floating
- C Managed floating ✓
- D None of the above



Question

#Q. On _____, the apex policy-making body namely the planning commission, was replaced by the National Institution for Transforming India (NITI) Aayog



A 1st January 1991

B 1st January 2015 ✓

C 31st Jan 2015

D 1st Feb 2010



#Q. Which Initiatives of NITI Aayog facilitates and improves access to Indian government data?

A India Policy Insights (IPI)

B E-Amrit

C NDAP



D Shoonya



#Q. ✓ _____ campaign aims to improve air quality in India by accelerating the development of electric vehicles

A Methanol Economy

B 'LiFE'

C Shoonya → Pollution

D E-Amrit

↓
portal
E-vehicle
detail

FAME → e-vehicle



#Q. The minimum support price of all 23 mandated crops is fixed at _____ times of average cost of production

A 2

B 1.5

(B)

C 3

D 2.5

$$\underline{10} \times 1.5 = (15)$$



Question

#Q. The government of India has allowed _____ % FDI in marketing of food products and E-commerce of food products under the automatic route



A 49%

B 26%

C 74%

✓ D 100%



#Q. _____ is a novel insurance scheme for financial support to farmers suffering crop loss/damage

A Pradhan Mantri Fasal Bima Yojana (PMFBY)

A

B Paramparagat Krishi Vikas Yojana (PKVY)

C Both

D None of the above



Question

#Q. In Jan 31, 2023 the Manufacturing Purchasing Managers' Index in India stood at



PMI

A 55

B 55.4 ✓

C 54.5

D 54.4



A detailed discussion on industrial development is beyond the scope of this unit. Starting with the industrial growth figures, we shall briefly touch upon the general aspects related to industries. In India, industrial production measures the output of businesses integrated in industrial sector of the economy. Manufacturing is the most important sector and accounts for 78 percent of total production. The manufacturing GVA at current prices was estimated at US\$ 77.47 billion in the third quarter of financial year 2021-22 and has contributed around 16.3% to the nominal GVA during the past ten years. In 2022- 23 (until September 2022), the combined index of eight core industries* stood at 142.8 driven by the production of coal, refinery products, fertilizers, steel, electricity and cement industries. In Jan 31, 2023 the Manufacturing Purchasing Managers' Index (PMI) in India stood at 55.4. India's rank in the Global Innovation Index (GII) improved to 40th in 2022 from 81st in 2015.

41

Question

#Q. India's rank in Global innovation index (GII) improved to 40 in 2022 from 81 in 2015.



A 40th; 82nd

B 41st; 82nd

C 40th; 81st

C

D None of the above



A

63

A

B

77

C

45

D

None of the above



#Q. is a one stop for investor related approvals and services in the country and aims to provide continuous facilitations and support to investors

- A FAME India scheme
- B Udyami Bharat
- C National single window system
- D PM Gati Shakti national master plan



INDIAN ECONOMY**10.23**

The National Single Window System is a one-stop-shop for investor related approvals and services in the country and aims to provide continuous facilitation and support to investors.

#Q. _____ scheme to promote manufacturing of electric and hybrid vehicle technology

A Udyami Bharat

B FAME-India

(B)

C PLI Scheme

D PM Gati Shakti national master plan

white goods → LED Light
AC



Keeping in view India's vision of becoming 'Atmanirbhar', the Production Linked Incentive (PLI) Scheme was initiated in March 2020 for 14 key sectors to enhance India's manufacturing capabilities and export competitiveness. PLI Scheme is now extended for white goods (air conditioners and led lights).

FAME-India Scheme (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) to promote manufacturing of electric and hybrid vehicle technology and to ensure sustainable growth of the same.

'Udyami Bharat' aims at the empowerment of Micro Small and Medium Enterprises (MSMEs).

PM Mega Integrated Textile Region and Apparel (PM MITRA): to ensure world-class industrial infrastructure which would attract cutting age technology and boost FDI and local investment in the textiles sector.

#Q. _____ is the fastest growing sector in India and has the highest labour productivity

- A Primary
- B Secondary
- C Tertiary ✓
- D Foreign sector



#Q. The Foreign Investment Promotion Board (FIPB) was abolished in May 2017, and a new regime namely _____ has been put in place.

- A** Foreign Investment Facilitation Board
- B** Foreign Investment Facilitation Portal ✓
- C** Domestic Investment Promotion Portal
- D** Foreign Investment Promotion Portal



Foreign Investment Promotion Board (FIPB) was abolished in May 2017, and a new regime namely Foreign Investment Facilitation Portal (FIF) has been put in place. Under the new regime, the process for granting FDI approvals has been simplified. 853 FDI proposals were disposed off in the last 5 years. FDI has increased jumped by 39% since FIF came into being.

MEFI

- A** Remission of Duties and Taxes on Export Products (RODTEP) in 2021 ✓ **(A)**
- B** National Logistics Policy (NLP) in 2020
- C** Remission of Duties and Taxes on Export Products (RODTEP) in 2019 ✗
- D** None of the above



Remission of Duties and Taxes on Export Products (RoDTEP) 2021 formed to replace the existing MEIS (Merchandise Exports from India Scheme) to boost exports. It

- A** An electronic name card ^x given to citizens of India
- B** National Agriculture Market with the objective of creating unified national a market for agricultural commodities
- C** A pan-India electronic trading portal which network existing APMC mandis
- D** (B) and (C) above D



Expect

- A State-led industrialization and import substitution
- B Rethinking the role of markets versus the state (B)
- C Emphasized the role of good governance
- D Bringing about a reduction in poverty and redistributive justice



A In 1951

B In 1980's

→ 1981-89 (B)

C In 1990

D In 1966



#Q. 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



#Q. 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 private sector



#Q. 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 ☒



#Q. Which of the following is not the aim of the 'Methanol Economy' programme?

A Converting coal reserves and municipal solid waste into methanol

B Reducing Greenhouse gas (GHG) emissions

C Reducing India's oil import bill

D Converting industrial waste into methanol

मिथेनॉल

Carbon (CO₂) → Pollution

D



#Q. The India Development Update (IDU) report published by____
in November 2022:

- A** United Nations Development Programme (UNDP)
- B** International Monetary Fund (IMF)
- C** World Bank C
- D** Asian Development Bank (ADB)





10.8 CONCLUSION

The India Development Update (IDU) of the World Bank published in November 2022, ✓ observes that India had to face an unusually challenging external environment following the Russia-Ukraine war, increased crude oil and commodity prices, persistent global supply disruptions, tighter financial conditions and high domestic inflationary pressures. Despite all these, the real GDP of India grew by 6.3 percent in July-September of 2022-23 driven by strong private consumption and investment. The report observes that India's economy is relatively more insulated from global spillovers than other emerging markets and is less exposed to international trade flows on account of reliance on its large domestic market. As such, compared to other emerging economies, India is much more resilient to withstand adversities in the global arena.

India is among the top 10 World Trade Organization (WTO) members in service exports and imports. India's services exports at US\$ 27.0 billion recorded robust growth in November 2022 due to software, business, and travel services. While exports from all other sectors were adversely affected, India's services exports have remained resilient during the Covid-19 pandemic. The reasons are the higher demand for digital support and need for digital infrastructure modernization.

The Indian services sector is the largest recipient of FDI inflows. FDI equity inflows into the services sector accounted for more than 60 per cent of the total FDI equity inflows into India. The World Investment Report 2022 of UNCTAD places India as the seventh largest recipient of FDI in the top 20 host countries in 2021. In 2021-22, India received the highest-ever FDI inflows of US\$ 84.8 billion including US\$ 7.1 billion FDI equity inflows in the services sector.

WIR↓



2 Mins. Summary



This is not the End.

- ① Notes
- ② Watch this to the fullest ✓
- ③ Self Study
 - weak → one shot
 - Marathon



THANK



YOU