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Chapter-Wise Marks Distribution*

Ch. No.	Chapter Name	2018		2019		2020	2021			2022		2023		Average
		June	Dec.	June	Dec.	Dec.	Jan.	July	Dec.	June	Dec.	June	Dec.	
1	Nature and Scope of Economics	10	10	10	10	11	12	11	11	11	11	11	11	10.75
2	Theory of Demand and Supply	16	12	15	8	9	11	16	19	19	17	16	14	14.33
3	Theory of Production and Cost	19	5	8	20	11	13	7	1	4	4	5	8	8.75
4	Price Determination in different Markets	13	23	16	16	17	12	15	17	16	16	17	16	16.16
5	Business Cycles	2	10	11	12	12	12	11	12	11	11	11	12	10.58
6#	Determination of National Income	-	-	-	-	-	-	-	-	-	-	-	-	-
7#	Public Finance	-	-	-	-	-	-	-	-	-	-	-	-	-
8#	Money Market	-	-	-	-	-	-	-	-	-	-	-	-	-
9#	International Trade	-	-	-	-	-	-	-	-	-	-	-	-	-
10#	Indian Economy	-	-	-	-	-	-	-	-	-	-	-	-	-

* Chapter-wise Marks Distribution is based on old syllabus.

Newly added Chapters in CA Foundation Syllabus.

Chapter-Wise Comparison With Study Material

Chapter No.	Name of the Chapter	Study Material Chapter
	BUSINESS ECONOMICS (100 MARKS)	
1	Nature and Scope of Economics	**Chapter 1**
2	Theory of Demand and Supply	**Chapter 2**
3	Theory of Production and Cost	**Chapter 3**
4	Price Determination in different Markets	**Chapter 4**
5	Business Cycles	**Chapter 5**
6	Determination of National Income	**Chapter 6**
7	Public Finance	**Chapter 7**
8	Money Market	**Chapter 8**
9	International Trade	**Chapter 9**
10	Indian Economy	**Chapter 10**

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1 CHAPTER

NATURE AND SCOPE OF BUSINESS ECONOMICS

UNIT 1 : (INTRODUCTION)

Introduction

1. The term 'Economics' owes its origin to the Greek word.

(a) Aikonomia
(b) Wikonomia
(c) Oikonomia
(d) None of the above

2. Economics in terms of Dynamic Growth and development defined by

(a) Adam Smith
(b) Robbins
(c) Alfred Marshall
(d) Paul A Samuelson

[Nov. 2020]

3. Adam Smith published his masterpiece "An enquiry into the nature and causes of wealth of nations" in the year

(a) 1776
(b) 1786
(c) 1789
(d) 1790

4. Which book of economics is known as first book of modern economics?

(a) An Inquiry into nation
(b) An inquiry into wealth of nation
(c) An inquiry into wealth
(d) Wealth of nation

[Nov. 2019]

5. Oikonomia means

(a) Industry
(b) Management of household
(c) Services
(d) None of these

6. The book "Wealth of Nations" was written by _____

(a) Alfred Marshall
(b) Join Robinson
(c) Adam Smith
(d) Robert Malthus

[Jan. 2021]

7. Economists regard decision making as important because:

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

8. _____ are responsible for all economic problems

(a) Alternative resources
(b) Unlimited wants
(c) Scarcity of resources
(d) Others

[Nov. 2020]

9. 'Economics is the science of choice making'. It implies:

(a) No choice is to be made
(b) Choice to be made between alternative uses
(c) Choice to be made between means and ends
(d) None of the above

[CA CPT Dec. 2012]

10. The famous book abbreviated as "The Wealth of Nations", which is also considered as the first modern work of Economics, was written by _____

(a) Frederic Engels
(b) Karl Marx
(c) David Ricardo
(d) Adam Smith

[July 2021]

11. The concept of socialist economy was propounded by Karl Marx and Frederic Engels in their work. The Communist Manifesto was published in the year.

(a) 1947 (b) 1848
(c) 1949 (d) 1950

12. Which one is the feature of Marshall's definition?

(a) Limited ends
(b) Scarce means
(c) Study of wealth as well as study of man
(d) Study of allocation of resources

[CA CPT June 2010]

13. According to Robbins, 'means' are:

(a) Scarce
(b) Unlimited
(c) Undefined
(d) All of these

[CA CPT Nov. 2007]

14. Scarcity definition of Economics is given by.

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

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

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

16. Economics is the study of:

(a) How society manages its unlimited resources
(b) How to reduce our wants until we are satisfied
(c) How society manages its scarce resources
(d) How to fully satisfy our unlimited wants

[CA CPT June 2008]

17. In Economics, we use "scarcity" the term to mean:

(a) Absolute scarcity and lack of resources in less developed countries.
(b) Relative scarcity *i.e.* scarcity in relation to the wants of the society.
(c) Scarcity during times of business failure and natural calamities.
(d) Scarcity caused on account of excessive consumption by the rich.

[Nov. 2019]

18. In Economics, we use the term scarcity to mean:

(a) Absolute scarcity and lack of resources in less developed countries.
(b) Relative scarcity *i.e.* scarcity in relation to the wants of the society.
(c) Scarcity during times of business failure and natural calamities.
(d) Scarcity caused on account of excessive consumption by the rich.

19. An economy exists because of two basic facts *i.e.* _____

(a) Human wants are limited and resources are unlimited
(b) Human wants are unlimited and resources are unlimited
(c) Human wants are unlimited and resources are scare
(d) Human wants are limited and resources are abundant

[Jan. 2021]

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

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

21. Adam Smith defined Economics in terms of :

(a) The Science of welfare
(b) The Science of scarcity
(c) The Science of wealth
(d) The Science of wealth and welfare

22. Who defines Economics in terms of Dynamic Growth and Development?

(a) Robbins
(b) Paul A Samuelson
(c) Adam Smith
(d) None of these

[CA CPT Dec. 2008]

23. Which of the following is not a basic problem of an economy?

(a) Whether to produce more of consumer goods or capital goods
(b) Whether to lay emphasis on labour-intensive techniques or on capital intensive techniques
(c) Whether to produce for rich people or for poor people
(d) Whether to accept foreign direct investment in the economy

24. In every economic system, scarcity imposes limitations on

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

(e) Business firms, governments, and the nation as a whole.

25. Economic goods are considered scarce resources because they

(a) Cannot be increased in quantity.

(b) Do not exist in adequate quantity to satisfy the requirements of the society.

(c) Are of primary importance in satisfying social requirements.

(d) Are limited to man made goods.

26. 'Economics is the study of mankind in the ordinary business of life' was given by:

(a) Adam Smith

(b) Lord Robbins

(c) Alfred Marshall

(d) Samuelson

[CA CPT Nov. 2006]

27. 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.

28. Human wants are _____ in response to satisfy their wants?

(a) Unlimited

(b) Limited

(c) Scarce

(d) Multiple

[CA CPT Nov. 2018]

29. There is need of economic study, because—

(a) The resources are limited

(b) The wants are unlimited

(c) The resources are unlimited

(d) Both (a) and (b)

30. The benefit of economic study is—

(a) It ensure that all problems will be appropriately tackled

(b) It helps in identifying problems

(c) It enable to examine a problem in its right perspective

(d) It gives exact solutions to every problem

31. Economic goods are considered as scarce resources because _____

(a) Inadequate quantity to satisfy the needs of the society

(b) Not possible to increase in quantity

(c) Limited hands to make goods

(d) Primary importance in satisfying social requirements

[CA CPT May 2019]

32. The meaning of time element in Economics is:

(a) Calendar time

(b) Clock time

(c) Operational time in which supply adjusts with the market demand

(d) None of the above

[CA CPT June 2015]

33. All wants of an individual are not of:

(a) Equal importance

(b) Immediate importance

(c) Fixed importance

(d) All of the above

[CA CPT June 2015]

Meaning of Business Economics

34. _____ refers to the process of selecting an appropriate alternative that will provide the most efficient means of attaining a desired end, from two or more alterative courses of action.

(a) Decision making

(b) Strategy

(c) Problem Solving

(d) Effectiveness

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

(a) Capital Budgeting

(b) Risk Analysis

(c) Business Cycles

(d) Accounting Standards

[Nov. 2019]

36. Business Economics is

(a) Abstract and applies the tools of Microeconomics.

(b) Involves practical application of economic theory in business decision making.

(c) Incorporates tools from multiple disciplines.

(d) (b) and (c) above.

37. Business Economics is also known as?

(a) Applied Economics

(b) Managerial Economics

(c) Micro Economics

(d) All of the above

[CA CPT Nov. 2018]

38. The question of choice arises because our productive resources _____

(a) Are limited

(b) Can be employed in alternatives

(c) Both (a) & (b)

(d) None of the above

39. The management of a business unit generally needs to make _____.

(a) Strategic Decision

(b) Tactical Decision

(c) Operational Decision

(d) All of the above

40. Concept of Business Economics was given by:

(a) Joel Dean

(b) Alfred Marshall

(c) Adam Smith

(d) L. Robbins

[CA CPT May 2018]

41. Which one of the following is incorrect about Business Economics?

(a) It is applied economics that fills the gap between economic theory and business practice.

(b) Business Economics integrates economic theory with business practice.

(c) Business Economics is also referred to as Managerial Economics.

(d) Business Economics is more concerned with Macro Economics.

42. The managerial economics—

(a) Is Applied Economics that fills the gap between economic theory and business practice

(b) Is just a theory concept

(c) Trains managers how to behave in recession

(d) Provides the tools which explain various concepts

(a) Micro Economic Theory of the behaviour of consumers and firms in competitive markets.

(b) Macro-Economic Theory of the national income

(c) Income Economic analysis to analyze the industry

(d) All of the above

[CA CPT Nov. 2018]

Definitions of Business Economics

43. _____ defined Business Economics in terms of the use of economics analysis in the formulation of business policies.

(a) Joel Dean

(b) Karl Marks

(c) Adam Smith

(d) Schumpeter

44. Business Economics is essentially a component of _____ as it includes application of selected quantitative techniques.

(a) Pure Economics

(b) Applies Economics

(c) Statistical Economics

(d) None of the above

45. Which of the following is not included in Economics?

(a) Family Structure

(b) Managerial Economics

(c) Micro Economics

(d) Macro Economics

46. The heart of Business Economics is

Micro and Macro Economics

47. Which one of the following is not a subject matter of Micro-Economics?

(a) Behaviour of Firms

(b) External Value of Currency

(c) Factor Pricing

(d) Location of Industry

48. Micro economics does not study

(a) Consumer behaviour

(b) Factor pricing

(c) General price level

(d) Firms equilibrium

[CA CPT Dec. 2015]

49. Micro Economics is also known as _____

(a) Public Economics

(b) Income Theory

(c) Demand Theory

(d) Price Theory

[Nov. 2020]

50. Micro Economics is the study of:

(a) Individual parts of the economy

(b) The economy as a whole

(c) Choice making

(d) Development of the economy

[CA CPT June 2016]

51. Micro economics is also known as _____:

(a) Public Economics

(b) Price Theory

(c) Income Theory

(d) Demand Theory

[Jan. 2021]

52. Economics is classified into _____

(a) Normative & positive

(b) Micro & Macro

(c) Internal & External

(d) None of the above

[June 2023]

53. Mrs. Reshma, a CEO of a company had decided to expand the business by introducing a new product into market. She hires a consultant to guide her for deciding the pricing of the new product, study the consumer behaviour and the staff requirements.

Approach of consultant will be towards _____

(a) Applied Economics

(b) Econometrics

(c) Macro Economics

(d) Micro Economics

[Dec. 2021]

54. 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.

55. Which of the following is not the subject matter of micro economics?

(a) Consumer Behaviour

(b) Foreign Exchange Rate

(c) Behaviour of Firms

(d) Location of Industry

[June 2023]

56. Micro economics theories deal with _____

(a) Productions and Cost analysis

(b) Government Policies

(c) Total Consumption

(d) Social and political environment

[Dec. 2021]

57. Which of the following is used for allocation of resources?

(a) Micro–Economics

(b) Marco–Economics

(c) Econometrics

(d) Descriptive Economics

[Nov. 2019]

58. 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?

59. The branch of economic theory that deals with the problem of allocation of resources is:

(a) Micro Economics

(b) Macro Economics

(c) Econometrics

(d) None of these

[CA CPT Nov. 2006]

60. Which of the following is not a subject matter of micro economics?

(a) Behaviour of firms

(b) Location of industry

(c) Consumer behaviour

(d) Foreign exchange rate

[June 2022]

61. Micro Economics Covers:

(a) National Income and National Output

(b) External Value of Currency

(c) Overall level of Savings and Investment

(d) Location of Industry

62. Which of the following is not an example of Micro-Economics?

(a) The effect of increase in general price on living standards

(b) The effect of increase in steel import of a country on steel prices

(c) The effect of increase in wages on Automobile Industry

(d) The effect of increase in real estate prices on the location of industry

[Dec. 2021]

63. The study of behaviour of different individuals, organisations with in an economic system is known as

(a) Micro economics

(b) Macro economics

(c) Welfare economics

(d) None

[Nov. 2020]

64. A study of how increase in the corporate income tax rate will affect the natural unemployment rate is an example of:

(a) Micro Economics

(b) Descriptive Economics

(c) Macro Economics

(d) Normative Economics

[CA CPT Feb. 2007]

65. _____ examines how the individual units (Consumers or firms) make decisions as to how to efficiently allocate their scare resources.

(a) Macro Economics

(b) Micro Economics

(c) Mathematical Economics

(d) Consumer Economics

66. Which of the following falls under micro economics?

(a) National Income

(b) General price level

(c) Factor pricing

(d) National saving and investment

[CA CPT May 2007]

67. Which of these is a part of micro economics?

(a) Factor pricing

(b) National Income

(c) Balance of payment

(d) None of the above

[CA CPT June 2011]

68. Which of the issue is not considered by micro economics?

(a) Production and cost analysis

(b) Demand analysis and forecasting

(c) Accounting standards

(d) Resource allocation Scope of Micro economics

[Dec. 2021]

69. Micro economics is also known as _____.

(a) Public economics

(b) Price theory

(c) Income theory

(d) Demand theory

[CA CPT June 2010]

70. Micro Economics is concerned with:

(a) Consumer Behaviour

(b) Product pricing

(c) Factor Pricing

(d) All of the above

[CA CPT Dec. 2010]

71. Macro-economic is also called _____ economics.

(a) Applied

(b) Aggregate

(c) Micro

(d) Experimental

[Jan. 2021]

72. Macro Economics is also called _____ economics.

(a) Applied

(b) Aggregate

(c) Experimental

(d) None of the above

73. Study of the behaviour of different individuals and organizations within an economic system is called?

(a) Industrial Economics

(b) Macro Economics

(c) Micro Economics

(d) Welfare Economics

[July 2021]

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

(a) Determining the GNP of India.

(b) Finding the causes of failure of ABC Ltd.

(c) Identifying the causes of inflation in India.

(d) Analyse the causes of failure of industry in providing large scale employment

75. Macro Economics is the study of _____.

(a) All aspects of scarcity.

(b) The national economy and the global economy as a whole.

(c) Big businesses.

(d) The decisions of individual businesses and people.

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

(a) Macro-Economics

(b) Descriptive Economics

(c) Micro-economics

(d) Normative economics

77. Which of these is an example of macro economics:

(a) Problem of unemployment in India

(b) Rising price level in the country

(c) Increase in disparities of income

(d) All of the above

[CA CPT June 2011]

78. Analysis of impact of Covid-19 on the Indian economy is a subject matter of _____.

(a) Macro economics

(b) Micro economics

(c) Economics of slicing

(d) Normative economics

79. Macro economics include

(a) Product pricing

(b) Consumer behaviour

(c) External value of money

(d) Location of industry

[CA CPT May 2019]

80. Which of the following is not a subject matter of Micro-economies?

(a) The price of mangoes.

(b) The cost of producing a fire truck for the fire department of Delhi, India.

(c) The quantity of mangoes produced for the mangoes market.

(d) The national economy's annual rate of growth.

81. Which of the following statements is correct?

(a) Micro economics is important for study of a particular household and a particular firm

(b) Macro economics is important for study of economic conditions of a country

(c) None of the above

(d) Both (a) and (b)

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

(a) Micro economics

(b) Macro economics

(c) None of the above

(d) Both (a) and (b)

83. Which of the following would be considered a topic of study in Macro economics?

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

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

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

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

84. Which of the following is not a study of Macro-economics?

(a) Consumer behaviour

(b) National Income

(c) General price level

(d) Level of employment

[July 2021]

85. Which of the following is a part of the subject matter of macro economics?

(a) Study of firms

(b) Aggregate profits of a firm

(c) Market demand for a product

(d) Net national product

[CA CPT Dec. 2012]

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

(a) Macro-Economics

(b) Descriptive Economics

(c) Micro-economics

(d) Normative Economics

[Nov. 2019]

87. The Macro Economics does not cover the area of

(a) General price level and interest rates

(b) Level of employment and rate of economic growth

(c) Balance of trade & Balance of payments

(d) Product Pricing

88. Normative science suggests which of the following?

(a) What should be

(b) What to produce

(c) How to produce

(d) When to produce

[June 2022]

89. Shyam : This year due to heavy rainfall my option crop was damaged

Krishna: Climates affects crop yields. Some years are bad, other are good

Hari: Don't worry - Price increase will compensate for the fall in quantity supplied

Radhe: The Government ought to guarantee that our income will not fall. In this conversation, the normative statement is made by

(a) Shyam

(b) Krishna

(c) Hari

(d) Radhe

[CA CPT May 2019]

90. Which of the following statements is incorrect about Macro Economics?

(a) Macro-Economics is the branch of Economics that deals with the study of the behaviour and performance of the economy in total.

(b) Macro-Economics studies the particular market segment of the economy.

(c) Macro-Economics deals with various issued like national income, distribution, employment, general price level, money and more.

(d) It is applied to environmental and external issues.

[Dec. 2021]

91. Which one of the area comes under macro-economics?

(a) Product pricing

(b) Consumer behaviour

(c) The general price level and interest rates

(d) Economics conditions of a Section of people

[Jan. 2021]

Nature of Business Economics

92. Business Economics enables application of economic logic and analytical tools to

(a) Bridge the gap between theory and practice.

(b) Increase the implementation science.

(c) Increase the effectiveness.

(d) Apply tools of macro economics.

93. Business Economics relies heavily on the techniques of _____.

(a) Micro Economics

(b) Macro Economics

(c) Normative Science only

(d) Economics discipline only

94. Which one of the following is not the scope of business economics?

(a) Cost standards
(b) Cost analysis
(c) Demand analysis
(d) Inventory management

[July 2021]

95. Business Economic is pragmatic in approach because of which of the following cause?

(a) Based on assumptions
(b) Tackles practical problems
(c) Considers profit only
(d) Considers internal value

[June 2022]

96. Which of the following is a normative statement?

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

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

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

98. Which of the following is not a correct statement?

(a) Business Economics is a normative science.
(b) Business Economics is an art
(c) Business Economics is based largely on Micro Economics
(d) Business Economics does not incorporate elements of Macro Economics

[June 2023]

99. Which of the following is not a correct statement?

(a) Business economics is a normative science
(b) Business economics is an art
(c) Business economics is based largely on micro economics
(d) Business economics does not incorporate elements of macro economic analysis

[June 2022]

100. Business Economics is _____ in its approach as it tackles practical problems which the firm faces in the real world,

(a) Scientific
(b) Programmatic
(c) Theoretical
(d) Mathematical

101. The difference between positive and normative Economics is:

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

102. Normative aspect of Economics is given by:

(a) Marshall
(b) Robbins
(c) Adam Smith
(d) Samuelson

[CA CPT Dec. 2008]

103. Normative Economics is based on:

(a) Ethical Considerations
(b) Facts and Generalization
(c) What is?
(d) All of the above

[CA CPT June 2012]

104. Deductive and Inductive methods are complimentary to each other. It is:

(a) Absolutely correct
(b) Absolutely incorrect
(c) Partially incorrect
(d) None of the above

[CA CPT June 2013]

105. In inductive method, logic proceeds from:

(a) General to Particular
(b) Particular to General
(c) Both (a) and (b)
(d) None of these

[CA CPT June 2012]

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

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

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

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

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

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

In this conversation, the normative statement is made by

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

108. Positive Science only explains _____

(a) What is?
(b) What ought to be?
(c) What is right or wrong?
(d) None of the above

[Nov. 2020]

109. Positive science only explains

(a) What is?

(b) What ought to be?

(c) What is right or wrong

(d) None of the above

[CA CPT Dec. 2013]

110. Under Inductive method logic proceeds from:

(a) General to particular

(b) Positive to normative

(c) Normative to positive

(d) Particular to general

[CA CPT Dec. 2014]

111. _____ economics explain economics phenomenon according to their causes and effects

(a) positive

(b) Normative

(c) Empirical

(d) Applied

[Nov. 2020]

112. _____ analyses causes and effect relationship between variables in an objective and scientific manner.

(a) Positive Science

(b) Normative Science

(c) Negative Science

(d) Analytical Science

113. Business Economics is generally _____ in nature.

(a) Normative

(b) Prescriptive

(c) Normative or Prescriptive

(d) Theoretical

114. Which of the following statements is incorrect?

(a) Business economics is normative in nature.

(b) Business Economics has a close connection with statistics.

(c) Business Economist need not worry about macro variables.

(d) Business Economics is also called Managerial Economics.

115. Under Inductive method, the logic proceeds from:

(a) General to particulars

(b) Particular to general

(c) Both (a) and (b)

(d) None

[CA CPT Nov. 2007]

116. Rama : My corn harvest this year is poor.

Manoj : Don't worry. Price increase will compensate for this fall in quantity supplied.

Meera : Climate affects crop yield. Some years are bad, others are good.

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

In this conversation, the normative statement is made by:

(a) Rama

(b) Manoj

(c) Meera

(d) Bharti

[Jan. 2021]

117. Who gave the positive aspect of science?

(a) Alfred Marshall

(b) A.C. Pigou

(c) Adam Smith

(d) Robbins

[CA CPT June 2011]

118. Although business economics combines the essentials of normative and positive economic theory but the emphasis is on :

(a) Positive

(b) Normative

(c) Both Positive and Normative

(d) Neither Positive nor Normative

119. Business Economics is

(a) Normative in nature

(b) Interdisciplinary in nature

(c) Both

(d) None

[CA CPT May 2019]

120. Find out the correct statement

(a) Higher the prices, lower the quality demanded of a product are a normative statement

(b) Micro and macro-economics are interdependent

(c) In a capitalist economy, the economic problems are solved by planning commission

(d) In deductive method logic proceeds from particular to the general

[CA CPT Dec. 2015]

121. "Economics is neutral between ends". The statement is given by:

(a) L. Robbins

(b) Mrs. Joan

(c) Alfred Marshall

(d) A.C. Pigou

[CA CPT June 2013]

122. Economics which is concerned with welfare propositions is called

(a) Socialistic economics

(b) Capitalistic economics

(c) Positive economics

(d) Normative economics

[CA CPT Dec. 2013]

123. The Business Economics incorporates tools from other disciplines such as Mathematics, operations Research, Management theory, Accounting, etc. Therefore, Business Economics is _____.

(a) Intra-disciplinary

(b) Inter-disciplinary

(c) Multi-disciplinary

(d) Flexi-disciplinary

124. Under inductive method logic proceeds from:

(a) General to particular

(b) Positive to narrative

(c) Normative to positive

(d) Particular to general

[CA CPT May 2018]

125. Business Economics involves the elements of

(a) Micro Environment

(b) Macro Environment

(c) Both (a) and (b)

(d) None of the above

[CA CPT Nov. 2018]

126. In which of the following methods conclusions are drawn on the basis of collection and analysis of facts?

(a) Deductive method

(b) Scientific method

(c) Inductive method
(d) Experimental method

[CA CPT June 2017]

127. Business economy involves theory of Business economics with _____.

(a) Normative Economics
(b) Business practices
(c) Micro Economics
(d) Macro Economics

[CA CPT Nov. 2018]

Scope of Business Economics

128. The operational or interval issues to which economic theories can be directly applied are related with.

(a) Micro Economics
(b) Macro Economics
(c) Business Economics
(d) Environmental Economics

129. The scope of business Economics encompasses all of the following except _____

(a) Accounting Standards
(b) Resource Allocation
(c) Inventory Management
(d) Profit Analysis

[Dec. 2021]

130. Business Economics is essentially a component of Applied Economics as it includes application of selected quantitative techniques. Which technique is not included in it?

(a) Regression analysis
(b) Capital budgeting
(c) Economic analysis
(d) Linear programming

[July 2021]

131. Which factor is included in business Economics?

(a) Business Economics is an art
(b) Inter-disciplinary in nature
(c) Normative in nature
(d) All of the above

[CA CPT Nov. 2018]

132. Business economics is pragmatic in its approach because?

(a) It tackles practical problem which the firm faces in real world.
(b) It tackles practical problem which the firm faces due to WTO policies
(c) It tackles practical problem which the firm faces due to lack of directors.
(d) Business economics is abstracts and purely theoretical.

[July 2021]

133. Which of the below enables application of economic logic and analytical tools to bridge the gap between theory and practice?

(a) Macro economics
(b) Micro economics
(c) Business economics
(d) Traditional economics

[June 2023]

134. Applied economics includes

(a) Regression analysis and mathematical linear programming
(b) Capital budgeting
(c) Both (a) and (b)
(d) None

[CA CPT May 2019]

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

(a) Capital Budgeting
(b) Risk Analysis

(c) Business Cycles
(d) Accounting Standards

136. _____ explains the relationship between inputs and output.

(a) Production Theory
(b) Demand Analysis
(c) Inventory Management
(d) None of the above

137. Business Economics with the help of advanced tools like _____ _____ enables the firm to arrive at the best course of action for optimum utilisation of available resources.

(a) Accounting
(b) Finance
(c) Linear Programming
(d) Marketing Mix

138. The nature of business economics is

(a) Positive in nature
(b) Pure science
(c) Pragmatic
(d) Independent

[Nov. 2020]

139. Business Economists use method(s) _____ to maintain optimum stock of inventories.

(a) ABC Analysis
(b) Simple simulation exercises
(c) Mathematical models
(d) All of the above

140. Which of the following Macro-Economic Factor is considered in Business Economics?

(a) Business Cycles
(b) Employment, Prices
(c) Saving & investment
(d) All of the above

Difference between Economics and Business Economics

141. Which of the following involves the application of economic principles to solve economic problems?

(a) Macro Economics
(b) Economics
(c) Business Economics
(d) Practical Economics

142. What is the character of Economics?

(a) Micro-economics
(b) Macro-economics
(c) Micro as well as Macro Economic
(d) Positive Economics

143. What is the character of Business Economics?

(a) Micro-economics
(b) Macro-economics
(c) Micro as well as Macro Economic
(d) Positive Economics

144. What is the nature of Economics?

(a) Positive
(b) Negative
(c) Normative
(d) Positive as well as Normative

145. What is the nature of Business Economics?

(a) Positive
(b) Negative

(c) Normative

(d) Positive as well as Normative

146. Business Economics concentrates on_____ aspects of any business problem.

(a) Economic

(b) Non-Economic

(c) Both Economic as well as Non-Economic

(d) Macro Economic

147. Business Economics makes use of micro-economic analysis. Which of the following is NOT a part of such analysis?

(a) Demand analysis and forecasting

(b) Production and Cost Analysis.

(c) Theory of Capital and Investment decisions.

(d) National Income

148. Which of the following is NOT a part of Macro Economics?

(a) Business Cycles

(b) National Income

(c) Saving and Investment

(d) Demand Analysis and Forecasting

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

(a) Scarcity of resources

(b) Choice

(c) Distribution.

(d) None of the above

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

(a) Business economics attempts to indicate how business policies are firmly rooted to economic principles.

(b) Business economics uses micro economic analysis of the business unit and macro economic analysis of business environment.

(c) Business economics takes a pragmatic approach towards facilitating an integration between economic theory and business practices.

(d) All of the above

UNIT 2 : BASIC PROBLEMS OF AN ECONOMY AND ROLE OF PRICE MECHANISM

Basic Problems of an Economy

151. Which of the following statement is false?

(a) The Resources are limited.

(b) The Resources have alternative uses.

(c) If resources are unlimited, people would be able to satisfy all their wants.

(d) The economics problem arises because resource has only a single use.

152. The central economic problem of an economy arises due to _____

(a) Scarcity of resources relative to the wants

(b) Co-existences of private and public sector

(c) Govt. interference in economic activities

(d) Federal structure of Constitution

[July 2021]

153. The basic problem of scarcity give rise to:

(a) Technological problems

(b) Social problems

(c) Cultural problems

(d) Economic problems

154. Which of the following economic system has to deal with the control problem of scarcity of resources?

(a) Capitalist

(b) Socialist

(c) Mixed

(d) All of the above

155. In economics, the central economic problem means:

(a) Output is restricted to the limited availability of resources.

(b) Consumer do not have as much money as they would wish

(c) There will always be certain level of unemployment

(d) Resources are not always allocated in an optimum way

156. Which of the following is the central problem of economy?

(a) Scarcity of resources

(b) Unemployment

(c) Poverty

(d) Inflation

[June 2023]

157. Which of the following is the central problem of the economy?

(a) Unemployment

(b) Poverty

(c) Scarcity of resources

(d) Inflation

[June 2022]

158. The Central problem in every economic society is:

(a) To ensure a minimum level of income for every individual.

(b) To allocate scarce resources in such a manner that societies unlimited wants are satisfied in the best possible manner.

(c) To ensure that production occurs in the most efficient manner.

(d) To provide job to every job seeker.

[CA CPT June 2017]

159. A developed economy uses _____ technique in production.

(a) Labour intensive.

(b) Capital intensive

(c) Home-based

(d) Traditional

[CA CPT June 2010]

160. The 'Central Economics Problem' does not deal with which of the following economic problems?

(a) What to produce?

(b) How to produce?

(c) For whom to produce?

(d) Where to produce?

[July 2021]

161. The central problem in economics is that of

(a) Comparing the success of command versus market economies.

(b) Guaranteeing that production occurs in the most efficient manner.

(c) Guaranteeing a minimum level of income for every citizen.

(d) Allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.

162. Which of the following refers to the sum total of arrangements for the product and distribution of goods and services in society?

(a) Economic System
(b) Business System
(c) Capitalist Economic System
(d) Socialist Economic System

[June 2023]

163. Capital intensive technique would get chosen in a

(a) Labour surplus economy where the relative price of capital is lower.
(b) Capital surplus economy where the relative price of capital is lower.
(c) Developed economy where technology is better.
(d) Developing economy where technology is poor.

164. Which of the following is not a part of central economic Problem?

(a) What to Produce?
(b) How to Produce?
(c) For whom to Produce?
(d) Price fixation of Production.

165. _____ refers to the sum total of arrangements for the production and distribution of goods and services in a Society.

(a) Economic System
(b) Social System
(c) Business system
(d) Comprehensive System

166. Economic Problem arises when:

(a) Wants are unlimited
(b) Resources are limited
(c) Alternative uses of resources
(d) All of the above

[CA CPT Dec. 2009]

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

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

168. The classification of economies into Capitalist, Socialist and Mixed is based on their:

(a) Mode of Production, exchange and distribution
(b) Government's role in economic activity.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

169. The choice between labour and Capital intensive techniques is related with.

(a) What to Produce?
(b) How to Produce?
(c) For whom to Produce?
(d) All of the above

Capitalist Economy

170. Which one of the following is not an example of capitalist economy?

(a) Japan
(b) Mexico
(c) Germany
(d) Cuba

171. The capitalist Economy uses _____ as principle means of allocation of resources -

(a) Price
(b) Demand
(c) Supply
(d) None of the above

[Nov. 2019]

172. Freedom of choice is the advantage of _____.

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

[CA CPT May 2019]

173. A capitalist economy consists of

(a) Central planning authority
(b) A mechanism to decide as what, how and for whom to produce
(c) Both (a) and (b)
(d) None of the above

[CA CPT May 2019]

174. Capitalist system offer incentives for:

(a) Efficient business decisions
(b) Efficient government decisions
(c) Efficient non-government decisions
(d) Efficient economic decisions

175. In capitalistic economy _____ and _____ will be more

(a) Equalities, non-exploitation
(b) Inequalities, exploitation
(c) Exploitation, equalities
(d) Non-exploitation, inequalities

[Nov. 2020]

176. 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.

177. An economy is called capitalist economy, when _____ is given.

(a) Right to private property
(b) Freedom of Government interference
(c) Freedom of business choices
(d) Discrimination

[Jan. 2021]

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

(a) Demand
(b) Supply
(c) Efficiency
(d) Prices

179. An economic system in which all means of production are owned and controlled by private individuals for profit is called as?

(a) Free economy
(b) Capitalist economy
(c) Normative economy
(d) Socialist economy

[June 2023]

180. Laissez-Faire economy is also known as :

(a) Capitalist economy
(b) Socialist economy
(c) Mixed economy
(d) Communist economy

[Jan. 2021]

181. Capitalist system offer incentives for _____

(a) Efficient business decisions
(b) Efficient government decisions
(c) Efficient non-government decisions
(d) Efficient economic decisions

[Jan. 2021]

182. One of the demerits of capitalism is that it leads to formation of _____

(a) Duopoly
(b) Oligopoly
(c) Monopoly
(d) Perfect Competition

[Dec. 2021]

183. Price Mechanism is the main feature of which economy

(a) Capitalistic Economy
(b) Mixed Economy
(c) Socialist Economy
(d) All of the above

[CA CPT Nov. 2018]

184. Profit motive is a merit of

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

185. Which out of these are the feature of capitalism?

(i) Profit motive
(ii) Human welfare
(iii) Work through price mechanism

(a) (i) and (ii)
(b) (ii) and (iii)
(c) (i) and (iii)
(d) All of these

[CA CPT Nov. 2018]

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

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

187. Capitalist economy solve their economic problems through which of the following?

(a) Central Planning Authority
(b) Price mechanism
(c) Administered Prices
(d) Voting done by customers

[June 2023]

188. _____ is an economic system in which all means of production are owned and controlled by private individuals for profit.

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

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

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

190. Exploitation and inequality will be more in _____

(a) Socialism
(b) Capitalism
(c) Mixed
(d) All of the above

[CA CPT May 2019]

191. _____ means that buyers ultimately determine which goods and services will be produced and in what quantities.

(a) Capitalist Economic
(b) Socialist Economy
(c) Mixed Economy
(d) Consumer Sovereignty

192. Consumers' sovereignty is a typical feature of _____.

(a) Command economy
(b) Socialistic economy
(c) Mixed economy
(d) Capitalist economy

193. In which type of economy do consumers and producers make their choices based on the market forces of demand and supply?

(a) Open Economy
(b) Controlled Economy
(c) Command Economy
(d) Market Economy

[CA CPT Feb. 2007]

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

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

195. In a free market economy, when consumers increase their purchase of a goods and the level of _____ exceeds _____ then prices tend to rise:

(a) Demand, supply
(b) Supply, demand
(c) Prices, demand
(d) Profits, supply

[CA CPT Aug. 2007]

196. Capitalistic Economy uses _____ as principal means of allocating resources.

(a) Demand
(b) Supply
(c) Price
(d) All of the above

[CA CPT Nov. 2006]

197. In a capitalist economy, allocation of resources is done by:

(a) Producers
(b) Government
(c) Planners
(d) Price mechanism

[CA CPT June 2012]

198. A Free Market economy solves its Central Problems through _____.

(a) Planning authority
(b) Market mechanism
(c) Both
(d) None

[CA CPT Dec. 2008]

199. Capitalistic economy uses _____ as principal means of allocating resources

(a) Demand
(b) Supply

(c) Price
(d) All of the above

[Nov. 2019]

200. A capitalist economy is by and large _____.

(a) A closed economy
(b) A free market economy
(c) A centrally controlled economy
(d) An economy in which a government neither collects any taxes nor incurs any expenditure.

[CA CPT Dec. 2012]

201. Which one is not the characteristic of capitalistic economy?

(a) Profit motive
(b) Income inequality
(c) Free employment
(d) Collective ownership

[CA CPT June 2009]

202. Consumer sovereignty is found in which economy?

(a) Capitalist Economy
(b) Socialist Economy
(c) Mixed Economy
(d) Communist Economy

[Nov. 2019]

203. Capitalistic Economy uses _____ as principal means of allocating resources.

(a) Demand
(b) Supply
(c) Price
(d) All of the above

[CA CPT Dec. 2009]

204. Which one of the following is not true about capitalist economy?

(a) There is freedom of economic choice.
(b) Profit motive is the driving force.
(c) It is also called as free market economy or laissez- Faire economy.
(d) Producer is the king under capitalism

205. The merits of Capitalist economy do not include:

(a) Faster process of economic growth
(b) Efficient economic decisions and their implementation
(c) Incentives for innovation and technological progress
(d) Welfare of labour

206. A free market economy's driving force is:

(a) Profit motive
(b) Welfare of the people
(c) Rising income and levels of living
(d) None of the above.

[CA CPT June 2013]

207. Capitalist or Laissez faire economy has which of the following characteristics?

(a) Relatively equal income distribution
(b) Competition
(c) Price mechanism
(d) Collective ownership

[Dec. 2021]

208. An economic system in which all means of production are owned and controlled by private individuals for profit is called:

(a) Mixed Economy
(b) Socialist Economy
(c) Capitalist Economy
(d) Developed Economy

[CA CPT Dec. 2016]

209. Where does price mechanism exists?

(a) Capitalist Economy
(b) Socialist Economy
(c) Both type of economies
(d) None of the above.

[CA CPT Dec. 2013]

210. In which among the following systems the 'right to property' exists

(a) Mixed economy
(b) Capitalist economy
(c) Socialist economy
(d) Traditional economy

[CA CPT Dec. 2013]

211. A system of economy in which all the means of production are owned and controlled by the private individuals for the purpose of profit, is called:

(a) Socialist Economy
(b) Capitalist Economy
(c) Mixed Economy
(d) All of the above

[CA CPT June 2013]

212. Capitalistic Economy user _____ as principal means of allocating resources:

(a) Demand
(b) Supply
(c) Price
(d) All of the above

[CA CPT May 2018]

213. Factors of production are owned by _____ in market economies.

(a) Govt.
(b) Investors
(c) Privately
(d) None

[Nov. 2019]

214. Which of the following is not demerit of Capitalism?

(a) Precedence of property rights over human rights.
(b) Misallocation of resources.
(c) Punishment for inefficient & imprudent men.
(d) Environmental degradation due to excessive materialism.

215. Freedom of choice is the advantage of

(a) Socialism
(b) Capitalism
(c) Mixed Economy
(d) Communism

[CA CPT Dec. 2016]

216. Under a free economy, prices are:

(a) Regulated
(b) Determined through free interplay of demand and supply
(c) Partly regulated
(d) None of these

[CA CPT May 2007]

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

(a) Firms decide whom to hire and what to produce.
(b) Firms aim at maximizing profits.

(c) Households decide which firms to work for and what to buy with their incomes.

(d) Government policies are the primary forces that guide the decisions of firms and households.

218. Economic system is self-regulating and run by invisible hands.

(a) Mixed

(b) Socialistic

(c) Capitalistic

(d) Planned

219. Which of the following is not a feature of a capitalist economy?

(a) Right to private property

(b) Restrictions on consumers Right to choose

(c) Profit motive

(d) Freedom of enterprise

[CA CPT June 2014]

220. Freedom of choice is the advantage of

(a) Socialism

(b) Capitalism

(c) Communism

(d) None of the above

221. A Capitalist Economy follows the policy of:-

(a) Laissez faire

(b) Regulated markets

(c) Promoting public sector

(d) None of the above

[CA CPT Dec. 2012]

222. In a capitalist economy the allocation of resources is performed by:

(a) Producers

(b) Government

(c) Planners

(d) Price mechanism

[CA CPT Dec. 2011]

223. Which of the following statement does not apply to a market economy?

(a) Firms decide whom to hire and what to product

(b) Firms at maximizing profits

(c) Households decide which firms to work for and what to buy with their incomes

(d) Government policies are the primary forces that guide the decisions of firms and households.

[Nov. 2019]

Socialist Economy

224. The Concept of socialist economy was propounded by

(a) Karl Mark

(b) Frederic Engels

(c) Adam Smith

(d) Both (a) & (b)

225. Which of the following is NOT a characteristic of a socialist economy?

(a) Absence of consumer choice

(b) Central planning

(c) Relatively equal income distribution

(d) Competition

226. Socialist economy is _____

(a) Self regulation

(b) Profit Oriented

(c) Command economy

(d) Allocation of resources as per market requirements

[CA CPT May 2019]

227. Under which of the following economy the consumer has limited freedom of choice?

(a) Social

(b) Mixed

(c) Capital

(d) Restricted

[June 2023]

228. The concept of socialist economy was propounded by _____

(a) Alfred Marshall

(b) Joel dean

(c) Albert Einstein

(d) Karl Marx and Fredric Engles

[Dec. 2021]

229. Exploitation and inequality are minimal under:

(a) Socialism

(b) Capitalism

(c) Mixed economy

(d) None of the above

230. Socialist Economy was propounded by:

(a) Karl Marx

(b) Samuelson

(c) A.C. Pigou

(d) Adam Smith

[CA CPT May 2018]

231. Socialist economy is also called as

(a) Command Economy

(b) Centrally Planned Economy

(c) Free market Economy

(d) Both (a) & (b)

232. The economic system in which production and distribution of goods are aimed at maximizing the welfare of the community as a whole is known as _____

(a) Capitalism

(b) Socialism

(c) Mixed economy

(d) Communist Economy

[July 2021]

233. Which of the following statements is not correct?

(a) Scarcity of resources is the key problem of all economies

(b) Economic inequalities lead to wide difference in economic opportunities to people

(c) Economic instability is very common under capitalism

(d) Freedom of enterprise is one of the main characteristic of command economy

[June 2022]

234. Although Price mechanism exists in _____, but it has only a secondary role.

(a) Capitalist economy

(b) Socialist economy

(c) Mixed Economy

(d) Price Economy.

235. Inequalities of income do not perpetuate in _____.

(a) Socialism

(b) Mixed economy

(c) Capitalism

(d) None

[CA CPT Dec. 2011]

236. Administered prices refer to:

(a) Prices determined by forces of demand and supply

(b) Prices determined by sellers in the market

(c) Prices determined by an external authority which is usually the government

(d) None of the above

237. Socialism ensures

(a) Rapid growth and balanced development

(b) Right to work

(c) Incentives for efficient economic decisions

(d) Both (a) and (b)

[CA CPT May 2019]

238. A socialistic economy is also called as

(a) Profit oriented economy

(b) Centrally planned economy

(c) self-regulatory economy

(d) Unorganized economy

[Nov. 2020]

239. Which of the following is one of the merits of socialism?

(a) Importance given to personal efficiency

(b) Importance given to productivity

(c) Incentive for economic decisions

(d) Rapid growth and balanced economic development.

[June 2023]

240. In a socialistic economy the allocation of resources is done by

(a) Market prices

(b) Consumer preferences

(c) A central planning authority

(d) The level of corporate profits

[June 2022]

241. _____ involves the predominance of bureaucracy and resulting in inefficiencies and delays.

(a) Socialistic economy

(b) Capitalist economy

(c) Mixed economy

(d) Free market economy

242. The erstwhile U.S.S.R. is an example of _____ economy.

(a) Capitalist

(b) Socialist

(c) Mixed

(d) Price

243. The concept of Socialist economy was propounded by _____

(a) Karl Marx and Adam Smith

(b) Frederic Engels and Adam Smith

(c) Frederic Engels

(d) Karl Marx and Frederic Engels

[July 2021]

244. Which one of the following is Not a feature of socialist economy?

(a) Collective ownership

(b) Absence of consumer choice

(c) Minimum role of Price Mechanism

(d) High Competition

245. Which of the following is an example of Socialist economy?

(a) Erstwhile U.S.S.R.

(b) North Korea

(c) China and Cuba

(d) All of the above

246. A socialist economy is called as which of the following

(a) Command economy

(b) Military economy

(c) Behaviouralist economy

(d) Applied economy

[June 2022]

247. The demerits of Socialism do not include:

(a) Predominance of bureaucracy

(b) Red tapism & favouritism

(c) Corruption

(d) Consumer Sovereignty

248. _____ involves the predominance of bureaucracy and resulting inefficiencies and delays

(a) Socialistic economy

(b) Capitalist economy

(c) Mixed economy

(d) Free market economy

[June 2022]

249. Under _____, the Consumers have no freedom of choice.

(a) Capitalist

(b) Socialist

(c) Mixed

(d) None of the above

250. Socialist Economy is also known as

(a) Mixed Economy

(b) Planned Economy

(c) Capitalist Economy

(d) None of the above

[CA CPT Dec. 2013]

251. Socialist economy is called as _____

(a) Centrally planned economy

(b) Mixed economy

(c) Private economy

(d) Consumer economy

[Dec. 2021]

252. In which economic system production and distribution of goods and services aim at maximizing the welfare of community as a whole

(a) Normative

(b) Mixed

(c) Socialism

(d) Capitalistic economy

[Nov. 2020]

Mixed Economy

253. In which economy market and government both play on important role?

(a) Mixed economy

(b) Socialistic economy

(c) Capitalistic economy

(d) Business economy

[CA CPT Nov. 2018]

254. Important feature of mixed economy is _____

(a) Only Public Sector

(b) Absence of consumer behaviour

(c) Absence of government interferences

(d) Co-existences of both private and public enterprises

[Dec. 2021]

255. Which economic system is described by Schumpeter as capitalism in the oxygen tent?

(a) Laissez-faire Economy

(b) Command Economy

(c) Mixed Economy

(d) Agrarian Economy

[CA CPT May 2018]

256. The Government itself must run important and selected industries and eliminate the free play of profit motive and self-interest. It is applicable in case of _____ economy.

(a) Capitalist
(b) Socialist
(c) Mixed
(d) Price

257. _____ both are the tools used in the Mixed economy.

(a) Price mechanism and market
(b) Central planning and bureaucracy
(c) Price mechanism and central planning
(d) Administered prices and competition

258. Co-existence of public and private sector is the feature of _____

(a) Capitalist Economy
(b) Mixed Economy
(c) Socialist Economy
(d) Federal Economy

[Jan. 2021]

259. The term "Mixed Economy" denotes:

(a) Co-existence of both consumers and producers goods' industries in the economy.
(b) Co-existence of both private and public sectors in the economy.
(c) Co-existence of both rural and urban sectors in the economy.
(d) Co-existence of both large and small industries in the economy

[CA CPT June 2014]

260. In which economy, cost benefit analysis is used to answer the fundamental questions of economy

(a) Socialistic economy
(b) Capitalistic economy
(c) Regulatory economy
(d) Mixed economy

[Nov. 2020]

261. Mixed economy means

(a) All economic decisions are taken by Central Authority
(b) All economic decisions are taken by private entrepreneurs
(c) Economic decisions are partly taken by the state and partly by private entrepreneurs
(d) None of these

[CA CPT June 2009]

262. Which of the following are the features of a mixed economy?

(a) Planned economy
(b) Dual system of pricing exists
(c) Balance regional development
(d) All of the above

[CA CPT June 2012]

263. In a mixed economy

(a) All economic decisions are taken by the central authority.
(b) All economic decisions are taken by private entrepreneurs,
(c) Economic decisions are partly taken by the state and partly by the private entrepreneurs.
(d) None of the above.

264._____ is also called as command economy

(a) Socialist
(b) Capitalist

(c) Mixed economy
(d) None of the above

265. In a mixed economy, there are _____ sectors of industries.

(a) Two
(b) Three
(c) Four
(d) Five

[Jan. 2021]

266. Which of the following statement is correct?

(a) Mixed economy is not always a 'golden path' between capitalistic and socialistic economy
(b) Socialistic economy is not always a 'golden path' between mixed economy and capitalism
(c) Capitalistic economy is not always a 'golden path' between mixed economy and socialism.
(d) Local economy is not always a 'golden path' between internal and international economy

[June 2022]

267. Dual system of pricing exist in:

(a) Free market economy
(b) Socialistic economy
(c) Mixed economy
(d) None of the above

[CA CPT June 2012]

268. Which Economic System is described by Schumpeter as 'capitalism in the oxygen tent'?

(a) Laissez-Faire Economy
(b) Command Economy
(c) Mixed Economy
(d) Agrarian Economy

[CA CPT June 2017]

269. The existence of three sectors of industries (Private, Public and Combine sector) is one of the futures of _____.

(a) Capitalist
(b) Socialist
(c) Mixed
(d) Price

270. Which of the following statement is correct?

(a) Mixed economy is not always a 'golden path' between capitalism and socialism.
(b) Socialistic economy is not always a 'golden path' between mixed and capitalism.
(c) Capitalistic economy is not always a 'golden path' between mixed and socialism.
(d) Mixed economy is always a 'golden path' between capitalism and socialism.

[July 2021]

271. Mixed economy means:

(a) Co-existence of both private and public sector
(b) Co-existence of poor and rich people
(c) Both (a) and (b)
(d) None

[CA CPT June 2011]

272. Which of the following economic system is self regulating and run by in available hands?

(a) Mixed economic system
(b) Socialistic economic system
(c) Capitalist economic system
(d) Planned economic system

[June 2022]

273. Mixed economy means:

(a) Co-existence of small and large industries

(b) Promoting both agriculture and industries in the economy

(c) Co-existence of rich and poor

(d) Co-existence of public and private sectors

[CA CPT June 2008]

274. _____ is a sector in which both the government and the private enterprises have equal access and join hands to produce commodities and services, leading to the establishment of joint sector.

(a) Private Sector

(b) Public Sector

(c) Combined sector

(d) Price

275. Indian economy is example of:

(a) Mixed economy

(b) Socialist economy

(c) Capitalist economy

(d) Unregulated economy

276. Encourage enterprise & risk taking is considered as a merit of which of the following economy?

(a) Social economy

(b) Political

(c) Mixed

(d) Managerial economy

[June 2023]

277. In India Mixed Economy exists due to:

(a) Co-existence of public sector and private sector.

(b) Individual forces of demand and supply.

(c) Orders by government.

(d) None of these.

[CA CPT May 2018]

Miscellaneous

278. Larger production of ____ goods would lead to higher production in future.

(a) Consumer goods

(b) Capital goods

(c) Agricultural goods

(d) Public goods

279. _____ refers to the work area where surplus manpower is employed out of which some individuals have zero or almost zero marginal productivity, such that if they are removed the total level of output remains unchanged.

(a) Voluntary

(b) Disguised

(c) Structural

(d) Technological

[CA CPT May 2019]

280. Which of the following statements is incorrect?

(a) Alfred marshall propagated the wealth definition of Economics

(b) L. Robbins introduces the "Scarcity" definition of Economics

(c) Samuelson emphasized upon the "growth" aspect of Economics

(d) A.C. Pigou believed in "welfare" aspect of Economics

[CA CPT Dec. 2011]

281. Who has defined economics as "Science which deals with wealth"?

(a) Adam Smith

(b) Canon

(c) J.B. Say

(d) A.C. Pigou

[CA CPT June 2014]

282. Who is the author of "The Nature and causes of wealth of Nation"?

(a) Karl Marx

(b) Adam Smith

(c) JB Say

(d) AC Pigou

[CA CPT Dec. 2015]

283. "Features of the book wealth of nations"

(a) It was the first book user on economics.

(b) It was created in 1776.

(c) It was also known as 'wealth of nations'.

(d) All of the above.

[CA CPT May 2018]

Answers

1.	(c)	2.	(d)	3	(a)	4.	(b)	5.	(b)	6.	(c)	7.	(d)
8.	(c)	9.	(b)	10.	(d)	11.	(b)	12.	(c)	13.	(a)	14.	(c)
15.	(c)	16.	(c)	17.	(b)	18.	(b)	19.	(c)	20.	(a)	21.	(c)
22.	(b)	23.	(d)	24.	(a)	25.	(b)	26.	(c)	27.	(d)	28.	(a)
29.	(d)	30.	(c)	31.	(a)	32.	(c)	33.	(a)	34.	(a)	35.	(d)
36.	(d)	37.	(b)	38.	(c)	39.	(d)	40.	(a)	41.	(d)	42.	(a)
43.	(a)	44.	(b)	45.	(a)	46.	(a)	47.	(b)	48.	(c)	49.	(d)
50.	(a)	51.	(b)	52.	(b)	53.	(d)	54.	(a)	55.	(b)	56.	(a)
57.	(a)	58.	(d)	59.	(a)	60.	(d)	61.	(d)	62.	(a)	63.	(a)
64.	(a)	65.	(b)	66.	(c)	67.	(a)	68.	(c)	69.	(b)	70.	(d)
71.	(b)	72.	(b)	73.	(c)	74.	(b)	75.	(b)	76.	(a)	77.	(d)
78.	(a)	79.	(c)	80.	(d)	81.	(d)	82.	(a)	83.	(c)	84.	(a)
85.	(d)	86.	(a)	87.	(d)	88.	(a)	89.	(d)	90.	(b)	91.	(c)
92.	(a)	93.	(a)	94.	(a)	95.	(b)	96.	(d)	97.	(a)	98.	(d)
99.	(d)	100.	(b)	101.	(b)	102.	(a)	103.	(a)	104.	(a)	105.	(b)
106.	(c)	107.	(d)	108.	(a)	109.	(a)	110.	(d)	111.	(a)	112.	(a)
113.	(c)	114.	(c)	115.	(b)	116.	(d)	117.	(d)	118.	(b)	119.	(a)
120.	(b)	121.	(a)	122.	(d)	123.	(b)	124.	(d)	125.	(c)	126.	(c)
127.	(b)	128.	(a)	129.	(a)	130.	(c)	131.	(d)	132.	(a)	133.	(c)
134.	(c)	135.	(d)	136.	(a)	137.	(c)	138.	(c)	139.	(d)	140.	(d)
141.	(c)	142.	(c)	143.	(a)	144.	(d)	145.	(c)	146.	(c)	147.	(d)
148.	(d)	149.	(b)	150.	(d)	151.	(d)	152.	(a)	153.	(d)	154.	(d)
155.	(a)	156.	(a)	157.	(c)	158.	(b)	159.	(b)	160.	(d)	161.	(d)
162.	(a)	163.	(b)	164.	(d)	165.	(a)	166.	(d)	167.	(b)	168.	(c)
169.	(b)	170.	(d)	171.	(a)	172.	(b)	173.	(b)	174.	(d)	175.	(b)

176.	(c)	**177.**	(a)	**178.**	(d)	**179.**	(b)	**180.**	(a)	**181.**	(d)	**182.**	(c)
183.	(a)	**184.**	(b)	**185.**	(c)	**186.**	(c)	**187.**	(b)	**188.**	(a)	**189.**	(a)
190.	(b)	**191.**	(d)	**192.**	(d)	**193.**	(d)	**194.**	(b)	**195.**	(a)	**196.**	(c)
197.	(d)	**198.**	(b)	**199.**	(c)	**200.**	(b)	**201.**	(d)	**202.**	(a)	**203.**	(c)
204.	(d)	**205.**	(d)	**206.**	(a)	**207.**	(b)	**208.**	(c)	**209.**	(a)	**210.**	(b)
211.	(b)	**212.**	(c)	**213.**	(c)	**214.**	(c)	**215.**	(b)	**216.**	(b)	**217.**	(d)
218.	(c)	**219.**	(b)	**220.**	(b)	**221.**	(a)	**222.**	(d)	**223.**	(d)	**224.**	(d)
225.	(d)	**226.**	(c)	**227.**	(a)	**228.**	(d)	**229.**	(a)	**230.**	(a)	**231.**	(d)
232.	(b)	**233.**	(d)	**234.**	(b)	**235.**	(a)	**236.**	(c)	**237.**	(d)	**238.**	(b)
239.	(d)	**240.**	(c)	**241.**	(a)	**242.**	(b)	**243**	(d)	**244.**	(d)	**245.**	(d)
246.	(a)	**247.**	(d)	**248.**	(a)	**249.**	(b)	**250.**	(d)	**251.**	(a)	**252.**	(c)
253.	(a)	**254.**	(d)	**255.**	(c)	**256.**	(c)	**257.**	(c)	**258.**	(b)	**259.**	(b)
260.	(d)	**261.**	(c)	**262.**	(d)	**263.**	(c)	**264.**	(a)	**265.**	(b)	**266.**	(a)
267.	(c)	**268.**	(c)	**269.**	(c)	**270.**	(a)	**271.**	(a)	**272.**	(c)	**273.**	(d)
274.	(c)	**275.**	(a)	**276.**	(c)	**277.**	(a)	**278.**	(b)	**279.**	(b)	**280.**	(a)
281.	(c)	**282.**	(b)	**283.**	(d)								

Hints of selected questions

6. Adam Smith published his masterpiece "An enquiry into the nature and causes of wealth and Nations" in the year 1776.

Ans. : (c)

115. A normative science involves value judgments. It is prescriptive in nature and suggests 'What should be' a particular course of action under given circumstances.

Ans. : (d)

147. National Income is a part of Macro-economics.

Ans. : (d)

148. The Option (d) is a part of Micro economic analysis.

Ans. : (d)

178. Laissez-faire is the policy of allowing private businesses to develop without government control.

Ans. : (a)

264. There are three sectors of industries in mixed economy namely Private Sector, Public Sector and Combined Sector.

Ans. : (b)

2 CHAPTER

THEORY OF DEMAND AND SUPPLY

UNIT 1: LAW OF DEMAND & ELASTICITY OF DEMAND

Meaning of Demand

1. Demand for a commodity refers to:

(a) Desire backed by ability to pay for the commodity.

(b) Need for the commodity and willingness to pay for it.

(c) The quantity demanded of that commodity at a certain price.

(d) The quantity of the commodity demanded at a certain price during any particular period of time.

2. The term 'demand' refers to:

(a) Demand of money

(b) Need for the commodity

(c) Need for services

(d) The quantity of a good or service that buyers are willing and able to purchase at various prices during a given period of time

[Dec. 2021]

3. Demand is the:

(a) The desire for a commodity given its price and those of related commodities.

(b) The entire relationship between the quantity demanded and the price of a good other things remaining the same.

(c) Willingness to pay for a good if income is larger enough.

(d) Ability to pay for a good.

4. The quantity demanded is always expressed _____.

(a) Separately in isolation

(b) Separately with quantity supplied

(c) At a given price

(d) None of these

5. Which of the following statements is correct?

(a) With the help of statistical tools, the demand can be forecasted accurately.

(b) The more the number of substitutes of a commodity, more elastic is the demand.

(c) Demand for butter is perfectly elastic.

(d) Gold jewellery will have negative income elasticity.

[Nov. 2019]

6. The demand for a firm's product when expressed as a percentage

of industry demand it signifies the _____ of the firm

(a) Product share
(b) Market share
(c) Demand
(d) Supply

[June 2022]

7. The quantity demanded is a _____.

(a) Flow
(b) Stock
(c) Single isolated purchase
(d) Concept without reference to time

8. Effective demand depends on.

(a) Price
(b) Cost
(c) Desire
(d) Product

[Jan. 2021]

9. In economics, Effective Demand for a thing depends on :

(a) Desire
(b) Means to purchase
(c) Willingness to use those means for that purchase
(d) All of the above

Determinants of Demand

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

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

11. _____ is not a determinant of demand for commodity.

(a) Price of substitute commodities
(b) Price of complementary goods
(c) Consumer expectations about future price of the commodity
(d) Quantity of stock of the commodity

12. Which is not an important factor that determines demand?

(a) Price of commodity
(b) Disposable income of consumer
(c) Tastes and preferences of buyers
(d) Educational qualification of buyer

[Dec. 2021]

13. Price of goods expresses value.

(a) Exchange
(b) Cost
(c) Demand
(d) Fair

[June 2023]

14. Which of the following will affect the demand for non-durable goods?

(a) Disposable income
(b) Price
(c) Demography
(d) All of the above

[CA CPT May 2019]

15. What is not a determinant of demand?

(a) Consumer's expectations
(b) Consumer's tastes and preferences
(c) Income of the consumers
(d) Prices of unrelated goods.

[Jan. 2021]

16. The term "Ceteris Paribus" refers to _____.

(a) Other things being equal
(b) Other things also change
(c) Other things may change
(d) None of the above

17. Ceteris Paribus, the demand for a commodity is inversely related to its price. This happens because of :

(a) Income Effect
(b) Substitution Effect
(c) Both (a) & (b)
(d) None of above

18. _____ is/are the types of Related Commodities.

(a) Complementary
(b) Substitutes
(c) Complementary and Substitutes
(d) Complementary or Substitutes

19. The increase in demand on account of an increase in real income is known as:

(a) Substitution effect
(b) Income effect
(c) Marginal effect
(d) Demand effect

20. Which one of the following set of Commodities represents Complementary goods?

(a) Tea and Sugar
(b) Automobile and Petrol
(c) Pen and ink
(d) All of the above

21. _____ are those goods which are consumed together or simultaneously.

(a) Complementary
(b) Substitutes
(c) Similar
(d) Unrelated

22. Goods which are inferior, with no close substitutes easily available and which occupy a substantial place in consumer's budget are called _____ goods.

(a) Speculative
(b) Prestige
(c) Conspicuous
(d) Giffen

[July 2021]

23. When two commodities are complementary, a fall in the price of one (other things being equal) will cause the demand for the other to _____.

(a) Fall
(b) Rise
(c) Remain constant
(d) Fall substantially

24. Two Commodities are called _____ when they satisfy the same want and can be used with ease in place of one another.

(a) Substitutes
(b) Complementary
(c) Unrelated
(d) Opposite

25. There is a _____ relation between the demand for a product and the price of its substitutes.

(a) Direct
(b) Positive
(c) Indirect
(d) Both (a) & (b)

26. In case of Veblen goods, the demand curve is

(*a*) Horizontal

(*b*) Vertical

(*c*) Upward sloping to the right

(*d*) Downward sloping to the right

[June 2022]

27. Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This is called as _____.

(*a*) Veblen Effect

(*b*) Snob Effect

(*c*) Helen Effect

(*d*) None of these

[July 2021]

28. Name the term which refers to the demand for consumer goods which is decreased owing be the fact that others are also consuming the same commodity.

(*a*) Hallo effect

(*b*) Snob effect

(*c*) Veblen effect

(*d*) Demonstration effect

29. _____ are the commodities for which the quantity demanded rises only up to a certain level of income and decreases with an increase in money income beyond this level.

(*a*) Inferior Goods

(*b*) Normal Goods

(*c*) Consumption Goods

(*d*) Durable Goods

30. The substitution effect will be what when the price of the product falls?

(*a*) Zero

(*b*) Negative

(*c*) Positive

(*d*) Lower cost

[June 2022]

31. When goods are substitutes, a fall in the price of one (Ceteris Paribus) leads to in the quantity demanded of its substitutes.

(*a*) Rise

(*b*) Fall

(*c*) Constant

(*d*) No effect

32. A group of people decrease or altogether stop consumption of a common to which of the following effect?

(*a*) Bandwagon effect

(*b*) Veblen effect

(*c*) Snob effect

(*d*) Marshall effect

[July 2021]

33. The term demonstration effect was coined by _____

(*a*) Hicks

(*b*) Veblen

(*c*) James Duesen berry

(*d*) Marshall

[Dec. 2021]

34. Which of the following will affect the demand for non-durable goods?

(*a*) Disposable income

(*b*) Price

(*c*) Demography

(*d*) All of the above

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

(*a*) Tea and sugar.

(*b*) Tea and coffee.

(*c*) Pen and ink.

(*d*) Shirt and trousers.

36. When the price of petrol decreases, people reduce the consumption of diesel, then the goods are:

(*a*) Complementary

(*b*) Substitutes

(*c*) Superior

(*d*) Any of the above

[Nov. 2020]

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

(*a*) Coke will decrease.

(*b*) 7-Up will decrease.

(*c*) Coke and 7-UP will increase.

(*d*) Coke and 7-Up will decrease.

38. Which of the following is an incorrect statement?

(*a*) When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes.

(*b*) When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise.

(*c*) As the income of the consumer increases, the demand for the commodity increases always and *vice versa.*

(*d*) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases.

39. 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.

(*b*) The demand for rice will decrease.

(*c*) The demand for rice will be unaffected.

(*d*) None of the above.

40. Conspicuous goods are also known as:

(*a*) Prestige goods.

(*b*) Snob goods.

(*c*) Veblen goods.

(*d*) All of the above.

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

(*a*) Durable good

(*b*) Non-durable good

(*c*) Producer good

(*d*) None of the above

42. A relative price is

(*a*) Price expressed in terms of money.

(*b*) What you get paid for baby-sitting your cousin.

(*c*) The ratio of one money price to another.

(*d*) Equal to a money price.

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

(*a*) Normal goods.

(*b*) Complements.

(c) Substitutes.

(d) Inferior goods.

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

(a) Increase or decrease but the demand curve for chicken will not change.

(b) Increase and the demand curve for fish will shift rightwards.

(c) Not change but there will be a movement along the demand curve for fish.

(d) Decrease and the demand curve for fish will shift leftwards.

45. If the price of X commodity increases and due to that the demand for Y commodity increases, then x and y goods are _____.

(a) Complementary

(b) Substitutes

(c) Normal

(d) Giffen

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

(a) Increase; increase.

(b) Increase; decrease.

(c) Decrease; decrease.

(d) Decrease; increase.

47. Increase in price of pulses leads to increase in demand of green vegetables. The pulses and green vegetables are _____

(a) Substitutes

(b) Complimentary goods

(c) Normal goods

(d) None of the above

[June 2023]

48. "High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods" is:

(a) Veblen effect

(b) Bandwagon effect

(c) Snob effect

(d) Demonstration effect

[CA CPT May 2018]

49. Which of the following is the price at which the quantity demanded of a commodity is equal to the quantity supplied of the commodity and there is no unsold stock or no unsupplied demand.

(a) Selling price

(b) Asking price

(c) Future price

(d) Market clearing price

[July 2021]

50. If the price of Orange Juice increases, the demand for Apple Juice will _____.

(a) Increase

(b) Decrease

(c) Remain the same

(d) Become negative

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

(a) Veblen effect.

(b) Giffen paradox.

(c) Speculative effect

(d) None of the above

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

(a) Consumer's real income increases.

(b) Consumer's real income decreases.

(c) There is no change in the real income of the consumer.

(d) None of the above.

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

(a) Substitute good.

(b) Complementary good.

(c) Conspicuous good.

(d) None of the above.

54. When the price of tea decreases, people reduces the consumption of coffee. Then the goods are

(a) Complementaries

(b) Substitutes

(c) Inferior goods

(d) Normal goods

[CA CPT May 2019]

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

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

(a) Horizontal straight line parallel to the quantity axis

(b) Steeply rising with elasticity less than one

(c) Vertical straight line parallel to Y axis

(d) A perfectly elastic supply curve

Demand Function

56. A Symbolic statement of a relationship between the dependent and the independent variables is called as _____.

(a) Function

(b) Sets

(c) Equation

(d) Variable

57. In a demand function, the demand for a product is the _____.

(a) Independent Variable

(b) Explanatory Variable

(c) Dependent Variable

(d) Complex Variable

58. In a demand function, the determinants of demand like price, money income, tastes & preferences, etc. may be regarded as

(a) Dependent Variables

(b) Independent Variables

(c) Related Variables

(d) Complex Variables

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

(a) A fall in the price of a substitute with the price of the good unchanged

(b) A fall in the nominal income of the consumer and a fall in the price of the normal good

(c) A fall in the price of a complementary good with the price of the normal good unchanged

(d) A fall in the price of the normal good, other things remaining the same

The Law of Demand

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

(a) Income of the consumer and the quantity of a good demanded by him.

(b) Price of a good and the quantity demanded.

(c) Price of a good and the demand for its substitute.

(d) Quantity demanded of a good and the relative prices of its complementary goods.

61. What are exceptions to Law of Demand?

(a) Law of Diminishing Marginal Utility

(b) Substitution effect

(c) Conspicuous goods

(d) Different uses

[Jan. 2021]

62. When Price of a commodity increases what will be the affect on Quantity demanded?

(a) Increases

(b) Decreases

(c) No change

(d) None of these

[CA CPT Nov. 2018]

63. An increase in the demand for computers, other things remaining same, will:

(a) Increase the number of computers bought.

(b) Decrease the price but increase the number of computers bought.

(c) Increase the price of computers.

(d) Increase the price and number of computers bought.

64. In case of Normal goods, Rise in price leads to _____?

(a) Fall in demand

(b) Rise in demand

(c) No Change

(d) Initially rise then ultimately fall

[CA CPT Nov. 2018]

65. A decrease in the demand for cameras, other things remaining the same will.

(a) Increase the number of cameras bought.

(b) Decrease the price but increase the number of cameras bought.

(c) Increase the price of cameras.

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

66. Comforts lies between

(a) Inferior goods and necessaries.

(b) Luxuries and inferior goods.

(c) Necessaries and luxuries.

(d) None of the above.

67. If price of the commodity increases, what will be the effect on Quantity demanded?

(a) Decreases

(b) Increases

(c) No change

(d) Can't say

[CA CPT Nov. 2018]

68. Due to increase in price of coffee, the demand for tea increases. The two commodities under consideration are

(a) Substitute goods

(b) Complementary goods

(c) Unrelated goods

(d) Producers goods

[June 2022]

69. Who has given the law of Demand?

(a) Alfred Marshall

(b) Paul Samuelson

(c) Robbins

(d) J.B. Say

70. A Table which represents the different prices of a good and the corresponding quantity demanded per unit of time is called as _____.

(a) Demand Curve

(b) Demand Table

(c) Demand Schedule

(d) Demand Tabulation

71. The Demand Schedule depicts _____ relationship between price and quantity demanded.

(a) Direct

(b) Inverse

(c) Adverse

(d) None of these

72. _____ is a graphical presentation of the _____.

(a) Demand Curve, Demand Schedule

(b) Demand Schedule, Demand Curve

(c) Demand Curve, Supply Schedule

(d) Supply Curve, Demand Schedule

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

(a) The preference of the individual.

(b) His monetary income.

(c) Price of the commodity.

(d) Price of related goods.

74. The demand curve has a _____ Slope.

(a) Positive

(b) Negative

(c) Circular

(d) No

75. The demand for petrol decreases due to increase in its price, it is termed as

(a) A decrease in demand

(b) A change in demand

(c) A contraction in demand

(d) An increase in demand

[June 2022]

76. The _____ sloping Demand Curve is in accordance with the law of demand which describes an _____ price demand relationship.

(a) Upward, inverse

(b) Downward, Inverse

(c) Upward, direct

(d) Download, direct

77. The sum of individual demands for a product at a price per unit of time is called as _____.

(a) Firm's Demand

(b) Market Demand

(c) Goods available in market
(d) Goods to be sold in market

78. The table which represents the sum of various quantities demanded by different consumers in the market is called as _____.

(a) Demand Schedule
(b) Individual Demand Schedule
(c) Market Demand Schedule
(d) Market Demand Curve.

79. The market Demand Schedule indicates _____ relationship between price and quantity demanded of a commodity.

(a) Direct
(b) Inverse
(c) Circular
(d) No

80. If we plot the market demand schedule on a graph, we get _____.

(a) Demand Chart
(b) Market Demand Chart
(c) Demand Curve
(d) Market Demand Curve

81. The lateral summation of individual demand Curves is regarded as _____.

(a) Economy Demand Curve
(b) Market Demand Curve
(c) Product Demand Curve
(d) Marginal Demand Curve

82. According to _____, the consumer has diminishing utility for each additional unit of a commodity and therefore, he will be willing to pay only less for each additional unit.

(a) Marshall
(b) Robbins
(c) Samuelson
(d) None of these

83. A Consumer maximizes his satisfaction when the Marginal utility of the commodity is _____ its price.

(a) Equal to
(b) Less than
(c) More than
(d) Less than or equal to

84. The operations of diminishing marginal utility and the act of the Consumer to equalize the utility of the commodity with its price result in a _____ demand curve.

(a) Downward Sloping
(b) Upward Sloping
(c) Straight line
(d) Hyperbola upward

85. _____ has/have explained the law of demand in terms of Substitution Effect and Income Effect.

(a) Marshall
(b) Hicks
(c) Allen
(d) Both (b) & (c)

86. As a result of fall in the price of a commodity, consumer's real income or purchasing power increases. This increase in the real income induces him to buy more of that commodity. This is technically termed as:

(a) Price Effect
(b) Substitution Effect
(c) Income Effect
(d) Both (b) & (c)

87. Which one of the following is not the rationale of the law of Demand?

(a) Law of Diminishing Marginal Utility

(b) Price Effect
(c) Arrival of New Customers
(d) Change of Taste & Performances

88. Certain commodities have multiple uses. These different uses of a commodity make the demand curve _____ reacting to changes in price.

(a) Slope downwards
(b) Slope Upwards
(c) Straight Line
(d) Both (a) & (b)

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

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

90. Which of the following is not an exception to the law of demand?

(a) Giffen goods
(b) Speculative goods
(c) Conspicuous goods
(d) White goods

[June 2022]

91. Suppose the demand for automobile decreases due to increase in price of petrol. Both the goods are.

(a) Perishable
(b) Complementary
(c) Substitute
(d) Normal

[July 2021]

92. Which one of the following may be Considered as a rationale of the law of demand?

(a) Price Effect
(b) Giffen Goods
(c) Returns to Scale
(d) None of these

93. Which of the following is not an exception to the law of demand?

(a) Speculative goods
(b) Giffen goods
(c) Necessary goods
(d) Normal goods

[June 2023]

94. Which of the following statements is not correct?

(a) Giffen goods exhibit negative relationship between price and demand
(b) Conspicuous goods exhibit positive relationship between price and demand
(c) Incomplete information and irrational behaviour of consumer is one of the reasons of exception to the law of demand
(d) Law of demand states inverse relationship between price of a commodity and its quantity demanded

[June 2022]

95. In which of the following cases, the law of demand holds true?

(a) Normal Goods
(b) Giffen Goods
(c) Speculative Goods
(d) Necessary Goods

96. Higher the price of diamonds, higher is the prestige value attached to them and hence higher is the demand for them. These goods are called as _____.

(a) Conspicuous goods

(*b*) Giffen goods
(*c*) Normal goods
(*d*) None of these

97. Which one of the following is an exception to the law of demand?

(*a*) Future expectations about prices
(*b*) Demand for necessaries
(*c*) Speculative Goods
(*d*) All of these

98. For what type of goods does demand fall with a rise in income levels of households?

(*a*) Inferior goods
(*b*) Substitutes
(*c*) Luxuries
(*d*) Necessities

[CA CPT May 2018]

99. A situation where after a price decrease, more units are sold causing increase in revenue is called as which of the following?

(*a*) Price effect
(*b*) Quantity effect
(*c*) Income effect
(*d*) Substitution effect

[June 2022]

100. Price effect is described as which of following?

(*a*) Income effect + Veblen effect
(*b*) Substitution effect + Veblen effect
(*c*) Income effect + Substitution effect
(*d*) Veblen effect + Demonstration effect

[June 2023]

101. In case of inferior goods, with rise of income of consumes, demand of goodwill?

(*a*) Increases
(*b*) Decreases
(*c*) No change
(*d*) None of these

[CA CPT Nov. 2018]

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

(*a*) Horizontal.
(*b*) Downward-sloping to the right.
(*c*) Vertical.
(*d*) Upward-sloping to the right.

103. In case _____, there is an inverse relationship between income and demand for a product.

(*a*) Substitute goods
(*b*) Complementary goods
(*c*) Giffen Goods
(*d*) None of the above

[CA CPT May 2019]

104. If the demand of Bajra decreases due to decrease in its price, then Bajra is a:

(*a*) Superior good
(*b*) Inferior good
(*c*) Necessary good
(*d*) Luxury good

[June 2023]

105. An example of a good that exhibit direct price-demand relationship is

(*a*) Giffen goods.
(*b*) Complementary goods.
(*c*) Substitute goods.
(*d*) None of the above.

Expansion & Contraction of DD

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

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

107. When, as a result of increase in price, the quantity demanded decreases, it is called as _____.

(*a*) Expansion of Demand
(*b*) Increase in demand
(*c*) Both (*a*) & (*b*)
(*d*) None of these

108. The change in demand will be regarded as expansion of demand, if the increase in quantity demanded is due to _____.

(*a*) Price of Related Goods
(*b*) Price of goods
(*c*) Change in income
(*d*) Change in Taste & Preferences.

109. Movement along the same demand curve represents

(*a*) Change in demand
(*b*) Change in Quantity demand
(*c*) Increase in demand
(*d*) Decrease in demand

[June 2023]

110. When price of apple is ₹ 120 per kg. Ram buys one kg. of apples at that price. Now it other things remains the same but the price of apples falls to ₹ 90 per kg. Now Ram buys 2 kg. of apples. It is called as

(*a*) Demand schedule
(*b*) Market demand
(*c*) Contraction of demand
(*d*) Expansion of demand

[Nov. 2020]

111. _____ refers to a change along a curve *i.e.* movement from one point to another on the same curve.

(*a*) Expansion/Contraction of Demand
(*b*) Increase/Decrease in Demand
(*c*) Shift of Demand Curve
(*d*) None of these

112. In case of _____ goods, the expansion in demand due to a price fall will take place only if the substitution effect outweighs the income effect

(*a*) Inferior goods
(*b*) Necessaries
(*c*) Giffen goods
(*d*) Luxuries goods

[Dec. 2021]

113. Movement along the demand curve may be due to _____.

(*a*) Expansion of Demand
(*b*) Contraction of Demand
(*c*) Increase/Decrease in Demand
(*d*) Both (*a*) & (*b*)

114. Contraction of demand is the result of:

(*a*) Decrease in the number of consumers.
(*b*) Increase in the price of the good concerned.
(*c*) Increase in the prices of other goods.
(*d*) Decrease in the income of purchasers.

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

(*a*) An increase in demand.
(*b*) A decrease in demand.

(c) A change in quantity demanded.
(d) A change in demand.

Increase & Decrease in DD

116. _____ the demand curve indicates that there is a change in demand at each possible price because one or more other factors, such as income, tastes or the price of some other goods, etc. have changed.

(a) A Shift of
(b) A movement along
(c) No movement in
(d) None of these

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

(a) The demand for roller-coaster rides will rise and the demand curve will shift to right
(b) The demand for roller-coaster ride cannot be predicted as it depends on the tastes of consumers for the ride
(c) There will be an expansion in the demand for roller coaster drive as it complementary
(d) None of the above

118. When more quantities are demanded at the same price due to reasons other than price of the commodity, there will be _____ in the demand Curve:

(a) Rightward shift
(b) Leftward shift
(c) No shift
(d) Any of (a) & (b)

119. Leftward shift of demand curve of coffee represents

(a) Decrease in demand
(b) Increase in demand
(c) Contraction
(d) Expansion

[June 2023]

120. An Increase in demand can result from:

(a) A decline in the market price
(b) An increase in income
(c) A reduction in the price of substitutes
(d) An increase in the price of complements

[CA CPT May 2018]

121. By 'Change in demand' represents which of the following?

(a) Movement upward and downwards on the same demand curve
(b) Change in budget line with change income
(c) Shift in the indifference curve
(d) Shift of the demand curve to the right or left

[July 2021]

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

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

123. A leftward shift in the demand curve may be due to :

(a) Fall in income
(b) Fall in the Price of Substitute
(c) Decrease in Population
(d) Any of the above

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

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

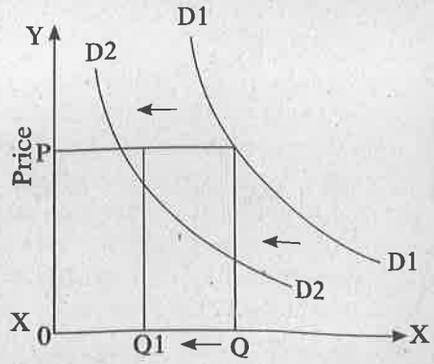
125. The movement upwards or downwards on the same demand curve resulting from a change in the price of the commodity is called as _____.

(a) Change in demand
(b) Change in quantity demanded
(c) Shifting of demand Curve
(d) Increase in demand

126. Which of the following may be a reason behind rightward shift of the demand curve?

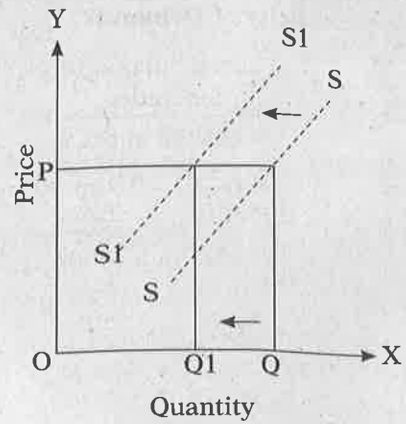
(a) Rise in price of substitute
(b) Fall in price of substitute
(c) Rise of price of same commodity
(d) Fall in price of same commodity

127. The diagram given below shows.



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

128. Which of the following alternatives would be true if the event presented in the following diagram occurs?



(a) A fall in wage costs of the firm along with a fall in consumer incomes

(b) A shortage of raw materials and consequent increases in raw material price

(c) An increase in subsidy by the government and a reduction in taxes

(d) Decrease in the market price of the commodity in question

Price Elasticity of Demand

129. Elasticity of demand is the percentage change in_____ divided by the percentage change in _____ on which demand depends.

(a) Quantity demanded, one of the variables

(b) Quantity demanded, all the valuables

(c) Quantity supplied, all the valuables

(d) Quantity supplied, one of the variables

130. Which of the following is CORRECT for determination of Price Elasticity of Demand?

(a) $E_P = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$

(b) $E_P = \frac{\text{Change in Quantity}}{\text{Original Quantity}} \times \frac{\text{Original Price}}{\text{Change in Price}}$

(c) $E_P = \frac{\Delta q}{\Delta P} \times \frac{P}{q}$

(d) All of the above

131. What is reason behind the fact that Price Elasticity is negative?

(a) Price of commodity always fall

(b) Quantity of commodity always fall

(c) Price and Quantity are inversely related (with few exceptions)

(d) Price and Quantity are positively related

132. The price of a commodity decreases from ₹ 6 per unit to ₹ 4 Per unit and quantity demanded of the goods increased from 10 units to 15 units. The Co-efficient of Price Elasticity will be _____.

(a) 3

(b) 2

(c) 1

(d) 4

133. The demand for the commodity is _____ when a consumer is a habitual consumer.

(a) Relative elasticity

(b) Inelastic

(c) Unit elasticity

(d) Perfectly elastic

[June 2022]

134. Identify the factor which generally keeps the price elasticity of a good law:

(a) Variety of uses for that good

(b) Very low price of a commodity

(c) Close substitutes for that good

(d) High proportion of the consumer's income spent on it

[Jan. 2021]

135. A 5% fall in the price of a good leads to a 15% rise in its demand. The Price Elasticity is_____ and the good in question has _____ demand.

(a) 1/3, Elastic

(b) 3, Elastic

(c) 1/3, Inelastic

(d) 3, Inelastic

136. The quantity demanded by a consumer at price ₹ 9 per unit is 800 units. As price falls by 25%, the quantity demanded rises by 160 units. What is the Price Elasticity of Demand?

(a) 1.3

(b) 1

(c) 0.8

(d) None of these

137. A Consumer buys 80 Units of a good at a price of ₹ 4 per unit. The Price Elasticity of demand is 4. At what price, consumer will buy 60 Units?

(a) ₹ 4 per unit

(b) ₹ 4.25 Per unit

(c) ₹ 4.80 Per unit

(d) None of these

138. The numerical value of elasticity of demand can assume any value between

(a) Zero and -1

(b) Zero and infinity

(c) -1 and +1

(d) Zero and +1

[Dec. 2021]

139. The extent of responsiveness of demand due to changes in any of its determinants is regarded as _____

(a) Price Elasticity of Demand

(b) Income Elasticity of Demand

(c) Cross Elasticity of Demand

(d) Elasticity of Demand

140. Suppose the income elasticity of demand of Air Conditioner (AC) is +1.8 We can conclude from this that the AC is _____.

(a) Superior good

(b) Inferior good

(c) Necessary good

(d) Conspicuous good

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

(a) Equal to one.

(b) Greater than one.

(c) Smaller than one.

(d) Zero.

142. There is decrease in price of LED TV after budget announcement from ₹ 60,000 to ₹ 50,000. As a result of which demand for it has increases from 1,500 units to 2,000 units. The Elasticity of demand for LED TV will be _____

(a) 1.27

(b) - 2

(c) 0.63

(d) 0.67

[June 2023]

143. Which of the following statements about price elasticity of demand is correct?

(a) Price elasticity of demand is a measure of how much the quantity demanded of a good responds to a change in the price of that good.

(b) Price elasticity of demand is computed as the percentage change in quantity demanded divided by the percentage change in price.

(c) Price elasticity of demand in the long run would be different from that of the short run.

(d) All of the above.

[Nov. 2019]

144. If the proportionate change in price is greater than the proportionate change in quantity demanded of a commodity, the price elasticity of demand will be

(a) Zero

(b) Inelastic

(c) Elastic

(d) Infinite

[June 2022]

145. A decrease in price will result in an increase in total revenue if :

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

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

(c) Demand is inelastic.

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

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

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

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

(c) Demand is elastic.

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

147. For which of the following product elasticity of demand is highly elastic.

(a) Salt

(b) Life-saving medicines

(c) water

(d) Jewellery

[July 2021]

148. The price of X commodity decreases from ₹ 10 to 8, owing to which its demand increases form 100 to 120 units. Calculate the price elasticity of demand

(a) (-) 1

(b) 1

(c) 0.8

(d) 1.2

[June 2022]

149. If price decreases from ₹ 80 to ₹ 60 and elasticity of demand is 1.25 then _____.

(a) Demand increase by 25%

(b) Demand decrease by 25%

(c) Remains constant

(d) None of the above

[CA CPT May 2019]

150. The elasticity of demand for a product will not be higher when:

(a) It has several uses

(b) More substitutes for the product are available

(c) It is an expensive commodity

(d) It is considered a necessity by its buyers

151. If the price of a gel pen increases from ₹ 40 to ₹ 50 and in response to this the quantity demand decreases from 25 units to 20 units. The coefficient of price elasticity will be

(a) 1.25

(b) - 1.25

(c) 0.8

(d) - 0.8

[June 2023]

152. The price elasticity of demand for X is 1 and the original quantity demand of X is 90 units, if the price of X decreases from ₹ 300 to ₹ 180 per unit, calculate the new quantity demand of X

(a) 36 units

(b) 120 units

(c) 126 units

(d) 144 units

[Nov. 2020]

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

(a) 0

(b) 1

(c) 1.5

(d) 2

154. The Concept of point elasticity is used for measuring price elasticity where the change in price is _____.

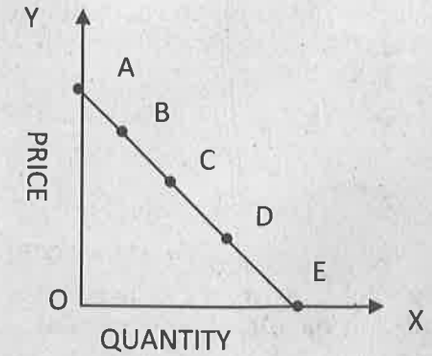
(a) Finite

(b) Limited

(c) Infinite small

(d) None of the above

155.



(a) Elasticity at point A = ∞, at B = > 1, at C = 1, at D = <1 and E =0

(b) Elasticity at A = 0, at B = < 1, at C = 1, at D = > 1 and E = ∞

(c) Elasticity at A = 0, at B > 1, at C = 1, at D = < 1 and at E = 0

(d) None of these

[CA CPT May 2018]

156. The price elasticity of demand at the midpoint of the straight line demand curve under point method is _____.

(a) 0

(b) 1

(c) >1

(d) <1

[CA CPT May 2019]

157. Which of the following methods calculates elasticity of demand by using the formula:

$$\frac{\text{lower segment of demand curve}}{\text{upper segment of demand curve}}$$

(a) The ARC elasticity method
(b) Cross elasticity method
(c) The income elasticity method
(d) The point elasticity method

158. To know the base price and quantity, which method of elasticity is used?

(a) Arc elasticity
(b) Point elasticity
(c) Cross elasticity
(d) Cannot be measured

[Nov. 2020]

159. Point elasticity is useful for which of the following situations?

(a) The bookstore is considering doubling the price of notebooks.
(b) A restaurant is considering lowering the price of its most expensive dishes by 50 per cent.
(c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by ₹ 100.
(d) None of the above.

160. The price of a commodity decreases from ₹ 6 to ₹ 4 and the quantity demanded of the good increases from 10 units to 15 units, and the co-efficient of price elasticity. (Use Point Elasticity Method)

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

161. 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.
(b) Perfect elasticity.
(c) Perfect inelasticity.
(d) Price elasticity.

162. Elasticity between two points:

(a) Point elasticity
(b) Arc elasticity
(c) Cross elasticity
(d) None

[CA CPT May 2018]

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

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

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

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

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

(a) .67
(b) 1.5
(c) 2.0
(d) 3.0

166. Which of the following method is used to calculate Elasticity of demand when price and quantity demand are large?

(a) Zero elasticity
(b) Cross elasticity
(c) Point elasticity
(d) Arc elasticity

[June 2023]

167. The price of a commodity decreases from ₹ 200 to ₹ 120 per unit. If the price elasticity of demand for this commodity is 2 and the original quantity demanded is 60 units, calculate the new quantity demanded.

(a) 48 units
(b) 100 units
(c) 108 units
(d) 120 units

[July 2021]

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

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

169. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is:

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

[Dec. 2022]

170. The demand for a generic good like soap and for Lux soap are _____ respectively.

(a) Elastic and elastic
(b) Inelastic and inelastic
(c) Inelastic and elastic
(d) Elastic and inelastic

[July 2021]

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

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

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

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

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

(*a*) It represents a small part of the consumer's income.

(*b*) The good has many substitutes available.

(*c*) It is a necessity (as opposed to a luxury).

(*d*) There is little time for the consumer to adjust to the price change.

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

(*a*) The good has many substitutes.

(*b*) The good is a luxury (as opposed to a necessity).

(*c*) The good is a small part of the consumer's income.

(*d*) There is a great deal of time for the consumer to adjust to the change in prices.

175. Using total outlay method, _____.

(*a*) We cannot find exact co-efficient of Price Elasticity.

(*b*) We can find exact co-efficient of Price Elasticity.

(*c*) We cannot determine whether the good is elastic or inelastic.

(*d*) None of the above.

176. When, as a result of the change in price of a good, the total expenditure on the goods or total revenue received from those good remains the same, the price elasticity for the good is equal to _____.

(*a*) Zero

(*b*) Unity

(*c*) More than one

(*d*) Less than one

177. Which one of the following is/are the determinants of price elasticity?

(*a*) Availability of substitutes.

(*b*) Time period

(*c*) Price range

(*d*) All of the above

178. The demand for goods like common salt, matches, buttons, etc. tends to be _____ because a household spends only a fraction of their income on each of them.

(*a*) Less elastic

(*b*) Inelastic

(*c*) Highly inelastic

(*d*) Highly elastic

179. The price of a good has decreased from ₹ 100 to ₹ 60 per unit. If the price elasticity of demand for it is 1.5 and the original quantity demanded is 30 units, the new quantity demanded will be _____.

(*a*) 18 Units

(*b*) 30 Units

(*c*) 48 Units

(*d*) 60 Units

180. The electricity board wants to reduce the consumption of electricity by 5%. The price elasticity of demand for electricity is (-) 0.5. The board should _____

(*a*) Raise the price of electricity by 2.5%

(*b*) Decrease the price of electricity by 2.5%

(*c*) Raise the price of electricity by 10%

(*d*) Raise the price of electricity by 0.1%

[Dec. 2021]

181. If there is no change at all in the quantity demanded, when price changes, the elasticity will be _____.

(*a*) Zero

(*b*) Unitary

(*c*) Greater than one

(*d*) Less than one

182. If elasticity is _____, then the quantity demanded does not respond at all to a price change.

(*a*) Zero

(*b*) One

(*c*) Greater than one

(*d*) Less than one

183. The demand is said to be _____ when the percentage change in quantity demanded is less than the percentage change in price.

(*a*) Elastic

(*b*) Inelastic

(*c*) Perfectly elastic

(*d*) None of the above

184. In case of wheat & Common salt, the nature of Price elasticity of demand is _____.

(*a*) Elastic

(*b*) Inelastic

(*c*) Perfectly Elastic

(*d*) None of the above

185. If a Consumer is a habitual consumer of a commodity, no matter how much its price changes, the demand for the Commodity will be _____.

(*a*) Elastic

(*b*) Inelastic

(*c*) Perfectly Elastic

(*d*) Unitary

186. The greater the proportion of income spent on a commodity, generally the _____ will be its elasticity of demand and *vice versa*.

(*a*) Greater

(*b*) Lesser

(*c*) Either (*a*) or (*b*)

(*d*) None of these

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

(*a*) Remain the same.

(*b*) Increase.

(*c*) Decrease.

(*d*) Any of these.

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

(*a*) Demand is unitary elastic and price falls.

(*b*) Demand is elastic and price rises.

(*c*) Demand is inelastic and price falls.

(*d*) Demand is inelastic and prices rises.

Income Elasticity of Demand

189. Suppose a consumer's income increases from ₹ 30,000 to ₹ 36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity

of demand for CDs? (Use Arc Elasticity Method)

(*a*) 0.5

(*b*) 1.0

(*c*) 1.5

(*d*) 2.0

190. The household income rises by 20% in a year. Consequently the demand for TV rises by 30%. What is income elasticity of demand.

(*a*) 1.5

(*b*) 0.5

(*c*) 0.4

(*d*) 5

191. Income Elasticity of demand is the degree of responsiveness of quantity demanded to a good to change in the _____ of Consumers.

(*a*) Taste and Preferences

(*b*) Income

(*c*) Status of Living

(*d*) Fashion

192. Which of the following formula can be used for calculation of income Elasticity of Demand?

(*a*) $E_i = \frac{\Delta q}{\Delta y} \times \frac{y}{q}$

(*b*) $E_i = \frac{\Delta y}{\Delta q} \times \frac{q}{y}$

(*c*) $E_i = \frac{\Delta q}{\Delta y} \times \frac{q}{y}$

(*d*) None of the above

193. Income elasticity of luxury goods

(*a*) Zero

(*b*) Positive and greater than one

(*c*) Positive and lesser than one

(*d*) Negative and greater than - I

[Nov. 2019]

194. Suppose there is an increase in income by 15%, which increases demand by 30% the income elasticity of demand will be _____

(*a*) 0.67

(*b*) 0.5

(*c*) 2

(*d*) 1.0

[June 2023]

195. The quantity purchased remains constant irrespective of the change in income. This is known as

(*a*) Negative income elasticity of demand.

(*b*) Income elasticity of demand less than one.

(*c*) Zero income elasticity of demand.

(*d*) Income elasticity of demand is greater than one.

196. When income increases the money spent on necessaries of life may not increase in the same proportion. This means:

(*a*) Income elasticity of demand is zero.

(*b*) Income elasticity of demand is one.

(*c*) Income elasticity of demand is greater than one.

(*d*) Income elasticity of demand is less than one.

197. The average income of residents of two cities A and B and the corresponding change in demand for two goods is given in the following table. Which of the following statements is true?

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

(*a*) Both goods are normal goods in both cities A and B

(*b*) Good X is a normal good in both cities; good Y is an inferior good in city A

(*c*) Good X is a normal in both cities; good Y is an inferior good in city B

(*d*) Need more information to make and accurate comment

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

(*a*) Income elasticity of demand less than one.

(*b*) Negative income elasticity of demand.

(*c*) Zero income elasticity of demand.

(*d*) Unitary income elasticity of demand.

199. Income elasticity of demand is calculated by dividing percentage change in _____ by the percentage change in _____.

(*a*) Income, Demand

(*b*) Demand, Income

(*c*) Income, Price

(*d*) Demand, Price

200. Which one of the following is the preposition on the relationship between income elasticity of demand and the proportion of income spent on it?

(*a*) If the proportion of income on a good *remains the same* as income increase, then income elasticity for the good is equal to one.

(*b*) If the proportion of Income spent on good increases as income increases, then the income elasticity for the goods is greater than one.

(*c*) If the proportion of income spent on a good *decreases* as income rises, the income elasticity for the good is less than one.

(*d*) All of the above.

201. For all _____ goods, the income elasticity is positive.

(*a*) Normal

(*b*) Interior

(*c*) Luxury

(*d*) All of the above

202. For all _____ goods, the income elasticity is greater than one.

(*a*) Normal

(*b*) Interior

(*c*) Luxury

(*d*) All of the above.

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

(*a*) Positive and less than 1.

(*b*) Negative but greater than 1.

(*c*) Positive and greater than 1.

(*d*) Zero.

204. If, as people's income increases, the quantity demanded of a good decreases, the good is called

(*a*) A substitute.

(*b*) A normal good.

(*c*) An inferior good.

(*d*) A complement.

205. When oranges has - (0.58) income elasticity the commodity orange is called as _____

(*a*) Orange is a necessary good

(b) Orange is a inferior good
(c) Orange is a substitute good
(d) None

[June 2023]

206. The income elasticity of tomatoes is 0.25, it means tomatoes are:

(a) Inferior goods.
(b) Luxury goods.
(c) Normal goods.
(d) Can't say.

207. Suppose the income elasticity of education in private school in India is 1.6. What does this indicate:

(a) Private school education is a luxury.
(b) Private school education is a necessity.
(c) Private school education is an inferior commodity.
(d) We should have more private schools.

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

(a) Potatoes are inferior goods.
(b) Potatoes are superior goods.
(c) Potatoes are necessities.
(d) There is a need to increase the income of consumers so that they can purchase potatoes.

209. If the income elasticity is less than one, it shows that the goods is either relatively least important in the eyes of consumer or it is a _____.

(a) Inferior
(b) Luxury
(c) Necessity
(d) None of these

210. The income elasticity of demand of commodity "Buttons" is _____.

(a) Greater than one
(b) Lest than one
(c) Zero
(d) One

211. In the case of inferior goods, the income elasticity of demand is:

(a) Positive
(b) Zero
(c) Negative
(d) Infinite

[Jan. 2021]

212. 'Bajra' is an inferior commodity in the eyes of the household. Its income elasticity of demand will be _____.

(a) More than 1
(b) Equal to 1
(c) Less than 1, but greater than 0
(d) Negative

213. Assume that Wheat have (-) 0.4 as income elasticity. By this, we can say that wheat is a _____ good

(a) Inferior
(b) Normal
(c) superior
(d) luxurious

[July 2021]

Cross Elasticity of Demand

214. Cross elasticity of demand refers to the quantities of commodity which will be demanded in response to _____, keeping other things remaining the same.

(a) Income of consumer
(b) Price of same commodity
(c) Price of Related commodity
(d) Both (b) & (c)

215. In case of substitute commodities, the cross demand curve slopes _____.

(a) Upwards
(b) Downwards
(c) Circular
(d) Parabolic

216. What is numerical measure of elasticity for "Perfectly Elastic"?

(a) Zero
(b) Infinity
(c) Greater than one and less than infinity
(d) Less than one

[Jan. 2021]

217. A shopkeeper sells only two brands of notebooks "Classmate" and "Neelgagan". It is observed that when the price of "classmate" rises by 10%, the demand for "Neelgagan" increases by 15%. What is the cross price elasticity for "Neelgagan" against the price of "classmate"?

(a) 0.5
(b) 1
(c) 1.5
(d) None of these

218. The cross price elasticity between two goods x and y is known to be – 0.8. If the price of good y rises to 20%, how will the demand for x change?

(a) + 10%
(b) + 16%
(c) –16%
(d) None of these

219. The Price of 1 Kg. of coffee is ₹ 60. At this price 10 kg. of coffee is demanded. If the price of tea rises from 50 to ₹ 70 per kg. the quantity demanded of coffee rises from 10 kg. to 16 kg. The cross-price elasticity of coffee is

(a) -1.5
(b) +1.5
(c) +0.3
(d) -0.3

[Dec. 2021]

220. There is a _____ relationship between price of a commodity and the demand for its complementary goods (other things remaining the same).

(a) Inverse
(b) Positive
(c) Direct
(d) Any of (b) & (c)

221. Cross elasticity of perfect substitutes is:

(a) Zero
(b) Negative
(c) One
(d) Infinity

[CA CPT May 2018]

222. The cross elasticity between Bread and DVDs is:

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

223. If the quantity demand of mutton increases by 5% when the

price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken _____.

(a) 0.25
(b) -4
(c) 4
(d) -0.25

224. When two goods are unrelated then cross elasticity of demand will be _____.

(a) 0
(b) 00
(c) 1
(d) (-)

[June 2023]

225. The quantity demanded of coffee increases by 2% when the price of tea increases by 8%, the cross elasticity of demand between two products are _____.

(a) + 0.25
(b) - 0.25
(c) - 0.4
(d) + 0.4

[July 2021]

226. The cross elasticity between personal computers and software's is:

(a) Positive.
(b) Negative.
(c) zero.
(d) One.

227. If two goods are perfect substitutes for each other, the cross elasticity between them is _____.

(a) One
(b) More than one
(c) Less than one
(d) Infinite

228. 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.

229. If the goods are substituted (like tea and coffee), the cross elasticity between them is _____.

(a) Positive
(b) Negative
(c) Zero
(d) Infinity

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

(a) -0.25
(b) 0.25
(c) -4
(d) 4

231. In case of Complementary Goods, a rise in the price of one leads to a fall in the quantity demanded of the other. The cross elasticity of demand between these will be _____.

(a) Positive
(b) Negative
(c) Zero
(d) Infinity

232. 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.

233. The price of 1 kg. of tea is ₹ 30. At this price, 5 kg. of tea is demanded. If the price of coffee rises from ₹ 25 to ₹ 35 per kg., the quantity demanded of tea rises from 5 kg. to 8 kg. The cross price elastic of tea is _____.

(a) 1
(b) 0.5
(c) 1.5
(d) 0

[Jan. 2021]

234. The Cross elasticity is -1.2. It represents that the commodities are:_____ in nature.

(a) Complementary
(b) Substituted
(c) Inferior
(d) Giffen

Advertisement Elasticity

235. Advertisement elasticity of sales or promotional elasticity of demand is the responsive of a good demanded to changes in _____.

(a) Price of Commodity
(b) Per Unit advertisement budget
(c) Firms spending on advertising
(d) Firms spending on distribution

236. Usually, higher the value of advertising elasticity, greater will be the responsiveness of demand to change in advertisement. Therefore, usually advertising elasticity of demand is typically _____.

(a) Positive
(b) Unitary
(c) Negative
(d) Zero

237. Ram and sons are going for heavy advertisement campaign to enhance their sales. When analysed it was realised that the expenditure on advertisement by the company has gone up from ₹ 2,00,000 to ₹ 3,00,000 and the sales of this product increased from 10 lakh units to 20 lakh units. What is the advertising elasticity of demand?

(a) -1
(b) 4
(c) 2
(d) 3

238. Advertisement elasticity of demand values between _____ and _____.

(a) One, infinity
(b) Zero, infinity
(c) Zero, one
(d) (-) Infinity to (+) Infinity

239. Advertising elasticity of demand is typically _____

(a) Negative
(b) Zero
(c) Infinity
(d) Positive

[June 2022]

240. What will be the advertisement elasticity?

% Change in Demand = 30%

% change in Price = Nil

% change in advertisement Expenditure = 25%

(a) 1.2
(b) 0.83
(c) 1
(d) 25

241. When the demand changes at a higher rate than change in advertisement expenditure, the advertisement elasticity will be _____.

(a) Zero
(b) One
(c) More than one
(d) Less than one

242. If the advertisement expenditure on X commodity increase by 20% and demand for it increases only by 5%. The advertisement elasticity of demand for X commodity is

(a) 0.25
(b) (-) 0.25
(c) 4
(d) (-) 4

[June 2022]

243. The zero advertisement Elasticity represents :

(a) Demand responds proportionately
(b) Demand does not respond proportionately
(c) Demand does not respond at all
(d) None of the above

244. When the change in demand is less than proportionate change in advertisement expenditure, the advertisement elasticity (E_a) will be equal to _____.

(a) $E_a = 0$
(b) $E_a > 0$
(c) $E_a < 1$
(d) $E_a > 0$ but < 1.

Demand Forecasting

245. Which of the following statements is correct?

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

246. Method of demand forecasting does not include?

(a) Mathematical method
(b) Barometric method
(c) Expert opinion method
(d) Statistical method

[CA CPT Nov. 2018]

247. Forecasting of demand is the Art and Science of predicting?

(a) Actual demand of a product at same future date
(b) Probable demand in future
(c) Total demand in future
(d) None of these

[CA CPT Nov. 2018]

248. The Delphi technique of demand forecasting is also called an _____.

(a) Survey of buyers intentions
(b) Expect opinion method
(c) Barometric method
(d) Controlled experiments

249. Of the following, who developed the Delphi technique of demand forecasting?

(a) Olaf Helmer
(b) David Richardson
(c) Michael Porter
(d) J.M. Keynes

[July 2021, June 2023]

250. Forecasting refers to knowing or measuring the status or nature of an event or variable _____ it occurs.

(a) Before
(b) When
(c) After
(d) Both (b) & (c)

251. The demand for cement in India is forecasted. It refers to _____.

(a) Micro level forecasting
(b) Long-Term forecasting
(c) Industry level forecasting
(d) Firm level forecasting

252. Method of demand forecasting does not include?

(a) Mathematical method
(b) Barometric method
(c) Expert opinion method
(d) Statistical method

[June 2023]

253. _____ demand forecasting is generally useful in tactical decisions.

(a) Short-term
(b) Long-Term
(c) Very Long Period
(d) Both (a) & (b)

254. The demand for a commodity that arises because of the demand for same other commodity (prevent product) is called as _____.

(a) Demand
(b) Direct Demand
(c) Derived Demand
(d) Implied Demand

255. If the demand for a product is independent of the demand for other goods, then it is called as _____.

(a) Derived Demand
(b) Autonomous Demand
(c) Industry Demand
(d) Implied Demand

256. Which of the following are consumer's goods?

(a) Readymade clothes
(b) Prepared Food

(c) Residential Houses
(d) All of the above

257. Identify Producer's goods out of following :

(a) Plant and Equipment
(b) Readymade clothes
(c) Residential Houses
(d) All of the above

258. Which of the following factors affects demand for non-durable consumer goods?

(a) Disposable Income
(b) Price
(c) Demography
(d) All of the above

259. In order to find out turning points, it is necessary to find out the general behaviour of the economy. This method of forecasting is called as :

(a) Controlled Experiments
(b) Barometric Method
(c) Statistical Method
(d) None of these

260. _____ method of forecasting includes the methods:

 # Complete Enumerations

 # Sample Survey

 # End Use

(a) Collective opinion
(b) Survey of Buyer's intentions
(c) Expert Opinion
(d) Barometric

261. Under _____ method of demand forecasting, the future demand is estimated by conducting market studies and experiments on consumer behaviour under actual, though controlled, market conditions.

(a) Controlled Experiment method
(b) Market Experiment Method
(c) Barometric Method
(d) Both (a) & (b)

262. Which one of the following is the statistical method of demand forecasting?

(a) Trend Projection Method
(b) Fitting Equation Method
(c) Regression Analysis
(d) All of the above

263. Which of the following is not a statistical method of demand forecasting.

(a) Regression Analysis
(b) Survey of Buyer's intensions
(c) Least Square method
(d) Free hand projection method

264. Demand forecasting by means of asking customer what they are going to buy comes under

(a) Statistical method
(b) Grass roots method
(c) Survey of buyers intention
(d) Experts opinion method

[Nov. 2020]

UNIT 2 : THEORY OF CONSUMER BEHAVIOUR

Nature of Human wants

265. All _____ of human beings are called wants in Economics.

(a) Desires
(b) Tastes
(c) Motives
(d) All of these

266. Wants may arise due to _____ causes.

(a) Elementary
(b) Psychological
(c) Internal
(d) Both (a) & (b)

267. Which of the following is not the characteristic of wants of human beings?

(a) Wants are unlimited
(b) Wants are subjective & relative
(c) Wants are affected by income, taste, fashion, advertisements and social customs
(d) Wants do not vary with time, place & person.

268. Wants arise from multiple causes including _____

(a) Natural instincts
(b) Social obligations
(c) Individual's economic & social status
(d) All of the above

Classification of Wants

269. Which of the following is one of the categories of wants?

(a) Necessaries
(b) Comforts
(c) Luxuries
(d) All of the above

270. Which of the following is NOT an example of Luxuries?

(a) Expensive clothing
(b) Exclusive vintage cars
(c) Classy furniture
(d) Labour saving equipments

271. Which of the following is NOT an example of Necessaries?

(a) Nourishing food
(b) Adequate clothing & clean water
(c) Comfortable dwelling
(d) Expensive clothing

Law of Diminishing Marginal Utility

272. _____ is the _____ by the Consumer and _____ is the actual satisfaction derived :

(a) Utility, anticipated satisfaction, satisfaction
(b) Utility, actual satisfactory, desire
(c) Desire, utility, satisfaction
(d) None of these

273. _____ is the want satisfying power of a Commodity.

(a) Utility
(b) Marginal Utility
(c) Desire
(d) Desired Utility

274. Which of the following statements about utility is incorrect?

(a) Utility is ethically neutral

(b) A commodity has utility even when it is not consumed

(c) Utility is subjective and varies from person to person

(d) Utility is the same thing as usefulness

[Dec. 2021]

275. Which of the following theories explains consumer behaviours?

(a) Marginal Utility Analysis

(b) Indifference Curve

(c) Returns to scale

(d) Both (a) & (b)

276. Utility is the numerical score in terms of '____' representing the satisfaction that a consumer obtains from the consumption of a particular good.

(a) Points

(b) Utils

(c) Units

(d) Numbers

[Dec. 2021]

277. Marginal Utility Analysis has been propounded by :

(a) Marshall

(b) Hicks

(c) Allen

(d) Hicks & Allen

278. Alfred Marshall was a _____ _____ economist.

(a) British

(b) American

(c) European

(d) Asian

279. _____ is the sum of marginal utilities derived from the consumption of different units.

(a) Marginal Utility

(b) Average Utility

(c) Total Utility

(d) Incremental Marginal Utility

280. _____ is the additional made to total utility by the consumption of an additional unit of a commodity.

(a) Marginal Utility

(b) Average Utility

(c) Total Utility

(d) Incremental Marginal Utility

281. 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.

282. When total utility is diminishing, the marginal utility is

(a) Diminisher

(b) Zero

(c) Negative

(d) Increases

[June 2022]

283. The aim of the consumer in allocating his income is to_____.

(a) Maximize his total utility.

(b) Maximize his marginal utility.

(c) To buy the goods he wants most whatever the price.

(d) To buy the goods which he expects to be short in supply.

284. Additional made to total utility refers to?

(a) Total utility

(b) Average utility

(c) Marginal utility

(d) All of the above

285. At the point of satiation, TU is ____ and MU is ____

(a) Maximum, Zero

(b) Minimum, Zero

(c) Zero, Zero

(d) Maximum, diminishing

[Dec. 2021]

286. Which Equation is correct-

(a) $\frac{MU_X}{MU_y} = \frac{P_x}{P_y}$

(b) $\frac{MU_x}{MU_y} > \frac{P_x}{P_y}$

(c) $\frac{MU_x}{MU_y} < \frac{P_x}{P_y}$

(d) $\frac{MU_X}{MU_y} \# \frac{P_x}{P_y}$

[CA CPT Nov. 2018]

287. Marginal rate of Substitution of X for Y is calculated as _____

(a) Change in X/change in Y

(b) Px/Py

(c) Py/Px

(d) Change in Y/change in X

[Dec. 2021]

288. From the following data given below answer questions 251 and 252-

Units	*TU*	*MU*
1	200	
2		180
3	480	

Total utility derived from 2nd unit?

(a) 380

(b) 20

(c) 100

(d) 280

[CA CPT Nov. 2018]

289. Marginal utility of 3rd unit is?

(a) 200

(b) 280

(c) 100

(d) 50

[CA CPT Nov. 2018]

290. When marginal utility is zero then total utility is _____.

(a) Maximum

(b) Lower

(c) Negative

(d) Increasing

291. Supposing that total utility is 100 at 10 units of consumption of a commodity. If consumer increases the consumption by one more unit and owing to that total utility increases to 108.

The marginal utility of last units consumed will be _____

(a) 8

(b) 100

(c) 108

(d) 101

[June 2023]

292. Budget line is otherwise called as

(a) Money line

(b) Preference line

(c) Income line

(d) Price line

[Nov. 2019]

293. The Consumer is in equilibrium when the following condition is satisfied:

(*a*) Budget line is tangent to the Ic curve

(*b*) $\frac{MU_x}{P_x} = \frac{MU_y}{P_y} = \frac{MU_z}{P_z}$

(*c*) Both (*a*) and (*b*)

(*d*) None of the above

[CA CPT May 2019]

294. An indifference curve is a curve which represents all those combinations of two goods which give _____ to the consumer.

(*a*) Equal satisfaction

(*b*) Greater satisfaction

(*c*) Lesser satisfaction

(*d*) Variable satisfaction

295. Cardinal approach is related to:

(*a*) Indifference curve

(*b*) Equi marginal utility

(*c*) Law of diminishing returns

(*d*) None of these

[CA CPT May 2018]

296. Which economist said that money is the measuring rod of utility?

(*a*) A.C. Pigou

(*b*) Marshall

(*c*) Adam Smith

(*d*) Robbins

[CA CPT May 2018]

297. Which of the following relation is true with MU?

(*a*) When MU is positive, Total utility rises at a diminishing rate

(*b*) When marginal utility is zero, total utility is maximum

(*c*) When marginal utility is negative, total utility is diminishing

(*d*) All of the above

[CA CPT May 2019]

298. Total utility is maximum when:

(*a*) Marginal utility is zero.

(*b*) Marginal utility is at its highest point.

(*c*) Marginal utility is negative.

(*d*) None of the above.

299. The second glass of lemonade gives lesser satisfaction to a thirsty boy. This is a clear case of:

(*a*) Law of demand.

(*b*) Law of diminishing returns.

(*c*) Law of diminishing utility.

(*d*) Law of supply.

[Jan. 2021]

300. When TU_{n-1} is deducted from TU_n, the resultant is _____.

(*a*) Marginal Utility

(*b*) Average Utility

(*c*) Total Utility

(*d*) Incremental Marginal Utility

301. Marginal Utility Analysis is _____ Concept.

(*a*) Cardinal

(*b*) Ordinal

(*c*) Sequential

(*d*) None of these

302. Which of the following is not an assumption of Marginal Utility Analysis?

(*a*) Rationality

(*b*) Cardinal Measurability of Utility

(*c*) Hypothesis of independent utility

(*d*) Increasing Marginal Utility of Money

303. Law of Diminishing Marginal Utility is derived from which of the following concept?

(*a*) Consumer Surplus

(*b*) Additional Utility

(*c*) Total utility

(*d*) Producer Surplus

[Dec. 2021]

304. As per the hypothesis of _____ Utility, the total utility which a person gets from the whole collection of goods purchased by him is simply the sum total of the separate utilities of the goods.

(*a*) Dependent

(*b*) Independent

(*c*) Related

(*d*) Affected

Read the following table and answer questions (265-266)

Quantity Consumed	0	1	2	3	4	5	6	7	8
Total Utility	0	300	500	650	750	830	890	930	960

305. What is marginal utility when consumption increases from 4 units to 5 units?

(*a*) 130

(*b*) 80

(*c*) 160

(*d*) 100

[July 2021]

306. What is marginal utility when consumption increases from 7 units to 8 units?

(*a*) 60

(*b*) 100

(*c*) 40

(*d*) 30

[July 2021]

307. According to neo-classical economists, utility is a cardinal concept. It means:

(*a*) Utility is a measurable and quantifiable entity.

(*b*) A psychological unit of measurement of utility is available called as 'UTILS'.

(*c*) Utilities from different units of the commodity can be added.

(*d*) All of the above.

308. Hicks and Allen believed that utility _____

(*a*) Can be measured in ordinal numbers

(*b*) Can be measured in cardinal numbers

(*c*) Cannot be measured

(*d*) Cannot be expressed

[Dec. 2021]

309. The Marginal Utility can be _____.

(*a*) Positive

(*b*) Zero

(*c*) Negative

(*d*) Any of above

Consumer's Surplus

310. The concept of Consumer's Surplus was propounded by _____.

(*a*) Alfred Marshall

(*b*) Hicks & Allen

(*c*) J.B. Say

(*d*) None of these

311. If a Consumer gets more utility from a commodity, he would be willing to pay a higher price and *vice versa*. This extra satisfaction which consumer gets from the purchase of goods is called as _____.

(a) Producer's Supply
(b) Consumer's Surplus
(c) Extra Utility
(d) Excess Marginal Utility

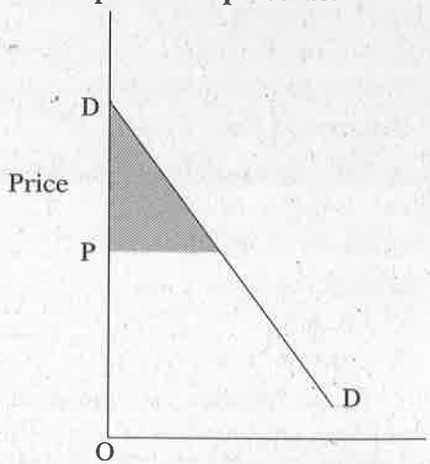
312. Which of the following statement is incorrect as regards Consumer's Surplus?

(a) It can be measured in money
(b) It cannot be measured precisely
(c) It is affected by a variability of substitutes
(d) It is always infinite for necessaries

313. By consumer surplus, economists mean

(a) The area inside the budget line.
(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) None of the above.

314. In the diagram given below, the shaded portion represents.



(a) Price above which there is no demand for the commodity.
(b) Monopoly price of the commodity.
(c) Consumer surplus.
(d) None of the above.

315. Consumer's surplus = what the consumer is ready to pay minus _____ ?

(a) What is actual price of the product
(b) What is income of the consumer
(c) What he actually pays
(d) What is actual surplus

[June 2022]

316. Purushotham wanted to buy laptop by paying ₹ 60,000 but the actual price is ₹ 55,000, then consumer surplus is

(a) 6,500
(b) 55,000
(c) 5,000
(d) 60,000

[Nov. 2020]

317. Which of the following is/are the condition's of theory of consumer surplus if price is same for all the units he purchased?

(a) Consumer gains extra utility or surplus
(b) Consumer surplus for the last commodity is zero
(c) Both
(d) None

[CA CPT May 2019]

318. The concept of consumer's surplus is derived from:

(a) The law of diminishing marginal utility
(b) The law of equal-marginal utility
(c) The law of diminishing returns
(d) Engel's law

[CA CPT May 2018]

319. The concept of consumer surplus is derived from _____

(a) The law of Demand
(b) The law of Supply
(c) The law of diminishing marginal utility
(d) Indifference curve Analysis

[Dec. 2021]

320. In case of necessaries, consumes surplus is?

(a) Infinite
(b) Zero
(c) Equals to one
(d) More than one

[CA CPT Nov. 2018]

321. Producer surplus arises when:

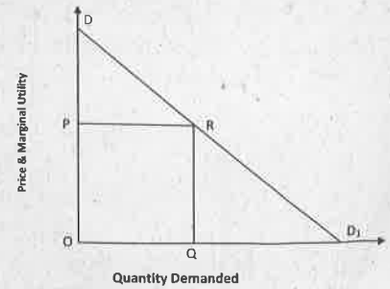
(a) The price of the product is less than the minimum price at which they would be prepared to supply the product.
(b) The price of a product is equal to the minimum price at which they would be prepared to supply the product.
(c) The price of a product is greater than the minimum price at which they would be prepared to supply the product.
(d) The price of a product is equal to the marginal cost of the product.

322. Marshall defined the concept of consume surplus as the _____

(a) Area covered in between the average revenue an marginal revenue curves.
(b) Area inside the budget line.
(c) Difference between the minimum amount a person is willing to pay for a good and its market price.
(d) Difference between the maximum amounts a person is willing to pay for a good and the amount he actually pays.

[July 2021]

323. Consider the following :

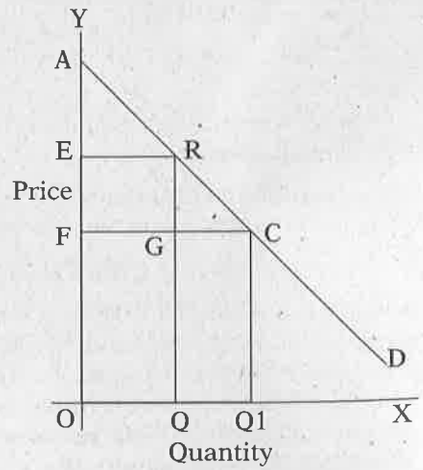


The Consumer's surplus in above diagram is _____.

(a) OQRP
(b) RQD_1
(c) DPR
(d) ODD_1

Refer to the figure below. Answer questions 283 and 284

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



(a) A decrease in consumer surplus by EFGR

(b) A decrease in consumer surplus by AER

(c) A decrease in consumer surplus by EFCR

(d) None of the above

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

(a) Equivalent to area EFGR

(b) Equivalent to area EFCR

(c) Equivalent to area AER

(d) None of the above

Indifference Curve Analysis

326. The indifference curve analysis is based on _____ utility.

(a) Ordinal

(b) Cardinal

(c) Quantitative

(d) Numeric

327. Which of the following is a property of indifference curves?

(a) Indifference curves are always concave to the origin

(b) Indifference curves slope upwards to the left

(c) Two indifference curves can touch or cut each other

(d) An indifference curve will not touch either the X-axis or Y-axis

[Dec. 2021]

328. Let assume that in OY-axis we have good A and on OX-axis good B. If the price of good B increases by ₹ 1 but the price of good A remains constant and income also remains unchanged, the budget line will shift

(a) Left on OY axis

(b) Left on OX axis

(c) Right on OY axis

(d) Right on OX axis

[Nov. 2020]

329. Which one is not an assumption of the theory of demand based on analysis of indifference curves?

(a) Given scale of preferences as between different combinations of two goods.

(b) Diminishing marginal rate of substitution.

(c) Constant marginal utility of money.

(d) Consumers would always prefer more of a particular good to less of it, other things remaining the same.

330. Which of the following is not the property of indifference curve?

(a) Slopes downwards to the right

(b) Always convex to the origin

(c) Intersects each other

(d) Will not touch either of the axes

[CA CPT May 2019]

331. Indifference Curve analysis is based on which approach?

(a) Ordinal

(b) Cardinal

(c) Marginal

(d) All of the above

[July 2021]

332. Which of the following is not the property of indifference curve?

(a) IC is convex to the origin

(b) IC scopes downwards from left to right

(c) Two IC can touch each other

(d) IC cannot touch either of the axis

[CA CPT Nov. 2018]

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

(a) Same level of satisfaction.

(b) Greater satisfaction.

(c) Maximum satisfaction.

(d) Any of the above.

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

(a) It is convex to the origin.

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

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

(d) Total utility is greatest where the 45 degree line cuts the indifference curve.

335. An IC shows _____ MRS between the commodity?

(a) Increasing

(b) Decreasing

(c) Constant

(d) Zero

[CA CPT Nov. 2018]

336. The indifference curve for two perfect complementary goods is _____

(a) Slopes downward

(b) L-shaped

(c) U-shaped

(d) Straight line

[June 2022]

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

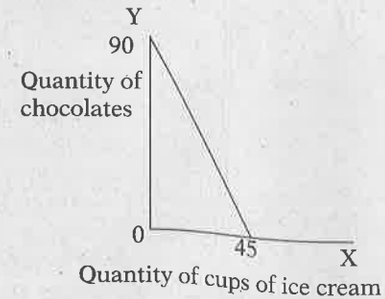
(a) The budget line would not shift.

(b) The new budget line must be parallel to the old budget line.

(c) The budget line must be shifting to the left.

(d) The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion.

338. 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

339. Indifference curve is L shaped then two goods will be:

(a) Perfect substitute goods

(b) Substitute goods

(c) Perfect complementary goods

(d) Complementary goods

[CA CPT May 2018, Nov. 2020]

340. Which of the following statements is incorrect?

(*a*) An indifference curve must be downward-sloping to the right.

(*b*) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.

(*c*) The income elasticity for inferior goods to a consumer is positive.

(*d*) The total effect of a change in the price of a good on its quantity demanded is called the price effect.

[Nov. 2019]

342. A point below the budget line of a consumer

(*a*) Represents a combination of goods which costs the whole of consumer's income.

(*b*) Represents a combination of goods which costs less than the consumer's income.

(*c*) Represents a combination of goods which is unattainable to the consumer given his/her money income.

(*d*) Represents a combination of goods which costs more than the consumers' income.

343. _____ is a curve which represents all those combinations of two goods which give same satisfaction to the consumer.

(*a*) Indifference Curve

(*b*) Iso-Utility Curve

(*c*) Equal-Utility Curve

(*d*) All of the above

344. _____ represents a collection of many indifference curves where each curve represents a certain level of satisfaction.

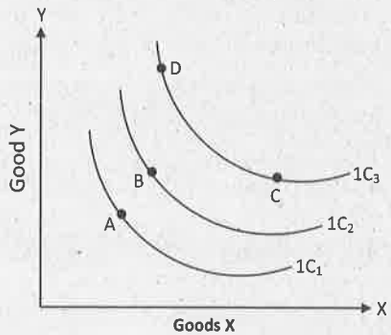
(*a*) Indifference Group

(*b*) Indifference Map

(*c*) Indifference Aggregate

(*d*) Market Map

345. Consider the following:



In the above indifference map, which point gives highest satisfaction?

(*a*) A

(*b*) B

(*c*) C

(*d*) Both (*c*) and (*d*)

346. The Indifference curve for two perfect complementary goods is _____

(*a*) U-shaped

(*b*) Straight line

(*c*) Z-shaped

(*d*) L-shaped

[July 2021]

347. A shift in budget line occurs, when prices of the two goods remain constant, is due to _____

(*a*) Change in preferences

(*b*) Change in demand

(*c*) Change in income

(*d*) Change in utility

[Dec. 2021]

348. _____ is the rate at which a consumer is prepared to exchange group X and Y.

(*a*) Marginal Rate of Substitution

(*b*) Average Rate of Substitution

(*c*) Mathematical Rate of Substitution

(*d*) None of the above

349. When MU_A is divided by MU_B, then it is the marginal rate of substitution of _____.

(*a*) A for B

(*b*) B for A

(*c*) A & B for other Product

(*d*) None of these

350. Why does demand curve slopes downwards?

(*a*) Law of diminishing marginal cost

(*b*) Arrival of old Consumers

(*c*) Cost effect

(*d*) Different users

[Jan. 2021]

351. When the consumer has more and more unit of food, he is prepared to give up less and less units of clothing. It is due to _____

(*a*) Falling MRS

(*b*) Rising MRS

(*c*) Constant MRS

(*d*) None of the above.

352. If indifference curve is 'L' shaped then two goods will be called as _____

(*a*) Perfect superior goods

(*b*) Perfect inferior goods

(*c*) Perfect quality goods

(*d*) Perfect complementary goods

[June 2023]

353. Which one of the following Statement is incorrect about Indifference Curve?

(*a*) Always Convex to the origin

(*b*) Never intersects each other

(*c*) Higher Curve represents higher level of satisfaction.

(*d*) It may touch X axis but never Y axis.

354. A higher indifference curve shows a higher level of satisfaction than a lower one. Therefore, a consumer, in his attempt to maximize satisfaction will try to reach the _____ possible indifference curve.

(*a*) Highest

(*b*) Lowest

(*c*) Any of (*a*) or (*b*)

(*d*) None of these

355. The consumer is in equilibrium at a point where the budget line:

(*a*) Is above an indifference curve.

(*b*) Is below an indifference curve.

(*c*) Is tangent to an indifference curve.

(*d*) Cuts an indifference curve.

356. The scope of the indifference curve shows consumer equilibrium

at point where $MRS_{(xy)}$ _____ $\frac{P_x}{P_y}$ (Price line)

(a) Less than
(b) More than
(c) Equal to
(d) None of the above

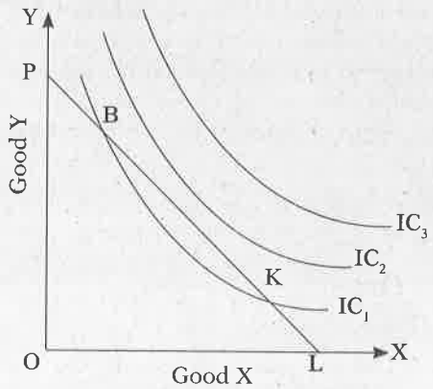
[CA CPT Nov. 2018]

357. The Slope of Indifference curve is _____.

(a) Marginal Rate of Substitution
(b) Minimal Rate of Substitution
(c) Average Rate of Substitution
(d) Total Rate of Substitution

Refer to the figure below. Answer questions 316 and 317

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



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

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

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

360. The slope of the 'Price line' indicates the ratio between _____ of the two goods.

(a) Prices
(b) Quantities demanded
(c) Quantities Sold
(d) Marginal Utility

361. Indifference curve slopes downwards as one product increase and another decreases because they give.

(a) Equal satisfaction
(b) Greater Satisfaction
(c) Lesser Satisfaction
(d) None

[Nov. 2019]

UNIT 3 : SUPPLY

Introduction

362. The supply of a good refers to:

(a) Actual production of the good.
(b) Total existing stock of the good.
(c) Stock available for sale.
(d) Amount of the good offered for sale at a particular price per unit of time.

[Nov. 2019]

363. Supply is a _____ concept.

(a) Flow
(b) Stock
(c) Flow and stock, both
(d) Qualitative

[CA CPT May 2018, Jan. 2021]

364. Supply is the:

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

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

(a) Is actually bought during a given time period at a given price.
(b) Producers wish they could sell at a higher price.
(c) Producers plan to sell during a given time period at a given price.
(d) People are willing to buy during a given time period at a given price.

366. In a very short period, the supply:

(a) Can be changed.
(b) Cannot be changed.
(c) Can be increased.
(d) None of the above.

367. Which of the following statement is correct?

(a) Supply is inversely related to its cost of production
(b) Price and quantity demand of a goods have direct relationship
(c) Taxes and subsidy has no impact on the supply of the product
(d) Seasonal changes have no impact on the supply of the commodity

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

Price in Million $	Number of Aeroplanes
248	52
280	52
300	52
320	52
350	52

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

[Dec. 2021]

369. The term supply refers to the amount of goods or services that the producers are _____ to the market at value prices during a given period of time.

(a) Willing to offer
(b) Able to Offer
(c) Actually Sold
(d) Both (a) & (b)

Determinants of Supply

370. Which of the following is a factor determining the supply?

(a) Price of the good
(b) Price of related goods
(c) Price of factor of Production
(d) All of the above

371. Other things being equal, the _____ the relative price of a good the _____ the quantity of it that will be supplied.

(a) Higher, Lesser
(b) Higher, Greater
(c) Lower, Lower
(d) None of these

372. Under _____ conditions, Supply will be more than that under _____ conditions.

(a) Competitive, Monopolized
(b) Monopolized, Competitive
(c) Monopolized, Oligopoly
(d) Duopoly, Monopolized

373. The supply of a particular product depends upon the state of technology also. Inventions and innovations tend to make it possible to produce _____ goods with the same resources.

(a) More
(b) Better
(c) Lesser
(d) More and/or Better

Law of Supply

374. According to law of supply, change in supply is related to?

(a) Price of goods
(b) Price of related goods
(c) Factors of production
(d) None of the above

[CA CPT Nov. 2018]

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

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

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

(a) Increases; decreases.
(b) Decreases; increases.
(c) Decreases; decreases.
(d) Increases; increases.

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

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

378. An increase in the number of sellers of bikes will increase the

(a) The price of a bike.
(b) Demand for bikes.
(c) The supply of bikes.
(d) Demand for helmets.

379. If good growing conditions increases the supply of strawberries and hot weather increases the demand for strawberries, the quantity of strawberries bought.

(a) Increases and the price might rise, fall or not change.
(b) Does not change but the price rises.
(c) Does not change but the price falls.
(d) Increases and the price rises.

380. The supply curve for perishable commodities is _____.

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

381. When supply price increase in the short run, the profit of the producer _____.

(a) Increases
(b) Decreases
(c) Remains constant
(d) Decreases marginally

[CA CPT May 2018]

382. The _____ is a graphical presentation of the _____.

(a) Supply Curve, Demand Schedule
(b) Supply Curve, Supply Schedule
(c) Demand Curve, Supply Schedule
(d) None of these

Increase or Decrease in the Quantity Supplied

383. Contraction of supply is the result of:

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

384. When the supply of a good increase as a result of an increase in its price, then it is an increase in _____ and there is a upward _____ the supply curve.

(a) Quantity Supplied, movement on
(b) Quantity Supplied, Shift of
(c) Supply, movement on
(d) Supply, Shift of

385. Movements on the supply curve may be due to:

(a) Change in price of goods
(b) Change in price of related goods
(c) Change in technology
(d) None of the above

386. Contraction of supply implies _____.

(a) Decrease in cost of production
(b) Decrease in price of the good concerned
(c) Decrease in price of related good
(d) Increase in price of the good concerned

[CA CPT May 2019]

387. When supply curves moves to right, it means _____

(a) Supply increases
(b) Supply decreases
(c) Supply remains constant
(d) Supply expands

[Jan. 2021]

Shifts in Supply Curve

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

(a) Improvements in its technology.
(b) Fall in the prices of other goods.
(c) Fall in the prices of factors of production.
(d) All of the above.

389. When supply curve moves to right, it means

(a) Supply increases.
(b) Supply decreases.
(c) Supply remains constant.
(d) None of the above.

390. When supply curve shifts to the right there is:

(a) An increase
(b) Expansion
(c) Contraction
(d) Decrease

[CA CPT May 2018]

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

(a) Smaller supply at a given price.
(b) Larger supply at a given price.
(c) Constant supply at a lower price.
(d) None of the above.

392. When the supply curve shifts to the left or right, it is called as _____ or _____ in supply, respectively.

(a) Decrease, Decrease
(b) Decreases, Increase
(c) Increase, Increase
(d) Increase, Decrease

Elasticity of Supply

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

(a) Demand.
(b) Price.
(c) Cost of production.
(d) State of technology.

394. If there are large number of producers in the market of a product and there is high competition among them, then the elasticity of supply will be:

(a) More
(b) Less
(c) Zero
(d) Infinity

395. A vertical supply curve parallel to the Y-axis exhibits that the elasticity of supply is

(a) Zero
(b) Infinite
(c) Elastic
(d) Inelastic

[June 2022]

396. If elasticity of supply is infinite, the supply curve will be:

(a) Parallel to x axis
(b) Parallel to y axis
(c) Upward sloping
(d) Downward sloping

397. Price elasticity of supply refers to change in responsiveness of quantity to change in:

(a) Price
(b) Price in substitute
(c) Income
(d) Preference

[Nov. 2019]

398. The elasticity of supply is defined as the

(a) Responsiveness of the quantity supplied of a good to a change in its price.
(b) Responsiveness of the quantity supplied of a good without change in its price.
(c) Responsiveness of the quantity demanded of a good to a change in its price.
(d) Responsiveness of the quantity demanded of a good without change in its price.

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

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

400. Which of the following statements is correct?

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

401. When price of a commodity Rises from 200 to ₹ 300 and Quantity supply increases from 2,000 to 5,000 units find elasticity of supply?

(a) 3.0
(b) 2.5
(c) 0.3
(d) 3.5

[CA CPT Nov. 2018]

402. If the price of sugar increases from ₹ 8,000 to 10,000 per tone and due to that quantity supplies of sugar increases from 2000 to 2500 tones. Compute the elasticity of supply

(a) (-) 1
(b) 1
(c) (-) 0.4
(d) 0.4

[June 2022]

403. If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is :

(a) 2.5
(b) 0.4
(c) (-) 2.5
(d) (-) 0.4

404. Due to introduction of 5G mobiles in the market, the price of such mobiles has increased by 20% and there by supply increased by 40% the elasticity of supply will be which of the following?

(a) 0.5
(b) - 0.5
(c) - 2
(d) 2

[June 2023]

405. When No. of tourists increase at a place for which the room rent

of hostel also increases. Then the elasticity of supply of room will be _____

(a) Zero
(b) <1
(c) >1
(d) =1

[June 2023]

406. If quantity supplied changes substantially in response to small changes in price of the good, then it is

(a) Perfect elastic
(b) Unitary elastic
(c) Relatively less elastic supply
(d) Relatively greater elastic supply

[Nov. 2020]

407. When elasticity is measured at a given point on the supply curve is called as which of the following?

(a) Unit elasticity
(b) Point elasticity
(c) Supply elasticity
(d) Limited elasticity

[June 2022]

408. The Price of Commodity X increased from ₹ 2,000 per unit to ₹2,100 per unit and consequently the quantity supplied rises from 2,500 units to 3,000 units. The Elasticity of supply will be

(a) 2
(b) 4
(c) .25
(d) 0

409. The supply function is given as Q = 20p - 200. The elasticity of supply using point method, when the price is ₹ 30 will be

(a) -1.5
(b) +1.5
(c) +0.66
(d) -0.66

[Dec. 2021]

410. Perishable commodities will have _____.

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

[CA CPT May 2019]

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

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

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

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

413. In case of a perfectly elastic supply, price elasticity of supply is_____ and the supply curve becomes_____

(a) Zero, vertical
(b) One, upward sloping
(c) One, downward sloping
(d) Infinite, horizontal

[Dec. 2021]

414. If the percentage change in supply is less than the percentage change in price it is called

(a) Unit elasticity of supply.
(b) Perfectly elastic.
(c) More elastic supply.
(d) Inelastic supply.

415. Elasticity of supply is zero means?

(a) Perfectly inelastic
(b) Perfectly elastic
(c) Imperfectly elastic
(d) All of the above

[CA CPT Nov. 2018]

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

(a) Less than one.
(b) Greater than one.
(c) One.
(d) None of the above.

417. Elasticity of supply is greater than one when

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

418. When the supply of a product is perfectly inelastic then the curve will be

(a) Parallel to Y - axis
(b) Parallel to X - axis
(c) At the angle of 45^0
(d) Sloping upwards

[CA CPT May 2019]

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

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

420. 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

Equilibrium Price

421. Equilibrium refers to a market situation where quantity demand is _____ to quantity supplied.

(a) Equal
(b) Less than or Equal
(c) More than
(d) More than or equal

422. The equilibrium price is determined by the inter-section between _____ and _____. It is also called as the _____ equilibrium.

(a) Demand, Supply, Static
(b) Demand Supply, Dynamic
(c) Supply, Demand, Partial
(d) Demand, Supply, Market

Answer

1.	(d)	2.	(d)	3.	(b)	4.	(c)	5.	(b)	6.	(b)	7.	(a)
8.	(a)	9.	(d)	10.	(b)	11.	(d)	12.	(d)	13.	(a)	14.	(d)
15.	(d)	16.	(a)	17.	(c)	18.	(c)	19.	(b)	20.	(d)	21.	(a)
22.	(d)	23.	(b)	24.	(a)	25.	(d)	26.	(c)	27.	(a)	28.	(b)
29.	(a)	30.	(c)	31.	(b)	32.	(a)	33.	(c)	34.	(d)	35.	(b)
36.	(b)	37.	(d)	38.	(c)	39.	(a)	40.	(d)	41.	(b)	42.	(c)
43.	(c)	44.	(b)	45.	(b)	46.	(a)	47.	(a)	48.	(a)	49.	(d)
50.	(a)	51.	(a)	52.	(a)	53.	(c)	54.	(b)	55.	(c)	56.	(a)
57.	(c)	58.	(b)	59.	(c)	60.	(b)	61.	(c)	62.	(b)	63.	(d)
64.	(a)	65.	(d)	66.	(c)	67.	(a)	68.	(a)	69.	(a)	70.	(c)
71.	(b)	72.	(a)	73.	(c)	74.	(b)	75.	(c)	76.	(b)	77.	(b)
78.	(c)	79.	(b)	80.	(d)	81.	(b)	82.	(a)	83.	(a)	84.	(a)
85.	(d)	86.	(c)	87.	(d)	88.	(a)	89.	(d)	90.	(d)	91.	(b)
92.	(a)	93.	(d)	94.	(a)	95.	(a)	96.	(a)	97.	(d)	98.	(a)
99.	(b)	100.	(c)	101.	(b)	102.	(d)	103.	(c)	104.	(b)	105.	(a)
106.	(b)	107.	(a)	108.	(b)	109.	(b)	110.	(d)	111.	(a)	112.	(a)
113.	(d)	114.	(b)	115.	(c)	116.	(a)	117.	(a)	118.	(a)	119.	(a)
120.	(b)	121.	(d)	122.	(b)	123.	(d)	124.	(b)	125.	(b)	126.	(a)
127.	(c)	128.	(b)	129.	(a)	130.	(d)	131.	(c)	132.	(a)	133.	(b)
134.	(b)	135.	(b)	136.	(c)	137.	(b)	138.	(b)	139.	(d)	140.	(a)
141.	(c)	142.	(b)	143.	(d)	144.	(b)	145.	(b)	146.	(a)	147.	(d)
148.	(a)	149.	(d)	150.	(d)	151.	(d)	152.	(c)	153.	(b)	154.	(c)
155.	(a)	156.	(b)	157.	(d)	158.	(a)	159.	(c)	160.	(c)	161.	(a)
162.	(b)	163.	(b)	164.	(c)	165.	(d)	166.	(d)	167.	(c)	168.	(b)
169.	(a)	170.	(a)	171.	(b)	172.	(a)	173.	(b)	174.	(c)	175.	(a)
176.	(b)	177.	(d)	178.	(c)	179.	(c)	180.	(c)	181.	(a)	182.	(a)
183.	(b)	184.	(b)	185.	(b)	186.	(a)	187.	(b)	188.	(d)	189.	(b)
190.	(a)	191.	(b)	192.	(a)	193.	(b)	194.	(c)	195.	(c)	196.	(d)
197.	(b)	198.	(b)	199.	(b)	200.	(d)	201.	(a)	202.	(c)	203.	(c)
204.	(c)	205.	(a)	206.	(c)	207.	(a)	208.	(a)	209.	(c)	210.	(c)
211.	(c)	212.	(d)	213.	(a)	214.	(c)	215.	(a)	216.	(b)	217.	(c)
218.	(c)	219.	(b)	220.	(a)	221.	(d)	222.	(c)	223.	(a)	224.	(a)
225.	(a)	226.	(b)	227.	(d)	228.	(c)	229.	(a)	230.	(b)	231.	(b)
232.	(c)	233.	(c)	234.	(a)	235.	(c)	236.	(a)	237.	(c)	238.	(b)

239.	(d)	240.	(a)	241.	(c)	242.	(a)	243.	(c)	244.	(d)	245.	(b)
246.	(a)	247.	(b)	248.	(b)	249.	(a)	250.	(a)	251.	(c)	252.	(a)
253.	(a)	254.	(c)	255.	(b)	256.	(d)	257.	(a)	258.	(d)	259.	(b)
260.	(b)	261.	(d)	262.	(d)	263.	(b)	264.	(c)	265.	(d)	266.	(d)
267.	(d)	268.	(d)	269.	(d)	270.	(d)	271.	(d)	272.	(a)	273.	(a)
274.	(d)	275.	(d)	276.	(b)	277.	(a)	278.	(a)	279.	(c)	280.	(a)
281.	(c)	282.	(c)	283.	(a)	284.	(c)	285.	(a)	286.	(a)	287.	(d)
288.	(a)	289.	(c)	290.	(a)	291.	(a)	292.	(d)	293.	(c)	294.	(a)
295.	(b)	296.	(b)	297.	(d)	298.	(a)	299.	(c)	300.	(a)	301.	(a)
302.	(d)	303.	(b)	304.	(b)	305.	(b)	306.	(d)	307.	(d)	308.	(c)
309.	(d)	310.	(a)	311.	(b)	312.	(a)	313.	(c)	314.	(c)	315.	(a)
316.	(c)	317.	(c)	318.	(a)	319.	(c)	320.	(a)	321.	(c)	322.	(d)
323.	(c)	324.	(c)	325.	(a)	326.	(a)	327.	(d)	328.	(b)	329.	(c)
330.	(c)	331.	(a)	332.	(c)	333.	(a)	334.	(a)	335.	(b)	336.	(b)
337.	(d)	338.	(b)	339.	(c)	340.	(c)	341.	(a)	342.	(b)	343.	(d)
344.	(b)	345.	(d)	346.	(d)	347.	(c)	348.	(a)	349.	(a)	350.	(b)
351.	(a)	352.	(d)	353.	(d)	354.	(a)	355.	(c)	356.	(c)	357.	(a)
358.	(b)	359.	(d)	360.	(a)	361.	(a)	362.	(d)	363.	(a)	364.	(c)
365.	(c)	366.	(b)	367.	(a)	368.	(c)	369.	(d)	370.	(d)	371.	(b)
372.	(a)	373.	(d)	374.	(a)	375.	(a)	376.	(a)	377.	(b)	378.	(c)
379.	(a)	380.	(d)	381.	(a)	382.	(b)	383.	(b)	384.	(a)	385.	(a)
386.	(b)	387.	(a)	388.	(d)	389.	(a)	390.	(a)	391.	(a)	392.	(b)
393.	(b)	394.	(a)	395.	(a)	396.	(a)	397.	(a)	398.	(a)	399.	(c)
400.	(d)	401.	(a)	402.	(b)	403.	(a)	404.	(d)	405.	(b)	406.	(d)
407.	(b)	408.	(b)	409.	(b)	410.	(b)	411.	(a)	412.	(b)	413.	(d)
414.	(d)	415.	(a)	416.	(c)	417.	(a)	418.	(a)	419.	(a)	420.	(d)
421.	(a)	422.	(d)										

Hints of selected questions

4. The quantity demanded is always expressed at a given price. At different prices different quantities of a commodity are generally demanded.

Ans. : (c)

7. The quantity demanded is a flow. We are concerned not with a single isolated purchase, but with a continuous flow of purchases. Therefore, demand is expressed as "So much per period of time".

Ans. : (a)

10. The following are the determinants of demand:

(*i*) Price of commodity

(*ii*) Price of related commodities

(*iii*) Income of the consumer

(*iv*) Tastes and preferences of consumers

(*v*) Consumer's expectations

(*vi*) Size & consumption of population

(*vii*) Level of National Income and its distribution

Ans. : (*b*)

15. The prices of related commodities are included in determinant of demand, which may be either complimentary goods or substitutes.

Ans. : (*d*)

18. Related commodities are of two types :

(*a*) Complementary goods

(*b*) Competing or Substitute goods

Ans. : (*c*)

20. Complementary goods are those goods which are consumed together or simultaneously. All the goods given under options (*a*) to (*c*) are complementary goods.

Ans. : (*d*)

23. There is an inverse relation between the demand for a good and the price of its complement.

Ans. : (*b*)

37. When goods are substitutes, a fall in the price of one (Ceteris Paribus) leads to a fall in the quantity demanded of its substitutes. In fact, there is direct or positive relation between the demand for a product and the price of its substitutes.

Ans. : (*d*)

54. Tea and Coffee are substitutes as they satisfy the same want and can be used with ease in place of one another. It may be noted that there is direct or positive relation between the demand for a product and the price of its substitutes.

Ans. : (*b*)

61. In case of articles of conspicuous goods, these become more attractive if their prices go up. Such articles will not conform to the usual law of demand.

Ans. : (*c*)

89. The total increase in quantity demanded due to fall in price is termed as 'Price Effect'. The Price Effect manifests itself in the Form of income effect and Substitution Effect.

Price Effect = Income Effect + Substitution Effect.

Ans. : (*d*)

93. The following are the exceptions to the law of demand:

(*i*) Conspicuous goods

(*ii*) Giffen goods

(*iii*) Conspicuous necessities

(*iv*) Future expectations about prices

(*v*) Incomplete information and irrational behaviour

(*vi*) Demand for necessities

(*vii*) Speculative goods

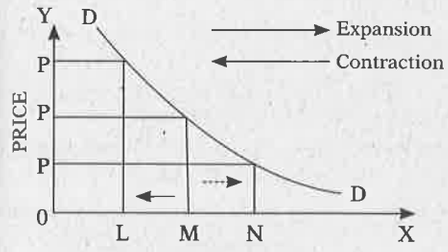
The Law of Demand duly applies on Normal Goods.

Ans. : (*d*)

106. The expansion and contraction of demand takes place as a result of changes in the price while all other determinants *viz.* Income, tastes, propensity to consume and price of related goods remain constant.

Ans. : (*b*)

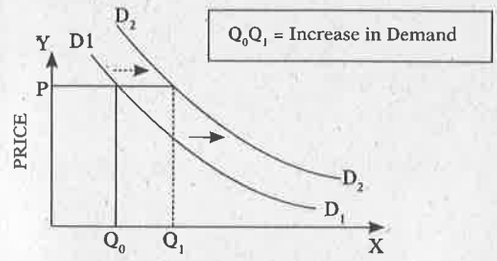
113.



Expansion and contraction of Demand

Ans. : (*d*)

118.



Quantity per period of Time

Rightward shift in the demand Curve

Ans. : (*a*)

121. Change in demand is caused by the change in consumer's tastes and preferences, income, the price of the related goods or other factors on which demand depends.

Ans. : (*d*)

119.

	Price (P)	*Quantity (Q)*
Original	₹ 6	10 Units
New	₹ 4	15 Units
Change	$\Delta P = 2$	$\Delta Q = 5$
Price Elasticity = $\frac{-\Delta Q}{\Delta P} \times \frac{P}{Q} = (-)\ \frac{5}{2} \times \frac{6}{10} =$ **(-) 1.5**		

135.

Ans. : (*a*)

$$\text{Price Elasticity} = \frac{\text{\% change in Quantity Demanded}}{\text{\% Change in Price}}$$

$$= \frac{15\%}{5\%} = 3$$

136.

Change in quantity demanded = 160

$$\text{\% Change in quantity demanded} = \frac{160}{800} \times 100 = 20\%$$

\% Change in Price = 25%

$$\text{Price Elasticity of Demand} = \frac{\text{\% change in Quantity Demanded}}{\text{\% change in Price}}$$

$$= \frac{20\%}{25\%} = 0.8$$

137.

$$\text{Price Elasticity of Demand} = \frac{\Delta q}{\Delta p} \times \frac{p}{q}$$

$$4 = \frac{20}{x-4} \times \frac{4}{80}$$

$$4 = \frac{1}{x-4}$$

$$4(x-4) = 1$$

$$4x - 16 = 1$$

$$x = \frac{17}{4} = 4.25$$

141. Price Elasticity = $\frac{\text{Percentage change in Quantity Demanded}}{\text{Percentage change in Price}}$

If % change in Quantity is less than the % change in Price then Price Elasticity will be less than one.

Ans. : (*c*)

142. Elasticity of Demand = $\frac{\Delta Q}{\Delta P} \times \frac{P_1}{Q_1} = \frac{500}{-10,000} \times \frac{60,000}{1,500} = -2$

149. % change in Price = $\frac{60-80}{80} = 25\%$

Price Elasticity of Demand = 1.25

Price Elasticity = $\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$

$$1.25 = \frac{\text{\% change in Quantity}}{25\%}$$

Increase in Demand = **31.25%**

Ans. : (*d*)

151. Price elasticity of Demand = $\frac{\Delta Q}{\Delta P} \times \frac{P_1}{Q_1} = \frac{-5}{10} \times \frac{40}{25} = -0.8$

153. Price Elasticity = $\frac{\text{Lower Segement}}{\text{Upper Segment}}$

At mid-point, Lower Segment = Upper Segment.

Hence, Price Elasticity will be equal to 1

Ans. : (*b*)

155. Price Elasticity (E_p)= $\frac{\text{Lower Segement}}{\text{Upper Segment}}$

Ans. : (*a*)

156. Refer Q. 134

Ans. : (*b*)

160. Price Elasticity (E_p) $= -\frac{dq}{dp} \times \frac{p}{q} = -\frac{5}{2} \times \frac{6}{10} =$ **-1.5**

Ans. : (*c*)

163. Using Arc Elasticity Method

Price Elasticity (E_p) $= \frac{q_1 - q_2}{q_1 + q_2} \times \frac{p_1 + p_2}{P_1 - P_2} = \frac{300 - 200}{300 + 200} \times \frac{120 + 200}{120 - 200}$

$= \frac{-100 \times 320}{500 \times 80} =$ **-0.8**

Ans. : (*b*)

164. Using Arc Elasticity Method

Price Elasticity (E_p) $= \frac{q_1 - q_2}{q_1 + q_2} \times \frac{p_1 + p_2}{P_1 - P_2} = \frac{300 - 5000}{300 + 5000} \times \frac{300 + 200}{300 - 200}$

$= \frac{-2000 \times 500}{8000 \times 100} =$ **-1.25**

Ans. : (*c*)

165. Using Arc Elasticity Method

Price Elasticity (E_p) $= \frac{q_1 - q_2}{q_1 + q_2} \times \frac{p_1 + p_2}{P_1 - P_2} = \frac{700 - 100}{700 + 100} \times \frac{60 + 100}{60 - 100}$

$= \frac{600 \times 160}{800 \times (-40)} =$ **-3**

Ans. : (*d*)

167.

	Price (P)	*Quantity (Q)*
Original	₹ 200	60 Units
New	₹ 120	?
Change	ΔP = 80	ΔQ = ?

Price Elasticity (E_p) $= \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

$2 = \frac{\Delta q}{80} \times \frac{200}{60}$

$\Delta q = \frac{2 \times 80 \times 60}{200} = 48$

Therefore, **New Quantity Demanded** = 60 + 48 = **108 units**

Ans. : (*c*)

169. Price Elasticity $= \frac{\%\text{ Change in Quantity Demanded}}{\%\text{ Change in Price}} = \frac{25\%}{22\%} =$ **1.136**

Therefore, demand is elastic

Ans. : (*a*)

170. It means the quantity demanded changes by a larger percentage than the price.

Ans. : (*a*)

179. Price Elasticity (E_p) $= \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

$1.5 = \frac{\Delta q}{40} \times \frac{100}{30}$

$\Delta q = \frac{1.5 \times 1200}{100} = 18$

Therefore, **New Quantity Demanded** = 30 + 18 = **48 units**

Ans. : (*c*)

189. $E_i = \frac{q_1 - q_2}{q_1 + q_2} \times \frac{Y_1 + Y_2}{Y_1 - Y_2} = \frac{25 - 30}{25 + 30} \times \frac{30,000 + 36,000}{30,000 - 36,000}$

$= \frac{(-5)}{55} \times \frac{66,000}{(-6,000)} =$ **1**

Ans. : (*b*)

191. Income elasticity for demand $= \frac{\%\text{ change in quantity demanded}}{\%\text{ change in Income}}$

Income elasticity for demand $= \frac{30\%}{15\%} = 2$

Ans. : (*c*)

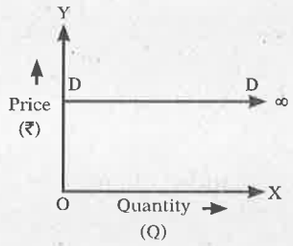
211. When income increases, consumers choose to consume superior substitutes. Thus, income elasticity is negative in case of inferior goods.

Ans. : (*c*)

213. If the proportion of Income spent on a good decrease as income rises, then income elasticity for the good is less than one.

Ans. : (*a*)

216. Perfectly elastic means the demand raises from zero to infinity when a small price reduction takes place. In this case, the demand curve is parallel to the X-axis.



Ans. : (*b*)

217.

$$E_C = \frac{\text{\% Change in quantity demanded of good } x}{\text{\% Change in price of good y}}$$

$$= \frac{15\%}{10\%} = 1.5$$

218.

$$E_C = \frac{\text{\% Change in quantity demanded of good x}}{\text{\% Change in price of good } y}$$

$$-0.8 = \frac{x}{20\%}$$

$$x = -0.8 \times 20\% = -0.16$$

$$= -16\%$$

Since cross elasticity is negative, X and Y are complementary goods

224. Cross demand refers to the quantities of a commodity or service which will be purchased with reference to changes in price, not of that particular commodity, but of other inter-related commodities, other things remaining the same

If two goods are totally unrelated, the cross-price elasticity between them is zero.

Ans. : (*a*)

225. E_c

$$= \frac{\textit{Percentage change in demand}}{\textit{Percentage change in price of substituted}}$$

$$= \frac{2\%}{8\%} = \mathbf{+\ 0.25}$$

Ans. : (*a*)

230. $E_C = \dfrac{\textit{\% Change in Quantity Demanded}}{\textit{\% Change in Price of related goods}} = \dfrac{5\%}{20\%} = \mathbf{0.25}$

Ans. : (*b*)

233. $E_C = \dfrac{\Delta q_x}{\Delta P_y} \times \dfrac{P_y}{q_x}$ [Where X = Tea and Y = Coffee]

$$E_C = \frac{5-8}{-10} \times \frac{25}{5} = \frac{-3}{-10} \times \frac{25}{5} = +\ \mathbf{1.5}$$

Ans. : (*c*)

240. $E_a = \dfrac{\textit{\% Change in Demand}}{\textit{\% Change in Spending an advertising}} = \dfrac{30}{25} = \mathbf{1.2}$

Ans. : (*a*)

267.

The option (*d*) falls under the Category of "Comforts".

288. $TU_2 = TU_1 + M_{U2}$

$= 200 + 180 = 380$

Ans. : (*a*)

289. $MU_n = TU_n - TU_{n-1}$

$MU_3 = TU_3 - TV_2$

$= 480 - 380 = \mathbf{100}$

Ans. : (*c*)

291. Marginal utility = The addition made to the total utility by the addition of consumption of one more unit of a commodity. Symbolically,

$U_n = TU_n - TU_{n-1}$

$MU_{11} = TU_{11} - TU_{10} = 108 - 100 = 8$

Ans. : (*a*)

293. The conditions for consumer attaining equilibrium is the point where :

(*a*) The budget line is tangent to the indifference curve and

(*b*) $\dfrac{MU_x}{P_x} = \dfrac{MU_y}{P_y}$

Ans. : (*c*)

305. $MU_5 = TU_5 - TU_4 = 830 - 750 = 80$

Ans. : (*b*)

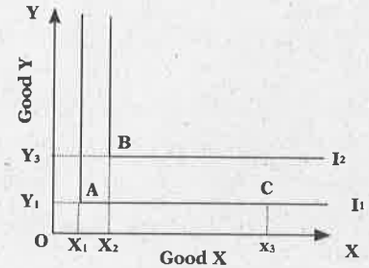
306. $MU_8 = TU_8 - TU_7 = 960 - 930 = 30$

Ans. : (*d*)

345. Higher indifference curve represents a higher level of satisfaction than the lower curve. Therefore, consumer's satisfaction will be highest on IC_3. Since, all the combinations on an indifference curve give equal satisfaction to the consumer, there will be same level of satisfaction on C and D.

Ans. : (*d*)

346. When two goods are perfect complementary goods (e.g. left shoe and right shoe), the consumer consumes only bundles in which both X and Y in equal proportions. With a bundle like A or 8, he will not substitute X for Y because an extra piece of the other good (here a single shoe) is worthless for him. The reason is that neither an additional left shoe nor a right shoe without a paired one of each, adds to his total utility. In such a case, the indifference curve will consist of two straight lines with a right angle bent which is convex to the origin, or in other words, it will be L shaped.



Indifference Curve of Perfect Complements

Ans. : (*d*)

350. The main reasons for downward sloping demand curve are:

(*i*) Law of diminishing marginal utility

(*ii*) Price effect

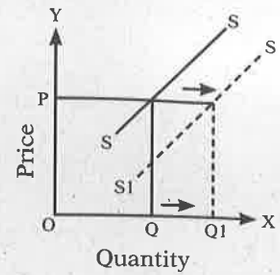
(*iii*) Arrival of new customers

(*iv*) Different uses of the product

Ans. : (*a*)

387. When the supply curve shifts to the right, more is offered for sale at each price. In figure, we find that at price P, the quantity supplied rises from Q to Q_1.

Increase in Supply



Ans. : (*a*)

401. Elasticity of Supply (E_s)

$$= \frac{\Delta q}{q} \times \frac{p}{\Delta p} = \frac{3,000}{2,000} \times \frac{200}{100} = \mathbf{3.0.}$$

Ans. : (*a*)

403. $E_s = \dfrac{\%\text{ Change in Supply}}{\%\text{ Change in Price}} = \dfrac{25\%}{10\%} = \mathbf{2.5}$

Ans. : (*a*)

404. Elasticity of Supply $= \dfrac{\%\ change\ in\ quantity\ supplied}{\%\ change\ in\ Price} = \dfrac{40\%}{20\%} = 2$

Ans. : (*d*)

408. $E_s = \dfrac{\Delta q}{\Delta P} \times \dfrac{P}{Q} = \dfrac{500}{100} \times \dfrac{2000}{2500} = \mathbf{4}$

Ans. : (*b*)

3

CHAPTER

THEORY OF PRODUCTION AND COST

UNIT 1: THEORY OF PRODUCTION

Meaning of Production

1. What is Production is Economics:

(*a*) Creating/Addition of Utility

(*b*) Production of food grains

(*c*) Creation of services

(*d*) Manufacturing of goods

[CA CPT Dec. 2008]

2. Which of the following is considered as production in economics?

(*a*) Helping a blind person in crossing the road

(*b*) Group dance performance in a college annual function

(*c*) Holding a child who is falling from a wall

(*d*) Performing an art in a theatre

[CA CPT May 2019]

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

(*a*) Tilling of soil.

(*b*) Singing a song before friends.

(*c*) Preventing a child from falling into a manhole on the road.

(*d*) Painting a picture for pleasure.

4. Which of the following statements is true?

(*a*) The services of a doctor are considered production.

(*b*) Man can create matter.

(*c*) The services of a housewife are considered production.

(*d*) When a man creates a table, he creates matter.

5. Production may be defined as an act of:

(*a*) Creating utility

(*b*) Destroying utility

(*c*) Earning profit in best way

(*d*) Providing services professionally

[Jan. 2021]

6. In Economics, entire process of _____ is nothing but creation of utilities in the form of goods and services.

(*a*) Consumption

(*b*) Production

(*c*) Exchange

(*d*) Distribution

[CA CPT June 2017]

7. Which activity is the base of all production activities

(*a*) Consumption

(*b*) Production

(c) Exchange
(d) Investment

[Nov. 2020]

8. Production is defined as:

(a) Creation of matter
(b) Creation of utility in matter
(c) Creation of infrastructural facilities
(d) None of the above

[CA CPT June 2015]

9. According to _____, Production is the organized activity of transforming resources into finished products in the form of goods and services, and the objective of production is to satisfy the demand of such transformed "resources".

(a) James Bates
(b) J.R. Parkinson
(c) Marshall
(d) Both (a) and (b)

10. _____ to exchange in the market is an essential component of production.

(a) Intention
(b) Ability
(c) Capacity
(d) Possibility

11. Production does not include work done _____.

(a) Within a household out of love & affection
(b) Voluntary services
(c) For self consumption
(d) All of the above.

Factors of Production

12. Factors of production refer to :

(a) Inputs
(b) Outputs
(c) Both (a) & (b)
(d) Either (a) or (b)

13. _____ are the factors or resources which make it possible to produce goods and services.

(a) Land, Labour, and Bank
(b) Capital, Owner and manpower
(c) Land, Labour and Entrepreneurial ability
(d) Land, Labour, Capital and Entrepreneurial ability

14. Which of the following factors of production is a free gift of nature and refers to Natural resources?

(a) Land
(b) Labour
(c) Capital
(d) Entrepreneurial Ability

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

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

16. Which of the following is not a characteristics of Land?

(a) It is a free gift of nature
(b) It is a mobile factor of production
(c) It is limited in quantity
(d) Its productive power is indestructible **[CA CPT Dec. 2012]**

17. The term ___ means any mental or physical exertion directed to produce goods or services.

(a) Land
(b) Labour
(c) Capital
(d) Entrepreneur

[Dec. 2021]

18. Which among the following is not a characteristic of land?

(a) It is an active factor
(b) It has variety of uses
(c) Its production powers are indestructible
(d) Its supply is limited

[CA CPT Dec. 2016]

19. Which one of the following is not a characteristic of land?

(a) Land is immobile
(b) Land is active factor
(c) Land has multiple uses
(d) Land is heterogeneous

[June 2023]

20. Which of the following statement about factors of production is not true?

(a) Land is a passive factor
(b) Land is a free gift of nature
(c) Land is immobile
(d) Land is perishable

[CA CPT Nov. 2018]

21. 'Land is heterogeneous' implies which of the following?

(a) Two lands are alike
(b) Two lands are not alike
(c) Two lands are fixed
(d) Two lands are mobile

[June 2022]

22. No two pieces of land and alike. They differ in fertility and situation. Therefore, Land is _____.

(a) Homogenous
(b) Heterogeneous
(c) Bitrogeneous
(d) None of these.

23. Which of the following is correct about Land?

(a) It is mobile
(b) It has single use
(c) Its supply is fixed
(d) It is homogeneous.

24. Supply of land is :

(a) Elastic
(b) Perfectly Elastic
(c) Perfectly Inelastic
(d) Inelastic

[Nov. 2019]

25. The total supply of Land is _____ from the point of view of the economy. However, it is relatively _____ from the point of view of a firm.

(a) Perfectly Inelastic, Inelastic
(b) Perfectly Inelastic, Relatively Elastic
(c) Perfectly Elastic, Inelastic
(d) Perfectly Elastic, elastic

26. Labour force wants more _____.

(a) Facility
(b) Leisure
(c) Benefit
(d) All of the above

[CA CPT Dec. 2009]

27. Which of the following is not a characteristic of labour?

(*a*) It is perishable

(*b*) It has weak bargaining power

(*c*) Labour and Labour power cannot be separated

(*d*) Labour is not mobile

[CA CPT Dec. 2016]

28. The concept of "innovative entrepreneurship" was given by

(*a*) Adam smith

(*b*) Marshall

(*c*) J K Mehta

(*d*) Schumpeter

[Nov. 2020]

29. The labour power or efficiency of labour depends upon the _____.

(*a*) Laborer's inherent and acquired qualities.

(*b*) Features of work environment

(*c*) Incentive to work

(*d*) All of the above.

30. Labour is highly perishable in the sense that _____.

(*a*) A labourer cannot store his labour.

(*b*) The life of labour is short.

(*c*) The labourer sells his labour against wages, but retains the capacity to work.

(*d*) The labour is always low priced.

31. Without the active participation of labour, land and capital may not produce anything. It means labour is _____ factor.

(*a*) Passive

(*b*) Active

(*c*) Working

(*d*) Executing

32. Profit is income from which of the following?

(*a*) Labour

(*b*) Business

(*c*) Land

(*d*) Investment

[June 2022]

33. Which one of the following is not a necessary function of an entrepreneur?

(*a*) Innovations.

(*b*) Risk and uncertainty bearing

(*c*) Initiating a business enterprise

(*d*) Supervision of day-to-day production activities.

[July 2021]

34. Human capital refers to:

(*a*) Savings by individuals

(*b*) Mobilisation of saving

(*c*) Human skills and abilities

(*d*) Productive investment

[CA CPT June 2016]

35. _____ Capital performs its function is production in a single use and is not available for future use.

(*a*) Circulating

(*b*) Fixed

(*c*) Tangible

(*d*) Human

36. Which of the following is not a passive factor of production?

(*a*) Building

(*b*) Machine

(*c*) Land

(*d*) Labour

[July 2021]

37. Which one of the following may be regarded as a part of social capital?

(*a*) Roads

(*b*) Bridges

(*c*) Machinery

(*d*) Both (*a*) & (*b*)

38. The three stages of capital formation are :

(*a*) Savings, Mobilization of Savings and investment

(*b*) Mobilization of Saving, Savings, and investment

(*c*) Investment, Saving and mobilization of Saving

(*d*) Saving, Investment and mobilization of savings.

39. _____ means a sustained increase in the stock of real capital in a Country.

(*a*) Capital formation

(*b*) Savings

(*c*) Mobilization of Savings

(*d*) Mobilization of Capital

40. Which one of the following statements is not correct?

(*a*) Land has indestructible powers

(*b*) Labour is mobile

(*c*) Capital is nature's gift

(*d*) Land is a passive factor.

[CA CPT June 2016]

41. Functions of the entrepreneur are:

(*a*) Risk bearing

(*b*) Initiating a business enterprise and resource co-ordinating

(*c*) Introducing new innovations

(*d*) All of the above

[CA CPT June 2009]

42. An Entrepreneur undertakes which one of the following functions?

(*a*) Initiating a business and resource co-ordination

(*b*) Risk or uncertainty bearing

(*c*) Innovations

(*d*) All of the above

[CA CPT June 2014]

43. Innovation theory of entrepreneurship is propounded by:

(*a*) Knight

(*b*) Schumpeter

(*c*) Max Weber

(*d*) Peter Drucker

[CA CPT Dec. 2013]

44. The concept of innovative entrepreneurship was propounded by _____

(*a*) Joel dean

(*b*) Schumpeter

(*c*) Marshall

(*d*) Karl Marx

[June 2023]

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

(*a*) Innovate

(*b*) Bear the sense of responsibility

(*c*) Finance

(*d*) Earn profit

46. Who has given the concept of Innovative Entrepreneurship?

(a) Robbins
(b) Adam Smith
(c) Schumpeter
(d) Sweezy

[CA CPT June 2008]

47. The basic minimum objective of all kinds of enterprises is to survive or to stay alive. It may be regarded as _____ objective of the enterprise.

(a) Organic
(b) Economic
(c) Social
(d) National

48. _____ objective implies the profit maximizing behaviour of the firm.

(a) Organic
(b) Economic
(c) Social
(d) National

49. _____ mobilizes factors of production, combines them in the right proportion, initiates the process of production and bears the risks involved in it.

(a) Businessman
(b) Manager
(c) CEO
(d) Entrepreneur

50. Which one of the following function is performed by entrepreneur?

(a) Initiating Business Enterprise and resource Co-ordination
(b) Risk-bearing or uncertainty bearing
(c) Innovations
(d) All of the above

51. According to _____, the true function of an entrepreneur is to introduce innovations.

(a) Schumpeter
(b) Peter Ducker
(c) Paul Samuelson
(d) None of the above

Production Function

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

(a) The relationship between market price and quantity supplied.
(b) The relationship between the firm's total revenue and the cost of production.
(c) The relationship between the quantities of inputs needed to produce a given level of output.
(d) The relationship between the quantity of inputs and the firm's marginal cost of production.

53. Technological relationship between inputs & output

(a) Production function
(b) Marketing
(c) Supply function
(d) Social function

[June, 2023]

54. A production function is defined as the relationship between _____.

(a) The quantity of physical inputs and physical output of a firm
(b) Stock of inputs and stock of output
(c) Prices of inputs and output
(d) Price and supply of a firm

[CA CPT Dec. 2012]

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

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

56. What is a production function?

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

57. Production function is:

(a) Purely a technical relationship between input & output
(b) Purely an economic relationship between input & output
(c) Both the technical & economical relationship between input & output
(d) None of the above

[CA CPT Dec. 2013]

58. The production function:

(a) Is the relationship between the quantity of inputs used and the resulting quantity of product.
(b) Tells us the maximum attainable output from a given combination of inputs.
(c) Expresses the technological relationship between inputs and output of a product.
(d) All the above

59. _____ shows the overall output generated at a given level of input:

(a) Cost function
(b) Production function
(c) ISO cost
(d) Marginal rate of technical substitution

[CA CPT Nov. 2006]

60. Which function shows relationship between input and output?

(a) Consumption function
(b) Investment function
(c) Production function
(d) Cost function

[CA CPT Dec. 2010]

61. A functional relationship between inputs and output is called _____

(a) Cost function
(b) Revenue function
(c) Production function
(d) Consumption function

[Nov. 2020]

62. Which of the following statements is true?

(a) After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.
(b) Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.
(c) The first stage corresponds to the range in which the AP is

increasing as a result of utilizing increasing quantities of variable inputs.

(*d*) All the above.

63. Which one of the following is the assumption underlying any production function?

(*a*) Relationship between inputs and outputs exists for a period of time.

(*b*) There is a given "State-of-the act" in the production technology.

(*c*) Whatever input combinations one included in a particular function, the output resulting from their utilization is at the maximum level.

(*d*) All of the above.

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

(*a*) At least one fixed factor of production and firms neither leaving nor entering the industry.

(*b*) Generally a period which is shorter than one year.

(*c*) All factors of production are fixed and no variable inputs.

(*d*) All inputs are variable and production is done in less than one year.

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

(*a*) In the short run all inputs are fixed, while in the long run all inputs are variable.

(*b*) In the short run the firm varies all of its inputs to find the least-cost combination of inputs.

(*c*) In the short run, at least one of the firm's input levels is fixed.

(*d*) In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.

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

(*a*) Up to six months from now.

(*b*) Up to five years from now.

(*c*) As long as all inputs are fixed.

(*d*) As long as at least one input is fixed.

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

(*a*) Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.

(*b*) When marginal product is equal to average product, average product is decreasing but at its highest.

(*c*) When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.

(*d*) In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.

68. Long period production function is related to:

(*a*) Law of variable proportions

(*b*) Laws of returns to scale

(*c*) Law of diminishing returns

(*d*) None of the above

[CA CPT June 2015]

69. Long-run does not have:

(*a*) Average Cost

(*b*) Total Cost

(*c*) Fixed Cost

(*d*) Variable Cost

[CA CPT Dec. 2008]

70. A fixed input is defined as:

(*a*) That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.

(*b*) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.

(*c*) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.

(*d*) That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.

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

(*a*) An increase in pollution level.

(*b*) Diseconomies of scale.

(*c*) Economies of scale.

(*d*) Constant returns to scale.

Cobb-Douglas Production Function

72. Paul Douglas and Cobb studied the production function of the _____ manufacturing industries.

(*a*) American

(*b*) Japanese

(*c*) British

(*d*) Asian

73. In its original form, the Cobb-Douglas production function applies:

(*a*) To individual firm

(*b*) To selected Firms

(*c*) To whole of manufacturing in the USA

(*d*) None of the above.

74. In Cobb-Douglas production function, two inputs are:

(*a*) Land and Labour

(*b*) Labour and Capital

(*c*) Capital and Entrepreneur

(*d*) Entrepreneur and land

[CA CPT Dec. 2013]

75. The famous Cobb-Douglas production function is based on studies of _____ industries in the United States of America.

(*a*) Manufacturing

(*b*) Construction

(*c*) Consumer

(*d*) Aviation

[CA CPT June 2017]

76. If Cobb-Douglas function is given by $Q = KL^aC^b$, then there will be _____ when (a+b) _____

(*a*) Increasing returns, > 1

(*b*) Increasing returns to scale, > 1

(*c*) Diminishing returns, < 1

(*d*) Decreasing returns to scale, = 1

[CA CPT May 2018]

77. The conclusion drawn from Cobb-Douglas production function is that labour contributed about _____ and capital about _____ of the increase in the manufacturing production.

(*a*) $\frac{3^{rd}}{4}, \frac{1^{st}}{4}$

(b) $\frac{1}{2}, \frac{1}{2}$

(c) $\frac{1^{th}}{4}, \frac{3^{th}}{4}$

(d) None of the above

[CA CPT Dec. 2015]

78. According to Cobb-Douglas production function, will get _____ returns to scale?

(a) Constant

(b) Diminishing

(c) Increasing

(d) Any of the above

[CA CPT Nov. 2018]

79. According to Cobb-Douglas production function, labour contribution in increasing manufacturing production is

(a) 2/3

(b) 3/4

(c) 1/4

(d) 1/2

[Jan. 2021]

Total, Average and Marginal Product

80. What will be the total product when two labourers are hired according to the table given below?

No. of labourers	*Total Product*	*Marginal product*
0	-	-
1	350	350
2	-	250

(a) 680

(b) 580

(c) 350

(d) 230

[CA CPT Dec. 2010]

81. Marginal product is the slope of:

(a) Total Product

(b) Average Product

(c) Marginal Product

(d) Implicit Product

[Nov. 2019]

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

(a) The additional output resulting from one unit increases in both the variable and fixed inputs.

(b) The additional output resulting from one unit increase it fixed inputs.

(c) The additional output resulting from one unit increase in variable inputs.

(d) The additional output resulting from all units increase in variable inputs.

83. Consider the following table:

Labour	*Total Output*	*Marginal Product*
0		
1	100	100
2		80
3	240	

What is the total output, when 2 labour are employed?

(a) 80

(b) 100

(c) 180

(d) 200

[CA CPT June 2008]

84. Which of the following is correct :

(a) TFC = TVC – TC

(b) TC = TVC – TFC

(c) TFC = TC – TVC

(d) TC = TFC – TVC

[Nov. 2019]

85. _____ is the total output resulting from the efforts of all the factors of production combined together at any time.

(a) Total Product

(b) Average Product

(c) Marginal Product

(d) None of the above.

86. Average product is defined as

(a) Total product divided by the total cost.

(b) Total product divided by marginal product.

(c) Total product divided by the number of units of variable input.

(d) Marginal product divided by the number of units of variable input.

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

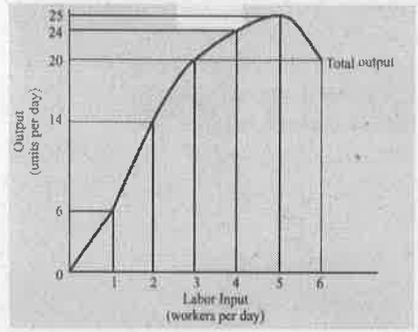
(a) 50

(b) 100

(c) 150

(d) 200

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



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

(a) Six; fourth

(b) Six; third

(c) Six; fifth

(d) Six; sixth

89. At the point of inflexion, the marginal product is:

(a) Increasing

(b) Decreasing

(c) Maximum

(d) Negative

[CA CPT May 2007, 2018]

90. Marginal product will be _____at the point of inflexion is

(a) Minimum

(b) Maximum

(c) Negative

(d) Zero

[Nov. 2020]

91. Suppose the first four units of a variable input generate corresponding total output of 150, 200, 350, 550. What will be the marginal product of the third unit of input?

(a) 50

(b) 100

(c) 150

(d) 200

[CA CPT Dec. 2016]

92. When Average Product falls, marginal product is _____ the Average Product.

(a) Less than

(b) More than

(c) Equal to

(d) Maximum

[Jan. 2021]

93. The production process described below exhibits.

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

(*a*) Constant marginal product of labour.

(*b*) Diminishing marginal product of labour.

(*c*) Increasing return to scale.

(*d*) Increasing marginal product of labour.

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

(*a*) Total product curve.

(*b*) Average product curve.

(*c*) Marginal product curve.

(*d*) Implicit product curve.

95. Which of the following is Correct?

(*a*) $MP_n = TP_n - TP_{n-1}$

(*b*) $MP_n = MP_n - MP_{n-1}$

(*c*) $MP_n = TP_n + TP_{n-1}$

(*d*) None of the above.

Use table below to answer questions 92-95.

Output	*TP*	*MP*
0	–	–
1	10	10
2	—	8
3	24	–

96. What is the MP of 3rd unit of output?

(*a*) 6

(*b*) 8

(*c*) 10

(*d*) 11

[Nov. 2019]

97. What is the total product of producing 2nd unit of output?

(*a*) 8

(*b*) 10

(*c*) 18

(*d*) 24

[Nov. 2019]

98. What is the AP of 1st three units of output?

(*a*) 8

(*b*) 10

(*c*) 18

(*d*) 72

[Nov. 2019]

99. If variable cost of 5 units of output is 100 and fixed cost is 40. Find average cost at 5 units of output.

(*a*) 8

(*b*) 100

(*c*) 108

(*d*) 540

[Nov. 2019]

100. Marginal, average and total product of a firm in the short run will not comprise with

(*a*) When marginal production is at a maximum, average product is equal to marginal product, and total product is rising

(*b*) When average product is maximum, average product is equal to marginal product, and total product is rising

(*c*) When marginal product is negative, total product and average product are falling

(*d*) When total product is increasing, average product and marginal product may be either rising or falling

[CA CPT May 2019]

101. When average product rises as a result of an increase in the quantity of variable factor, marginal product is:

(*a*) Equal to average product

(*b*) More than average product

(*c*) Less than average product

(*d*) Becomes negative

[CA CPT Dec. 2016]

102. The marginal product curve is above the average product curve when the average product is:

(*a*) Increasing

(*b*) Decreasing

(*c*) Constant

(*d*) None **[CA CPT Feb. 2007]**

103. Identify the correct statement:

(*a*) The average product is at its maximum when marginal product is equal to average product.

(*b*) The law of increasing returns to scale relates to the effect of changes in factor proportions.

(*c*) Economies of scale arise only because of indivisibilities of factor proportions.

(*d*) Internal economies of scale can accrue when industry expands beyond optimum.

104. Which of the following is correct in relation to Marginal Product?

(*a*) What is produced units when all factors of production are employed at optimum efficiency?

(*b*) The extra output obtained from employing an additional unit of a factor

(*c*) The left revenue to the entrepreneur after he has incurred all expenses

(*d*) None of the above

[Jan. 2021]

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

(*a*) The marginal product of labour is negative.

(*b*) The marginal product of labour is zero.

(*c*) The average product of labour is falling.

(*d*) The average product of labour is negative.

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

(*a*) Equals the average product of labour.

(*b*) Equals zero.

(*c*) Is maximized.

(*d*) None of the above.

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

(*a*) When total product is rising, average and marginal product may be either rising or falling.

(*b*) When marginal product is negative, total product and average product are falling.

(c) When average product is at a maximum, marginal product equals average product, and total product is rising.

(d) When marginal product is at a maximum, average product equals marginal product, and total product is rising.

108. If the marginal product of labour is below the average product of labour. It must be true that:

(a) Marginal product of labour is negative

(b) Marginal product of labour is zero

(c) Average product of labour is falling

(d) Average product of labour is negative

[CA CPT Aug. 2007]

Law of Diminishing Returns

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

(a) The seed and fertilizer used when the crop is planted.

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

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

(d) The number of hours that the farmer spends in cultivating the wheat fields.

110. Law of variable proportion is valid when:

(a) Only one input is fixed and all other inputs are kept variable

(b) All factors are kept constant

(c) All inputs are varied in the same proportion

(d) None of these

[CA CPT Nov. 2007]

111. Diminishing marginal returns implies:

(a) Decreasing average variable costs

(b) Decreasing marginal costs

(c) Increasing marginal costs

(d) Decreasing average fixed costs

[Nov. 2019]

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

(a) 50, 50, 50, 50

(b) 50, 110, 180, 260

(c) 50, 100, 150, 200

(d) 50, 90, 120, 140

[Nov. 2019]

113. In short run the Law of variable proportions is also known as _____

(a) Law of increasing returns

(b) Law of diminishing returns

(c) Law of decreasing returns

(d) Law of constant returns

[Jan. 2021]

114. Production activity in the short period is analysed with the help of:

(a) Law of variable proportion

(b) Laws of returns to scale

(c) Both (a) & (b)

(d) None of the above

[CA CPT Dec. 2012]

115. The Law of Variable Proportions is associated with:

(a) Short period

(b) Long period

(c) Both short and long periods

(d) Neither short nor long period

[CA CPT June 2016]

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

(a) The short run, but not the long run.

(b) The long run, but not the short run.

(c) Both the short run and the long run.

(d) Neither the short run nor the long run.

[Nov. 2019]

117. 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.

118. Law of increasing returns is applicable because of _____.

(a) Indivisibility of factors.

(b) Specialization.

(c) Economies of scale.

(d) Both (a) & (b) above.

[CA CPT June 2010]

119. In the first stage of law of variable proportions, total product increases at the _____.

(a) Decreasing rate

(b) Increasing rate

(c) Constant rate

(d) Both (a) and (b).

[CA CPT Dec. 2010]

120. During 2nd stage of law of Diminishing returns:

(a) MP and TP is maximum

(b) MP and AP are decreasing

(c) AP is negative

(d) TP is negative

[CA CPT June 2008]

121. A rational producer will produce in the stage in which marginal product is positive and :

(a) MP> AP

(b) MP = AP

(c) MP < AP

(d) MP is zero

[CA CPT June 2016]

122. Diminishing marginal returns implies:

(a) Decreasing average variable costs

(b) Decreasing marginal costs

(c) Increasing marginal costs

(d) Decreasing average fixed costs

[CA CPT May 2007]

123. The phenomenon of diminishing returns rests upon the_____ of the fixed factor:

(a) Divisibility

(b) Flexibility

(c) Indivisibility

(d) None of these

124. Law of diminishing returns is applicable in:

(a) Manufacturing industry

(b) Agriculture

(c) Neither (a) nor (b)

(d) Any economic activity at a point of time.

[CA CPT June 2009, 2010, June 2012]

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

(a) The marginal product curve has a positive slope.

(b) The marginal product curve lies completely below the average product curve.

(c) Total product increases.

(d) Marginal product is positive.

126. Diminishing marginal returns implies

(a) Decreasing average variable costs

(b) Decreasing marginal costs

(c) Increasing marginal costs

(d) Decreasing fixed costs.

[CA CPT Dec. 2015, May 2019]

127. The "law of diminishing returns" applies to

(a) The short run, but not the long run

(b) The long run, but not the short run

(c) Both the short run and the long run

(d) Neither the short run nor the long run

[CA CPT May 2018]

128. Diminishing returns occur:

(a) When units of a variable input are added to a fixed input and total product falls.

(b) When units of a variable input are added to a fixed input and marginal product falls.

(c) When the size of the plant is increased in the long run.

(d) When the quantity of the fixed input is increased and returns to the variable input falls.

Returns to Scale

129. The concept of Returns to Scale is related with:

(a) Very short period

(b) Short period

(c) Long period

(d) None of above

[CA CPT June 2012, 2013]

130. The Law of returns to scale is.

(a) Short run

(b) Long run

(c) Short and Long run

(d) Medium run

[Jan. 2021]

131. The scale of production can be changed in _____.

(a) Very short period

(b) Short period

(c) Long period

(d) Both very short period and short period

132. Increasing returns to scale can be explained in terms of:

(a) External and internal economies

(b) External and internal dis-economies

(c) External economics and internal dis-economies

(d) All of these

[CA CPT Feb. 2007, May 2018]

133. Increasing returns to scale occurs due to:

(a) Economies of scale

(b) Specialization

(c) Indivisibility of factors

(d) All of these

[CA CPT Dec. 2009]

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

(a) Doubling of all inputs used leads to doubling of the output.

(b) Increasing the inputs by 50% leads to a 25% increase in output.

(c) Increasing inputs by 1/4 leads to an increase in output of 1/3.

(d) None of the above.

135. The stage of "Decreasing returns to scale" will occur when _____

(a) Decrease in output is less than increase in input

(b) Decrease in output is greater than increase in input

(c) Increase in output is greater than increase in input

(d) Increase in output is less than increase in input

[June 2023]

136. Returns to scale will said to be in operation when quantity of :

(a) All inputs are changed

(b) All inputs are changed in already established proportion

(c) All inputs are not changed

(d) One input is changed while quantity of all other inputs remain the same

[CA CPT Feb. 2008]

137. Diminishing returns occur –

(a) When units of a variable input are added to a fixed input and total product falls

(b) When units of a variable input are added to a fixed input and marginal product falls

(c) When the size of the plant is increased in the long run.

(d) When the quantity of the fixed input is increased and returns to the variable input falls

[Nov. 2019]

138. Which of the following is the reason of the working of law of increasing returns?

(a) Fuller utilisation of fixed factors

(b) Indivisibility of the factors

(c) Greater specialization of labour

(d) All of the above

[CA CPT June 2013]

139. Consider the following combinations of inputs and outputs:

This production technology satisfies

Labour	*Capital*	*Output*
5	10	1
6	12	2
7	14	3
8	16	4
9	18	5
10	20	6

(a) Increasing returns to scale

(b) Diminishing returns to scale

(c) Constant returns to scale

(d) Increasing returns initially, following by decreasing returns to scale.

[CA CPT Feb. 2008]

140. Linear homogeneous production function is based on:

(a) Increasing returns to scale

(b) Decreasing returns to scale

(c) Constant returns to scale

(d) None of the above

[CA CPT Dec. 2014, May 2018]

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

(a) Output will also decrease by 10%.

(b) Output will increase by 10%.

(c) Output will increase by less than 10%.

(d) Output will increase by more than 10%.

142. In Cobb-Douglas Production function[$Q = KL^aC^b$], there will be increasing returns to scale if :

(a) $a + b > 1$

(b) $a + b = 1$

(c) $a + b = 0$

(d) $a + b < 1$

143. A change in scale means that _____ factors of production are increased or decreased in the same production.

(a) Two

(b) Three

(c) No

(d) All

144. Increase in all input leading to less than proportional increase in output is called _____.

(a) Increasing returns to scale

(b) Decreasing returns to scale

(c) Constant returns to scale

(d) Both increasing and decreasing returns to scale

[CA CPT Feb. 2008]

145. When output decreases by 20% due to increase in inputs by 20%, this stage is called the law of _____.

(a) Increasing returns to scale.

(b) Decreasing returns to scale.

(c) Constant returns to scale.

(d) None of the above.

[CA CPT June 2010]

146. Constant Returns to Scale are also called as _____ Production Function.

(a) Linear

(b) Curvilinear

(c) Linear Homogenous

(d) Curvilinear Homogenous

147. With a view to increase his production, Hariharan a manufacturer of shoes, increases all the factors of production in his unit by 100%. But at the end of the year, he finds that instead of an increase of 100%, his production has increased by only 80%. Which law of returns to scale is operating in this case?

(a) Increasing returns to scale

(b) Decreasing returns to scale

(c) Constant returns to scale

(d) None of the above

[CA CPT June 2014]

148. When output increase in a smaller proportion with an increase in all inputs _____ returns to scale set in.

(a) Increasing

(b) Decreasing

(c) Constant

(d) Circular

Production Optimization

149. ISO quants are equal to:

(a) Product Lines

(b) Total utility lines

(c) Cost lines

(d) Revenue lines

[CA CPT Nov. 2006, May 2018]

150. Among the following statements which is incorrect in relation to isoquants

(a) These are negatively sloped

(b) These are concave to origin

(c) These are not intersecting

(d) These are convex to origin

[Nov. 2020]

151. ISO quants are also known as:

(a) Production possibility curves

(b) Indifference curves

(c) Production indifference curves

(d) None of the above

[CA CPT June 2016]

152. An Isoquant is _____ to an Isocost line at equilibrium point:

(a) Convex

(b) Concave

(c) Tangent

(d) Perpendicular

[CA CPT May 2007]

153. Large production of _____ goods would lead to higher production in future.

(a) Consumer Goods

(b) Capital Goods

(c) Agricultural Goods

(d) Public Goods

[Nov. 2019]

154. An ISO quant shows

(a) All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.

(b) All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.

(c) All the alternative combinations of two inputs that yield the same total product.

(d) Both (b) and (c).

155. ISO quants are negatively sloped & _____ to the origin due to _____ Marginal Rate of Technical Substitution (MRTS).

(a) Convex, Increasing

(b) Convex, Decreasing

(c) Concave, Increasing

(d) Concave, Decreasing

156. Which of the following statement is true in relation to an ISO Quant Curve?

(a) It represents those combination of two factors of production that will give the same level of output

(b) It represents those combinations of all the factors that will give the same level of output

(c) It slopes upward to the right

(d) It can tough either axis

[CA CPT June 2015]

UNIT 2 : THEORY OF COST

Accounting Costs and Economic Costs

157. Suppose, the total cost of production of commodity X is ₹ 1,25,000. Out of this cost implicit cost is ₹ 35,000 and normal profits is ₹ 25,000. What will be the explicit cost of commodity X?

(a) 90,000

(b) 65,000

(c) 60,000

(d) 1,00,000

[CA CPT Aug. 2007, Dec. 2011, June 2013]

158. Which of the following is an example of "explicit cost"?

(a) The wages a proprietor could have made by working as an employee of a large firm.

(b) The income that could have been earned in alternative uses by the resources owned by the firm.

(c) The payment of wages by the firm.

(d) The normal profit earned by a firm.

159. Which of the following is an example of an "implicit cost"?

(a) Interest that could have been earned on retained earnings used by the firm to finance expansion.

(b) The payment of rent by the firm for the building in which it is housed.

(c) The interest payment made by the firm for funds borrowed from a bank.

(d) The Payment of wages by the firm.

160. Implicit cost can be defined as:

(a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of account.

(b) Money not paid out to the owners of the firm for the self owned factors employed in a business and therefore not entered into books of account.

(c) Money payments which the self owned and employed resources could have earned in their next best alternative employment and therefore entered into books of account.

(d) Money payments which the self owned and employed resources earn in their best use and therefore entered into books of account.

161. Total Cost = Explicit cost + Implicit cost + _____

(a) Super Normal Profit

(b) Normal Profit

(c) Super Normal Losses

(d) Average Fixed Cost

[Nov. 2019]

162. Implicit cost may be defined as the:

(a) Costs which do not change over a period of time

(b) Costs which the firm incurs but doesn't disclose

(c) Payment to the non-owners of the firm for the resources

(d) Money payment which the self employed resources could have earned in their best alternative employment.

[CA CPT Nov. 2007]

163. Which of the following is including in cost of production and is termed as accounting cost?

(a) Wages to workers employed

(b) Prices for the raw materials

(c) Fuel and Power Used

(d) All of these

164. Which of the following Statements is false?

(a) Economic costs include the opportunity costs of the resources owned by the firm.

(b) Accounting costs include only explicit costs.

(c) Economic profit will always 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.

Accounting profit is equal to total revenue less implicit cost

Accounting profit = TR - Implicit Cost

[Jan. 2021]

165. Economic cost excludes which of the following :

(a) Accounting cost + explicit cost

(b) Accounting cost + implicit cost

(c) Explicit cost + Implicit cost

(d) Accounting cost + opportunity cost

[CA CPT May 2007]

166. Economic cost includes:

(a) Explicit cost only

(b) Implicit cost only

(c) Sunk cost only

(d) Both explicit costs and implicit costs.

167. The cost of resources owned and employed by the entrepreneur himself in his business is termed as _____ cost.

(a) Explicit

(b) Implicit

(c) Fixed

(d) Variable

[CA CPT June 2012]

168. Cost in terms of pain, discomfort, disability involved in supplying the various factors of production by their owners are termed as_____.

(a) Social cost

(b) Explicit cost

(c) Real cost

(d) Implicit cost

[CA CPT June 2012]

169. Total economic costs = Explicit costs + Implicit cost + _____.

(a) Super Normal Profit

(b) Super Normal Loss

(c) Normal Profit

(d) Economic Profit

[June 2022]

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

(a) Economic costs include expenditures for hired resources while accounting costs do not.

(b) Accounting costs include opportunity costs which are deducted later to find paid out costs.

(c) Accounting costs include expenditures for hired resources while economic costs do not.

(d) Economic costs add the opportunity cost of a firm which uses its own resources.

171. Accounting cost is _____ of Economic cost

(a) Equal to

(b) Less than

(c) More than

(d) Not Included

[CA CPT Nov. 2018]

172. Economic Costs comprises

(a) Accounting Costs

(b) Implicit Cost

(c) Explicit Cost

(d) Both (a) & (b)

173. Which of the following will be included in implicit Cost?

(a) Normal return on money Capital invested by the entrepreneur himself in his own business.

(b) The wages or Salary not paid to the entrepreneur, but could have earned if the services has been sold somewhere else.

(c) Wages or Salary paid to workers

(d) Both (a) and (b)

174. Accounting Costs are also called as _____ costs whereas the cost of factors owned by the entrepreneur himself and employed in his own business is called as _____ costs.

(a) Explicit, Implicit

(b) Implicit, Explicit

(c) Economic, Non-Economic

(d) Explicit, Non-Economic.

Outlay costs and Opportunity Costs

175. Outlay Costs involve _____ expenditure of funds on wages, material, returns interest, etc.

(a) Actual

(b) Expected

(c) Fixed

(d) Planned

176. Outlay costs involve _____ expenditure at some point of time and hence _____ recorded in the books of account.

(a) Financial, are not

(b) Financial, are

(c) Non-Financial, are not

(d) Non-Financial, are

177. Opportunity Cost is _____.

(a) Direct Cost

(b) Total Cost

(c) Accounting Cost

(d) Cost of forgone opportunity

[CA CPT Nov. 2006]

178. The cost of one thing in terms of alternative given up is known as:

(a) Opportunity Cost

(b) Real Cost

(c) Production Cost

(d) Physical Cost

[CA CPT June 2017, May 2018]

179. If the market price of good is more than the opportunity cost of producing it, then:

(a) The market price of the product will increase in the long-run

(b) Producers will increase supply in the long-run

(c) Resources will flow away from production of the good, causing supply to decline with the passage of time

(d) The situation will remain unchanged as long as supply and demand remain in balance.

[CA CPT June 2016]

180. In which of the following cases opportunity cost concept applies?

(a) Resources have alternative uses

(b) Resources have limited uses

(c) Resources have no use

(d) None of the above.

[CA CPT June 2013]

181. Opportunity Cost is:

(a) Marginal cost

(b) Variable cost

(c) Total fixed cost

(d) None of these

[CA CPT May 2018]

182. Opportunity Cost is _____

(a) Recorded in the books of account

(b) Sacrificed alternative

(c) Both (a) and (b)

(d) None of the above

[CA CPT May 2019]

183. The concept of opportunity cost has to be considered whenever :

(a) Resources are scarce

(b) Decision involving choice of one option over other(s) is involved

(c) Both (a) & (b)

(d) Neither (a) nor (b)

184. Opportunity cost is the _____ value that is foregone in choosing one activity over the _____ alternative.

(a) Subjective, other

(b) Subjective, next best

(c) Principal, other

(d) Principal, next best

185. Opportunity Cost is the cost of the _____ opportunity and involves a comparison between the policy that was _____ and the policy that was _____.

(a) Other, Chosen, Should be chosen

(b) Missed, Chosen, should be chosen

(c) Missed, Chosen, rejected

(d) None of these

Direct and Indirect Costs

186. Direct Cost is also known as :

(a) Indirect Cost

(b) Traceable Cost

(c) Opportunity Cost

(d) Accounting Cost

[CA CPT June 2010, June 2013]

187. _____ costs are the costs that are readily identified and are traceable to a particular product, operations or plant.

(a) Direct Cost

(b) Traceable Cost

(c) Indirect Cost

(d) Both (a) & (b)

188. _____ may vary according to the changes accruing to the product, process or machine.

(a) Direct Cost

(b) Implicit-Cost

(c) Indirect Cost

(d) Non-Traceable Cost.

189. Indirect Costs are not easily and definitely identifiable in relation to a plants, products, process or department. These are _____ changed to different jobs or products in standard accounting practice.

(a) Not

(b) Never

(c) Nevertheless

(d) Cannot

190. Identify the indirect Cost.

(a) Common cost incurred for general operations

(b) Wages paid to worker

(c) Material Purchased

(d) Commission Paid

Incremental Costs and Sunk Costs

191. Theoretically, incremental costs are related to the concept of _____.

(a) Marginal Cost

(b) Fixed Cost

(c) Judgmental Cost

(d) Semi Variable Cost

192. Which of the following is part of incremental costs?

(a) Change in product line

(b) Replacement of worn-out machinery

(c) Buy a new production facility

(d) All of these

193. _____ refer to those costs which are already incurred once and for all and cannot be recovered.

(a) Sunk Cost

(b) Fixed Cost

(c) Variable Cost

(d) Incremental

194. Which one of the following is an example of Sunk Cost?

(a) Expenses on advertising

(b) Research & Development Expenditure

(c) Specialized equipment & fixed facilities

(d) All of these.

Historical Costs and Replacement Costs

195. Which of the following in incurred first?

(a) Historical Cost

(b) Replacement Cost

(c) Realized Value

(d) None of these

196. _____ Cost refers to the cost incurred in the past on the acquisition of a productive asset.

(a) Current Cost

(b) Historical Cost

(c) Future Cost

(d) Desired Cost.

197. A Company is willing to change its existing Machinery (5 years old) by a new machinery at a cost of ₹ 10,00,000. The cost of ₹ 10,00,000 may be regarded as:

(a) Historical Cost

(b) Replacement Cost

(c) New Cost

(d) Market Cost

198. Other things remaining the same, an increase in price will make _____ cost higher than _____ cost.

(a) Historical, Replacement

(b) Replacement, Historical

(c) Historical, reliable

(d) Fixed, Historical.

199. Usually in the case of continuous decrease in price of an asset, which one of the following shall be the highest?

(a) Replacement Cost

(b) Historical Cost

(c) Realisable Value

(d) Variable Cost.

Private Costs and Social Costs

200. Private Costs are costs actually incurred or provided for by firms. These may be

(a) Explicit

(b) Implicit

(c) Either (a) or (b)

(d) None of these

201. The Cost of resources for which the firm is not required to pay price is called as _____ cost.

(a) Fixed

(b) Private

(c) Social

(d) Welfare

202. _____ Costs normally figure in business decisions as they Form part of total cost and are internalized by the firm.

(a) Fixed

(b) Private

(c) Social

(d) Welfare

Cost Function

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

(a) The production function.

(b) The price of labour.

(c) Taxes.

(d) The price of the firm's output.

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

(a) TC = TFC - TVC.

(b) TVC = TFC - TC.

(c) TFC = TC - TVC.

(d) TC = TVC - TFC.

205. In the long-run all factors are -

(a) Fixed

(b) Variable

(c) All factors remain unchanged

(d) None

[CA CPT June 2010]

206. Cost Function is the mathematical relation between _____ of a Product and the various determinants of _____.

(a) Cost, Costs

(b) Revenue, Revenues

(c) Cost, Revenues

(d) Revenue, Costs.

207. In a cost function, the dependent variable is unit cost or total cost and the independent variable(s) are _____.

(a) Units sold and purchased.

(b) Price of factor, & size of output

(c) Relevant phenomenon which has a bearing on cost like technology, level of capacity utilisation, efficiency, etc.

(d) Both (b) & (c)

208. Cost function is a function which is obtained from _____.

(a) Production Function

(b) Market Supply of inputs

(c) Market Supply of outputs

(d) Both (a) & (b).

209. The Cost function expresses he relationship between _____ and _____.

(a) Costs, input

(b) Costs, Output

(c) Dependent Variable, Cost

(d) None of these

210. Cost Functions are derived from _____ cost data of the firms.

(a) Actual

(b) Expected

(c) Desired

(d) Standard.

211. Which of the following is a kind of Cost function?

(a) Short-Run Cost Function

(b) Long-Run Cost Function

(c) Short/Long Run Cost Curve

(d) Both (a) and (b)

SHORT RUN COST

Total Cost

212. A company produces 10 units of output and incurs ₹ 30 per unit as variable cost and ₹ 5 per unit of fixed cost. What will be its total cost of producing 10 units?

(a) ₹ 300

(b) ₹ 35

(c) ₹ 305

(d) ₹ 350

[CA CPT Dec. 2014]

213. What is the total cost of production of 20 units, if fixed cost ₹ 5,000 and variable cost is ₹ 2/-?

(a) 5,400

(b) 5,040

(c) 4,960

(d) 5,020

[CA CPT Aug. 2007, June 2010]

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

(a) Increase due to an increase in fixed costs only.

(b) Increase due to an increase in variable costs only.

(c) Increase due to an increase in both fixed and variable costs.

(d) Decrease if the firm is in the region of diminishing returns.

215. Calculate total cost of 4 units :

Units	*Total cost* (₹)	*Marginal cost* (₹)
2	80	40
4	-	30

(a) 140

(b) 120

(c) 50

(d) 40

[CA CPT Dec. 2008]

216. Calculate total cost of 4 units :

Output	*0*	*10*	*20*
Total cost	₹ 200	₹ 400	₹ 800

(a) ₹ 40

(b) ₹ 20

(c) ₹ 200

(d) ₹ 400

[CA CPT June 2009]

Fixed Cost

217. _____ Costs do not change with changes in Output.

(a) Fixed

(b) Valuable

(c) Semi Valuable

(d) Both (a) & (b)

218. If fixed cost is plotted on a graph taking output on X-axis and Cost on Y axis, the Fixed cost will be represented by _____.

(a) Straight line parallel to Y axis

(b) Straight line parallel to X axis

(c) U Shaped Curve

(d) Hyper-parabola Curve.

219. Fixed costs are_____a function of output.

(a) Not

(b) Always

(c) Treated as

(d) Directly related

220. Fixed costs may also be called as :

(a) Inescapable

(b) Uncontrollable

(c) Constant

(d) All of the above

221. Fixed cost curve normally:

(a) Starts from the origin

(b) Is U shaped

(c) Is vertical line

(d) Is horizontal line.

[CA CPT June 2016]

222. The vertical difference between TVC and TC curves is equal to:

(a) MC

(b) AVC

(c) TFC

(d) None of the above

[CA CPT June 2016]

223. Average fixed cost for producing 8 units of output was 60, what is the average Fixed cost at 6 units of output

(a) 40

(b) 60

(c) 80

(d) 50

[Nov. 2019]

Variable Cost

224. What will be the TVC if we produce 2 units?

Units	*0*	*1*	*2*
Total cost	20	37	50

(a) 15

(b) 05

(c) 17

(d) 30

[CA CPT June 2010]

225. The total cost is ₹ 4200 and fixed cost is ₹ 1200 then find the variable cost

(a) 1,200

(b) 3,000

(c) 4,200
(d) 5,450

[Nov. 2020]

226. A firm producing 9 units of output has an average total cost of ₹ 200 and has to pay ₹ 630 to its fixed cost of production. How much of the average total cost is made up of variable cost?

(a) ₹ 150
(b) ₹ 130
(c) ₹ 70
(d) ₹ 300

[CA CPT June 2017]

227. A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?

(a) ₹ 200
(b) ₹ 60
(c) ₹ 100
(d) ₹ 1,400

[Nov. 2019]

228. Which cost decreases continuously with increase in production

(a) Average fixed cost
(b) Average variable cost
(c) Marginal cost
(d) Average total cost

[June 2022]

229. A Firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production whether it produces or not? How much of the average total cost is made up of variable costs?

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

[Jan. 2021]

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

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

231. The difference between Total Cost and Total Fixed Cost is equal to _____.

(a) Zero
(b) MC
(c) AFC
(d) TVC

[July 2021]

232. 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.

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

(a) Rent of the factory.
(b) Wages paid to the factory labour.
(c) Interest payments on borrowed financial capital.
(d) Payment on the lease for factory equipment.

234. What will be the TVC if we produce 2 units?

Units	*0*	*1*	*2*	*3*	*4*
Total cost	20	30	40	45	50

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

[CA CPT June 2010]

235. If a Firm shuts down for a short period, it will not incur any _____ cost.

(a) Fixed
(b) Semi-Variable
(c) Variable
(d) Both (a) & (b)

236. _____ are those costs which change with changes in output.

(a) Fixed
(b) Semi-Variable
(c) Variable
(d) Both (a) & (b)

Semi-Variable Cost

237. Semi-Variable Costs are _____ Variable, _____ fixed in relation to the changes in the size of output.

(a) Neither, nor
(b) Neither, nor absolutely
(c) Absolutely, but relatively
(d) Absolutely, but is by nature.

238. Electricity charges include both a fixed charge and a charge based on consumption. It should be classified as _____.

(a) Fixed Cost
(b) Variable Cost
(c) Semi-Variable Cost
(d) Quasi Cost.

239. The Semi-Variable Cost: _____.

(a) Remains Constant
(b) Remains variable proportionately
(c) Increases in stair-step fashion
(d) Increases proportionately

240. Which of the following cost remains fixed over certain range of output but suddenly jump to a new higher level when output goes beyond a given limit?

(a) Total Fixed cost
(b) Total Variable Cost
(c) Both (a) & (b)
(d) Semi-Variable Cost

241. The total Cost Curve is obtained by adding _____ the _____ curve and the _____ Curve.

(a) Vertically, Total Fixed Cost, Total Variable Cost
(b) Horizontally, Cost, Total
(c) Vertically, Total Cost, Total Variable cost
(d) Horizontally, Cost Valuable

242. The costs which remain fixed over certain range of output but suddenly jump to a new higher level when production goes beyond a given limit are called:

(a) Variable cost
(b) Semi-variable cost

(c) Stair-step variable cost
(d) Jumping cost.

[CA CPT June 2017, May 2018]

Average Fixed Cost

243. Average fixed cost can be obtained through:

(a) AFC = $\frac{TFC}{TS}$

(b) AFC = $\frac{EC}{TU}$

(c) AFC = $\frac{TC}{PC}$

(d) AFC = $\frac{TFC}{TU}$

[CA CPT Nov. 2006, Jan. 2021]

244. Which one of the following is correct?

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

[CA CPT June 2009, May 2018]

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

(a) Average Total Cost Curve
(b) Marginal Cost Curve
(c) Total Cost Curve
(d) Total Fixed Cost Curve

[CA CPT Aug. 2007, June 2009, Dec. 2015, May 2018, Nov. 2019]

246. AFC curve is :

(a) Convex & downward sloping
(b) Concave & downward sloping
(c) Convex & upward sloping
(d) Concave & upward rising

[CA CPT Feb. 2007]

247. Which of the following curves never tough any axis but is downward

(a) Marginal cost curve
(b) Total cost curve
(c) Average fixed cost curve
(d) Average variable cost curve

[CA CPT Feb. 2008, June 2013]

248. The slope of Average Fixed cost curve is?

(a) Falls from left to right
(b) Rises from left to right
(c) Parallel to x-axis
(d) Parallel to y-axis

[CA CPT Nov. 2018]

249. When the output of a firm increase in the short run, its average fixed cost.

(a) Increases
(b) Decreases
(c) Remains constant
(d) First declines and then rises.

[CA CPT, Nov. 2006, Dec. 2015, Dec. 2017]

250. Which statement among below is correct in reference in Average Fixed Cost.

(a) Never becomes zero
(b) Curve never touches x-axis
(c) Curve never touches y-axis
(d) All of the above

[CA CPT Dec. 2013]

251. Average fixed cost curve is always:

(a) Declining when output increases
(b) U-Shaped, if there are increasing returns to scale
(c) U-Shaped, if there are decreasing returns to scale
(d) Intersected by marginal cost at its minimum point

[CA CPT Dec. 2014]

252. Which of the following curves never touch any axis but is downward.

(a) Marginal cost curve
(b) Total cost curve
(c) Average fixed cost curve
(d) Average variable cost curve

[CA CPT May 2018]

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

(a) ₹ 60
(b) ₹ 30
(c) ₹ 40
(d) ₹ 20

254. A firm's average fixed cost is ₹ 40 at 12 units. What will be the average fixed cost at 8 units:

(a) ₹ 60
(b) ₹ 70
(c) ₹ 90
(d) ₹ 80

[CA CPT Feb. 2007, Feb. 2008, June 2008, June 2012, Dec. 2011, Dec. 2016]

255. A firms AFC is ₹ 200 at 10 units of output what will be it at 20 units of output?

(a) 500
(b) 100
(c) 150
(d) 200

[CA CPT June 2010]

256. A firm producing 7 units of output has an average total cost of rupees 150 and has to pay rupees 350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable cost?

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

257. Average cost of producing 50 units of any commodity is ₹ 250 and fixed cost is ₹ 1,000. What will be the average fixed cost of producing 100 units of the commodity?

(a) ₹ 10
(b) ₹ 30
(c) ₹ 20
(d) ₹ 05

[CA CPT Dec. 2014, Dec. 2016]

258. Average Fixed Cost = ₹ 20
Quantity Produced = 10 units
What will be the Average Fixed Cost of 20th unit?

(a) ₹ 10
(b) ₹ 20
(c) ₹ 5
(d) None

[CA CPT Dec. 2008]

259. Find AFC of 3 units :

Unit	*0*	*1*	*2*	*3*
Total cost	15	25	35	45

(a) 5
(b) 10
(c) 15
(d) 25

[CA CPT Dec. 2009]

260. What will be the AFC of 2 units according to the table given below:

Units	*0*	*1*	*2*
Total cost (in ₹)	580	689	850

(*a*) 105

(*b*) 135

(*c*) 235

(*d*) 290

[CA CPT June 2010, May 2018]

261. Average cost curve is _____

(*a*) 'U' Shaped

(*b*) Positively sloped

(*c*) Negatively sloped

(*d*) Rectangular hyperbola

[Jan. 2021]

Average Variable Cost

262. A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?

(*a*) ₹ 200

(*b*) ₹ 50

(*c*) ₹ 300

(*d*) ₹ 100

263. For 15 units of output, average cost was ₹ 250 end fixed cost per unit of output was 125, then the average variable cost per at 15 units?

(*a*) 25

(*b*) 50

(*c*) 125

(*d*) 250

[Nov. 2019]

264. Consider the following data

Units of output	*0*	*1*	*2*	*3*	*4*
Total Cost	25	45	60	85	105

The Average Variable Cost (AVC) for an output of 4 units will be :-

(*a*) ₹ 20

(*b*) ₹ 35

(*c*) ₹ 25

(*d*) ₹ 26

[CA CPT June 2012, Dec. 2017, June 2017]

265. A firm produces 10 units of a commodity at an average total cost of ₹ 200 and with a fixed cost of ₹ 500. Find out the component of average variable cost in the total cost :

(*a*) ₹ 300

(*b*) ₹ 200

(*c*) ₹ 150

(*d*) ₹ 100

[CA CPT June 2014]

266. A Firm has a variable cost of ₹ 2,000 at 5 units of output. If fixed costs are ₹ 800, what will be the average total cost at 5 units of output?

(*a*) 560

(*b*) 120

(*c*) 240

(*d*) 2,800

[Nov. 2021]

267. A firm producing 15 units of output has average cost of ₹ 250 and ₹ 125 as per unit cost for fixed factors of production. Then average variable cost will be

(*a*) 180

(*b*) 150

(*c*) 125

(*d*) None of the above

[CA CPT May 2019]

268. If a firm's output is zero, then:

(*a*) AFC will be positive

(*b*) AVC will be zero

(*c*) Both of (*a*) and (*b*)

(*d*) None of (*a*) and (*b*)

[CA CPT June 2009]

Average Total Cost

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

(*a*) ATC = AFC - AVC.

(*b*) AVC = AFC + ATC.

(*c*) AFC = ATC + AVC.

(*d*) AFC = ATC - AVC.

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

(*a*) ₹ 280

(*b*) ₹ 60

(*c*) ₹ 120

(*d*) ₹ 1400

271. U-shaped average cost curve is based on:

(*a*) Law of increasing cost

(*b*) Law of decreasing cost

(*c*) Law of constant returns to scale

(*d*) Law of variable proportions

[CA CPT Feb. 2007]

272. A firm producing 7 units of output has an average total cost of ₹ 150 and has to pay ₹ 350 to its fixed factors of production. How much of the average total cost is made up of variable cost?

(*a*) ₹ 200

(*b*) ₹ 50

(*c*) ₹ 300

(*d*) ₹ 100

[CA CPT June 2008, Dec. 2016]

Marginal Cost

273. Marginal Cost is defined as:

(*a*) The change in total cost due to a one unit change in output.

(*b*) Total cost divided by output.

(*c*) The change in output due to a one unit change in an input.

(*d*) Total product divided by the quantity of input.

274. The change in total cost due to one unit change in the output is called _____ cost.

(*a*) Marginal

(*b*) Average

(*c*) Average variable

(*d*) Average fixed.

[CA CPT June 2012]

275. Marginal cost changes due to change in _____ cost.

(*a*) Total

(*b*) Fixed

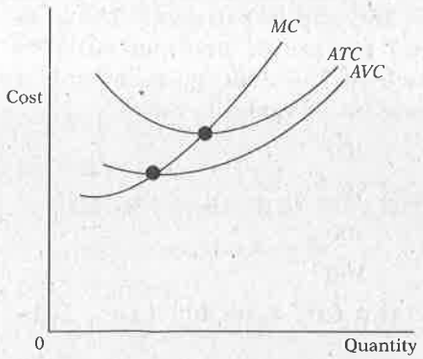
(*c*) Average

(*d*) Variable

[CA CPT June 2014]

276. 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.

277. MC curve of a firm in a perfectly competitive industry depicts?

(a) Demand curve

(b) Supply curve

(c) Average cost curve

(d) Total cost curve

[CA CPT Nov. 2018]

278. When shape of average cost curve is upward, marginal cost :

(a) Must be decreasing

(b) Must be constant

(c) Must be rising

(d) Any of these

[CA CPT May 2007]

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

(a) Variable Cost

(b) Fixed Cost

(c) Opportunity Cost

(d) Economic Cost

280. What will be marginal cost of 67 units of production accounting to the table given below:

Units of Production	*0*	*10*	*25*	*37*	*67*
Total cost	160	200	300	500	1,400

(a) 10

(b) 20

(c) 30

(d) 50

[CA CPT Dec. 2011]

281. On the basis of the following data what will be the marginal cost of the 6th unit of output?

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

(a) ₹ 133

(b) ₹ 75

(c) ₹ 80

(d) ₹ 450

[CA CPT Dec. 2014, June 2015]

282. Consider the following table:

Output (Units)	*TFC (in ₹)*	*TVC (in ₹)*	*MC (in ₹)*
0	500	-	-
1	500	400	400
5	500	1600	-

What will be marginal cost, when output is 5 units?

(a) 300

(b) 400

(c) 500

(d) 600

[CA CPT Dec. 2015]

283. Marginal cost changes due to changes in _____.

(a) Total cost

(b) Average cost

(c) Variable cost

(d) Quantity of output

284. Which of the following statements is correct?

(a) Fixed costs vary with change in output.

(b) If we add total variable cost and total fixed cost we get the average cost.

(c) Marginal cost is the result of total cost divided by number of units produced.

(d) Total cost is obtained by adding up the fixed cost and total variable cost.

285. If total cost at 10 units is ₹ 600 and ₹ 640 for 11th unit. The marginal cost of 11th unit is:

(a) ₹ 20

(b) ₹ 30

(c) ₹ 40

(d) ₹ 50

[CA CPT May 2007]

Use table below to answer questions 286-288

Output	0	1	2	3	4	5	6
Total Cost (₹)	360	495	615	720	810	915	1035

286. The average fixed cost of 3 units of output is .....

(a) ₹ 180

(b) ₹ 225

(c) ₹ 120

(d) ₹ 134

[July 2021]

287. The marginal cost of the fifth unit of output is _____

(a) ₹ 105

(b) ₹ 174

(c) ₹ 225

(d) ₹ 675

[July 2021]

288. Diminishing marginal returns starts to occur between _____ Units

(a) 1 and 2

(b) 2 and 3

(c) 3 and 4

(d) 4 and 5

[July 2021]

289. AT 10 units Total Cost - ₹ 200
20 units Total Cost - ₹ 600
Marginal Cost = ?

(a) 50

(b) 40

(c) 30

(d) 400

[CA CPT Dec. 2008]

290. The total cost incurred for 10 units is ₹ 400 and 20 units is ₹ 800. Find the marginal cost.

(a) ₹ 400

(b) ₹ 40

(c) ₹ 200

(d) ₹ 20

[CA CPT June 2009, June 2010, June 2012, June 2014]

291. Use the table and answer for the following questions:

Output	0	1	2	3	4	5	6
Total Cost (₹)	100	180	250	310	360	420	490

The average fixed cost of 4 units of output is

(a) 350
(b) 80
(c) 90
(d) 25

[Nov. 2020]

292. The average variable cost of 5 units of output

(a) 84
(b) 64
(c) 104
(d) 420

[Nov. 2020]

293. The marginal cost of 5th unit of output is

(a) 60
(b) 70
(c) 90
(d) 540

[Nov. 2021]

Relationship between AC & MC

294. Which of the following statements is correct?

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

295. When AC curve is rising, the MC curve must be _____ to it.

(a) Equal
(b) Above
(c) Below
(d) Parallel

[CA CPT June 2012]

296. What happens to marginal cost when average cost increases?

(a) Marginal cost is below average cost
(b) Marginal cost is above average cost
(c) Marginal cost is equal to average variable cost
(d) Marginal cost is equal to average cost

[CA CPT June 2016]

297. When AC Curve is at minimum then MC Curve is _____?

(a) Minimum then AC Curve
(b) Equals to AC Curve
(c) Above AC Curve
(d) Less than AC Curve

[CA CPT Nov. 2018]

298. Which of the following statement is incorrect?

(a) AC is sloping downwards, MC is below AC
(b) AC is sloping downwards, MC must fall
(c) AC is sloping upwards, MC is above AC
(d) MC cuts AC from its lowest point.

[CA CPT May 2019]

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

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

Long Run Average Cost Curve

300. If LAC curve falls as output expands, this is due to _____:

(a) Law of diminishing returns
(b) Economics of scale
(c) Law of variable proportion
(d) Dis-economics of scale

[CA CPT Nov. 2006]

301. Planning curve is related to which of the following?

(a) Short run average cost curve
(b) Long run average cost curve
(c) Average variable cost
(d) Average total cost

[CA CPT June 2015]

302. Which of the following is known as Envelope curve?

(a) Marginal Cost Curve
(b) Average Fixed Cost Curve
(c) Long Run Average cost Curve
(d) Total Fixed Cost Curve

[CA CPT Feb. 2008, Dec. 2011, June 2012]

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

(a) It represents the least-cost input combination for producing each level of output.
(b) It is derived from a series of short-run average cost curves.
(c) The short-run cost curve at the minimum point of the long-run average cost curve represents the least-cost plant size for all levels of output.
(d) As output increases, the amount of capital employed by the firm increases along the curve.

304. 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.

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

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

Economies and Diseconomies of scale

306. The positively sloped (rising) part of the long run average cost curve indicates working of the _____.

(a) Diseconomies of scale
(b) Increasing returns to scale
(c) Constant returns to scale
(d) Economies of scale

[CA CPT Dec. 2014]

307. External economies accrue due to _____:

(a) Increasing returns to scale
(b) Increasing returns to factor
(c) Law of variable proportion
(d) Low cost

[CA CPT Nov. 2007, May 2018]

308. External Economies arise due to:

(a) Growth of ancillary industries
(b) High cost of technologies
(c) Increase in the price of factors of production
(d) None of the above

[CA CPT June 2013]

309. External economies can be achieved through:

(a) Foreign trade only
(b) Superior managerial skill
(c) Extension of transport and credit facilities
(d) External assistance

310. When output increases more than the increase in input, it occurs due to:

(a) External and internal diseconomies
(b) External and internal economies
(c) External diseconomies and internal economics
(d) External economies and internal diseconomies

[Nov. 2020]

311. External economies can be achieved through

(a) External assistance
(b) Development of unskilled labour
(c) Superior managerial efficiency
(d) Technological external economies

[Nov. 2020]

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

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

313. External Economies of Scale are obtained by:

(a) A firm
(b) A group of firm
(c) Small Production
(d) Society

[CA CPT Dec. 2008]

314. External economics are enjoyed:

(a) By large producers only
(b) As firm expands
(c) Both (a) and (b)
(d) None of the above

[CA CPT June 2011]

315. How many kinds are of Economies of scale?

(a) 5
(b) 3
(c) 2
(d) 1

[Jan. 2021]

Miscellaneous

316. Issue requiring decision making in the context of business are:

(a) How much should be the optimum output at what price should the firm sell?
(b) How will the product be placed in the market?
(c) How to combat the risks and uncertainties involved?
(d) All of the above

[CA CPT Nov. 2018]

317. Long-run price is also called by the name of _____.

(a) Market price
(b) Normal price
(c) Administered price
(d) Wholesale price.

[CA CPT June 2010]

318. Which of the following equation represents profit maximization condition?

(a) MC = MR
(b) MC > MR
(c) MC < MR
(d) None

[CA CPT Nov. 2018]

319. Large scale production is associated with

(a) Technical Economies
(b) Un-managerial economies
(c) Commercial Economies
(d) Financial Economies

[Nov. 2019]

320. Which of the following statements is true?

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

321. Supply curve remaining unchanged, an increase in demand will lead to.

(a) A fall in price
(b) A rise in price
(c) No change in price
(d) AN increase in supply

[CA CPT June 2010]

322. Marginal Cost changes due to changes in _____

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

[Nov. 2019]

323. Price of a commodity is best expressed as

(a) Exchange value
(b) Cost of goods sold

(c) Production cost

(d) Nominal value

[CA CPT Nov. 2018]

324. A firm will close down in the short period if its average revenue is less than its:

(a) Average cost

(b) Average variable cost

(c) Marginal cost

(d) Average fixed cost

[CA CPT June 2012]

325. Which of the following statements is incorrect?

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

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

(c) Opportunity cost is also called alternative cost.

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

326. Average Revenue Curve is also known as _____.

(a) Profit curve

(b) Demand curve

(c) Supply curve

(d) Average cost curve

[CA CPT June 2010]

Answer

1.	(a)	**2.**	(d)	**3**	(a)	**4.**	(a)	**5.**	(a)	**6.**	(b)	**7.**	(a)
8.	(b)	**9.**	(d)	**10.**	(a)	**11.**	(d)	**12.**	(a)	**13.**	(d)	**14.**	(a)
15.	(d)	**16.**	(b)	**17.**	(b)	**18.**	(a)	**19.**	(b)	**20.**	(d)	**21.**	(b)
22.	(b)	**23.**	(c)	**24.**	(c)	**25.**	(b)	**26.**	(b)	**27.**	(d)	**28.**	(d)
29.	(d)	**30.**	(a)	**31.**	(b)	**32.**	(b)	**33.**	(d)	**34.**	(c)	**35.**	(a)
36.	(d)	**37.**	(d)	**38.**	(a)	**39.**	(a)	**40.**	(c)	**41.**	(d)	**42.**	(d)
43.	(b)	**44.**	(b)	**45.**	(a)	**46.**	(c)	**47.**	(a)	**48.**	(b)	**49.**	(d)
50.	(d)	**51.**	(a)	**52.**	(c)	**53.**	(a)	**54.**	(a)	**55.**	(b)	**56.**	(a)
57.	(a)	**58.**	(d)	**59.**	(b)	**60.**	(c)	**61.**	(c)	**62.**	(d)	**63.**	(d)
64.	(a)	**65.**	(c)	**66.**	(d)	**67.**	(d)	**68.**	(b)	**69.**	(c)	**70.**	(b)
71.	(c)	**72.**	(a)	**73.**	(c)	**74.**	(b)	**75.**	(a)	**76.**	(b)	**77.**	(a)
78.	(a)	**79.**	(b)	**80.**	(b)	**81.**	(a)	**82.**	(c)	**83.**	(c)	**84.**	(c)
85.	(a)	**86.**	(c)	**87.**	(b)	**88.**	(d)	**89.**	(c)	**90.**	(b)	**91.**	(d)
92.	(a)	**93.**	(b)	**94.**	(a)	**95.**	(a)	**96.**	(a)	**97.**	(c)	**98.**	(a)
99.	(c)	**100.**	(a)	**101.**	(b)	**102.**	(a)	**103.**	(a)	**104.**	(b)	**105.**	(c)
106.	(a)	**107.**	(d)	**108.**	(a)	**109.**	(b)	**110.**	(a)	**111.**	(c)	**112.**	(d)
113.	(b)	**114.**	(a)	**115.**	(a)	**116.**	(a)	**117.**	(a)	**118.**	(d)	**119.**	(b)
120.	(b)	**121.**	(c)	**122.**	(c)	**123.**	(c)	**124.**	(d)	**125.**	(b)	**126.**	(c)
127.	(a)	**128.**	(b)	**129.**	(c)	**130.**	(b)	**131.**	(c)	**132.**	(a)	**133.**	(d)
134.	(c)	**135.**	(d)	**136.**	(b)	**137.**	(b)	**138.**	(d)	**139.**	(c)	**140.**	(c)

141.	(c)	**142.**	(a)	**143.**	(d)	**144.**	(b)	**145.**	(d)	**146.**	(c)	**147.**	(b)
148.	(b)	**149.**	(a)	**150.**	(b)	**151.**	(c)	**152.**	(c)	**153.**	(b)	**154.**	(c)
155.	(b)	**156.**	(a)	**157.**	(b)	**158.**	(c)	**159.**	(a)	**160.**	(b)	**161.**	(b)
162.	(d)	**163.**	(d)	**164.**	(d)	**165.**	(a)	**166.**	(d)	**167.**	(b)	**168.**	(c)
169.	(c)	**170.**	(d)	**171.**	(b)	**172.**	(d)	**173.**	(d)	**174.**	(a)	**175.**	(a)
176.	(b)	**177.**	(d)	**178.**	(a)	**179.**	(b)	**180.**	(a)	**181.**	(d)	**182.**	(b)
183.	(c)	**184.**	(b)	**185.**	(c)	**186.**	(b)	**187.**	(d)	**188.**	(a)	**189.**	(c)
190.	(a)	**191.**	(a)	**192.**	(d)	**193.**	(a)	**194.**	(d)	**195.**	(a)	**196.**	(b)
197.	(b)	**198.**	(b)	**199.**	(b)	**200.**	(c)	**201.**	(c)	**202.**	(b)	**203.**	(d)
204.	(c)	**205.**	(b)	**206.**	(a)	**207.**	(d)	**208.**	(d)	**209.**	(b)	**210.**	(a)
211.	(d)	**212.**	(d)	**213.**	(b)	**214.**	(b)	**215.**	(a)	**216.**	(b)	**217.**	(a)
218.	(b)	**219.**	(a)	**220.**	(d)	**221.**	(d)	**222.**	(c)	**223.**	(c)	**224.**	(d)
225.	(b)	**226.**	(b)	**227.**	(c)	**228.**	(a)	**229.**	(d)	**230.**	(d)	**231.**	(d)
232.	(a)	**233.**	(b)	**234.**	(d)	**235.**	(c)	**236.**	(c)	**237.**	(b)	**238.**	(c)
239.	(c)	**240.**	(d)	**241.**	(a)	**242.**	(c)	**243.**	(d)	**244.**	(d)	**245.**	(d)
246.	(a)	**247.**	(c)	**248.**	(a)	**249.**	(b)	**250.**	(d)	**251.**	(a)	**252.**	(c)
253.	(b)	**254.**	(a)	**255.**	(b)	**256.**	(a)	**257.**	(a)	**258.**	(a)	**259.**	(a)
260.	(d)	**261.**	(a)	**262.**	(d)	**263.**	(c)	**264.**	(a)	**265.**	(c)	**266.**	(a)
267.	(c)	**268.**	(c)	**269.**	(d)	**270.**	(a)	**271.**	(d)	**272.**	(d)	**273.**	(a)
274.	(a)	**275.**	(d)	**276.**	(d)	**277.**	(b)	**278.**	(c)	**279.**	(a)	**280.**	(c)
281.	(c)	**282.**	(a)	**283.**	(c)	**284.**	(d)	**285.**	(c)	**286.**	(c)	**287.**	(a)
288.	(d)	**289.**	(b)	**290.**	(b)	**291.**	(d)	**292.**	(b)	**293.**	(a)	**294.**	(c)
295.	(b)	**296.**	(d)	**297.**	(b)	**298.**	(b)	**299.**	(c)	**300.**	(b)	**301.**	(b)
302.	(c)	**303.**	(c)	**304.**	(d)	**305.**	(d)	**306.**	(a)	**307.**	(a)	**308.**	(a)
309.	(c)	**310.**	(b)	**311.**	(d)	**312.**	(d)	**313.**	(b)	**314.**	(c)	**315.**	(c)
316.	(d)	**317.**	(b)	**318.**	(a)	**319.**	(a)	**320.**	(b)	**321.**	(b)	**322.**	(a)
323.	(a)	**324.**	(b)	**325.**	(d)	**326.**	(b)						

Hints of selected questions

1. In Economics, the word "Production" is used in a wider sense to denote the process by which man utilizes resources such as men, material, capital, time, etc., working upon them to transform them into commodities and services so as to make then satisfy human wants.

Ans. : (a)

2. Production does not include work done within a household by anyone out of love and affection, voluntary services and goods produced for self-Consumption.

Ans. : (d)

5. Production is any economic activity which converts inputs into outputs which are capable of satisfying human wants.

Ans. : (*a*)

12. Factors of production refer to inputs. An input is a goods or service which a firm buys for use in its production process.

Ans. : (*a*)

72. Paul H. Douglas and C.W. Cobb of the U.S.A. studied the production function of the American manufacturing industries.

Ans. : (*a*)

76. For Cobb-Douglas production function, $Q = KL^aC^b$

If a + b > 1	Increasing Returns to Scale
If a + b = 1	Constant Returns to Scale
If a + b < 1	Decreasing Returns to Scale

Ans. : (*b*)

77. As per Cobb-Douglas production function, labour contributed about 3/4th and Capital about 1/4th of the increase in the manufacturing production.

Ans. : (*a*)

78. Refer Q. 67

Ans. : (*a*)

79. Paul H. Douglas and C.W. Cobb of the U.S.A. studied the production function of the American manufacturing industries. The conclusion drawn from this famous statistical study is that labour contributed about 3/4th and capital about 1/4th of the increase in the manufacturing production.

Ans. : (*b*)

80. When only 1 unit of labour is employed, the total output is 350 units. The 2nd unit of labour is contributing 230 additional units. Therefore,

$TP_n = TP_{n-1} + MP_n$

$TP_2 = TP_1 + MP_2 = 350 + 230 =$ **580 Units.**

Ans. : (*b*)

83. $TP_n = TP_{n-1} + MP_n$

$TP_2 = TP_1 + MP_2$

$= 100 + 80$

$= 180$ Units

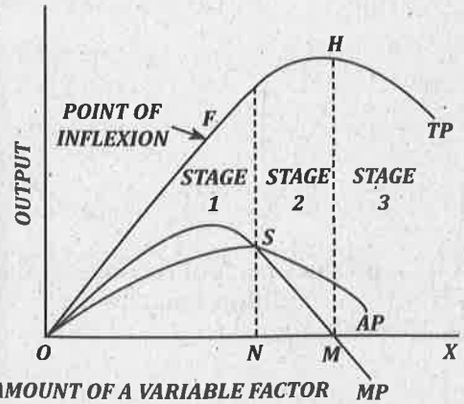
Ans. : (*c*)

83

Variable Input	*Total Product*	*Marginal Product*
0	-	-
1	200	200
2	350	150
3	450	100
4	500	50
$MP_3 = TP_3 - TP_2 = 450 - 350 =$		100 Units.

Ans. : (*b*)

89.



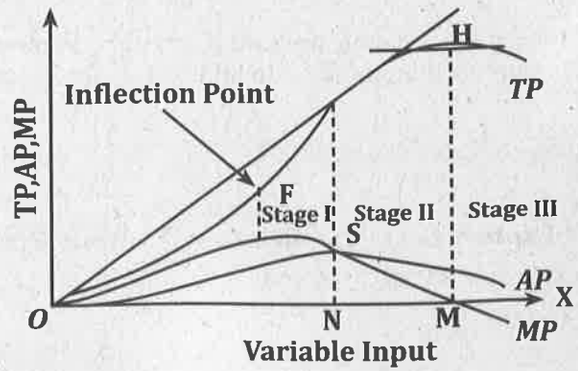
Law of Variable Proportions

Ans. : (*c*)

91. $MP_3 = TP_3 - TP_2 = 350 - 200 = 150$ Units

Ans. : (*d*)

92. When average product falls, marginal product is less than the average product.



Ans. : (*a*)

93.

No. of workers	*Total Output*	*Marginal Output*
0	-	-
1	23	23
3	50	10

There is diminishing marginal product of labour.

Ans. : (*b*)

95. Marginal product is the change in total product per unit change in the quantity of variable factor. In fact, it is the addition made to the total production by an additional unit of input.

$\mathbf{MP_n = TP_n - TP_{n-1}}$

Ans. : (*a*)

100. Refer Q. 85

Ans. : (*a*)

102. Refer Q. 85

Ans. : (*a*)

104. Marginal product is the change in total product per unit change in the quantity of variable factor. In other words, it is the addition made to the total production by an additional unit of input. Symbolically,

$\mathbf{MP_n = TP_n - TP_{n-1}}$

Ans. : (*b*)

120. Refer Q. 85

Ans. : (*b*)

140. Constant returns to scale means with the increase in the scale in some proportion, output increases in the same proportion. Constant returns to Scale is also called as "Linear Homogenous Production function".

Ans. : (*c*)

141. The decreasing returns to scale are said to prevail when output increases in a smaller proportion with an increase in all inputs.

Ans. : (*c*)

142. Refer Q. 73

Ans. : (*a*)

157. Total cost = Explicit Cost + Implicit Cost + Normal Profit

1,25,000 = Explicit Cost + 35,000 + 25,000

Explicit Cost = ₹ 65,000

Ans. : (*b*)

204. The total Cost is composed of two major elements namely, total Fixed Cost and the total Variable Cost. Symbolically,

TC = TFC + TVC

Or TFC = TC - TVC

Ans. : (*c*)

205. Long run is the period of time during which the firm can vary all of its inputs. Hence, all factors are variable in the long run.

Ans. : (*b*)

212.

Total Fixed Cost = 10 units @ ₹ 5 = ₹ 50

Total Variable Cost = 10 units @ ₹ 30 = ₹ 300

Total Cost = Total Fixed Cost + Total Variable Cost

Total Cost = ₹ 50 + ₹ 300 = ₹ **350**

Ans. : (*d*)

213.

Total Fixed Cost = ₹ 5,000

Total Valuable Cost = 20 units @ ₹ 2=₹ 40

Total Cost = Total Fixed Cost + Total Variable Cost

= ₹ 5,000 + ₹ 40 = ₹ 5,040

Ans. : (*b*)

215. Marginal Cost = $\frac{\text{Change in Total Cost}}{\text{Change in Total Quantity}}$

Let us assume that the total cost of producing 4 units is ₹ x

$$30 = \frac{X - 80}{4 - 2}$$

$$30 = \frac{X - 80}{2}$$

$X - 80 = 60$

$X = 60 + 80 =$ ₹ 140

Ans. : (*a*)

216. At zero output, Total Cost is ₹ 200. It implies that Fixed Cost is ₹ 200.

Total Cost (10 units) = **₹ 400**

Total Valuable Cost (10 units) = **₹ 200**

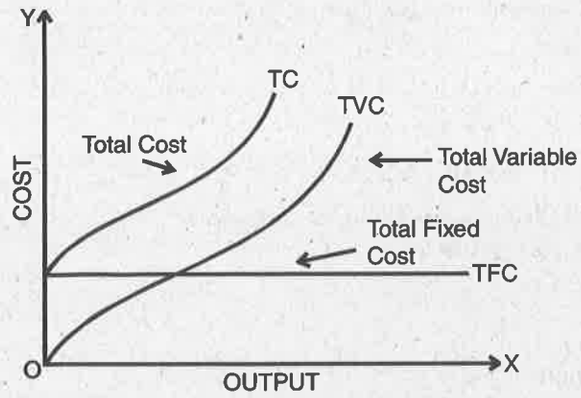
Variable Cost per Unit = $\frac{₹\ 200}{10}$ = ₹ 20 per unit

Total Cost = Fixed Cost + Variable Cost (4 Units)

= ₹ 200 + (4 @ ₹ 20) = ₹ **280**

Ans. : (*b*)

222.



Short run Total Cost Curves

The total cost curve is obtained by adding vertically the total Fixed Cost (TC) Curve and the total Variable Cost (TVC) Curve. The slopes of TC and TVC are the same at every level of output and at each point; the two curves have vertical distance equal to total fixed cost.

Ans. : (*c*)

224. Variable Cost Per unit = $\frac{\text{Change in Total Cost}}{\text{Change in Units}} = \frac{35-20}{1-0}$ = ₹ 15

Total Valuable Cost (2 units) = 2 units @ ₹ 15 = ₹ 30

Ans. : (*d*)

226. TC_9 = ATC_9 × 9 units = 200 × 9 = ₹ 1800

FC = ₹ 630

TVC_9 = 1800 - 630 = ₹ 1,170

AVC_9 = $\frac{1,170}{9}$ = ₹ 130

Ans. : (*b*)

229. Average Fixed Cost

= Total Fixed Cost/No. of units

= ₹ 350/7

= ₹ 50

Average Total Cost

Given at ₹ 150

Average Variable Cost

= Average Fixed Cost

– Average Total Cost

= 150 - 50 = ₹ 100

Ans. : (*d*)

234. FC = ₹ 20

TVC_2 = TC_2 - FC = ₹ 40 - ₹ 20 = ₹ 20

Ans. : (*d*)

253. AFC = $\frac{\text{TFC}}{\text{No. of Units}}$

TFC = AFC × No. of Units = ₹ 20 × 6=₹ 120

AFC_4 = $\frac{\text{TFC}}{4} = \frac{120}{4}$ = ₹ 30

Ans. : (*b*)

254. TFC = AFC × No. of Units = ₹ 40 × 12 = ₹ 480

AFC_8 = $\frac{\text{TFC}}{8} = \frac{₹\ 480}{8}$ = ₹ 60

Ans. : (*a*)

255. TFC = AFC × No. of Units

= ₹ 200 × 10 = ₹ 2,000

AFC_{20} = $\frac{\text{TFC}}{20} = \frac{₹\ 2,000}{20}$ = ₹ 100

Ans. : (*b*)

257. AFC_{100} = $\frac{\text{TFC}}{100} = \frac{₹\ 1,000}{100}$ = ₹ 10

Ans. : (*a*)

258. TFC = ₹ 20 × 10 = ₹ 200

AFC_{20} = $\frac{200}{20}$ = ₹ 10

Ans. : (*a*)

259. TFC = ₹ 15

AFC_3 = $\frac{\text{TFC}}{3} = \frac{15}{3}$ = ₹ 5

Ans. : (*a*)

260. TFC = ₹ 580

$AFC_2 = \frac{TFC}{2} = \frac{₹\ 580}{2} = ₹\ 290$

Ans. : (*d*)

262. ATC_7 = ₹ 150

TC_7 = ₹ 150 × 7 = ₹ 1,050

FC = ₹ 350

$TVC_7 = TC_7 - FC$

= 1,050 - 350

= ₹ 700

$AVC_7 = \frac{TVC_7}{7} = \frac{₹\ 700}{7}$

= ₹ 100

Ans. : (*d*)

264. TC_4 = ₹ 105

FC = ₹ 25

TVC_4 = 105 - 25 = ₹ 80

$AVC_4 = \frac{TVC_4}{4} = \frac{₹\ 80}{4}$

= ₹ 20

Ans. : (*a*)

265. ATC_{10} = ₹ 200

TC_{10} = ₹ 200 × 10 = ₹ 2,000

FC = ₹ 500

TVC_{10} = 2,000 - 500 = ₹ 1,500

$AVC_{10} = \frac{₹\ 1500}{10} = ₹\ 150$

Ans. : (*c*)

266. Variable Cost per unit = ₹ 2,000/5 = ₹ 400

Fixed Cost = ₹ 800

Total Cost of producing 5 units of output = (₹ 400 × 5) + ₹ 800 = ₹ 2,800

Average Total Cost (5 units) = ₹ 2,800/5 = ₹ 560

Ans. : (*a*)

267. ATC_{15} = ₹ 250

AFC_{15} = ₹ 125

AVC_{15} = ₹ 125

Ans. : (*c*)

270. TFC_5 = ₹ 1,000

FC = ₹ 400

TC_5 = $FC + TVC_5$

= ₹ 400 + 1000

= ₹ 1,400

$ATC_5 = \frac{TC_5}{5} = \frac{1,400}{5}$

= ₹ 280

Ans. : (*a*)

272. ATC_7 = ₹ 150

$AFC_7 = \frac{₹\ 350}{7} = ₹\ 50$

AVC_7 = 150 - 50 = ₹ 100

Ans. : (*d*)

280. Marginal Cost per unit $= \frac{Change\ in\ Total\ Cost}{Change\ in\ units} = \frac{1400-500}{67-37} = \frac{900}{30} = ₹\ 30$

Ans. : (*c*)

281. $MC_6 = TC_6 - TC_5$

= 690 - 610

= ₹ 80

Ans. : (*c*)

282. TC_1 = 500 + 400 = ₹ 900

TC_5 = 500 + 1600 = ₹ 2100

$MC = \frac{\Delta TC\ (Change\ in\ Total\ Cost)}{\Delta Q\ (Change\ in\ Quantity)}$

$= \frac{2100-900}{5-1}$

$= \frac{₹\ 1,200}{4} = ₹\ 300$

Ans. : (*a*)

285. $MC_{11} = TC_{11} - TC_{10}$

= ₹ 640 - ₹ 600

= ₹ 40

Ans. : (*c*)

286. Fixed Cost = ₹ 360

AFC (3 Units) = ₹ 360/3 = 120

Ans. : (c)

287. $MC_5 = TC_5 - TC_4 = 915 - 810 = 105$

Ans. : (a)

289. $MC = \frac{\Delta TC}{\Delta Q} = \frac{600-200}{20-10} = \frac{400}{10}$

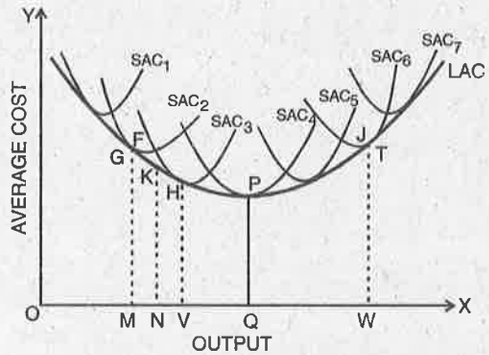
Ans. : (b)

290. $MC = \frac{\Delta TC}{\Delta Q} = \frac{800-400}{20-10}$

$= \frac{₹400}{10} = ₹40$

Ans. : (b)

302.



Long-run Average Cost Curves

Ans. : (c)

315. Economies arising out of large-scale production can be grouped into two categories; viz., internal economies and external economies.

Ans. : (c)

4

CHAPTER

PRICE DETERMINATION IN DIFFERENT MARKETS

UNIT 1: MEANING & TYPES OF MARKETS

Meaning of Market

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

(a) place where buyer and seller bargain a product or service for a price.

(b) place where buyer does not bargain

(c) place where seller does not bargain

(d) none of the above

2. Which one is not a part of the elements of a market?

(a) Buyers and sellers

(b) A product or service

(c) Bargaining for a price

(d) Volume of business

[Jan. 2021]

3. A market is a network of dealings between which of the following?

(a) Dealers and wholesalers

(b) Buyers and sellers

(c) Owners and channel partners

(d) Sales man and competitors

[June 2022]

4. Which of the following is not an element of a market?

(a) Knowledge about market condition

(b) No bargaining for a price

(c) A product or service

(d) Buyers and seller

[July 2021]

5. Which of the following is not the element of markets?

(a) A product/service

(b) Bargaining of price

(c) Knowledge about market conditions

(d) Advertisement (or) brand awareness

6. Which one of the following is not element of market?

(a) buyer

(b) service

(c) firm

(d) bargaining for price

[June 2023]

7. Market consists of:

(a) Buyer and Seller

(b) One price for one product at a given time

(c) Both (a) and (b)
(d) None **[CA CPT May 2019]**

Classification of Market

8. The Price Elasticity of demand of a firm in Pure Competition is :
(a) Infinite
(b) Finite
(c) Large
(d) Small

9. On the basis of nature of transaction, a market may be classified into:
(a) Wholesale and retail market
(b) Cash and forward rate
(c) National and international market
(d) Regulated and unregulated market

[Nov. 2020]

10. When commodities are sold in small quantities are called as which of the following?
(a) Wholesale market
(b) Regulated market
(c) Spot market
(d) Retail market

11. For market the essential condition is:
(a) A particular geographical place
(b) Control of the government
(c) Close contact between buyers and sellers
(d) None of these

12. Who conceived the 'time element' in markets?
(a) Alfred Marshall
(b) Adam Smith
(c) Robert Malthus
(d) Schumpeter

13. On the basis of nature of transaction, a market can be classified into which of the following?
(a) Cash and forward market
(b) National and international market
(c) Organized and unorganized market
(d) Retail and wholesale market

[June 2023]

14. _____ conceived the "Time" element in markets and on the basis of this markets are classified into very short period, Short-Period, Long-Period & Very Long period.
(a) Alfred Marshall
(b) Schumpeter
(c) Adam Smith
(d) Paul Samuelson

15. On the basis of nature of transactions, a market may be classified into:
(a) Spot market and future market
(b) Regulated market and unregulated market
(c) Wholesale market and retail market
(d) Local market and national market. **[CA CPT June 2017]**

16. Secular period is also known as:
(a) Very short period
(b) Short period
(c) Very long period
(d) Long period

[Jan. 2021]

17. Very short period market is suitable for which of the following products?
(a) Gold and silver
(b) Vegetable and fruits
(c) Bricks and sand
(d) Supply of capital

[June 2022]

18. On the basis of nature of transactions, market can be classified a _____.
(a) Wholesale market and retail market
(b) Future market and spot market
(c) Regulated market and unregulated market
(d) Money market and Future market

[July 2021]

19. Example of a commodity said to have an International Market is?
(a) Perishable Goods.
(b) High Value and Small Bulk Commodities.
(c) Product whose trading is restricted by government.
(d) Bulky Articles.

20. Stock exchange market is an example of:
(a) Unregulated market
(b) Regulated market
(c) Spot market
(d) None of the above

21. The market for ultimate consumer is known as:
(a) Wholesale market
(b) Regulated market
(c) Unregulated market
(d) Retail market

[CA CPT Dec. 2016]

22. The _____ is the market where the commodities are bought and sold in bulk or large quantities. Transactions generally take place between trades.
(a) Wholesale market
(b) Regulated market
(c) Local market
(d) Retail market

[July 2021]

23. _____ are those markets in which firm buy the resources they need (Land, Labour, Capital and entrepreneurship) to produce goods and services.
(a) Regular Markets
(b) Producer's Markets
(c) Product Markets
(d) Factor Markets

24. A market where goods are exchanged for money payable either immediately or within short span of time is :
(a) Forwarded market
(b) Regulate market
(c) Wholesale market
(d) Spot market

[Nov. 2020]

25. When the commodities are sold in small quantities, it is called as:
(a) Retail Market
(b) Wholesale Market
(c) Small Market
(d) Local Market

26. Stock exchange is example of:
(a) Regulated Market
(b) Spot Market
(c) Forward Market
(d) Retail Market

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

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

28. _____ implies that the time available is adequate for altering the supplies by altering even the fixed factors of production.

(a) Very Short Period
(b) Short Period
(c) Long Period
(d) Secular Period

29. A market where there is no restrictions on the transactions is called as:

(a) Regulated market
(b) Unregulated market
(c) Spot market
(d) Future market

[Nov. 2019]

30. The classification of market on the basis of Area does not include _____.

(a) Local Market
(b) Regional Market
(c) Spot Market
(d) National Market

31. Monopsony means:

(a) Where there are large firms
(b) There is a single buyer
(c) Small number of large buyers
(d) Single seller and single buyer

[CA CPT May 2019]

32. Which of the following Competition is characterized by many sellers, who are selling identical products to many buyers?

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

33. In _____, there are few sellers who are selling competing products to many buyers.

(a) Monopoly
(b) Perfect Competition
(c) Oligopoly
(d) None of these

34. The degree of control is very considerable in case of:

(a) Monopoly
(b) Perfect Competition
(c) Oligopoly
(d) None of these

Concepts of TR, AR & MR

35. Average Revenue is also known as:

(a) Price
(b) Income
(c) Revenue
(d) None of the above

36. Average revenue curve is also known as:

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

37. Total revenue curve is:

(a) Positively Sloped
(b) Negatively Sloped
(c) Downward Sloped
(d) Vertical to X axis

[Jan. 2021]

38. Average revenue curve also called as:

(a) Firm's demand curve
(b) Total revenue Curve
(c) Marginal revenue curve
(d) Quantity curve

[Dec. 2021]

39. Another name of average revenue curve is _____.

(a) Production possibility curve
(b) Demand curve
(c) Supply curve
(d) Indifference curve

[June 2023]

40. Average revenue is the revenue earned:

(a) Per unit of input
(b) Per unit of output
(c) Different units of input
(d) Different units of output

41. Average Revenue can be symbolically written as:

(a) MR/Q
(b) Price × quantity
(c) TR/Q
(d) None of the above

42. Total profits are maximized when:

(a) TR equals TC
(b) The TR curve and the TC curve are parallel
(c) TC exceeds TR
(d) TR exceeds TC

43. When price is ₹ 20, Quantity demanded is 10 units and price is decreased by 5% then quantity demand increased by 10% then Marginal revenue is _____.

(a) ₹ 10
(b) ₹ 11
(c) ₹ 9
(d) ₹ 20

[CA CPT May 2019]

44. If a seller obtains ₹ 6,000 after selling 50 units and ₹ 6,204 after selling 53 units, then marginal revenue will be:

(a) 68
(b) 118
(c) 120
(d) 204

[Nov. 2020]

45. Average revenue is equal to:

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

46. If a seller obtains ₹ 3,000 after selling 50 units and ₹ 3,100 after selling 52 units, then marginal revenue will be:

(a) ₹ 59.62
(b) ₹ 50.00
(c) ₹ 60.00
(d) ₹ 59.80

[CA CPT Dec. 2013]

47. Assume that when price is ₹ 40, the quantity demanded is 15 units and when price is ₹ 38, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units:

(a) 36
(b) 32
(c) 24
(d) 08

[Nov. 2019]

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

(a) Purchase of an additional unit of a commodity.
(b) Sales of an additional unit of a commodity.
(c) Sale of subsequent units of a product.
(d) None of the above.

49. Suppose a seller realises ₹ 100 by selling 10th unit of commodity and ₹ 120 by selling 11th unit. What is the MR of 11th Unit?

(a) 100
(b) 120
(c) 20
(d) 10

[June 2023]

50. MR of nth unit is given by :

(a) TRn/TR_{n-1}
(b) $TRn + TR_{n-1}$
(c) $TRn - TR_{n-1}$
(d) All of these

[CA CPT Feb. 2008]

51. When a firm produces 7 units of production and the TR is ₹ 42 after raising the production to 8 units TR reached ₹ 46 marginal revenue will be:

(a) ₹ 5
(b) ₹ 6
(c) ₹ 4
(d) ₹ 8

[Nov. 2020]

52. Total revenue curve initially increases at a diminishing rate due:

(a) Diminishing average revenue curve
(b) Diminishing marginal revenue curve
(c) Diminishing average fixed revenue curve
(d) Diminishing costs curve

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

(a) ₹ 20
(b) ₹ 19
(c) ₹ 10
(d) ₹ 1

54. Another name of demand curve is:

(a) MR curve (b) AR curve
(c) TR curve (d) MC curve

[June 2022]

55. Marginal revenue curve slopes ____ and marginal cost curve slopes _____.

(a) Downwards, upwards
(b) Downwards, downwards
(c) Upwards, upwards
(d) Downwards, no change

[Dec. 2021]

56. Answer the following questions:

Units	0	1	2	3	4	5	6
Total Revenue	100	180	250	310	360	400	430

Find the marginal revenue at 5th unit is:

(a) 40
(b) 45
(c) 55
(d) 60

[Nov. 2020]

57. Assume that at price ₹ 100 per unit, the quantity demanded is 900 units. When price falls to ₹ 90 the quantity demanded increases to 100 units. Compute the marginal revenue.

(a) ₹ 0
(b) ₹ 10
(c) ₹ 90
(d) ₹ 100

[June 2022]

58. A seller realizes ₹ 25,000 after selling 15 units and he realizes ₹ 35,000 after selling 25 units, what is the marginal revenue here?

(a) ₹ 2,500
(b) ₹ 100
(c) ₹ 1,000
(d) ₹ 3,500

[July 2021]

59. The quantity demanded of pens increases from 15 to 20, if there is 25% decrease in the price. If the price initially is ₹ 20/- per pen then, what is the marginal revenue resulting from an increase in the quantity demanded of pens from 15 to 20?

(a) 15
(b) 20
(c) 0
(d) 5

[Dec. 2021]

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

(a) ₹ 5
(b) ₹ 4
(c) ₹ 2
(d) ₹ 3

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

(a) ₹ 18
(b) ₹ 16
(c) ₹ 12
(d) ₹ 28

62. Total revenue =

(a) Price × quantity
(b) Price × income
(c) Income × quantity
(d) None of the above

63. When ABC Ltd. sells 130 units @ 50 P.U. then total revenue will be:

(a) 6,000
(b) 6,500
(c) 12,050
(d) 18,550

[Nov. 2020]

64. Which of the following statement is not correct?

(a) Marginal revenue is the revenue of an additional unit sold of a commodity
(b) Total revenue is obtained by multiplying the total number of units sold with the price per unit of a commodity

(c) Average revenue is the revenue earned per unit of an output

(d) Total revenue is the sum total of average revenue

[June 2022]

65. The amount realized by the firm by selling certain units of commodity is called as :

(a) Average Revenue

(b) Cost of Operations

(c) Total Revenue

(d) Marginal Revenue

66. ABC Ltd. realizes total revenue of ₹ 6,000 by the sale of 120 units and ₹ 6050 by the sale of 121 units. What is the average revenue when ABC Ltd. sells 121 units

(a) 50

(b) 100

(c) 6,000

(d) 6,050

[Nov. 2020]

Relationship of AR, MR, TR & Elasticity of DD

67. When TR is at its peak then MR is equal to:

(a) Zero

(b) Positive

(c) Negative

(d) None of the above

[CA CPT May 2019, Jan. 2021]

68. When the price of a commodity is ₹ 20, the quantity demanded is 9 units and when its price is ₹ 19, the Quantity demanded is 10 units. Based on this information what will be the marginal revenue resulting from an increase in output from 9 units to 10 units?

(a) ₹ 20

(b) ₹ 19

(c) ₹ 10

(d) ₹ 01

[CA CPT Dec. 2014]

69. Which one of the following expressions is correct for Marginal Revenue?

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

(b) MR = TRn - TRn+1

(c) $MR = \frac{\Delta TR}{\Delta Q}$

(d) $MR = \frac{TR}{Q}$

[CA CPT June 2016]

70. Given the relation $MR = P\left(1-\frac{1}{e}\right)$, if e < 1, then:

(a) MR < 0

(b) MR > 0

(c) MR = 0

(d) None of these

[CA CPT June 2011]

71. Given the relation $MR=P\left(1-\frac{1}{e}\right)$, if e > 1, then:

(a) MR > 0

(b) MR < 0

(c) MR = 0

(d) None

[CA CPT Feb. 2007]

72. When Total Revenue (TR) is at the peak Marginal Revenue is equal to:

(a) Zero

(b) Positive

(c) Negative

(d) More than one

[Nov. 2019]

73. As a price of ₹ 20 the quantity demanded is 10 units. With 5% decrease in price the demand increases by 10%. The marginal revenue for the 11th unit will be:

(a) ₹ 20

(b) ₹ 12

(c) ₹ 9

(d) ₹ 11

[Nov. 2019]

74. Which of the following is correct?

(a) MR = AR (e-1)/e

(b) MR = AR (e + 1)/e

(c) MR = AR (1-e)/e

(d) None of the above

[CA CPT Nov. 2018]

75. When e = 1 then MR is:

(a) Positive

(b) Zero

(c) One

(d) Negative

76. When e < 1 then MR is:

(a) Negative

(b) Zero

(c) Positive

(d) One

77. When e > 1 then MR is:

(a) Zero

(b) Negative

(c) Positive

(d) One

78. Demand for a product is unitary elastic then:

(a) MR = 0

(b) MR > 0

(c) MR < 0

(d) None of the above

[CA CPT May 2019]

79. If there is change in both demand & supply but the change in demand is less than the change in supply, then what is the influence on price.

(a) No change

(b) Increase

(c) Decrease

(d) Uncertain change

80. Given, AR = 5 and Elasticity of demand = 2 Find MR.

(a) + 2.5

(b) - 2.5

(c) + 1.5

(d) + 2.0

[CA CPT June 2013, Jan. 2021]

81. What should firm do when Marginal revenue is greater than marginal cost?

(a) Firm should expand output

(b) Effect should be made to make them equal

(c) Prices should be covered down

(d) All of these

[CA CPT May 2007]

82. Suppose a firm is producing a level of output such that MR > MC, what should be firm do to maximize its profits?

(a) The firm should do nothing.

(b) The firm should hire less labour.

(c) The firm should increase price.
(d) The firm should increase output.

83. In a Straight line demand Curve, the price elasticity at the middle point is equal to _____.

(a) 0
(b) 1
(c) > 1
(d) < 1

84. Which one of the following is Correct?

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

(b) $MR2 = AR2 \times \frac{e-1}{e}$

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

(d) $MR = AR \times \frac{(e-1)^2}{e}$

85. Marginal revenue will be positive where price elasticity of demand is :

(a) Zero
(b) More than one
(c) Less than one
(d) Equal to one

[July 2021]

86. The Marginal Revenue corresponding to the middle point of the demand curve (or AR Curve) will be:

(a) Zero
(b) One
(c) Less than one
(d) More than one

87. Total revenue curve initially increases at a diminishing rate due to :

(a) Diminishing average revenue curve.
(b) Diminishing marginal revenue curve.
(c) Diminishing average fixed revenue curve.
(d) Diminishing cost curve.

[Jan. 2021]

Behavioural Policies

88. According to Behavioural Principles:

(a) A firm should not produce at all if its total variable costs are not met.
(b) A firm will be making maximum profits by expending output to the level where marginal revenue is equal to marginal cost.
(c) Both (a) and (b)
(d) None of these

[CA CPT May 2019]

89. Time element was conceived by:

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

90. In very short period market:

(a) Supply changes but demand remains same
(b) Supply changes but price remains same
(c) Supply remains fixed
(d) Supply and demand both changes

[CA CPT May 2018]

91. In the long run:

(a) Only demand can change
(b) Only supply can change
(c) Both demand and supply can change
(d) None of these

[CA CPT Feb. 2008]

92. A Firm should _____ if the total revenue from its product does not _____ its total valuable cost.

(a) Produce, equal
(b) Produce at all, equal or exceed
(c) Not Produce, equal
(d) Not Produce, equal or exceed

93. As per Behavioural Principles, It will be profitable for the firm to expand output whenever Marginal _____ is _____ than Marginal _____.

(a) Cost , greater, Revenue
(b) Revenue, greater, Cost
(c) Revenue, less, cost
(d) None of the above

94. As per Behavioural Principle, which one of following Statement is Correct?

(a) If any unit of production adds more to revenue than to Cost, that cost, that unit will increase Profits.
(b) If any unit of production adds more to Cost, than to revenue, it will decrease profits.
(c) Profits will be maximum of the point where additional revenue from a unit equals to its additional cost.
(d) All of the above.

UNIT 2: DETERMINATION OF PRICES

Determination of Prices - A General View

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

Price (₹)	Demand (tonnes per annum)	Supply (tonnes per annum)
1	1,000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1,000
8	300	1,100

(a) ₹ 2
(b) ₹ 3
(c) ₹ 4
(d) ₹ 5

96. Equilibrium price for an industry in perfect competition is fixed through:

(a) Input and output
(b) Market demand and market supply
(c) Market demand and firms supply
(d) None of the above

[CA CPT May 2018]

97. Equilibrium price may be determined through:

(a) Only demand
(b) Only supply
(c) Both demand & supply
(d) None

[CA CPT May 2007]

98. When Marginal Revenue is Equal to Marginal cost then_ _____?

(a) Minimum loss
(b) Maximum profit

(c) Minimum profit

(d) Maximum loss

99. The equilibrium quantity increases but the change in equilibrium price is uncertain, when:

(a) Both demand and supply decrease.

(b) Demand increases and supply decreases.

(c) Both supply and demand increase.

(d) Demand increases and supply increases.

[July 2021]

100. From the following table, what will be equilibrium market price?

Price (in ₹)	Demand (Tonnes per annum)	Supply (Tonnes per annum)
1	500	200
2	450	250
3	400	300
4	350	350
5	300	400
6	250	450
7	200	500
8	150	550

(a) ₹ 2

(b) ₹ 3

(c) ₹ 4

(d) ₹ 5

[CA CPT Nov. 2016]

101. The equilibrium is restored automatically through:

(a) The fundamental working of the market.

(b) Price movements eliminate shortage or Surplus.

(c) Both (a) and (b)

(d) None of these.

102. _____ is the price at which demand for a commodity is equal to its supply:

(a) Normal Price

(b) Equilibrium Price

(c) Short run Price

(d) Secular Price

[CA CPT June 2008]

Changes in Demand & Supply

103. When increase in demand is equal to increase in supply and equilibrium price remains constant, then what about equilibrium quantity?

(a) Increases

(b) Decreases

(c) Remains Constant

(d) None of the above

[CA CPT May 2019]

104. With a given supply curve, a decrease in demand causes:

(a) An overall decrease in price but an increase in equilibrium quantity.

(b) An overall increase in price but a decrease in equilibrium quantity.

(c) An overall decrease in price and a decrease in equilibrium quantity.

(d) No change in overall price but a reduction in equilibrium quantity.

105. If supply decreases and demand remains constant, then equilibrium price will be:

(a) Increases

(b) Decreases

(c) No change

(d) Become Negative

[CA CPT Nov. 2018]

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

(a) An increase in equilibrium price and quantity.

(b) A decrease in equilibrium price and quantity.

(c) An increase in equilibrium quantity and uncertain effect on equilibrium price.

(d) A decrease in equilibrium price and increase in equilibrium quantity.

107. An increase in supply with demand remaining the same, brings about.

(a) An increase in equilibrium quantity and decrease in equilibrium price.

(b) An increase in equilibrium price and decrease in equilibrium quantity.

(c) Decrease in both equilibrium price and quantity.

(d) None of these.

[CA CPT June 2010]

108. An increase in supply with unchanged demand leads to:

(a) Rise in price and fall in quantity

(b) Fall in both price and quantity

(c) Rise in both price and quantity

(d) Fall in price and rise in quantity

[CA CPT Nov. 2007]

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

(a) Price will increase; quantity cannot be determined.

(b) Price will decrease; quantity cannot be determined.

(c) Quantity will increase; price cannot be determined.

(d) Quantity will decrease; price cannot be determined.

110. Which of the following may lead to changes in demand and Supply?

(a) Income and population

(b) Tastes and Preferences

(c) Technology & Prices of Factors of Production

(d) All of the above.

111. Changes in Demand & Supply may be due to:

(a) Increase in Price

(b) Decrease in Price

(c) Change in determinants of Demand & other

(d) None of the above.

112. If price is forced to stay below equilibrium price then consequently it can be said that:

(a) Excess supply exists

(b) Excess demand exists

(c) Either (a) or (b)

(d) Neither (a) nor (b)

[CA CPT Aug. 2007]

113. Lower prices in railways for senior citizens is a typical example of:

(a) Concessional pricing

(b) Marginal cost pricing

(c) Differential pricing

(d) Subsidized pricing

[Dec. 2021]

114. If the price of a commodity is fixed, then with every increase in its sold quantity the total revenue will _____ and the marginal revenue will _____.

(a) Increase, also increase
(b) Increase, remain unchanged
(c) Increase, decline
(d) Remain fixed, increase

[CA CPT Dec. 2017]

115. If supply increases in a greater proportion than demand:

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

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

(a) Price will increase.
(b) Price will decrease.
(c) Quantity will increase.
(d) Quantity will decrease.

117. When demand for commodity is decreasing as a result of fall in income and it's supply remains constant, what will be the impact on its price?

(a) Price increases
(b) Price decreases
(c) No change
(d) Uncertain change in price

[June 2023]

118. It is assumed in economic theory that:

(a) Decision making within the firm is usually undertaken by managers, but never by the owners.
(b) The ultimate goal of the firm is to maximize profits, regardless of firm size or type of business organization.
(c) As the firm's size increases, so do its goals.
(d) the basic decision making unit of any firm is its owners.

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

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

120. Shift of the Demand curve to the _____ means increase in demand.

(a) right
(b) left
(c) downward
(d) no change in Demand Curve.

121. If demand does not change but there is an increase in supply due to improved technology, then :

(a) Demand Curve will shift to the right.
(b) Demand Curve will shift to the Left.
(c) Supply curve will shift to the right.
(d) Supply curve will shift to the Left.

122. When the Supply and demand curves shift in the some direction and both demand and Supply _____, the equilibrium quantity _____ but the change in equilibrium price is _____.

(a) Increase, Increases, Uncertain
(b) Increase, Increases, Increases
(c) Increase, Increases, decreases
(d) None of the above

123. When demand increases and supply _____, the equilibrium price _____ but nothing certain can be said about the change in equilibrium quantity.

(a) Decreases, decreases
(b) Decreases, rises
(c) Decreases, remain constant
(d) None of the above

124. If demand increases without any corresponding increase in supply, there will be :

(a) Increase in equilibrium price
(b) Quantity sold increases
(c) Quantity purchased increases
(d) All of the above.

125. Identify correct possible outcome when the supply and demand curves shift in the same direction.

(a) When demand increases and supply decreases, the equilibrium price rises but nothing certain can be said about the change in equilibrium quantity.
(b) When both demand and supply increase, the equilibrium quantity increases but the change in equilibrium price is uncertain.
(c) When both demand and supply decrease, the equilibrium quantity increases but the change in equilibrium price is uncertain.
(d) When demand decreases and supply increases, the equilibrium price falls but nothing certain can be said about the change in equilibrium quantity.

[Dec. 2021]

126. There can be simultaneous change in both demand and Supply. In that case, the equilibrium price will be:

(a) Increased
(b) Decreased
(c) Changes as per the Proportionate change in demand & Supply.
(d) None of the above

127. Identity the effect on equilibrium price and quantity demanded due to Increase in supply, with demand remaining the same.

(a) The equilibrium price will go up, quantity demanded will go up.
(b) The equilibrium price will go down, quantity demanded will go up.
(c) The equilibrium price will go down, quantity demanded will go down.
(d) The equilibrium price will go up, quantity demanded will go down.

[Dec. 2021]

UNIT 3: PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

Perfect Competition

128. 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

[CA CPT Nov. 2006]

129. Under perfect competition, price elasticity of demand of a firm is:

(a) Large

(b) Slight

(c) Infinite

(d) Extreme

[Nov. 2019]

130. Under which of the following forms of market structure does a firm has no control over the price of its product:

(a) Monopoly

(b) Oligopoly

(c) Monopolistic competition

(d) Perfect competition

[CA CPT Feb. 2007]

131. Which of the following is not a coalition of perfect competition?

(a) A large number of firms

(b) Perfect mobility of factors

(c) Informative advertising to ensure that consumers have good information

(d) Freedom of entry and exit into and out of the market

[Jan. 2021]

132. Which of the following is not a condition of perfect competition?

(a) A large number of firms.

(b) Perfect mobility of factors.

(c) Informative advertising to ensure that consumers have good information.

(d) Freedom of entry and exit into and out of the market.

133. Which is not the characteristic of perfect competition?

(a) Large number of sellers

(b) Freedom of entry and exit

(c) No supernormal profits in the long-run

(d) Inefficient allocation of resources

[Dec. 2021]

134. _____ is a ideal Market.

(a) Monopoly

(b) Monopolistic

(c) Perfect Competition

(d) Oligopoly

[CA CPT Dec. 2008]

135. A firm, to attain the equilibrium position under perfect competition has to satisfy which of the following conditions?

(a) MR > MC

(b) MR = MC

(c) MR curve should cut MC curve from below

(d) MC curve should cut MR curve from below

[July 2021]

136. Which of these are characteristics of Perfect Competition.

(a) Many Sellers & Buyers

(b) Homogeneous Product

(c) Free Entry and Exit

(d) All of the above

[CA CPT Dec. 2008]

137. Under which of the following market condition both average and marginal revenue are same?

(a) Perfect competition

(b) Monopoly

(c) Monopolistic competition

(d) Oligopoly

[June 2023]

138. In the market structure, demand curve is also known as :

(a) Marginal cost curve

(b) Average revenue curve

(c) Total production curve

(d) Marginal utility curve

[Jan. 2021]

139. 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.

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

(a) The firm operates in perfectly competitive market.

(b) The firm can sell all that it was to at the established market price.

(c) The XYZ Co. is not a price taker in the market because it must lower price to sell additional units of output.

(d) The XYZ Co. will not be maximize profits because price and revenue are subject to change.

[Nov. 2019]

141. Conditions for equilibrium of a firm are:

(a) MR = MC

(b) MC should cut MR from below.

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

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

142. What is true about the perfect competition market?

(a) AR = MR = PRICE

(b) AR = AC = P

(c) AR > AC

(d) None

[Nov. 2019]

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

(a) The firm has some, but not complete, control over its product price.

(b) There are so many buyers and sellers in the market that any individual firm cannot affect the market.

(c) Each firm produces a homogeneous product.

(d) There is easy entry into or exit from the market place.

144. MR Curve = AR = Demand Curve is a feature of which kind of Market?

(a) Perfect Competition

(b) Monopoly

(c) Monopolistic

(d) Oligopoly

[CA CPT Dec. 2008]

145. Which of the following is NOT characteristic of a "Price taker".

(a) TR = P × Q

(b) AR = Price

(c) MR = Price

(d) Negatively sloping demand curve

146. If a perfect competition firm is making losses then which condition is suitable. To carry on business as long as it covering variable cost.

(a) Shutdown

(b) Expand it's plant

(c) Do nothing

(d) Reduce productions

[Nov. 2019]

147. Demand curve is equal to M.R. curve in which market?

(a) Oligopoly

(b) Monopoly

(c) Monopolistic Competition

(d) Perfect Competition

[CA CPT Dec. 2009]

148. A perfect market is characterized by :-

(a) Existence of large number of buyers and sellers

(b) Homogenous products

(c) Perfect knowledge of the market

(d) All of the above

[CA CPT Dec. 2012]

149. Elasticity of demand under perfect competition is:

(a) One

(b) Two

(c) Zero

(d) Infinite

[Nov. 2019]

150. 'Zero economic profit' emerges due to which of the following condition?

(a) Average revenue is more than average total cost.

(b) Average revenue is just equal to average total cost.

(c) Marginal revenue is just equal to average total cost.

(d) Marginal revenue is just equal to marginal cost.

[July 2021]

151. One of the essential conditions of Perfect Competition is :

(a) Product differentiation

(b) Many sellers and few buyers

(c) Only one price for identical goods at any one time

(d) Multiplicity of prices for identical product at any one time

[CA CPT June 2014]

152. Agricultural goods markets depict characteristics close to:

(a) Perfect competition.

(b) Oligopoly.

(c) Monopoly.

(d) Monopolistic competition.

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

(a) There are many buyers and sellers in the market.

(b) The goods offered for sales are largely the same.

(c) Firms generate small but positive supernormal profits in the long run.

(d) Firms can freely enter or exit the market.

154. A market structure in which many firms sell products that are similar and identical is known as :

(a) Monopolistic competition

(b) Monopoly

(c) Perfect competition

(d) Oligopoly

[CA CPT Dec. 2014]

155. One of the following is not correct about perfect competition:

(a) Purchase and Sale of homogeneous goods

(b) Existence of marketing costs

(c) Absence of transportation costs

(d) Perfect mobility of factors of production.

[CA CPT June 2015]

156. Under which of the following form of market structure does a firm have no control over the price of its production?

(a) Monopoly

(b) Monopolistic Competition

(c) Oligopoly

(d) Perfect Competition

[CA CPT Dec. 2015]

157. The price elasticity of demand for a product is infinite under:

(a) Perfect competition

(b) Monopolistic competition

(c) Monopoly

(d) Oligopoly

[CA CPT June 2016]

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

(a) Electricity

(b) Cable television

(c) Cola

(d) Milk

159. The condition for pure competition is:

(a) Large number of buyer and seller, free entry and exist.

(b) Homogeneous product.

(c) Both (a) and (b).

(d) Large number of buyer and seller, homogeneous product, perfect knowledge about the product.

160. Which of the following statement is not correct?

(a) Under monopoly there is no difference between a firm and industry.

(b) A monopolist may restrict the output and raise the price.

(c) Commodities offered for sale under a perfect completion will be heterogeneous.

(d) Product differentiation is peculiar to monopolistic completion.

[CA CPT June 2017]

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

(a) Monopoly

(b) Monopolistic Completion

(c) Oligopoly

(d) Perfect Competition.

[CA CPT June 2017]

162. What is incorrect about Perfect Competition?

(a) All Firms are Price takers.

(b) Firms have to accept the price determined by the market forces of total demand & total supply.

(c) The assumption of Price taking does not applies to Consumers.

(d) All are incorrect.

163. The essential feature of Pure competition is _____.

(a) Presence of Monopoly

(b) Absence of Monopoly

(c) Dual existence of Pure Competition & Monopoly

(d) All of the above.

164. The Condition of perfect Competition are fulfilled to same extent in case of :

(a) Agricultural Products

(b) Financial Instruments

(c) Precious Metals

(d) All of the above

165. Which out of these are not a feature of perfect competition?

(a) Homogeneous

(b) Large number of buyer and sellers

(c) Free entry and exist

(d) Selling cost.

[CA CPT Nov. 2018]

166. Perfectly Competitive markets have _____ transactions Costs.

(a) Absolutely no

(b) Very Low

(c) High

(d) Very high

167. Which among the following market situation is known as a 'myth in the market'?

(a) Duopoly

(b) Oligopoly

(c) Discriminating

(d) Perfect Competition

[Nov. 2019]

168. Which of the following statement is correct?

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

(b) Selling cost are possible under perfect completion.

(c) An industry consists of many firm.

(d) Under perfect completion factor of production do not move freely as these are legal restriction.

[CA CPT Nov. 2018]

169. An industry in economic terminology consists of a _____ number of _____ firms.

(a) Large, independent

(b) Large, dependent

(c) Small, independent

(d) Small, dependent

170. In case of perfect Competition, the industry is in equilibrium, when _____.

(a) There is enough demand of products in the market.

(b) There is enough supply of products in the market.

(c) Total output of the industry is equal to the total demand.

(d) Total output is less than the quantity demanded.

171. Price under perfect competition is determined by the:

(a) Firm

(b) Industry

(c) Government

(d) Society

[CA CPT June 2013]

172. A competition in which many sellers selling identical products to a large number of buyers.

(a) Monopolistic competition

(b) Oligopoly

(c) Perfect competition

(d) Imperfect competition

173. Equilibrium price for an industry in perfect competition is fixed through:

(a) Input and Output

(b) Market demand and market Supply

(c) Market demand and firms supply

(d) None of the above

[CA CPT June 2013]

174. Who sets the price of the product under perfect competition?

(a) Government

(b) Consumers

(c) Sellers

(d) Both buyers and sellers

[CA CPT Dec. 2016]

175. A firm is said to be in equilibrium when _____.

(a) it is maximizing its profits

(b) it has no incentive to expand production

(c) it has no incentive to contract production

(d) all of the above.

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

(a) Horizontal

(b) Vertical

(c) Positively sloped

(d) Negatively sloped

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

(a) $TR = P \times Q$

(b) AR = Price

(c) Negatively - sloped demand curve

(d) Marginal Revenue = Price

178. In perfect competition, since the firm is a price taker, the _____ curve is a straight line.

(a) Marginal cost

(b) Total cost

(c) Total revenue

(d) Marginal revenue

[CA CPT June 2008]

179. Average revenue curve is also known as:

(*a*) Profit curve

(*b*) Demand curve

(*c*) Supply curve

(*d*) Average cost curve

[CA CPT June 2012]

180. For a price-taking firm :

(*a*) Marginal revenue is less than price.

(*b*) Marginal revenue is equal to price.

(*c*) Marginal revenue is greater than price.

(*d*) The relationship between marginal revenue and price is indeterminate.

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

(*a*) Demand curve is downward sloping

(*b*) The demand curve always lies above the marginal revenue curve.

(*c*) Average revenue need not be equal to price.

(*d*) Price is given and is determined by the equilibrium in the entire market.

182. What is the shape of perfectly competitive Average Revenue Curve?

(*a*) Parallel to X axis

(*b*) Parallel to Y axis

(*c*) Fall from left to right

(*d*) Rise from left to right

[CA CPT Nov. 2018]

183. Under which of the following market structure AR of the firm will be equal to MR?

(*a*) Monopoly

(*b*) Monopolistic Competition

(*c*) Oligopoly

(*d*) Perfect Competition

[CA CPT Feb. 2007]

184. Under perfect competition a firm is the:

(*a*) Price-maker and not price-taker

(*b*) Price-taker and not price-maker

(*c*) Neither price-maker nor price-taker

(*d*) None of the above

185. Which of the following is supply curve of competitive firm in short run?

(*a*) Average variable cost curve

(*b*) Average total cost curve

(*c*) Marginal cost curve

(*d*) Average fixed cost curve

[June 2023]

186. Under which Market Situation demand curve is linear and parallel to X axis:

(*a*) Perfect Competition

(*b*) Monopoly

(*c*) Monopolistic Competition

(*d*) Oligopoly

[CA CPT Dec. 2008]

187. Price taker firms _____.

(*a*) Do not advertise their product because it misleads the customers.

(*b*) Advertise their products to boost the level of demand.

(*c*) Do not advertise but give gifts along with the sold items to attract customers.

(*d*) Do not advertise because they can sells as much as they wish at the prevailing price.

[CA CPT June 2010]

188. In which type of the following market product is homogeneous in nature?

(*a*) Pure oligopoly

(*b*) Pure monopoly

(*c*) Pure duopoly

(*d*) Pure competition

[June 2023]

189. Under which of the following market structure AR of the firm will be equal to MR?

(*a*) Monopoly

(*b*) Monopolistic Competition

(*c*) Oligopoly

(*d*) Perfect Competition

[CA CPT Dec. 2010]

190. Perfectly competitive firm faces:

(*a*) Perfectly elastic demand curve

(*b*) Perfectly inelastic demand curve

(*c*) Zero

(*d*) Negative

[CA CPT June 2011]

191. It will be profitable for a firm to expand output till which of the following conditions?

(*a*) Marginal revenue is grater than Marginal Cost

(*b*) Marginal revenue is less than Marginal Cost

(*c*) Marginal Cost is greater than Marginal Revenue

(*d*) Marginal Revenue is equal to Marginal Cost

[June 2022]

192. Which of the following is not the characteristic of MR?

(*a*) When TR is minimum, the MR is zero

(*b*) MR can be negative

(*c*) MR slopes downward from left to right

(*d*) MR Curve is below AR Curve

[CA CPT Nov. 2018]

193. MR Curve in perfect competition is:

(*a*) Parallel to X-axis

(*b*) Parallel to Y-axis

(*c*) Fall from left to right

(*d*) Rise from left to right

[CA CPT Nov. 2018]

194. In perfect Competition when the firm is a price taker, which curve among the following will be a straight line?

(*a*) Marginal Cost

(*b*) Average Cost

(*c*) Total Cost

(*d*) Marginal Revenue

[CA CPT Dec. 2011]

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

(*a*) The firm has some but not complete control over its product price.

(*b*) There are so many buyers and sellers in the market that any one buyer or seller cannot affect the market.

(*c*) Each firm produces a homogeneous product.

(d) There is easy entry into or exist from the market place.

[CA CPT Dec. 2014]

196. It is the amount of revenue from sales which exactly equals the amount of expense.

(a) Shut down point
(b) Break-even Point
(c) Profit point
(d) None

[Nov. 2019]

197. A competitive firm should shut down production if the price is :

(a) Below AVC
(b) Equal to AVC
(c) Below ATC
(d) Equal to ATC

198. Which of the following is incorrect?

(a) Even monopolistic can earn losses.
(b) Firms in perfect competitive market is price taker.
(c) It is always beneficial for a firm in a perfectly competitive market to discriminative prices.
(d) Kinked demand curve is related to an oligopolistic market.

[CA CPT Dec. 2016]

199. In which of the following, prices are determined by market forces of demand and supply?

(a) Duopoly Competition
(b) Perfect Competition
(c) Monopolistic Competition
(d) Natural market

[June 2023]

200. Which perfect completion firm is described as:

(a) Price taker and not price maker.
(b) Price maker and not price taker.
(c) Neither price maker nor price taker.
(d) None of the above.

[CA CPT June 2017]

201. Which of the following Statement is false as regards Perfect Competition?

(a) Firm is said to be in equilibrium when it maximizes its profit.
(b) The output which gives maximum profit to the firm is called equilibrium output.
(c) In the equilibrium State, the firm has no incentive either to increase or decrease its output.
(d) Firms in a Competitive market are Price Makers.

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

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

203. For maximum profit, the condition is:

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

[CA CPT Nov. 2006]

204. Condition for producer equilibrium is:

(a) TR = TVC
(b) MC = MR
(c) TC = TAC
(d) None of these

[CA CPT June 2008]

205. In market, the price and output equilibrium is determined on the basis of:

(a) Total revenue and total cost
(b) Total cost and marginal cost
(c) Marginal revenue and marginal cost
(d) Only marginal cost

[CA CPT June 2012]

206. In a perfectly competitive market the demand curve of a firm is:

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

[CA CPT Dec. 2012]

207. The firm will attain equilibrium at a point where MC curve cuts _____ from below.

(a) AR curve
(b) MR curve
(c) AC curve
(d) AVC curve

[CA CPT June 2015]

208. If in a short run perfect competition earn super normal profit then which condition satisfy?

(a) ATC> MC
(b) ATC< MC
(c) MR < AR
(d) MR> AR

[Nov. 2019]

209. Which is the first order condition for the firm to maximize the profit.

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

[CA CPT Dec. 2016]

210. Average revenue curve is also known as:

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

[CA CPT Dec. 2016]

211. Condition for equilibrium of firm:

(a) MR = MC
(b) AR = AC
(c) MC curve cuts MR curve from below
(d) Both (a) and (c)

[CA CPT May 2018]

212. Demand curve is horizontal in the case of :

(a) Monopoly
(b) Perfect Competition
(c) Imperfect Competition
(d) Monopolistic Competition

[CA CPT May 2019]

213. In the short run, a firm operates with a _____ amount of capital and must choose the level of its _____ so as to _____ profit.

(a) Fixed, Variable inputs, maximize
(b) Variable, fixed inputs, minimize

(c) Fixed, Fixed inputs, maximize

(d) Valuable, Variable inputs, minimize.

214. At the equilibrium position of a firm Under perfect Competition, _____.

(a) The Marginal revenue is equal to the marginal Cost.

(b) The MC Curve cuts MR Curve from below.

(c) Both (a) & (b)

(d) Either (a) or (b)

215. 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.

216. Which of the following conditions exhibits long run equilibrium of the industry under perfect competition?

(a) MR = LMC = AR = LAC =SAC = SMC

(b) MR = LMC = AR>LAC

(c) MR = LMC = AR<LAC

(d) MR = LMC = AR>SAC

217. In a perfectly Competitive Industry, the MC Curve of a firm depicts:

(a) The industry demand Curve

(b) The Firm's demand Curve

(c) The industry's supply Curve

(d) The Firm's supply Curve.

218. As regards short run supply curve of the firm in a Competitive market, for Prices _____ Average Variable Cost, the firm will Supply _____ units because the firm is _____ to meet even its variable Cost.

(a) Above, maximum, Unable

(b) Below, Zero, Unable

(c) Above, Maximum, able

(d) Below, Zero, able

219. When the average revenues are more than its average total Cost, the Firm is said to have earned:

(a) Normal Profits

(b) Super Normal Profits

(c) Exceptional Profits

(d) Expected Profits.

220. The total Cost of production is ₹ 40,000 (1,000 units). If the firm is selling the product at ₹ 45 per unit, it is earning _____.

(a) Normal Profits @ ₹ 5 Per Unit

(b) Normal Profits @ ₹ 45 Per Unit

(c) Super normal profits @ ₹ 5 Per Unit

(d) Super Normal profits @ ₹ 45 Per Unit.

221. Price elasticity of demand by a firm facing perfect competition is:

(a) Large

(b) Very small

(c) Small

(d) Infinite

[Dec. 2021]

222. When AR = ₹ 10 and AC = ₹ 8 the firm makes _____ :

(a) Normal profit

(b) Net profit

(c) Gross profit

(d) Super normal profit

[CA CPT May 2007]

223. In a perfectly competitive market, if MR is greater than MC, then a firm should:

(a) Increase its production

(b) Decrease its production

(c) Decrease its sales

(d) Increase its sales

[CA CPT Dec. 2013]

224. In a perfectly competitive market, if MR is greater than MC, then a firm should:

(a) Increase its production

(b) Decrease its production

(c) Decrease its sales

(d) Increase its sales

[CA CPT May 2018]

225. If a perfectly competitive firms earns super normal profits then _____.

(a) AR > MR

(b) AR < MR

(c) AR = MR

(d) None of the above

[CA CPT May 2019]

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

(a) AC = AR

(b) MC = MR

(c) MC = AC

(d) AR = MR

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

(a) AC = AR

(b) MC = AC

(c) MC = MR

(d) AR = MR

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

(a) Average total cost equals price at the profit-maximizing level of output.

(b) Average variable cost equals price at the profit-maximizing level of output.

(c) Average fixed cost equals price at the profit-maximizing level of output.

(d) Marginal cost equals price at the profit-maximizing level of output.

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

(a) MC = MR

(b) MC = AC

(c) MC = AR

(d) AR = MR

230. A firm will close down in the short period, if its AR is less than :

(a) AC

(b) AVC

(c) MC

(d) None of the above

[CA CPT June 2014]

231. A competitive firm in the short run incur losses. The firm continues production, if:

(a) P > AVC
(b) P = AVC
(c) P < AVC
(d) P > = AVC

[CA CPT Nov. 2006]

232. If under perfect competition, the price line lies below the average cost curve, the firm would:

(a) Make only Normal profits
(b) Incur losses
(c) Make abnormal profit
(d) Profit cannot be determined

[CA CPT Nov. 2007]

233. In which market prices are determined by the market forces of demand and supply?

(a) Perfect Competition
(b) Pure Competition
(c) Monopolistic Competition
(d) Oligopoly

[Nov. 2020]

234. A firm will shut down in the short run if :

(a) It is suffering a loss
(b) Fixed costs exceeds revenue
(c) Variable costs exceed revenues
(d) Total costs exceed revenues

[CA CPT June 2008]

235. A firm encounters "shut down" point when _____.

(a) Marginal cost equals the price of the profit maximizing level of output.
(b) Average fixed cost equals the price at the profit maximizing level of output.
(c) Average variable cost equals the price at the profit maximizing level of output.
(d) Average total cost equals the price at the profit maximizing level of output.

[CA CPT Dec. 2011]

236. In a competitive market, if price exceeds Average Variable Cost (AVC) but remains less than Average Cost (AC) at the equilibrium, the firm is:

(a) Making a profit.
(b) Planning to quit.
(c) Experiencing loss but should continue production.
(d) Experiencing loss but should discontinue production.

[CA CPT Dec. 2012]

237. A competitive firm in the short run incurs losses. The firm continues production, if:

(a) P > AVC
(b) P = AVC
(c) P < AVC
(d) P ≥ AVC

[CA CPT May 2018]

238. In perfect Competition, if a firm is unable to meet its average variable Cost, it will be better for it to shut-down. This shut-down _____.

(a) is permanent
(b) is temporary
(c) may be temporary as the firm resumes production when the market price rises
(d) none of the above

239. The Firm can be in an equilibrium position and still makes losses. This is the situation where _____.

(a) AR = AC
(b) AR > AC
(c) AR < AC
(d) Either (b) or (c)

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

(a) Normal profits
(b) Super normal profits
(c) Production
(d) Costs

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

(a) The intersection of the marginal cost and marginal revenue
(b) Their efficient scale
(c) Zero economic profit
(d) All of these answers are correct

242. Under _____ market condition, firms make normal profits in the long run.

(a) Perfect competition
(b) Monopoly
(c) Oligopoly
(d) None

[CA CPT Nov. 2006]

243. What are the conditions for the long run equilibrium of the competitive firm?

(a) LMC = LAC = P
(b) SMC = SAC = LMC
(c) R = MR
(d) All of these

[CA CPT Aug. 2007]

244. In the long run, which of the following statement is true for a firm in a perfectly competitive industry?

(a) It operates at its minimum average cost.
(b) The price is more than the average fixed cost.
(c) The marginal cost is greater than marginal revenue.
(d) The fixed cost is lower than the total variable cost.

[CA CPT Dec. 2014]

245. "I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses.

(a) Rational, if the firm is covering its variable cost.
(b) Rational, if the firm is covering its fixed cost.
(c) Irrational, since plant closing is necessary to eliminate losses.
(d) Irrational, since fixed costs are eliminated if a firm shut down.

[CA CPT Dec. 2015]

246. In long run equilibrium undue perfect completion is/are satisfied by which condition.

(a) MC = MR
(b) AC = AR
(c) CMC = LAC = P
(d) All of the above.

[CA CPT May 2018]

247. In Long run perfect competitive market incurs:

(a) Normal profit
(b) Super normal profit

(c) Losses

(d) Constant Returns

[CA CPT Nov. 2018]

248. A long run Competitive equilibrium of a perfectly competitive industry occurs when:

(a) All Firms in the industry are in equilibrium.

(b) No Firm has an incentive either to enter or exit the industry.

(c) The price of the product is such that the quantity supplied by the industry is equal to the quantity demanded by Consumers.

(d) All above three conditions hold true.

249. In the long run, under perfect competition, there will be optimum allocation of resources and _____.

(a) LAR = LMR

(b) LAR = LMR = P

(c) LAR = LMR = P = LMC

(d) LAR = LMR = P = LMC = LAC

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

(a) Perfect Competition

(b) Monopoly

(c) Monopolistic

(d) Oligopoly

Monopoly

251. Monopoly may arise in a product market because _____.

(a) a significantly important resource for the production of the commodity is owned by a single firm.

(b) the government has given the firm patent right to produce the commodity.

(c) the costs of production and economies of scale makes production by a single producer more efficient.

(d) All of the above.

252. Which of the following is not a feature of the monopoly market?

(a) Large seller of the product

(b) No close - Substitutes

(c) Market power

(d) Single seller of the product

[July 2021]

253. Monopolist can determine :

(a) Price

(b) Output

(c) Either price or output

(d) None

[CA CPT Feb. 2008]

254. A market structure where there is only a single buyer and a single seller is called:

(a) Duopoly

(b) Monopsony

(c) Bilateral monopoly

(d) Oligopsony

[Dec. 2021]

255. Under which of the following forms of market structure does a firm has a very considerable control over the price of its product?

(a) Monopoly

(b) Monopolistic Competition

(c) Oligopoly

(d) Perfect Competition

[CA CPT Dec. 2013]

256. Under monopoly market conditions MR is _____ than the AR.

(a) Less

(b) Greater

(c) Equal

(d) Variable

[June 2022]

257. The distinction between a single firm and an Industry vanishes in which of the following market conditions?

(a) Perfect Competition

(b) Imperfect Competition

(c) Pure Competition

(d) Monopoly

[CA CPT June 2014]

258. Monopoly firm faces which demand curve?

(a) Downward Sloping

(b) Horizontal

(c) Rising

(d) All of these

[Nov. 2019]

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

(a) A standardized product

(b) The goal of profit maximization

(c) The interdependence among firms

(d) Downward-sloping demand curves faced by firms.

260. In a monopoly market, a producer has control only over:

(a) Price of the commodity

(b) Demand of the commodity

(c) Both (a) and (b)

(d) Utility of the product

[CA CPT June 2015]

261. Which is not characteristic of monopoly?

(a) The firm is price-taker.

(b) There is a single firm.

(c) The firm produces a unique product.

(d) The existence of some advertising.

[CA CPT Dec. 2016]

262. Monopoly is undesirable due to:

(a) It has prices higher than competitive firms.

(b) It produces less output than competitive firms.

(c) It discriminates on prices.

(d) All of the above.

[CA CPT May 2018]

263. A Monopolist is a:

(a) Price-maker

(b) Price-taker

(c) Price-adjuster

(d) None of the above

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

(a) None

(b) Some

(c) Very considerable

(d) None of the above

265. The demand curve of the firm and industry will be same in which form of market:

(a) Monopolistic competition

(b) Perfect completion

(c) Monopoly
(d) Oligopoly

[CA CPT May 2018]

266. Market form in which there is only one buyer and one seller is:

(a) Oligopoly
(b) Duopoly
(c) Bilateral Monopoly
(d) Monopsony

[CA CPT May 2018]

267. Which market is having a single seller and single Buyer?

(a) Duopoly
(b) Monopsony
(c) Bilateral Monopoly
(d) None of the above

[CA CPT Nov. 2018]

268. Price under monopoly is higher than price under:

(a) Perfect competition
(b) Monopolistic competition
(c) Oligopoly
(d) Duopoly

[June 2022]

269. Monopoly is a situation in which:

(a) There is a Single Seller of a product
(b) The Product has no close Substitute
(c) Both (a) & (b)
(d) Neither (a) nor (b)

270. Which of the following is the characteristics of Monopoly?

(a) Industry is dominating by larger number of firms
(b) Freedom to entry and exit
(c) No close substitutes
(d) Only two firms in the market

[June 2023]

271. In a Monopolistic market, there are _____ barriers to entry.

(a) No
(b) Negligible
(c) Light
(d) Strong

272. Which is the characteristic feature of monopoly?

(a) Homogenous goods
(b) Strong barriers to entry
(c) Perfect competition
(d) Perfectly elastic demand curve

[CA CPT May 2019]

273. 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.

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

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

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

(a) The firm operates in a perfectly competitive market.
(b) The firm can sell all that it wants to at the established market price.
(c) The XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output.
(d) The XYZ Co. will not be able to maximize profits because price and revenue are subject to change.

276. The demand curve of a monopoly firm will be:

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

277. What is the shape of monopolist Average Revenue Curve?

(a) Falls from left to right
(b) Is parallel to X-axis
(c) Is parallel to Y-axis
(d) Rise from left to right

[CA CPT Nov. 2018]

278. The MR curve cuts the horizontal line between Y-axis and demand curve into:

(a) Two unequal parts
(b) Two equal parts
(c) May be equal or unequal parts
(d) None of these

[CA CPT Feb. 2008]

279. The demand curve of the firm and industry will be same in which form of market:

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

[CA CPT June 2009]

280. Natural Monopoly arises when:

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

281. When elasticity of demand is Equal to one in monopoly, marginal Revenue will be :

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

[CA CPT Dec. 2010]

282. If a firm under monopoly wants to sell more, its average revenue curve will be a _____ line.

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

[CA CPT June 2016]

283. Marginal Revenue is equal to:

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

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

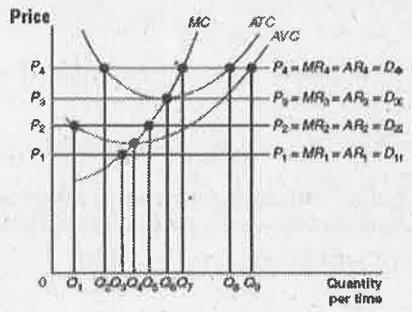
(a) Produce where marginal revenue equals marginal cost if it is operating in the short run.

(b) Produce where marginal revenue equals marginal cost if it is operating is the long run.

(c) Shutdown, since it will lose nothing in that case.

(d) Shutdown, since it cannot even cover its variable costs if it stays in business.

285. At price P_1, the firm in the figure would produce:



(a) Zero output

(b) Q_3

(c) Q_5

(d) Q_6

286. Profits of the firm will be more at:

(a) MR = MC

(b) Additional revenue from extra unit equals its additional cost.

(c) Both of above

(d) None

[CA CPT May 2007]

287. Which of the following is true, when the firm is at equilibrium?

(a) MC < MR

(b) MC curve cuts the MR curve from below

(c) Both (a) and (b)

(d) None of the above

[CA CPT May 2019]

288. A monopolist is able to maximize his profits when:

(a) His output is maximum.

(b) He charges a high price.

(c) His average cost is minimum.

(d) His marginal cost is equal to marginal revenue.

[CA CPT Feb. 2007]

289. For a monopolist, the necessary condition for equilibrium is:

(a) P = MC

(b) P = MR = AR

(c) MR = MC

(d) None

[CA CPT June 2008]

290. A monopolist can fix:

(a) Both price and output

(b) Either price or output

(c) Neither price nor output

(d) None of the above

[CA CPT Dec. 2012]

291. Under monopoly, which of the following is correct:

(a) AR and MR both are downward sloping

(b) MR lies halfway between AR and Y-axis

(c) MR can be zero or even negative

(d) All of the above

[CA CPT June 2013]

292. Supernormal profits occur, when:

(a) Total revenue is equal to total cost

(b) Total revenue is equal to variable cost

(c) Average revenue is more than average cost

(d) Average revenue is equal to average cost

[CA CPT Nov. 2007]

293. A monopolist has to determine:

(a) His output

(b) The Price of his Product

(c) Total market demand

(d) Both (a) & (b)

294. A Monopolist faces _____ sloping demand Curve.

(a) Upward

(b) Downward

(c) Horizontal to X-axis

(d) Horizontal to Y-axis

295. In case of Monopoly, the firm and industry are _____.

(a) Different

(b) Identical

(c) Similar

(d) Opposite to each other

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

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

(b) The firm should raise its price enough to cover its losses.

(c) The firm should move its resources to another industry.

(d) The firm should continue to operate in the short run in order to minimize its losses.

297. If the average cost is higher than the average revenue then the firm incurs:

(a) Normal profit

(b) Abnormal profit

(c) Loss

(d) No profit, no loss

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

(a) Uniform

(b) Different

(c) Less

(d) Zero

299. Price discrimination refers to the practices of charging _____ prices for _____ units of the _____ commodity.

(a) different, different, same

(b) same, different, same

(c) same, same, same

(d) different, same, same

[Dec. 2021]

300. Price discrimination is one of the features of:

(a) Monopolistic competition

(b) Monopoly

(c) Perfect competition

(d) Oligopoly

301. 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.

302. 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.

303. Price discrimination is related to:

(a) Time

(b) Size of the purchase

(c) Income

(d) Any of the above

304. Under monopoly price discrimination depends upon :

(a) Elasticity of demand for commodity

(b) Elasticity of supply for commodity

(c) Size of market

(d) All of the above

[CA CPT Aug. 2007]

305. Which one of the following statement is Incorrect?

(a) Competitive firms are price takers and not price makers.

(b) Price discrimination is possible in monopoly only.

(c) Duopoly may lead to monopoly.

(d) Competitive firm always seeks to discriminate prices.

[CA CPT Dec. 2010]

306. For a discriminating monopolist the condition for equilibrium is:

(a) MR > MC

(b) MR1 = MR2

(c) MRa = MRb =MC

(d) All of the above

[CA CPT June 2012]

307. Price discrimination can take place only in:

(a) Monopolistic competition

(b) Oligopoly

(c) Perfect competition

(d) Monopoly

[CA CPT Dec. 2009]

308. Price Discrimination is possible only when.

(a) Seller is alone

(b) Goods are homogeneous

(c) Market is controlled by the government

(d) None of the above.

[CA CPT June 2010]

309. For price discrimination to be successful, the elasticity of demand for the commodity in the two markets should be:

(a) Same

(b) Different

(c) Constant

(d) Zero

[CA CPT June 2014]

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

(a) Uniform

(b) Different

(c) Less

(d) Zero

[CA CPT Dec. 2015]

311. A discriminating monopolist to reach equilibrium position, his decision on total output depends upon:

(a) How much total output should be produce?

(b) How the total output should be distributed between the two submarket?

(c) Both (a) and (b)

(d) None

[CA CPT May 2019]

312. Price discrimination is possible only in:

(a) Monopoly

(b) Perfect Competition

(c) Oligopoly

(d) Monopolistic Competition

[CA CPT May 2019]

313. Which of the following is not an objective of price discrimination?

(a) To enjoy economics of scale

(b) To dispose off surplus stock

(c) To escape foreign market

(d) To secure equity through pricing

[June 2023]

314. Price discrimination will not be profitable, if the elasticity of demand is _____ in different markets.

(a) Uniform

(b) Different

(c) Less

(d) Zero

[CA CPT Dec. 2014]

315. Product differentiation is the condition of which of the following market?

(a) Perfect competition

(b) Monopoly

(c) Monopolistic competition

(d) Oligopoly

[June 2022]

316. The price discrimination under monopoly will be possible under which of the following conditions?

(a) The seller has no control over the supply of his product.

(b) The market has the same condition all over.

(c) The price elasticity of demand is different in different markets.

(d) The price elasticity of demand is uniform.

[CA CPT Dec. 2010]

317. Monopolist can fix him price of goods whose elasticity is :

(a) Less than 1

(b) More than 1

(c) Elastic

(d) Inelastic.

[CA CPT June 2011]

318. "Price Discrimination" can be best exercised by the Seller in:

(a) Oligopoly

(b) Monopoly

(c) Monopolistic competition

(d) Perfect competition

[CA CPT Dec. 2011]

319. A discriminating monopolist will charge a higher price in the market in which the demand for its product is:

(a) Highly elastic

(b) Relatively elastic

(c) Relatively inelastic
(d) Perfectly elastic

[CA CPT June 2016]

320. Price discrimination is profitable only when:

(a) Different markets are kept separate.
(b) Distance between the consumer and the market is more.
(c) Elasticity of demand in different markets is different.
(d) The consumers are segregated on the basis of their purpose of use of the commodity.

[CA CPT Dec. 2016]

321. Which amongst the following is not an objective of price discrimination?

(a) To hold the extra stocks
(b) To earn maximum profits
(c) To enjoy economies of scale
(d) To secure equity through pricing

[CA CPT June 2017]

322. In the long run monopolist:

(a) Incur losses
(b) Must earn super normal profits
(c) Wants to shut down
(d) Earns only normal profits

[CA CPT May 2018]

323. Competitive firms in the long-run earn:

(a) Super normal profit
(b) Normal profit
(c) Losses
(d) None

[CA CPT Nov. 2018]

324. In the long-run monopolist can:

(a) Incur losses
(b) Must earn super normal profits
(c) Wants to shut-down
(d) Earns only normal profits

[CA CPT June 2009]

325. In the long run a monopolist always earns:

(a) Normal profit
(b) Abnormal profit
(c) Zero profit
(d) Loss

[CA CPT Dec. 2013]

326. Abnormal profits exist in the long run only under _____.

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

[CA CPT June 2014]

327. The Electricity Companies Sell electricity at a cheaper rate for home Consumption in rural areas than for industrial use. It is example of:

(a) Price-discrimination
(b) Price-Adjustment
(c) Price-Variability
(d) Price-biased attitude

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

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

Imperfect Competition

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

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

330. Firms in a monopolistic market are price _____ :

(a) Takers
(b) Givers
(c) Makers
(d) Acceptors

[CA CPT Aug. 2007]

331. Under Monopolistic competition the cross elasticity of demand for the product of a single firm would be:

(a) Infinite
(b) Highly elastic
(c) Highly inelastic
(d) Zero

[CA CPT May 2007]

332. 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

333. In the long run Monopolistic comp. and perfect comp. are same because of:

(a) Normal Profit
(b) Abnormal Production
(c) Losses
(d) None of these

[Nov. 2019]

334. Extreme Product differentiation is found in which market?

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

[Nov. 2019]

335. Which of the following is an example of monopolistic competition?

(a) De Beers and Diamond
(b) Hotels and pub
(c) Microsoft and Window
(d) Dell and Lenovo

[July 2021]

336. Monopolistic competition differs from perfect competition primarily because:

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

337. Which market have characteristic of product differentiation?

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

[CA CPT Dec. 2008]

338. Which of the following is not the feature of an imperfect competition?

(a) Product differentiation
(b) Few sellers
(c) Homogeneous products
(d) Price wars

[CA CPT June 2010]

339. Tooth paste industry is an example of _____.

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

[CA CPT Dec. 2010]

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

(a) Perfectly competitive.
(b) Monopolistic.
(c) Monopolistically competitive.
(d) Oligopolistic.

341. Railways charges comparatively cheaper fares from senior citizens. This is an example of:

(a) Market analysis
(b) Profit discrimination
(c) Price discrimination
(d) Demand forecasting

[Nov. 2020]

342. Which of the following is a correct statement?

(a) Firms have to incur a good deal of costs on advertising and other sales promotion measures in oligopoly market.
(b) A monopolist always earns supernormal profit.
(c) Identical products are not found in a competitive market.
(d) Close substitute are available under monopoly.

[June 2022]

343. Which of the following statements is incorrect?

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

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

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

345. In a perfectly competitive market, which of the following statement is not true with regards to TR, AR, MR?

(a) AR represents demand function of a commodity to the firm.
(b) MR keeps on falling and touches zero before it becomes negative.
(c) For any falling average revenue (or price) schedule, the marginal revenue is always equal to the price of a commodity.
(d) For any constant average revenue (or price) schedule, the marginal revenue is equal to average revenue.

[Dec. 2021]

346. Non-price competition is very popular in:

(a) Monopoly market
(b) Monopolistic competition
(c) Oligopolistic market
(d) Perfect competition

[CA CPT June 2013]

347. Selling outlay is an essential part of which of the following market situations?

(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Pure Competition

[CA CPT June 2014]

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

(a) Free entry and exit
(b) Abnormal profits in the long run
(c) Many sellers
(d) Differentiated products

349. Downward sloping and comparatively more elastic demand curve is found in:

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

350. Which of the following statements is correct?

(a) Price rigidity is an important feature of monopoly.
(b) Selling costs are possible under perfect competition.
(c) Under perfect competition factors of production do not move freely as there are legal restrictions.
(d) An industry consists of many firms.

351. Electricity companies sell electricity as a cheaper rate for power consumption in rural areas than for industrial consumptions. This is an example of:

(a) Product discrimination
(b) Perfect competition
(c) Price discrimination
(d) Price taker

[July 2021]

352. Which market has the concept of 'group' equilibrium in the long-run?

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

[CA CPT Dec. 2016]

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

(a) The efficient output level will be produced on the long run.
(b) Firms will be producing at minimum average cost.
(c) Firms realize all economies of scale.
(d) Firms will only earn normal profit.

[Jan. 2021]

354. In monopolistic competition excess capacity in the firm:

(a) Always exists
(b) Sometimes exists
(c) Never exists
(d) None of the above

[CA CPT Dec. 2011]

355. Which market has the concept of 'group' equilibrium in the long-run?

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

356. Product differentiation is the main features of which market?

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

[CA CPT Nov. 2018]

357. What is the characteristic of monopolistic Competition?

(a) Price elasticity is low for the product concerned.
(b) Large number of sellers.
(c) No degree of control over price.
(d) One buyer.

[CA CPT May 2019]

358. Price varies by attributes such as location or by Customer segment is ____ degree of Price Discrimination.

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

359. Monopolistic Competitive firms _____.

(a) are small in size
(b) have small share in total market
(c) are very large in size
(d) Both (A) and (B)

[CA CPT Dec. 2010]

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

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

361. Which of the following statement is incorrect?

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

362. Which of the following statement is incorrect?

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

363. Which of the following product market is close to perfect competition?

(a) Mobile phones
(b) Car
(c) Utensils
(d) Agricultural products

[June 2022]

364. Under which market Condition firms make only normal profits in the long run?

(a) Oligopoly
(b) Monopoly
(c) Monopolistic competition
(d) Duopoly

[CA CPT Dec. 2011]

365. Degree of control over price is very considerable in case of:

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

[Dec. 2021]

366. Comparing a Monopoly and Competitive firm the Monopolist will:

(a) Produce less and sell at a lower price.
(b) Produce more and sell at a lower price.
(c) Produce less and sell at a higher price.
(d) Produce zero and sell at a lower price.

[CA CPT June 2016]

367. There is absolutely no consumer exploitation in case of:

(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competitions
(d) All of the above

368. When the industry is dominated by one large firm, it is a type of:

(a) Full oligopoly
(b) Syndicated oligopoly
(c) Organized oligopoly
(d) Partial oligopoly

[Dec. 2021]

369. There is efficient allocation of resources in case of :

(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) All of the above

370. "Competition among few" is described in:

(a) Monopoly
(b) Monopsony
(c) Oligopoly
(d) Duopoly

[Nov. 2020]

371. In which of the following type of competition, supernormal profits can be earned both in short run and long run?

(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) All of the above

372. Which of the following statement is correct?

(a) Price rigidity is an important feature of monopoly.
(b) Selling costs are possible under perfect condition.
(c) Under perfect competition factors of production do not more legal restrictions.
(d) An industry consists of many firms.

Oligopoly

373. Oligopolistic industries are characterized by :

(a) A few dominant firms and substantial barriers to entry.
(b) A few large firms and no entry barriers.

(c) A large number of small firms and no entry barriers.

(d) One dominant firm and low entry barriers.

[Jan. 2021]

374. The theory of oligopoly is also called a theory of _____.

(a) Individual behaviour

(b) Mass behaviour

(c) Group behaviour

(d) Dynamic behaviour

375. Product differentiation is the essential feature of _____

(a) Perfect competition

(b) Monopolistic competition

(c) Oligopoly competition

(d) Duopoly competition

[June 2023]

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

Market Share	(% of market)
Toothpaste	18.7
Dentipaste	14.3
Shinebright	11.6
I can't believe its not toothpaste	9.4
Brighter than white	8.8
Pasty stuff	7.4
Others	29.8

(a) Perfect competition

(b) Monopolistic competition

(c) Oligopoly

(d) Monopoly

377. When new firm enter into the market and compete with the existing firm is a situation called as _____

(a) Pure oligopoly

(b) Open oligopoly

(c) Collusive oligopoly

(d) Competitive oligopoly

[June 2023]

378. Market which have two firms are known as :

(a) Oligopoly

(b) Duopoly

(c) Monopsony

(d) Oligopsony

[CA CPT Nov. 2007]

379. Firms in oligopoly are likely to:

(a) Try to differentiate its products

(b) Invest heavily in branding

(c) Act independently of other firms

(d) Try to be a price maker

[Dec. 2021]

380. Smart phones market is an example of:

(a) Perfect competition

(b) Monopoly

(c) Monopolistic competition

(d) Oligopoly

[Nov. 2020]

381. Non-price competition are observed in which type of following market ?

(a) Monopoly

(b) Monopolistic competition

(c) Duopoly

(d) Oligopoly

[June 2022]

382. The market structure in which the number of sellers is small and there is inter dependence in decision making by the firms is known as :

(a) Perfect competition

(b) Oligopoly

(c) Monopoly

(d) Monopolistic competition

[CA CPT June 2008]

383. Who propounded the price rigidity under kinked demand curve model of oligopoly?

(a) Adam Smith

(b) Karl Marx

(c) Keynes

(d) Paul A. Sweezy

[July 2021]

384. A Kinked Demand Curve is also known as:

(a) Samuelson's

(b) Chamberlin's model

(c) Stigler model

(d) Sweezy's model

385. OPEC is an example of :

(a) Monopolistic competition

(b) Monopoly

(c) Oligopoly

(d) Duopoly

[CA CPT Dec. 2008]

386. Aluminium industry is the example of which type of oligopoly?

(a) Full oligopoly

(b) Open oligopoly

(c) Pure oligopoly

(d) Syndicated oligopoly

[Nov. 2020]

387. Price rigidity concept is related to:

(a) Duopoly

(b) Monopoly

(c) Oligopoly

(d) Monopolistic competition

[June 2022]

388. One characteristic not typical of oligopolistic industry is:

(a) Horizontal demand curve

(b) Too much importance to non-price competition

(c) Price leadership

(d) A small number of firms in the industry

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

(a) Perfectly competitive.

(b) Monopolistic.

(c) Monopolistically competitive.

(d) Oligopolistic.

390. Kinked demand hypothesis is designed to explain the under oligopolistic market:

(a) Collusion between firms

(b) Price and output determination

(c) Rigidity of price

(d) Price leadership

[Nov. 2020]

391. Pure oligopoly occurs when:

(a) The product is homogeneous

(b) The product is differentiated

(c) The industry is dominated by one large firm

(d) The absence of price leadership

[June 2022]

392. "Let and live philosophy" concern from which market?

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

[Nov. 2019]

393. Oligopoly having identical products is:

(a) Pure oligopoly
(b) Imperfect oligopoly
(c) Price leadership
(d) Collusion.

[CA CPT June 2009]

394. Non-price competition is observed in which type of the following market?

(a) Monopoly
(b) Monopolistic Competition
(c) Duopoly
(d) Oligopoly

[July 2021]

395. Price rigidity is a situation found in which of the following market forms?

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

[CA CPT June 2010]

396. Oligopoly having identical products is known as:

(a) Pure oligopoly
(b) Collusive oligopoly
(c) Independent oligopoly
(d) None of these

[CA CPT June 2011]

397. When an oligopolistic firm chooses its level of production to maximize its profits then it charges a price that is:

(a) More than the price changed by either monopoly or a competition.
(b) Less than the price charged by either monopoly or a competition.
(c) More than the price charged by a monopoly and less than a competitive market firm.
(d) Less than the price charge by a monopoly, and more than a competitive market firm.

398. Which one of the following its not a characteristic of Oligopoly?

(a) Strategic interdependence
(b) Large number of firms selling close substitutes
(c) Importance of selling cost
(d) Group behaviour

[July 2021]

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

(a) Monopolistically competitive
(b) A monopoly
(c) An oligopoly
(d) Perfectly competitive

400. When the industry is dominated by one large firm which is considered as the leader of the group, the market is described as:

(a) Open oligopoly
(b) Perfect oligopoly
(c) Partial oligopoly
(d) Organized oligopoly

[CA CPT June 2017]

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

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

402. Which of these is the best example of oligopoly?

(a) OPEC
(b) SAARC
(c) WTO
(d) GATT

[CA CPT June 2011, Nov. 2020]

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

(a) Full oligopoly
(b) Collusive oligopoly
(c) Partial oligopoly
(d) Syndicated oligopoly

404. When the industry is dominated by one large firm it is called:

(a) Full oligopoly
(b) Partial oligopoly
(c) Organized oligopoly
(d) Closed oligopoly

[Nov. 2020]

405. 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

406. The demand curve of oligopoly is:

(a) Horizontal
(b) Vertical
(c) Kinked
(d) Rising left to right

[CA CPT Dec. 2008]

407. When new firms of the oligopoly market come to a common understanding or act in collusion with each other either in fixing price or output or both, then it is called as:

(a) Competitive oligopoly
(b) Syndicated oligopoly
(c) Collusive oligopoly
(d) Partial oligopoly

408. When the industry is dominated by one large firm which is considered or looked upon as the leader of the group, the oligopoly is regarded as :

(a) Competitive oligopoly
(b) Syndicated oligopoly
(c) Collusive oligopoly
(d) Partial oligopoly

409. OPEC is an example of :

(a) Monopolistic competition
(b) Monopoly
(c) Oligopoly
(d) Duopoly

410. Which of the following is not a feature of oligopoly market?

(a) Interdependence of the firms in decision making
(b) Price rigidity
(c) Group behaviour
(d) Existence of large number of firms.

[CA CPT Dec. 2012]

411. _____ is that situation in which a firm bases its market policy, in part on the expected behaviour of a few close rivals.

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

[CA CPT Dec. 2015]

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

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

413. Group behaviour from which market belongs :

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

[Nov. 2019]

414. Pure oligopoly is based on the _____ products.

(a) Differentiated
(b) Homogeneous
(c) Unrelated
(d) None of the above

[Jan. 2021]

415. What is/are feature(s) of oligopoly?

(a) Kinked Demand curve
(b) Cartel
(c) Downward sloping demand curve
(d) Both (a) and (b) are correct

[CA CPT May 2018]

416. Which of these is the best example of oligopoly?

(a) OPEC
(b) SAARC
(c) WTO
(d) GATT

[CA CPT May 2018]

417. Which one of the following is not the feature of Oligopoly?

(a) Interdependency
(b) Selling cost
(c) Free Entry
(d) One of the above/group behaviour

[CA CPT Nov. 2018]

418. The theory of oligopoly is a theory of:

(a) Group Behaviour
(b) Mass Behaviour
(c) Individual Behaviour
(d) Single Behaviour

419. Which one of following statement is incorrect as regards oligopoly?

(a) It is dominated by a Small number of large firms.
(b) There is importance of advertising & selling cost.
(c) The oligopoly is interdependent in decision-making of the new firms which comprise the industry.
(d) No new firm is allowed to enter in oligopoly market in any case.

420. Price leadership is the characteristic of:

(a) Oligopoly
(b) Monopoly
(c) Perfect competition
(d) Discriminating Monopoly

[CA CPT Nov. 2018]

421. The demand curve of an oligopolist is :

(a) Determinate
(b) Indeterminate
(c) Circular
(d) Vertical

[CA CPT June 2014]

422. An oligopolistic firm has to behave strategically when it makes a _____ about its _____.

(a) decision, price
(b) price, output
(c) policy, material
(d) None of these

423. Entering into collusion or forming a cartel is generally considered _____.

(a) Legal
(b) Illegal
(c) Desirable
(d) Mandatory

424. A group of firm that explicitly agree (collude) to coordinate their activities is called a/an.

(a) Oligopsony
(b) Duopoly
(c) Monopsony
(d) Cartel

[July 2021]

425. According to Pigou, first degree price discrimination charges price to:

(a) Individual capacity
(b) Quantities sold
(c) Location
(d) None of the above

[CA CPT Nov. 2018]

426. In case of oligopoly, the price leader sets the price in such a manner that it allows same profits to the followers also. This type of Price leadership is by _____.

(a) Low Cost Firm
(b) Low Share Firm
(c) High Cost Firm
(d) Dominating Profit Firm

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

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

428. The elasticity of demand on the upper segment of a kinked demand curve will be _____ .

(a) Infinite
(b) Equal to one
(c) Greater than one
(d) Less than one

[June 2022]

429. The kinked demand curve model of oligopoly assumes that:

(*a*) The response (of consumers) to a price increase is less than the response to a price decrease.

(*b*) The response (of consumers) to a price increase is more than the response to a price decrease.

(*c*) The elasticity of demand is constant regardless of whether price increases or decreases.

(*d*) The elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases.

430. Collusion is impossible if an industry has:

(*a*) Only few number of firms

(*b*) Only two firms

(*c*) Limited number of firms

(*d*) Large number of firms

[Nov. 2020]

431. Kinked demand curve hypothesis is given by:

(*a*) Alfred Marshal

(*b*) A.C. Pigou

(*c*) Sweezy

(*d*) Hicks & Allen

[CA CPT Aug. 2007]

432. Kinked demand curve is observed in :

(*a*) Duopoly market

(*b*) Monopoly market

(*c*) Competitive market

(*d*) Oligopoly market

[CA CPT Feb. 2008]

433. Which of the following concept is explained by Kinked demand curve hypothesis?

(*a*) Price leadership

(*b*) Price rigidity

(*c*) Group behaviour

(*d*) Independent pricing

[June 2023]

434. The demand curve of oligopoly is:

(*a*) Horizontal

(*b*) Vertical

(*c*) Kinked

(*d*) Rising left to right

[CA CPT Dec. 2009]

435. In the kinked demand curve theory, it is assumed that:

(*a*) Firms collude to fix the price.

(*b*) An increase in the price by the firm is not followed by others.

(*c*) An increase in the price by the firm is followed by others.

(*d*) A decrease in the price by the firm is not followed by others.

[Dec. 2021]

436. The elasticity of demand on the upper segment of a kinked demand curve will be _____.

(*a*) Infinite

(*b*) Equal to one

(*c*) Greater than one

(*d*) Less than one

437. Kinked demand hypothesis is designed to explain _____ in context of oligopoly.

(*a*) Price and output determination

(*b*) Price rigidity

(*c*) Collusion between firm

(*d*) All of the above

[CA CPT Dec. 2009, Jan. 2021]

438. In oligopoly, the kink on the demand curve is more due to:

(*a*) Discontinuity in MR

(*b*) Discontinuity in AR

(*c*) Fulfilment of the assumption that a price cut is followed by others and a price increase by a firm is not followed by others.

(*d*) Price war amongst the firms.

[CA CPT June 2010]

439. Kinked demand curve is observed in :

(*a*) Duopoly market

(*b*) Monopoly market

(*c*) Competitive market

(*d*) Oligopoly market

[CA CPT June 2011]

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

Firms in Auto Sector	(%) of market share
Firm-1	316
Firm-2	194
Firm-3	5.6
Firm-4	3.4

(*a*) Oligopoly

(*b*) Perfect competition

(*c*) Monopolistic competition

(*d*) Monopoly

[Dec. 2022]

441. In Oligopoly the kink in the demand curve is more due to :

(*a*) Discontinuity in MR

(*b*) Discontinuity in AR

(*c*) Fulfilment of the assumption that a price fall is followed by other and a price increase by a firm is not followed by the other

(*d*) Price war among the firms

[CA CPT Dec. 2011]

442. In the 'kinked-demand' curve model, the upper portion of the demand curve is:

(*a*) Elastic

(*b*) Inelastic

(*c*) Perfectly Elastic

(*d*) Unitary Elastic

[CA CPT June 2013]

443. Choose the incorrect statement regarding the barometric price leadership:

(*a*) Old and experienced firm acts as a leader.

(*b*) Live and let live philosophy is followed.

(*c*) Price decided by assessing market conditions.

(*d*) Price decided by leader is generally accepted by the rest of all.

[Nov. 2020]

444. Kinked demand curve is related to which market structure?

(*a*) Oligopoly

(*b*) Monopoly

(*c*) Monopsony

(*d*) Monopolistic competition

[CA CPT Dec. 2013]

445. The Kinked demand curve model explains the market situation:

(*a*) Pure Oligopoly

(*b*) Differentiated Oligopoly

(c) Collusive Oligopoly

(d) Price Rigidity

[CA CPT June 2014]

446. In the kinked demand curve theory.

(a) There is a kink in the marginal cost curve.

(b) Firms try to compete on non-price basis.

(c) Demand is price elastic.

(d) Demand is price inelastic.

[Dec. 2021]

447. A firm having kinked demand curve indicates that :

(i) If the firm reduces the price, competitive firms also reduce the price.

(ii) If the firm increases the price, competitive firms also increases the price.

(iii) If the firm reduces the price, competitive firms do not reduce the price.

(iv) If the firm increases the price, competitive firms do not increase the price.

(a) Only (i) above

(b) Both (i) and (iv) above

(c) Both (ii) and (iv) above

(d) Both (ii) and (iii) above

[CA CPT Dec. 2014]

448. Kinked demand curve under oligopoly is designed to show:

(a) Price and output determination

(b) Price rigidity

(c) Price leadership

(d) Collusion among rivals

[CA CPT June 2015]

449. Kinked demand curve is the demand curve of:

(a) Perfect Competition

(b) Monopoly

(c) Monopolistic Competition

(d) None of the above

[CA CPT Dec. 2015]

450. The reason for the kinked demand curve is that:

(a) The oligopolist believe that competitors will follow output increases but not output reductions.

(b) The oligopolist believe that competitors will follow price increases but not output reductions.

(c) The oligopolist believe that competitors will follow price cuts but not price rises.

(d) The oligopolist believe that competitors will follow price increases but not output increases.

[CA CPT June 2016]

451. Kinked demand curve is:

(a) Highly elastic at above the prevailing price.

(b) Inelastic at below the prevailing price.

(c) Both (a) and (b).

(d) None of the above.

[CA CPT May 2019]

Other Important Market Forms

452. Which term is used for a market characterised by a single buyer of a product or service?

(a) Monopoly

(b) Monopsony

(c) Monobuyer

(d) Monolateral

453. Which of the following is a sub set of Oligopoly?

(a) Duopoly

(b) Monopoly

(c) Single Oligopoly

(d) None of these

454. _____ is a market situation in which there are two firms in the market.

(a) Oligopoly

(b) Duopoly

(c) Bilateral Oligopoly

(d) Closed Oligopoly

455. What is the type of market structure which is a combination of monopoly market and a monopsony market?

(a) Unilateral Monopoly

(b) Bilateral Monopoly

(c) Bi-Monopsony

(d) None of these

456. _____ is a market characterized by a small number of larger buyers and is mostly relevant to factor markets.

(a) Oligopoloy

(b) Duopoly

(c) Oligopsony

(d) Monopsony

Answers

1.	(a)	2.	(d)	3.	(b)	4.	(b)	5.	(d)	6.	(c)	7.	(c)
8.	(a)	9.	(b)	10.	(d)	11.	(c)	12.	(a)	13.	(a)	14.	(a)
15.	(a)	16.	(c)	17.	(b)	18.	(b)	19.	(b)	20.	(b)	21.	(d)
22.	(a)	23.	(d)	24.	(d)	25.	(a)	26.	(a)	27.	(b)	28.	(c)
29.	(b)	30.	(c)	31.	(b)	32.	(a)	33.	(c)	34.	(a)	35.	(a)
36.	(b)	37.	(a)	38.	(a)	39.	(b)	40.	(b)	41.	(c)	42.	(d)
43.	(c)	44.	(a)	45.	(b)	46.	(b)	47.	(d)	48.	(b)	49.	(c)
50.	(c)	51.	(c)	52.	(b)	53.	(c)	54.	(b)	55.	(a)	56.	(a)
57.	(a)	58.	(c)	59.	(c)	60.	(c)	61.	(c)	62.	(a)	63.	(b)
64.	(d)	65.	(c)	66.	(a)	67.	(a)	68.	(c)	69.	(c)	70.	(a)
71.	(a)	72.	(a)	73.	(c)	74.	(a)	75.	(b)	76.	(a)	77.	(c)
78.	(a)	79.	(d)	80.	(a)	81.	(a)	82.	(d)	83.	(b)	84.	(a)
85.	(b)	86.	(a)	87.	(b)	88.	(c)	89.	(b)	90.	(c)	91.	(c)
92.	(d)	93.	(b)	94.	(d)	95.	(c)	96.	(b)	97.	(c)	98.	(b)
99.	(c)	100.	(c)	101.	(c)	102.	(b)	103.	(a)	104.	(c)	105.	(a)
106.	(c)	107.	(a)	108.	(d)	109.	(c)	110.	(d)	111.	(c)	112.	(b)
113.	(c)	114.	(b)	115.	(d)	116.	(d)	117.	(b)	118.	(b)	119.	(a)
120.	(a)	121.	(c)	122.	(a)	123.	(b)	124.	(d)	125.	(b)	126.	(c)
127.	(b)	128.	(d)	129.	(c)	130.	(d)	131.	(c)	132.	(c)	133.	(d)
134.	(c)	135.	(d)	136.	(d)	137.	(a)	138.	(b)	139.	(d)	140.	(c)

141.	(*d*)	**142.**	(*a*)	**143.**	(*b*)	**144.**	(*a*)	**145.**	(*d*)	**146.**	(*b*)	**147.**	(*d*)
148.	(*d*)	**149.**	(*d*)	**150.**	(*b*)	**151.**	(*c*)	**152.**	(*a*)	**153.**	(*c*)	**154.**	(*c*)
155.	(*b*)	**156.**	(*d*)	**157.**	(*a*)	**158.**	(*d*)	**159.**	(*c*)	**160.**	(*c*)	**161.**	(*d*)
162.	(*c*)	**163.**	(*b*)	**164.**	(*d*)	**165.**	(*d*)	**166.**	(*b*)	**167.**	(*d*)	**168.**	(*d*)
169.	(*a*)	**170.**	(*c*)	**171.**	(*b*)	**172.**	(*c*)	**173.**	(*b*)	**174.**	(*d*)	**175.**	(*d*)
176.	(*a*)	**177.**	(*c*)	**178.**	(*d*)	**179.**	(*b*)	**180.**	(*b*)	**181.**	(*d*)	**182.**	(*a*)
183.	(*d*)	**184.**	(*b*)	**185.**	(*c*)	**186.**	(*a*)	**187.**	(*d*)	**188.**	(*d*)	**189.**	(*d*)
190.	(*a*)	**191.**	(*d*)	**192.**	(*b*)	**193.**	(*a*)	**194.**	(*d*)	**195.**	(*b*)	**196.**	(*b*)
197.	(*a*)	**198.**	(*c*)	**199.**	(*b*)	**200.**	(*a*)	**201.**	(*d*)	**202.**	(*b*)	**203.**	(*b*)
204.	(*b*)	**205.**	(*c*)	**206.**	(*b*)	**207.**	(*b*)	**208.**	(*b*)	**209.**	(*c*)	**210.**	(*b*)
211.	(*d*)	**212.**	(*b*)	**213.**	(*a*)	**214.**	(*c*)	**215.**	(*d*)	**216.**	(*a*)	**217.**	(*d*)
218.	(*b*)	**219.**	(*b*)	**220.**	(*c*)	**221.**	(*d*)	**222.**	(*d*)	**223.**	(*a*)	**224.**	(*a*)
225.	(*c*)	**226.**	(*a*)	**227.**	(*b*)	**228.**	(*b*)	**229.**	(*c*)	**230.**	(*b*)	**231.**	(*d*)
232.	(*b*)	**233.**	(*a*)	**234.**	(*c*)	**235.**	(*c*)	**236.**	(*c*)	**237.**	(*d*)	**238.**	(*c*)
239.	(*c*)	**240.**	(*b*)	**241.**	(*d*)	**242.**	(*a*)	**243.**	(*d*)	**244.**	(*a*)	**245.**	(*a*)
246.	(*d*)	**247.**	(*a*)	**248.**	(*d*)	**249.**	(*d*)	**250.**	(*a*)	**251.**	(*d*)	**252.**	(*a*)
253.	(*c*)	**254.**	(*c*)	**255.**	(*a*)	**256.**	(*a*)	**257.**	(*d*)	**258.**	(*a*)	**259.**	(*c*)
260.	(*a*)	**261.**	(*a*)	**262.**	(*d*)	**263.**	(*a*)	**264.**	(*c*)	**265.**	(*c*)	**266.**	(*c*)
267.	(*c*)	**268.**	(*a*)	**269.**	(*c*)	**270.**	(*c*)	**271.**	(*d*)	**272.**	(*b*)	**273.**	(*d*)
274.	(*a*)	**275.**	(*c*)	**276.**	(*b*)	**277.**	(*a*)	**278.**	(*b*)	**279.**	(*c*)	**280.**	(*c*)
281.	(*d*)	**282.**	(*c*)	**283.**	(*c*)	**284.**	(*d*)	**285.**	(*a*)	**286.**	(*c*)	**287.**	(*b*)
288.	(*d*)	**289.**	(*c*)	**290.**	(*a*)	**291.**	(*d*)	**292.**	(*c*)	**293.**	(*d*)	**294.**	(*b*)
295.	(*b*)	**296.**	(*d*)	**297.**	(*c*)	**298.**	(*b*)	**299.**	(*a*)	**300.**	(*b*)	**301.**	(*c*)
302.	(*b*)	**303.**	(*d*)	**304.**	(*a*)	**305.**	(*d*)	**306.**	(*c*)	**307.**	(*d*)	**308.**	(*a*)
309.	(*b*)	**310.**	(*b*)	**311.**	(*c*)	**312.**	(*a*)	**313.**	(*c*)	**314.**	(*a*)	**315.**	(*c*)
316.	(*c*)	**317.**	(*a*)	**318.**	(*b*)	**319.**	(*c*)	**320.**	(*c*)	**321.**	(*a*)	**322.**	(*b*)
323.	(*b*)	**324.**	(*b*)	**325.**	(*b*)	**326.**	(*b*)	**327.**	(*a*)	**328.**	(*c*)	**329.**	(*c*)
330.	(*c*)	**331.**	(*b*)	**332.**	(*d*)	**333.**	(*a*)	**334.**	(*c*)	**335.**	(*b*)	**336.**	(*a*)
337.	(*c*)	**338.**	(*c*)	**339.**	(*b*)	**340.**	(*c*)	**341.**	(*c*)	**342.**	(*a*)	**343.**	(*c*)
344.	(*a*)	**345.**	(*b*)	**346.**	(*b*)	**347.**	(*c*)	**348.**	(*b*)	**349.**	(*c*)	**350.**	(*d*)
351.	(*c*)	**352.**	(*c*)	**353.**	(*d*)	**354.**	(*a*)	**355.**	(*c*)	**356.**	(*b*)	**357.**	(*b*)
358.	(*c*)	**359.**	(*d*)	**360.**	(*c*)	**361.**	(*c*)	**362.**	(*c*)	**363.**	(*d*)	**364.**	(*c*)
365.	(*b*)	**366.**	(*c*)	**367.**	(*a*)	**368.**	(*d*)	**369.**	(*c*)	**370.**	(*c*)	**371.**	(*b*)
372.	(*d*)	**373.**	(*a*)	**374.**	(*c*)	**375.**	(*b*)	**376.**	(*c*)	**377.**	(*b*)	**378.**	(*b*)
379.	(*d*)	**380.**	(*d*)	**381.**	(*b*)	**382.**	(*b*)	**383.**	(*d*)	**384.**	(*d*)	**385.**	(*c*)
386.	(*a*)	**387.**	(*c*)	**388.**	(*a*)	**389.**	(*d*)	**390.**	(*c*)	**391.**	(*a*)	**392.**	(*c*)

393.	(*a*)	**394.**	(*b*)	**395.**	(*d*)	**396.**	(*a*)	**397.**	(*d*)	**398.**	(*b*)	**399.**	(*c*)
400.	(*c*)	**401.**	(*a*)	**402.**	(*a*)	**403.**	(*c*)	**404.**	(*b*)	**405.**	(*d*)	**406.**	(*c*)
407.	(*c*)	**408.**	(*d*)	**409.**	(*c*)	**410.**	(*d*)	**411.**	(*a*)	**412.**	(*d*)	**413.**	(*d*)
414.	(*b*)	**415.**	(*d*)	**416.**	(*a*)	**417.**	(*c*)	**418.**	(*a*)	**419.**	(*d*)	**420.**	(*a*)
421.	(*b*)	**422.**	(*a*)	**423.**	(*b*)	**424.**	(*d*)	**425.**	(*a*)	**426.**	(*a*)	**427.**	(*b*)
428.	(*c*)	**429.**	(*b*)	**430.**	(*d*)	**431.**	(*c*)	**432.**	(*d*)	**433.**	(*b*)	**434.**	(*c*)
435.	(*b*)	**436.**	(*c*)	**437.**	(*b*)	**438.**	(*c*)	**439.**	(*d*)	**440.**	(*a*)	**441.**	(*c*)
442.	(*a*)	**443.**	(*b*)	**444.**	(*a*)	**445.**	(*d*)	**446.**	(*b*)	**447.**	(*b*)	**448.**	(*b*)
449.	(*d*)	**450.**	(*c*)	**451.**	(*c*)	**452.**	(*b*)	**453.**	(*a*)	**454.**	(*b*)	**455.**	(*b*)
456.	(*c*)												

Hints of selected question

1. A market is a collection of buyers and sellers with the potential to trade. The actual or potential interactions of the buyers and sellers determine the price of product or service.

Ans. : (*a*)

7. The elements of a market are:

(*i*) Buyers and sellers

(*ii*) A product or service

(*iii*) Bargaining for a price

(*iv*) Knowledge about market conditions and

(*v*) One price for a product or service at a given time.

Ans. : (*c*)

30. On the basis of geographical area covered, the markets are classified into :

(*a*) Local Market

(*b*) Rational Market

(*c*) National Market

(*d*) International Market

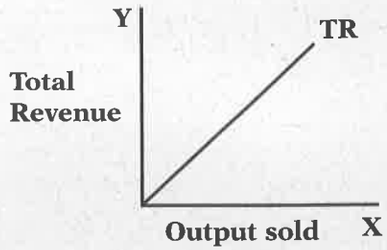
The classification into spot and forward market is on the basis of Nature of Transactions

Ans. : (*c*)

31. Monopoly is a situation where there is a single seller producing for many buyers, whereas Monopsony is a market condition in which there is only a single buyer.

Ans. : (*b*)

37. Since the firm can sell any quantity at market determined prices, the TR curve is linear and starts from the origin.



Ans. : (*a*)

43.

	Price Per Unit	*Quantity Demanded*
Existing	₹ 20	10 Units
New	₹ 20 - 5% of 20 = ₹ 20 - Re. 1 = ₹ 19	10 + 10% of 10 = 10 + 1 = 11 Units

Total Revenue (TR) = Price (p) × Quantity (Q)

TR (Existing) = 20 × 10 = ₹ 200

TR (New) = 19 × 11 = ₹ 209

Δ TR = ₹ 9

Δ Quantity = 1 Unit

$MR = \frac{\Delta TR}{\Delta Q} = \frac{9}{1} = 9$

Ans. : (*c*)

46.

	Total Revenue (TR)	*Quantity Sold (Q)*
Original	₹ 3,000	50 Units
New	₹ 3,100	52 Units
Change	Δ TR = 100	Δ Q = 2
$MR = \frac{\Delta TR}{\Delta Q} = \frac{100}{2} = ₹ 50$		

Ans. : (*b*)

49. Marginal Revenue = The addition made to the total revenue by selling one more unit. Symbolically,

$MR_n = TR_n - TR_{n-1}$

$MR_{11} = TR_{11} - TR_{10} = 120 - 100 = 20$

Ans. : (*c*)

50. Marginal revenue is the additional made to the total revenue by producing one more unit of a commodity.

Ans. : (*c*)

53.

	Price (P)	*Quantity Demand (Q)*	*Total Revenue (TR)*
Original	20	9	180
New	19	10	190
Change	-1	+ 1	+ 10
$MR = \frac{\Delta TR}{\Delta Q} = \frac{10}{1} = ₹ 10$			

Ans. : (*c*)

58. $MR_{25} = (TR_{25} - TR_{15})/(25 - 15) = (35,000 - 25,000)/(25 - 15) = 10,000/10 = 1,000$

Ans. : (*c*)

61.

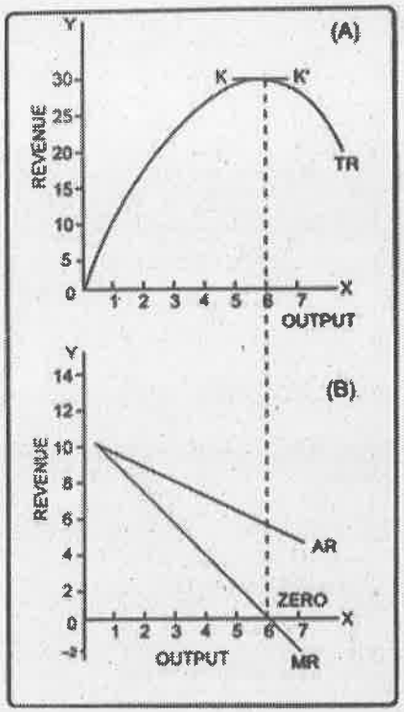
	Price (P)	*Quantity Demand (Q)*	*Total Revenue (TR)*
Original	20	15	300
New	18	16	288
Change	- 2	+ 1	- 12
$MR = \frac{\Delta TR}{\Delta Q} = \frac{12}{1} = ₹ 12$			

Ans. : (*c*)

62. Total Revenue refers to the amount of money which a firm realises by selling certain units of a Commodity.

Ans. : (*a*)

67. Total Revenue Curve initially increases at a diminishing rate due to diminishing marginal revenue and reaches maximum and then it falls. When Marginal Revenue becomes zero, the total revenue is maximum and the slope of TR is zero.



Ans. : (*a*)

68.

	Price (P)	*Quantity Demanded (Q)*	*Total Revenue (TR)*
Original	20	9	180
New	19	10	190
Changes (D)	-1	+1	+ 10

$MR = \frac{\Delta TR}{\Delta Q} = \frac{10}{1} = ₹ 10$

Ans. : (*c*)

69. Marginal Revenue (MR) is the change in total revenue resulting from the sale of an additional unit of the commodity.

$MR = \frac{\Delta TR}{\Delta Q}$

Where MR is marginal revenue
TR is total revenue
Q is quantity of commodity sold
Δ is small change

Ans. : (*c*)

70. $MR = P\left(1-\frac{1}{e}\right)$

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

If $e < 1$, fraction $\left(\frac{e-1}{e}\right)$ will be negative. Therefore, MR will also be negative or less than 0.

Ans. : (*a*)

71. $MR = P\left(1-\frac{1}{e}\right)$

If $e > 1$, the fraction $\left(\frac{1}{e}\right)$ will be loss than 1. In that case, $\left(1-\frac{1}{e}\right)$ will

Ans. : (*a*)

74. $MR = P\left(1-\frac{1}{e}\right)$

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

$= P(e - 1)/e$

$= AR(e - 1)/e$

Ans. : (*a*)

75. $MR = P\left(1-\frac{1}{e}\right)$

If $e = 1$, $MR = P(1 - 1) = 0$

Ans. : (*b*)

76. Refer Q. 62

Ans. : (*a*)

77. Refer Q. 63

Ans. : (*c*)

78. Refer Q. 67

Ans. : (*a*)

80. $MR = AR \times \frac{e-1}{e} = 5 \times \frac{2-1}{2} =$ **+ 2.5**

Ans. : (*a*)

83. Price Elasticity = $\frac{\text{Lower Segment}}{\text{Upper Segment}}$

Since, the elasticity is to be computed at the middle point, Lower segment = Upper Segment.

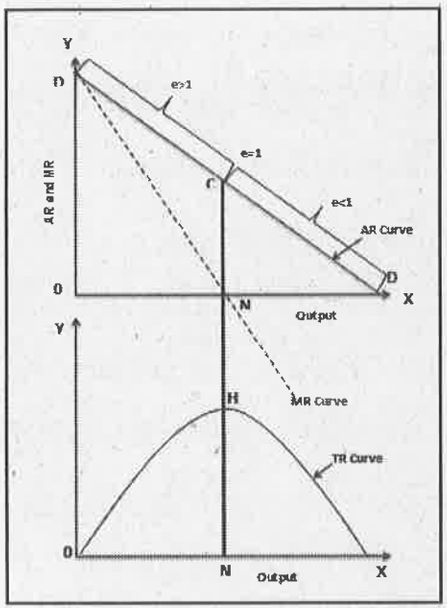
$\therefore$ Price Elasticity = 1

Ans. : (*b*)

84. Refer Q. 66

Ans. : (*a*)

86.



Ans. : (*a*)

90. The very short period or Market period refers to a period of time in which supply is fixed and cannot be increased or decreased.

Ans. : (*c*)

94. At equilibrium price, the quantity demand is equal to quantity supplied. In the given question, when the price is ₹ 4 per unit, the demand & Supply equals to each other at 700 units. Therefore, the equilibrium market price is ₹ 4.

Ans. : (*c*)

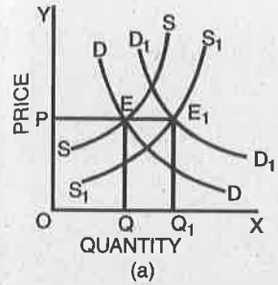
96. Refer Q. 86

Ans. : (*b*)

100. Refer Q. 86

Ans. : (*c*)

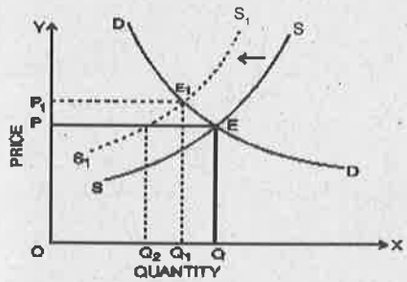
93.



In the above figure, the increase in demand is equal to increase in supply. The new demand curve D_1D_1 and supply curve. S_1S_1 meet at E_1. The new equilibrium price is equal to the old equilibrium price (OP). However, equilibrium quantity is more.

Ans. : (*a*)

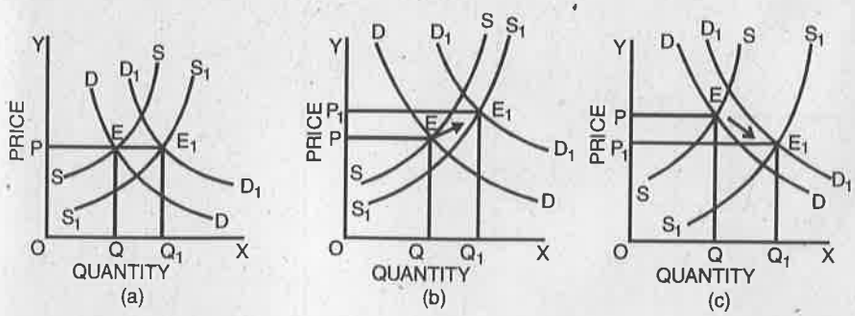
105.



It is clear that if there is decrease in supply and demand remains constant, the equilibrium price will go up, but the amount sold and purchased will go down.

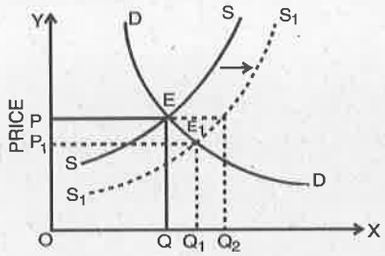
Ans. : (*a*)

106.



Ans. : (*c*)

107.



Ans. : (*a*)

108. Refer Q. 97

Ans. : (*d*)

119. Accounting Cost= ₹ 75,000

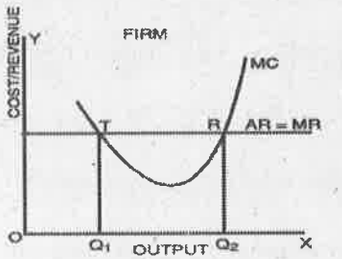
Economic Cost = 75,000 + 30,000 = 1,05,000

Revenue = ₹ 1,00,000

Economic Loss = 5,000

Ans. : (*a*)

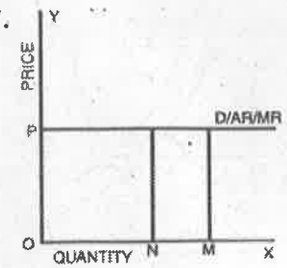
135.



MC curve should cut MR curve from below

Ans. : (*d*)

137.

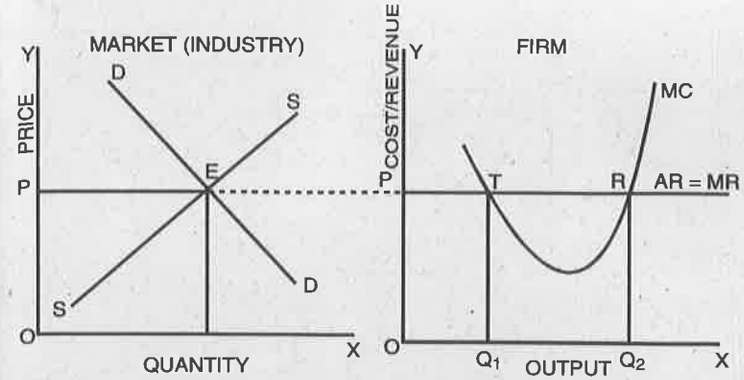


Ans. : (*b*)

144. In Perfect Competition, the firms are price takes with homogenous price. Therefore, AR equals to MR.

Ans. : (*a*)

193.



Ans. : (*a*)

194. Refer Q. 177

Ans. : (*d*)

206. Refer Q. 177

Ans. : (*b*)

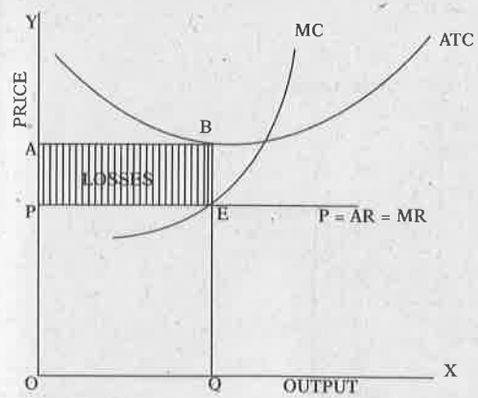
212. Refer Q. 177

Ans. : (*b*)

222. Since AR > AC, the firm is making super normal profits.

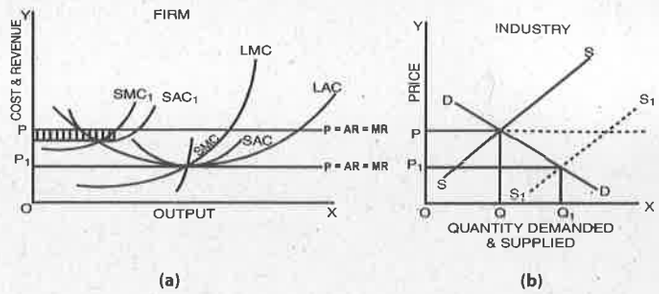
Ans. : (*d*)

232.



Ans. : (*b*)

243.

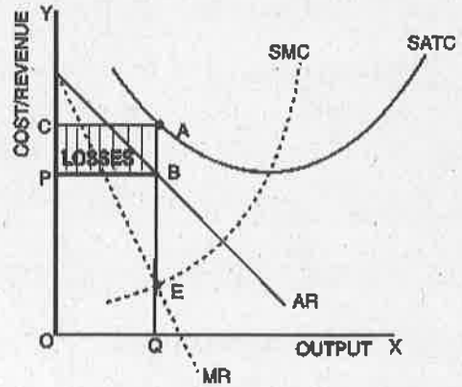


Ans. : (*d*)

246. Same as Q. 224

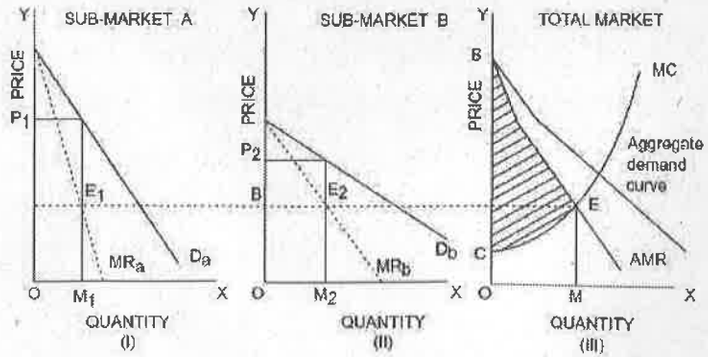
Ans. : (*d*)

277.



Ans. : (*c*)

319.

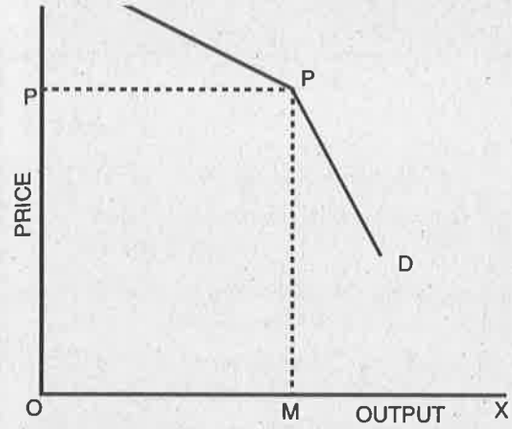


Ans. : (*c*)

385. OPEC refers to organization for Petroleum Exporting Countries.

Ans. : (*c*)

406. The demand curve facing an oligopolist, according to the kinked demand curve hypothesis, has a 'kink' at the level of prevailing price. It is because the segment of the demand curve above the prevailing price level is highly elastic and the segment of the demand curve below the prevailing price level is inelastic. A kinked demand curved with a kink at point P is shown in Fig.



Ans. : (*c*)

409. OPEC (Organisation for Petroleum Exporting Countries) is an example of oligopoly market because there are few seller for petroleum in the world.

Ans. : (*c*)

432. Refer Q. 378

Ans. : (*d*)

5

CHAPTER

BUSINESS CYCLES

Introduction

1. The term business cycle refers to:

(*a*) The ups and downs in production of commodities.

(*b*) The fluctuating levels of economic activity over a period of time.

(*c*) Decline in economic activities over prolonged period of time.

(*d*) Increasing unemployment rate and diminishing rate of savings.

[Jan. 2021]

2. The rhythmic fluctuations in aggregate economic activity that an economy experiences over a period of time are called:

(*a*) Inflation

(*b*) Unemployment

(*c*) Business cycles

(*d*) Growth rate

3. Which of the following statement is correct for a business cycle?

(*a*) A Typical feature of depression is the rise in the interest rate.

(*b*) A typical feature of depression is the constant interest rate.

(*c*) Recession is the severe form of depression.

(*d*) Depression is the severe form of recession.

[June 2022]

4. The economy-wide fluctuations in production, trade and general economic activity is referred as :

(*a*) Business Cycle

(*b*) Economic cycle

(*c*) Boom-bust Cycle

(*d*) All of the above

5. Greatest depression suffered by economy in which year?

(*a*) 1924

(*b*) 1930

(*c*) 2008

(*d*) 2009 **[CA CPT May 2018]**

6. According to _____ trade cycle is a purely monetary phenomenon.

(*a*) Schumpeter

(*b*) Nicholas Kaldor

(*c*) Keynes

(*d*) Hawtrey

[Dec. 2021]

7. According to _____ trade cycle occurs due to the onset of innovations.

(a) Hawtrey
(b) Adam Smith
(c) JM. Keynes
(d) Schumpeter

8. Trade cycles occur as a result of the mismatch between the aggregate demand function and aggregate supply function. Who said this?

(a) Pigou
(b) Schumpeter
(c) Hawtrey
(d) Keynes

9. Which is not related to great depression of 1930?

(a) It stated in USA
(b) John Maynard Keynes regarded lower aggregate expenditure as the cause
(c) Excess Money Supply
(d) Both (a) and (b)

[CA CPT May 2019]

10. Which of the following is not correct about the business cycles ?

(a) Business cycles have distinct phase of expansion, peak, contraction and trough
(b) Business cycles generally originate in capitalist economies
(c) Business cycles are contagious and are internal in character
(d) All sectors of the economy are adversely affected in equal proportion

[June 2022]

11. The world economy suffered the congest deepest and most widespread depression of the 20th century during _____.

(a) 1934
(b) 1928
(c) 1930
(d) 1932

[Jan. 2021]

12. Recent example of the Business cycle is the housing bubble of the US economy bubble got bust in the year _____.

(a) 1930
(b) 1998
(c) 2000
(d) 2007

13. Which among the following is not a feature of Business Cycles?

(a) Business Cycles are sporadic in nature.
(b) Business Cycles have serious consequence on the well-being of the society.
(c) Business Cycles are exceedingly complex Phenomena.
(d) Business Cycles are contagious.

[Dec. 2021]

14. The rhythmic fluctuations in aggregate economic activity that an economy experiences over a period of time is called:

(a) Business cycle
(b) Recession
(c) Contraction phase
(d) Recovery

[July 2021]

Phases of Business Cycle

15. The business Cycles or the periodic booms and slumps in economic activities reflect the _____ in economic activities.

(a) Upward movements
(b) Downward movements
(c) Upward and downward movements
(d) Extreme rise

16. Which statement is incorrect?

(a) Depression of Severe form of trough.
(b) Depression causes fall in Interest rate.
(c) Peak is highest point.
(d) All of the above.

[Nov. 2019]

17. When aggregate economic activity is increasing in an economy, the economy is said to be in _____.

(a) Peak
(b) Contraction
(c) Expansion
(d) Trough

[Dec. 2021]

18. During the phase of trough of business cycle, the growth rate became _____.

(a) Negative
(b) Zero
(c) High
(d) Low

[Nov. 2020]

19. When aggregate economic activity is expanding it is said to be in :

(a) Contraction
(b) Expansion
(c) At turning point
(d) A peak

[Dec. 2021]

20. During _____ there is fall in level of investment and employment.

(a) Boom
(b) Recovery
(c) Contraction
(d) Depression

[Nov. 2020]

21. The term _____ refers to the top or the highest point of business cycle.

(a) Top
(b) Expansion
(c) Peak
(d) Equilibrium

[Dec. 2021]

22. Select the odd out:

(a) Expansion
(b) Boom
(c) Upswing
(d) Trough

23. _____ represents the steady growth lien or the growth of the economy when there are no business cycles.

(a) Peak
(b) Trend
(c) Depression
(d) Expansion

24. In which phase of Business Cycles levels of investment & employment falls

(a) Peak
(b) Recession
(c) Expansion
(d) Contraction

[June 2023]

25. Which one of the following is not a phase of business cycle

(a) Peak
(b) Trough
(c) Expansion
(d) Reconstruction

[June 2023]

26. Actual demand stagnates in which of the following stage of a business cycle?

(*a*) Expansion
(*b*) Peak
(*c*) Contraction
(*d*) Recovery

[June 2022]

27. The phase of business cycle in which growth rate becomes negative and the level of national income and expenditure declines rapidly resulting in widespread unemployment.

(*a*) Contraction
(*b*) Recession
(*c*) Depression
(*d*) Recovery

28. Which indicators coincide or occur simultaneously with the business cycle movements?

(*a*) Legal
(*b*) Lagging
(*c*) Leading
(*d*) Concurrent

[Nov. 2020]

29. Expansion phase is characterized by increases in _____.

(*a*) National output, employment and demand
(*b*) Excessive investment over production
(*c*) Unemployment, workers accept work at lower wages
(*d*) Decrease in input demand and prices fall down

[Dec. 2021]

30. Which business cycle phases are known as Turning Points?

(*a*) Trough and Depression
(*b*) Peak and Trough
(*c*) Expansion and Contraction
(*d*) Peak and Boom

[July 2021]

31. Peaks and troughs of the business cycle are known collectively as:

(*a*) Volatility
(*b*) Turning points
(*c*) Equilibrium points
(*d*) Real business cycle events

32. _____ sector cannot be included as 'cyclical' businesses.

(*a*) Electric goods
(*b*) House builder
(*c*) Agriculture
(*d*) Restaurants

[June 2022]

33. Which of the following is not an example of cyclical business?

(*a*) Fashion retailers
(*b*) Ensure builders
(*c*) Restaurants
(*d*) Washing powder

34. The four phases of the business cycle are:

(*a*) peak, recession, trough and boom
(*b*) peak, depression, trough and boom
(*c*) peak, recession, trough and recovery
(*d*) peak, depression, bust and boom

[Nov. 2019/2020]

35. Expansion phase of business cycle depicts characteristics except_____ _____.

(*a*) Consumer spending on goods and services tend to rise
(*b*) Business confidence tends to rise
(*c*) Interest rates and profits tend to rise
(*d*) Unemployment tends to rise

[June 2022]

36. _____ state continues till there is full employment of resources and production is at its maximum possible level using available productive resources.

(*a*) Expansion
(*b*) Peak
(*c*) Contraction
(*d*) Depression

37. At 'trough' the production in the economy reaches at which of the following:

(*a*) High
(*b*) Low
(*c*) Constant
(*d*) Negative

[Nov. 2019]

38. The lowest level of economic activity is called:

(*a*) Depression
(*b*) Boom
(*c*) Expansion
(*d*) Contraction

[Dec. 2021]

39. The different phases of a business cycle:

(*a*) Do not have the same length and severity
(*b*) Expansion phase always last more than ten years
(*c*) Last many years and are difficult to get over in short periods
(*d*) None of the above

40. Which phase of business cycle is characterised by increase in national output, employment, aggregate demand, capital and consumer expenditure sales, profits etc.?

(*a*) Depression
(*b*) Contraction
(*c*) Trough
(*d*) Expansion

[July 2021]

41. A typical feature of depression is _____ in the interest rate.

(*a*) Rise
(*b*) Constant
(*c*) Fall
(*d*) Infinity

[June 2022]

42. In _____ phase, the overall economic activities (*i.e.* Production and Employment) are at the lowest level.

(*a*) Expansion
(*b*) Trough
(*c*) Peak
(*d*) Bottom

43. Increase in national output and other economic variables is a characteristic of _____ in Business Cycles

(*a*) Trough
(*b*) Depression
(*c*) Contraction
(*d*) Expansion

[June 2023]

44. Peaks and troughs of the business cycle are known collectively as:

(*a*) Volatility
(*b*) Turning points
(*c*) Equilibrium points
(*d*) Real business cycle events

45. Actual demand stagnates in which stage:

(a) Peak
(b) Trough
(c) Recovery
(d) Contraction

[Nov. 2019]

46. Identify the odd-one in the following:

(a) Downswing
(b) Recession
(c) Boom
(d) Contraction

47. In which stage of the business cycle involuntary unemployment is almost zero?

(a) Expansion
(b) Peak
(c) Contraction
(d) Recovery

[June 2022]

48. Which of the following characteristics does not belong to expansion path of business cycles?

(a) Consumer spending on goods and service tend to rise
(b) Business confidence tends to rise
(c) Interest rates and profits tend to rise
(d) Unemployment tends to rise

49. The expansion phase is characterized by high growth rate. What is the next phase after expansion?

(a) Peak
(b) Contraction
(c) Downstream
(d) None of the above

50. Which of the following does not occur during an expansion?

(a) Consumer purchases of all types of goods tend to increase.
(b) Employment increases as demand for labour rises.
(c) Business profits and business confidence tend to increase.
(d) None of the above.

51. Which phase is the Highest point of the business Cycle?

(a) Upswing
(b) Downswing
(c) Peak
(d) Trough

52. In a typical business cycle, in which phase Supply exceeds demand?

(a) Expansion
(b) Peak
(c) Contraction
(d) Recovery

[July 2021]

53. In which of the following phase of a business cycle, actual demand stagnates?

(a) Expansion
(b) Peak
(c) Contraction
(d) Recovery

[July 2021]

54. _____ is the turning point and the beginning of recession.

(a) Contraction
(b) Depression
(c) Upswing
(d) Boom

55. A significant decline in general economic activity extending over a period of time is:

(a) Business cycle
(b) Contraction phase
(c) Recession
(d) Recovery

56. Which is not an example of coincident indicator?

(a) Inflation
(b) GDP
(c) Financial market trend
(d) Interest rate

[Nov. 2020]

57. Variables that change before the real output changes are called as:

(a) Trade cycle
(b) Business cycle
(c) Leading indicators
(d) Lagging indicators

[July 2021]

58. _____ are the variables that change after the real output.

(a) Leading indicator
(b) Lagging indicator
(c) Coincident indicator
(d) Concurrent indicator

59. When aggregate economic activity is declining, the economy is said to be in:

(a) Contraction
(b) An expansion
(c) A trough
(d) A turning point

60. According to law trey, which of the following is correct?

(a) Trade Cycle occurs as a result of innovation
(b) Trade Cycle is purely monetary phenomenon
(c) Fluctuation in economy activity is due to fluctuation in demand
(d) Fluctuation in government expenditure

[Jan. 2021]

61. Economic recession shares all of these characteristics except:

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

62. Which one of the following is not a feature of Contraction?

(a) Decrease in input demand pulls input prices down.
(b) Increases of wage and interest earns gradually decline.
(c) Producers lower their prices in order to dispose of their inventories.
(d) Business Firms become optimistic about future state of economy.

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

(a) rises; falls
(b) rises; rises
(c) falls; rises
(d) falls; falls

[Nov. 2019/Jan. 2021]

64. Excess capacity in capital industries is the characteristics of which of the following stage?

(a) Trough
(b) Recovery
(c) Depression
(d) Peak

[Nov. 2019]

65. An unemployment type cause due to structural changes in the economy is which of the following:

(a) Involuntary
(b) Ethical friction
(c) Full employment
(d) Structural

[Nov. 2019]

66. Chinas recent slowdown causes :

(a) Cycle of decline and panic across the world.
(b) Countries across the Globe were able to insulate themselves from the crisis.
(c) Stock markets in the Emerging Economics largely remained unaffected.
(d) Old technology fuelled the economic decline.

[Nov. 2019]

67. _____ phase of business cycle marks the end of pessimism and the beginning of optimism.

(a) Recovery
(b) Depression
(c) Upswing
(d) Downswing

68. What is the most visible sign of recession in an economy?

(a) Fall in the level of employment
(b) Fall in price level
(c) Rise in the inventory cost
(d) Weakening stock market

[Nov. 2020]

69. Which of the following is an internal cause of business cycles?

(a) Population growth
(b) Wars
(c) Natural factors
(d) Fluctuations in the effective demand

[Nov. 2020]

70. Which of the following factors is an external cause or exogenous factor which may lead to a boom or burst?

(a) Economical factor
(b) Social factor
(c) Natural factor
(d) Industrial factor

71. 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

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

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

73. The most feature of business cycles:

(a) Pervasive nature
(b) Regular length
(c) Periodic intensity
(d) None of these

[Nov. 2020]

74. The period 1929-33 is cited for _____ of world economy.

(a) Great depression
(b) Great recovery
(c) Great upswing
(d) Great downswing

75. Feature of _____ is fall in interest rates and people's demand for holding liquid money.

(a) Contraction
(b) Peak

(c) Trough & Depression
(d) Recovery

[Jan. 2021]

76. In Recovery phase of business Cycle, the process of reversal is initially felt in the _____.

(a) Capital market
(b) Labour market
(c) Production level
(d) Financial market

77. Business that are more vulnerable to charges in business cycle and whose fortunes are closely linked to rate of economic growth are called as :

(a) Vulnerable Business
(b) Cyclical Business
(c) Leading Business
(d) Lagging Business

[Jan. 2021]

78. Boom and depreciation in business cycles are:

(a) Turning points
(b) Equilibrium points
(c) Both (a) and (b)
(d) None of the above

[CA CPT May 2019]

79. Which of the following is not the phase of business cycles?

(a) Prosperity
(b) Upswing
(c) Reconstruction
(d) Depression

[CA CPT May 2019]

80. Which of the following is not a variable in the index of leading indicators?

(a) Prime Rate
(b) Delayed Deliveries
(c) Construction permits
(d) New consumer goods orders

[Dec. 2021]

81. Which of the following is not an example of coincident indicator?

(a) Industrial production
(b) Inflation
(c) Retail sales
(d) New orders for plant and equipment

[Nov. 2019]

82. Those variables that change before the real output changes are called.

(a) Leading indicators
(b) Lagging indicators
(c) Concurrent indicators
(d) Business indicators

[Nov. 2021]

83. Friction unemployment is the characteristic of which of the following stages :

(a) Expansion
(b) Peak
(c) Construction
(d) Recovery

[Nov. 2019]

84. Identity which among the following is an example of a lagging indicator?

(a) Stock market prices
(b) Gross domestic product
(c) Unemployment
(d) Industrial production

[Dec. 2021]

85. Leading economic indicators:

(a) Are used to forecast probable shifts in economic policies.

(b) Are generally used to forecast economic fluctuations.

(c) Are indicators of stock prices existing in an economy.

(d) Are indicators of probable recession and depression.

86. Variables that give information about the rate of change of the expansion or contraction of an economy more or less at the same time it happens are called:

(a) Lagging indicators

(b) Coincident indicators

(c) Leading indicators

(d) Economic indicators

[Dec. 2021]

87. A leading indicator is:

(a) A variable that tends to move along with the level of economic activity.

(b) A variable that tends to move in advance of aggregate economic activity.

(c) A variable that tends to move consequent on the level of aggregate economic activity.

(d) None of the above.

88. Coincident indicators are also known as:

(a) Lagging indicators

(b) Concurrent indicators

(c) Effective indicators

(d) Leading indicators

[Jan. 2021]

89. Those variables that change after the real output changes are called as:

(a) Lagging indicators

(b) Leading indicators

(c) Concurrent indicators

(d) Coincident indicators

[June 2022]

90. From the following variance that change after real output changes areas _____.

(a) Coincide indicator

(b) Coincide economy indicator

(c) Lagging indicator

(d) Concurrent indicator

[June 2023]

91. Which of the following is not an example of lagging indicator?

(a) Consumer price index

(b) Labour cost price per unit

(c) Commercial lending

(d) Personal income

[June 2023]

92. _____ is measurable economics factor that changes before economy starts to follow a particular pattern of trend.

(a) Lagging indicators

(b) Leading indicators

(c) Coincident indicators

(d) Concurrent indicator

[Nov. 2020]

93. Which of the following is an example of a leading indicator ?

(a) Change in stock prices

(b) Change in unemployment rate

(c) Change in GDP

(d) Change in commercial lending activity

94. A measurable economic factor that changes before the economy starts follows particulars pattern/ trend is:

(a) Leading Factor

(b) Lagging Factor

(c) Coincident Factor

(d) Concurrent Factor

[Jan. 2021]

95. Coincident economic indicators are also called as which of the following?

(a) Leading indicators

(b) Concurrent indicators

(c) Headed indicators

(d) Capacity indicators

[June 2022]

96. 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

97. Those variables that change before the real output changes prior to large economic adjustments are called as _____.

(a) Coincident indicator

(b) Leading indicator

(c) Concurrent indicator

(d) Lagging indicator

[June 2023]

98. Coincident indicators are also called as:

(a) Lagging indicator

(b) Leading indicator

(c) Concurrent indicators

(d) None

[June 2023]

99. Which of the following best describes a typical business cycle?

(a) Economic expansions are followed by economic contractions.

(b) Inflation is followed by rising income and unemployment.

(c) Economic expansions are followed by economic growth and development.

(d) Stagflation is followed by inflationary economic growth.

100. Which of the following is true about leading indicators?

(a) Measurable economic factors

(b) Changes after real output

(c) Both (a) and (b)

(d) None **[CA CPT May 2019]**

101. Last stage of recession is called:

(a) Depreciation

(b) Recovery

(c) Slowdown

(d) All of these

[CA CPT May 2018]

102. Variables that change after real output changes are known as:

(a) Leading indicators

(b) Cyclical indicators

(c) Lagging indicators

(d) Coincident indicators

[July 2021]

103. When once peak is reached, increase in demand is salted, then _____ phase begins?

(a) Trough

(b) Contraction

(c) Expansion

(d) Trend

[CA CPT Nov. 2018]

104. Which of the following macro economic variables would you include in an index of leading economic indicators?

(*a*) Employment
(*b*) Inflation
(*c*) Real interest rates
(*d*) Presidential investment

[CA CPT May 2018]

105. An economic variable that moves in the opposite direction as aggregate economic activity down in expansions, up in contractions is called:

(*a*) Procyclical
(*b*) Counter cyclical
(*c*) A cyclical
(*d*) A leading variable

[CA CPT May 2018]

106. Fashion Retailer is business of:

(*a*) Cyclical business
(*b*) Sun rise business
(*c*) Sluggish business
(*d*) None of these

[CA CPT Nov. 2018]

107. Rampant unemployment is found in:

(*a*) Boom
(*b*) Recovery
(*c*) Contraction
(*d*) Depression

[CA CPT May 2018]

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

(*a*) Leading indicator
(*b*) Lagging indicator
(*c*) Coincident
(*d*) All of the above

109. Economics activities will be declining in the phase of:

(*a*) Expansion
(*b*) Depression
(*c*) Contraction
(*d*) Peak

[CA CPT May 2019]

110. In the later stages of expansion, inputs are difficult to find as they are _____ of their demand and therefore & input prices _____.

(*a*) short, increase
(*b*) excess, increases
(*c*) short, decrease
(*d*) excess, decrease

111. The economy cannot continue to grow endlessly. Once Peak is reached, _____ in demand is halted & starts _____ in certain sectors.

(*a*) increase, decreasing
(*b*) decrease, Increasing
(*c*) increase, Increasing
(*d*) decrease, Decreasing.

112. _____ is the severe form of _____.

(*a*) Depression, Recovery
(*b*) Depression, Recession
(*c*) Recession, Depreciation
(*d*) Recession, Recovery

113. The great depression of _____ is still cited for the enormous misery and human sufferings it caused.

(*a*) 1929-1930
(*b*) 1929-1931
(*c*) 1929-1932
(*d*) 1929-1933

114. Which of the following statement is false?

(*a*) No economy follows a perfectly timed Cycle.
(*b*) Business Cycles vary in intensity and length.
(*c*) There is no set pattern which Business Cycles follow.
(*d*) Every Business Cycle has relatively longer period.

115. Which of the following phase occurs after threat and before peak?

(*a*) Boom
(*b*) Recession
(*c*) Expansion
(*d*) Depression

[Nov. 2020]

116. Economic indicators are:

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

Features of Business Cycles

117. 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.

[CA CPT May 2018]

118. Business Cycle occurs:

(*a*) Periodically
(*b*) In different phases
(*c*) Both (*a*) and (*b*)
(*d*) None of the above

[CA CPT May 2019]

119. Features of business cycles include:

(*a*) Discuss periodically
(*b*) Have four different phases
(*c*) Originate in free Market Economy
(*d*) All of the above

[CA CPT Nov. 2018]

120. Which of the following is not a characteristic of business cycles?

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

[Jan. 2021, July 2021]

121. Which of the following statement is correct?

(*a*) No economy follows a perfectly timed cycle.
(*b*) Economy follows a perfectly timed cycle.
(*c*) Most of the economy follows a perfectly timed cycle.

(*d*) Capitalist economy follow a perfectly timed cycle.

[June 2022]

122. Which is not the characteristic feature of expansion phase in business cycle?

(*a*) Increase in national output

(*b*) Unemployment

(*c*) Rise in price and costs

(*d*) Boost in business confidence

[CA CPT May 2019]

123. Business Cycles are exceedingly Complex phenomena because _____.

(*a*) they do not have uniform characteristics and causes.

(*b*) they are caused by varying factor.

(*c*) it is difficult to make an accurate prediction of trade cycles before their occurrence.

(*d*) all of the above.

124. Repercussions of Business Cycles get simultaneously felt on the economic variable:

(*a*) Output and employment.

(*b*) Investment & Consumption

(*c*) Interest, Trade & Price levels

(*d*) All of the above.

125. Business Cycles have _____ consequences on the well-being of the society.

(*a*) some

(*b*) serious

(*c*) no

(*d*) moderate

126. What is incorrect about business cycle?

(*a*) They occur periodically.

(*b*) They exhibit same regularity.

(*c*) The duration of cycles vary.

(*d*) The intercity of fluctuations also varies.

127. Which is a feature of business cycles?

(*a*) Pervasive in nature

(*b*) Occurs in restrictive market economy

(*c*) Periodical regularity

(*d*) It has same reasons

[June 2023]

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

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

(*b*) The economy where private firms control major assets.

(*c*) The economy decisions of productions are taken by public sector undertakings.

(*d*) The economy where price is controlled by government.

129. Which of the following statement is correct?

(*a*) The business cycle largely affects the agricultural sector.

(*b*) The business cycle largely affects small employees.

(*c*) The business cycle generally affects all sectors of economy but business sector in particular.

(*d*) The business cycle affects low wages workers.

130. The disturbances in one or more Sectors _____ other Sectors.

(*a*) do not affect

(*b*) equally affect

(*c*) gets easily transmitted to all

(*d*) none of the above

131. Business cycle is contagious and ..... in character?

(*a*) Local

(*b*) Regional

(*c*) National

(*d*) International

[Jan. 2021]

Causes of Business Cycles

132. Business Cycles may occur due to:

(*a*) External Causes

(*b*) Internal Causes

(*c*) Both (*a*) & (*b*)

(*d*) Either (*a*) or (*b*)

133. According to Monetarists, business cycles occur due to:

(*a*) Changes in aggregate expenditure in economy

(*b*) Innovation

(*c*) Unplanned changes in the money supply

(*d*) Waves of optimism & pessimism

134. According to some economists, _____ are the prime causes of business cycles.

(*a*) Fluctuations in effective demand

(*b*) Fluctuations in investments

(*c*) Macroeconomic policies

(*d*) All of the above

[CA CPT May 2019]

135. Which of the following is extreme or exogeneous following that lead to boom or burst?

(*a*) Economic factor

(*b*) Social factor

(*c*) Natural factor

(*d*) Industrial factor

[June 2023]

136. Which of the following is not an internal factor?

(*a*) Fluctuations in effective

(*b*) Fluctuations in investment

(*c*) Macro economic policies

(*d*) Post war reconstruction

[June 2023]

137. Which internal factor affect the Business cycle?

(*a*) Fluctuations in investment

(*b*) Natural factors

(*c*) Technology shocks

(*d*) Population growth

[CA CPT Nov. 2018, July 2021]

138. The internal causes of business cycle is:

(*a*) Fluctuation in effective demand

(*b*) Technology shocks

(*c*) Both (*a*) and (*b*)

(*d*) None

[CA CPT May 2019]

139. The internal cause of business cycle is :

(*a*) Technology shocks

(*b*) Fluctuation in effective demand

(*c*) Post war reconstruction

(*d*) Population Growth

[Nov. 2019]

140. A decrease in government spending would cause:

(*a*) The aggregate demand curve to shift to the right.

(*b*) The aggregate demand curve to shift to the left.

(c) A movement down and to the right along the aggregate demand curve.

(d) A movement up and to the left along the aggregate demand curve.

141. Modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism, according to _____.

(a) Pigou

(b) Keynes

(c) Hawtrey

(d) Schumpeter

[CA CPT May 2019, Nov. 2020]

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

(a) Hawtrey

(b) ADAM Smith

(c) J M Keynes

(d) Schumpeter

[Jan. 2021]

143. Fluctuations in economic activity are due to fluctuations in aggregate effective demand. The theory is propounded by _____.

(a) Keynes

(b) Schumpeter

(c) Nicholas Kaldor

(d) Pigou

[Dec. 2021]

144. Whose statement out of these is false?

(a) Hawtrey - "Trade cycle is purely Monetary phenomena"

(b) Keynes - "Fluctuations in aggregate Demand"

(c) Pigou - "Fluctuations in investment"

(d) Schumpeter - "Innovations"

[CA CPT Nov. 2018]

145. Optimistic and Pessimistic mood of business community also affects the economic activities is view of _____.

(a) Hawtrey

(b) Schumpeter

(c) Pigou

(d) Marshall

[Jan. 2021]

146. 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.

147. In the long run, a reduction in labour supply would cause output to _____ and the aggregate price level to _____.

(a) fall, rise

(b) fall, fall

(c) rise, fall

(d) rise, rise.

[CA CPT May 2018]

148. According to some economists which is not the prime cause of Business Cycles?

(a) Fluctuations in investment

(b) Micro Economic policy

(c) Impact on aggregate economic activity

(d) Psychological factors

[Nov. 2019]

149. Endogenous factors refers to _____ causes.

(a) Internal

(b) External

(c) Economic

(d) Ecological

150. According to which economist trade cycle is a purely monetary for phenomenon:

(a) Schumpeter

(b) Pigou

(c) Hawtrey

(d) Marshall

[CA CPT May 2018]

151. According to whom "Business fluctuations are the outcome of some psychological states of mind of business community"?

(a) Marshall

(b) A.C. Pigou

(c) J.K. Hicks

(d) Schumpeter

[July 2021]

152. The difference between exports and imports is the _____ for goods and services.

(a) Net foreign demand

(b) Gross Foreign demand

(c) Net Outflow

(d) Net Inflow

153. The external causes which may lead to boom or bust do not include:

(a) Psychological Factors

(b) Wars

(c) Technology Shocks

(d) Natural Factors

154. According to Keynes, fluctuations in Economic activities are due to:

(a) Fluctuation in aggregate effective demand

(b) Innovations

(c) Changes in money supply

(d) Fluctuation in agricultural output

155. _____ theory holds that business cycles result from the fact that present prices substantially influence the production at some future date.

(a) Schumpeter's

(b) Hawtrey's

(c) Cobweb

(d) Pigou's

156. Who propounded the Cobweb theory?

(a) Nicholas Kaldor

(b) Hawtrey

(c) Adam Smith

(d) Schumpeter

157. According to _____, Trade Cycle is a purely monetary phenomenon.

(a) Nicholas Kaldor

(b) Hawtrey

(c) Adam Smith

(d) Schumpeter

158. According to _____, modern business activities are based on the anticipations of business Community and one affected by waves of optimism or pessimism.

(a) Pigou
(b) Schumpeter
(c) Adam Smith
(d) Hawtrey

159. In a free market economy, where maximization of profits is the aim of business, a higher level of aggregate demand will induce businessmen to produce more. As a request, there will be more _____.

(a) Output
(b) Income
(c) Employment
(d) All of these

160. When companies lay off workers, consumers lose their jobs and stop buying anything but necessitates. That causes a _____.

(a) Downward Spiral
(b) Cross Spiral
(c) Upward Spiral
(d) Triangle Spiral

161. _____ is considered to be the most volatile Component of the aggregate demand.

(a) Investment Spending
(b) Saving Flow
(c) Expenditure behaviour
(d) None of these

162. Investments may rise when the rate of interest is _____ in the economy.

(a) High
(b) Moderate
(c) Low
(d) Very high

163. Increase in investment; shift the aggregate demand to the _____, leading to _____.

(a) right, economic expansion
(b) right, depression
(c) left, economic expansion
(d) left, depression

164. The most common method of boosting aggregate demand is:

(a) Increased Government Spending
(b) Tax Cuts
(c) Both (a) & (b)
(d) None of these

165. The macroeconomic policies which cause business cycles may be :

(a) Monetary Policy
(b) Fiscal Policy
(c) Both (a) & (b)
(d) None of these

166. In case of softening of interest rates, _____.

(a) There will be inflationary effects and increase in unemployment rates.
(b) There will be deflationary effects and increase in unemployment rates.
(c) There will be inflationary effect and decline in employment rates.
(d) There will be deflationary effects and decline in employment rates.

167. Which of the following is anti-inflationary measure which causes a downward pressure on the aggregate demand and the economy slows down?

(a) Reduction in Government Spending
(b) Increase in Taxes
(c) Increase in Interest Rates
(d) All of these

Relevance of Business Cycles in Business decision making

168. How many phases are their in business cycle?

(a) Four
(b) Five
(c) One
(d) Many

[CA CPT Nov. 2018]

169. Business Cycles effect _____ of an economy.

(a) Social Aspects
(b) Economic Aspects
(c) All Aspects
(d) No Aspects

170. Which of the following industries are less sensitive to business cycle?

(a) Consume goods industry
(b) Durable consumer goods industry
(c) Travel and Tourism Industries
(d) Food Grain processing Industries

[June 2023]

171. The period of prosperity opens up new and superior opportunities for _____ thereby promotes business.

(a) Investment and Unemployment
(b) Employment and Production
(c) Production, Unemployment & Savings
(d) Investment, Employment and Production

172. A period of _____ reduces business opportunities and profits.

(a) Recession
(b) Depression
(c) Either (a) or (b)
(d) None of these

173. Business Cycles have _____ influence on Business decisions.

(a) Negligible
(b) Least
(c) No
(d) Tremendous

174. Which External Factor affect the business cycle?

(a) Population growth
(b) Variation in government spending
(c) Money supply
(d) Macro economic policies

[CA CPT Nov. 2018]

175. Economy-wide trends can have significant impact on _____.

(a) Capital Goods Industries
(b) FMCG Industries
(c) Social activities
(d) All types of business

176. Business cycle is contagious and _____ in character?

(a) Local
(b) Regional
(c) National
(d) International

[CA CPT Nov. 2018]

177. Businesses whose fortunes are closely linked to the rate of economic growth are referred to as _____ business.

(*a*) FMCG

(*b*) Durable goods

(*c*) Fluctuating

(*d*) Cyclical

178. The world economy suffered the longest, deepest and most widespread depreciation of the 20th century during?

(*a*) 1934

(*b*) 1928

(*c*) 1930

(*d*) 1932

[CA CPT Nov. 2018]

179. Which of the following business are examples of "Cyclical business"?

(*a*) Fashion retailers, electrical goods & house-builders.

(*b*) Restaurants, advertising and overseas tour operators.

(*c*) Construction and other infrastructure firms.

(*d*) All of the above.

180. The Stage/phase of the business Cycle is important for:

(*a*) Making managerial decisions regarding expansion or downsizing.

(*b*) A new business to decide on entry into the market.

(*c*) The success of a new product.

(*d*) All of the above.

181. Due to recession, employment rate and output _____ respectively.

(*a*) Rises and rises

(*b*) Falls and falls

(*c*) Rises and falls

(*d*) Falls and rises

Answer

1.	(*b*)	**2.**	(*c*)	**3.**	(*d*)	**4.**	(*d*)	**5.**	(*b*)	**6.**	(*d*)	**7.**	(*d*)
8.	(*d*)	**9.**	(*c*)	**10.**	(*d*)	**11.**	(*c*)	**12.**	(*d*)	**13.**	(*a*)	**14.**	(*a*)
15.	(*c*)	**16.**	(*d*)	**17.**	(*c*)	**18.**	(*a*)	**19.**	(*b*)	**20.**	(*c*)	**21.**	(*c*)
22.	(*d*)	**23.**	(*b*)	**24.**	(*d*)	**25.**	(*d*)	**26.**	(*b*)	**27.**	(*c*)	**28.**	(*d*)
29.	(*a*)	**30.**	(*b*)	**31.**	(*b*)	**32.**	(*c*)	**33.**	(*d*)	**34.**	(*c*)	**35.**	(*d*)
36.	(*a*)	**37.**	(*b*)	**38.**	(*a*)	**39.**	(*a*)	**40.**	(*d*)	**41.**	(*c*)	**42.**	(*b*)
43.	(*d*)	**44.**	(*b*)	**45.**	(*a*)	**46.**	(*c*)	**47.**	(*a*)	**48.**	(*d*)	**49.**	(*a*)
50.	(*d*)	**51.**	(*c*)	**52.**	(*c*)	**53.**	(*b*)	**54.**	(*a*)	**55.**	(*c*)	**56.**	(*d*)
57.	(*c*)	**58.**	(*b*)	**59.**	(*a*)	**60.**	(*b*)	**61.**	(*d*)	**62.**	(*d*)	**63.**	(*a*)
64.	(*a*)	**65.**	(*d*)	**66.**	(*a*)	**67.**	(*a*)	**68.**	(*b*)	**69.**	(*d*)	**70.**	(*c*)
71.	(*c*)	**72.**	(*d*)	**73.**	(*a*)	**74.**	(*a*)	**75.**	(*c*)	**76.**	(*b*)	**77.**	(*b*)
78.	(*a*)	**79.**	(*c*)	**80.**	(*a*)	**81.**	(*d*)	**82.**	(*a*)	**83.**	(*a*)	**84.**	(*c*)
85.	(*b*)	**86.**	(*b*)	**87.**	(*b*)	**88.**	(*b*)	**89.**	(*a*)	**90.**	(*c*)	**91.**	(*d*)

92.	(*b*)	**93.**	(*a*)	**94.**	(*a*)	**95.**	(*b*)	**96.**	(*c*)	**97.**	(*b*)	**98.**	(*c*)
99.	(*a*)	**100.**	(*a*)	**101.**	(*a*)	**102.**	(*c*)	**103.**	(*b*)	**104.**	(*d*)	**105.**	(*b*)
106.	(*a*)	**107.**	(*d*)	**108.**	(*d*)	**109.**	(*c*)	**110.**	(*a*)	**111.**	(*a*)	**112.**	(*b*)
113.	(*d*)	**114.**	(*d*)	**115.**	(*c*)	**116.**	(*b*)	**117.**	(*d*)	**118.**	(*c*)	**119.**	(*d*)
120.	(*c*)	**121.**	(*a*)	**122.**	(*b*)	**123.**	(*d*)	**124.**	(*d*)	**125.**	(*b*)	**126.**	(*b*)
127.	(*a*)	**128.**	(*b*)	**129.**	(*c*)	**130.**	(*c*)	**131.**	(*d*)	**132.**	(*c*)	**133.**	(*c*)
134.	(*d*)	**135.**	(*c*)	**136.**	(*d*)	**137.**	(*a*)	**138.**	(*a*)	**139.**	(*b*)	**140.**	(*b*)
141.	(*a*)	**142.**	(*d*)	**143.**	(*a*)	**144.**	(*c*)	**145.**	(*c*)	**146.**	(*c*)	**147.**	(*a*)
148.	(*b*)	**149.**	(*a*)	**150.**	(*c*)	**151.**	(*b*)	**152.**	(*a*)	**153.**	(*a*)	**154.**	(*a*)
155.	(*c*)	**156.**	(*a*)	**157.**	(*b*)	**158.**	(*a*)	**159.**	(*d*)	**160.**	(*a*)	**161.**	(*a*)
162.	(*c*)	**163.**	(*a*)	**164.**	(*c*)	**165.**	(*c*)	**166.**	(*c*)	**167.**	(*d*)	**168.**	(*a*)
169.	(*c*)	**170.**	(*d*)	**171.**	(*d*)	**172.**	(*c*)	**173.**	(*d*)	**174.**	(*a*)	**175.**	(*d*)
176.	(*d*)	**177.**	(*d*)	**178.**	(*c*)	**179.**	(*d*)	**180.**	(*d*)	**181.**	(*b*)		

6

CHAPTER

DETERMINATION OF NATIONAL INCOME

UNIT 1 : NATIONAL INCOME ACCOUNTING

Introduction

1. National Income is a Concept of _____.

(*a*) Macro-Economics

(*b*) Micro-Economics

(*c*) Both (*a*) and (*b*)

(*d*) None of above

2. Which of the following Ministry is responsible in India for the compilation of National Accounts Statistics?

(*a*) Ministry of Commerce & Industry

(*b*) Ministry of Social Affairs

(*c*) Ministry of Finance

(*d*) Ministry of Central Statistical and program Implementation

3. National Income Accounting was pioneered by _____.

(*a*) Simon Kuznets

(*b*) Simon Kuznets and Richard Stone

(*c*) Simon Kuznets, Richard Stone and Adam Smith

(*d*) None of these

4. National Income accounts are extremely useful:

(*a*) For analyzing and evaluating the performance of an economy.

(*b*) For knowing the composition and structure of the national income, income distribution and economic forecasting.

(*c*) For choosing economic policies and evaluating them.

(*d*) All of the above.

5. _____ is a government bookkeeping system that measures a country's economic activity – offering in sight into how an economy is performing.

(*a*) National Income Accounting

(*b*) Economy Accounting

(*c*) Notional Inflow Accounting

(*d*) Net Income Accounting

6. National Income Statistics provide a _____ basis for macro economic modelling and analysis.

(*a*) Quantitative

(*b*) Qualitative

(*c*) Descriptive

(*d*) Analytical

Different Concepts of National Income

7. Gross Domestic Product at market Price (GDP_{MP}) refers to the Gross Market Value of all _____ goods and services produced with in the domestic territory of a country during a given period.

(a) intermediate
(b) final
(c) work-in-progress
(d) None of the above

8. "Market Price" in GDP_{MP} Signifies that _____.

(a) It Includes amount of indirect taxes paid.
(b) It excludes amount of subsidy received.
(c) The Net Indirect Taxes (NIT) have been included.
(d) All of the above

9. "Gross" in GDP_{MP} Signifies that _____.

(a) No provision has been made for depreciation.
(b) Only final goods and services have to be included.
(c) Only domestic territory has been considered for goods/Services
(d) Net Indirect Taxes have been included.

10. _____ refers to net market value of all the final goods and services produced within the domestic territory of the country during a period of one year.

(a) GDP_{MP}
(b) GNP_{MP}
(c) NDP_{MP}
(d) NNP_{MP}

11. What is the relationship between GDP_{MP} and NDP_{MP}?

(a) $NDP_{MP} = GDP_{MP}$ – Depreciation
(b) $NDP_{MP} = GDP_{MP}$ + Depreciation
(c) $NDP_{MP} = GDP_{MP}$ – Net Indirect Taxes
(d) $NDP_{MP} = GDP_{MP}$ + Net Indirect Taxes.

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

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

13. GDP_{MP} may be regarded as _____

(a) National GDP
(b) Nominal GDP
(c) Real GDP
(d) Aggregate GDP

14. _____ is a price index which 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

15. The formula for computing Real GDP is _____.

(a) GDP for the Current year × Base Year (100)
(b) GDP for the Base year × current year Index

(c) $\dfrac{\text{GDP for the Current year} \times \text{Base year (100)}}{\text{Current Year Index}}$

(d) $\dfrac{\text{GDP for the Current year} \times \text{Current year Index}}{\text{Base Year (100)}}$

16. GDP at Current Prices means _____.

(a) Nominal GDP
(b) Real GDP
(c) GDP at constant prices
(d) None of these

17. Which one of the following is the correct formula for computation of GDP Deflator?

(a) $\dfrac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$

(b) $\dfrac{\text{Real GDP}}{\text{Nominal GDP}} \times 100$

(c) $\dfrac{\text{Nominal GDP} \times \text{Real GDP}}{100}$

(d) (Nominal GDP – Real GDP × 100

18. GDP Deflator is a price index used to convert_____.

(a) Nominal GDP to Real GDP
(b) Nominal GDP to National GDP
(c) Real GDP to National GDP
(d) Nominal GDP into percentage.

19. The GDP deflator measures the _____ level of prices relative to the level of prices in the _____ year.

(a) base, current
(b) current, base
(c) base, base
(d) current, current

20. What is Real GDP if Nominal GDP is 1150 Units and GDP Deflator is 143.75?

(a) 800
(b) 1,653.125
(c) 12.5
(d) None of these

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

(a) Always Zero
(b) Always 100
(c) Always Equal to Nominal GDP
(d) Always Equal to Real GDP

22. If the GDP deflator is greater than 100, then—

(a) Nominal GDP = Real GDP
(b) Nominal GDP > Real GDP
(c) Nominal GDP < Real GDP
(d) Nominal GDP ≥ Real GDP

23. The GDP Deflator is calculated at 78.49. What conclusion can be drawn regarding level of prices of the year in comparison with the base year?

(a) Price level has fallen.
(b) Price level has increase.

(c) Price level remained constant.

(d) No Conclusion can be drawn.

24. Find nominal GDP if real GDP is 475 and price index is 118.

(a) 402.54

(b) 560.5

(c) 24.84

(d) None of these

25. The nominal GDP of a Country in the base year is given at ₹ 600 crores. In the Current year, the nominal GDP increases to ₹ 1200 crores and price index rises to 110. What will be GDP Deflator in Current Year?

(a) 100

(b) 110

(c) 120

(d) None of these

26. What is the price index of the current Year if Nominal and Real GDP for Current Year are 540 and 450 respectively?

(a) 100

(b) 120

(c) 83.33

(d) None of these

Instruction for Questions (27 to 31)

Consider the following data and answer the questions 27-31

Year	2019	2020	2021	2022	2023
GDP Deflator	100	119.15	141.08	135.71	129.75

27. Which Year is the base Year?

(a) 2019

(b) 2020

(c) 2021

(d) None of the above

28. In which year the Nominal GDP is greater than Real GDP?

(a) 2020

(b) 2020-21

(c) 2020-22

(d) 2020-23

29. In which year the Nominal GDP and Real GDP are the same?

(a) 2019

(b) 2020

(c) 2021

(d) None of these

30. From year 2020 to 2023, the price levels are higher than that of the base year 2019. In which year, it is highest?

(a) 2019

(b) 2021

(c) 2023

(d) 2020

31. In which year, the price level has fallen?

(a) 2022

(b) 2022-2023

(c) 2020

(d) 2020-2021

32. While computing various basic aggregates of national income, the basis of distinction between "Gross" and "Net" is:

(a) Depreciation

(b) Consumption of fixed capital

(c) Both (a) and (b)

(d) None of the above

33. Gross Domestic Product (GDP) of any nation.

(a) excludes capital consumption and intermediate consumption

(b) is inclusive of capital consumption or depreciation

(c) is inclusive of indirect taxes but excludes subsidies

(d) None of the above

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

(a) GDP_{MP} + Net Factor Income from Abroad

(b) GDP_{MP} - Net Factor Income from Abroad

(c) GDP_{MP} - Depreciation

(d) GDP_{MP} + Net Indirect Taxes

35. What is the relationship between Net Domestic Product (NDP_{MP}) and Gross Domestic Product (GDP_{MP})?

(a) $NDP_{MP} = GDP_{MP}$ – Depreciation

(b) $NDP_{MP} = GDP_{MP}$ + Depreciation

(c) $GDP_{MP} = NDP_{MP}$ – Depreciation

(d) None of these

36. Choose the correct statement.

(a) GNP includes earnings of Indian corporations overseas and Indian residents working overseas; but GDP does not include these

(b) NNP_{FC} = National Income = FID (factor income earned in domestic territory) - NFIA.

(c) Capital goods and inventory investment are excluded from computation of GDP

(d) $NDP_{MP} = GDP_{MP}$ + Depreciation

37. If Net factor income from abroad is positive, then _____

(a) $GNP_{MP} = GDP_{MP}$

(b) $GNP_{MP} > GDP_{MP}$

(c) $GNP_{MP} < GDP_{MP}$

(d) None of the above

38. Which of the following formula is correct for computation of GNP at market price?

(a) $GNP_{MP} = GDP_{MP}$ + Depreciation

(b) $GNP_{MP} = GDP_{MP}$ + Net factor Income from abroad

(c) $GNP_{MP} = GDP_{MP}$ – Depreciation

(d) $GNP_{MP} = GDP_{MP}$ – Net factor Income from abroad

39. Which is the distinction between "National" and "Domestic"?

(a) National = Domestic + Net factor Income from abroad.

(b) National = Domestic – Net factor Income from abroad

(c) Domestic = National + Net factor Income from abroad

(d) None of the above

40. Which of the following is correct?

(a) $NNP_{MP} = GNP_{MP}$ – Depreciation.

(b) $NNP_{MP} = NDP_{MP}$ + Net factor Income from abroad.

(c) $NNP_{MP} = GDP_{MP}$ + Net factor Income from abroad – Depreciation.

(d) All of the above.

41. What is the basis of distinction between market price and factor cost?

(a) Market Price = Factor Cost + Indirect Taxes – Subsidies

(b) Market price = Factor Cost + Net Indirect Taxes – Subsidies

(c) Market Price = Factor Cost – Net Indirect Taxes

(d) None of the above

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

(*a*) Net factor income from abroad

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

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

(*d*) Depreciation (consumption of fixed capital)

43. Mixed income of the self-employed means:

(*a*) Net profits received by self-employed people

(*b*) Outside wages received by self-employed people

(*c*) Combined factor payments which are not distinguishable

(*d*) Wages due to non-economic activities

44. If net factor income from abroad is positive, then:

(*a*) national income will be greater than domestic factor incomes.

(*b*) national income will be less than domestic factor incomes.

(*c*) net exports will be negative

(*d*) domestic factor incomes will be greater than national income

45. The formula to calculate Net Domestic Product is:

(*a*) Gross National product/Depreciation

(*b*) Gross domestic product - Depreciation

(*c*) Gross domestic product + Depreciation

(*d*) Gross National product + Depreciation

46. Which of the following is alternatively known as the National Income?

(*a*) Gross National Product at factor Cost

(*b*) Net National Product at Market Price

(*c*) Gross National Product at Market Price

(*d*) Net National Product at Factor Cost

47. _____ is Gross Domestic Product (GDP) plus net factor income from abroad.

(*a*) Net domestic product

(*b*) Gross national product

(*c*) Net national product

(*d*) Gross domestic product

48. Consider the following statements.

(*i*) NNP (at market price) = GNP (at market price) Depreciation

(*ii*) NNP (at factor cost) = NNP (at market price) + indirect taxes subjects.

Which of the following is CORRECT?

(*a*) Both (*i*) and (*ii*) are TRUE

(*b*) (*i*) is TRUE and (*ii*) is FALSE

(*c*) (*i*) is FALSE and (*ii*) is TRUE

(*d*) Both (*i*) and (*ii*) are FALSE.

49. What is the formula to compute Operating Surplus?

(*a*) Gross Value added at Factor Cost - Compensation of Employees - Depreciation

(*b*) Gross Value Added at Factor Cost + Compensation of Employees + Depreciation

(*c*) Gross Value Added at Market Price - Compensation of Employees

(*d*) Gross Value Added at Factor Cost - Compensation of Employees + Depreciation

50. The formula to compute GDP at Factor Cost is:

(*a*) GDP at Factor Cost - Indirect Taxes - Subsidies

(*b*) GDP at Market Price - Indirect Taxes

(*c*) GDP at Market Price - Indirect Taxes + Subsidies

(*d*) GDP at Factor Cost + Indirect Taxes - Subsidies

51. Which of the following needs to be deducted to derive NDP from GDP?

(*a*) Net Sales

(*b*) Depreciation

(*c*) Net Profit

(*d*) Net Loss

52. Normally, NNP at market prices is higher than NNP at factor cost because _____

(*a*) Indirect taxes exceed government subsidies.

(*b*) Government subsidies exceed Indirect taxes.

(*c*) Indirect taxes equal to government subsidies.

(*d*) Depreciation is always Nil.

53. In a particular year, the value of nominal GNP of an economy was ₹ 9,000 crores. The value of GNP of that economy during the same year, evaluated at the price of the base year, was ₹ 10,000 crores. The value of GNP deflator for that year in percentage terms was:

(*a*) 110%

(*b*) 111%

(*c*) 90%

(*d*) 10%

54. The value of NDP at FC will be _____, if the following information is given:-

GNP at MP	:	**₹ 15,000**
Depreciation	:	**₹ 1,000**
NFIA	:	**₹ 800**
Net Indirect Taxes	:	**₹ 1,500**

(*a*) ₹ 11,700

(*b*) ₹ 16,000

(*c*) ₹ 16,800

(*d*) None of these

55. Which of the following formula to be used for deriving GNP at Market Prices?

(*a*) NNP at Market Prices + Depreciation

(*b*) NNP at Market Prices - Depreciation

(*c*) NNP at Factor Cost + Depreciation

(*d*) GNP at Factor Cost - Depreciation.

56. Which of the following is the correct formula?

(*a*) Net Domestic Product (at factor cost) = Gross Domestic Product (at Market Price) - Depreciation

(*b*) Net Domestic Product (at Market Prices) = Gross Domestic Product (at Market Prices) - Depreciation

(*c*) Net Domestic Product (at Market Prices) = Gross Domestic Product (at Market Prices) + Depreciation

(*d*) Gross Domestic Product (at factor cost) = Net Domestic Product (at factor costs) - Depreciation

57. Which of the following represents National Income?

(*a*) NNP at MP

(*b*) NNP at FC

(*c*) GNP at MP

(*d*) GNP at FC

58. In which type of economy, domestic income is equal to national income?

(*a*) Flexible Economy

(*b*) Rigid Economy

(*c*) Open Economy

(*d*) Closed Economy

59. Which of the following is not a component of operating surplus?

(*a*) Compensation of Employees

(*b*) Interest

(*c*) Royalty

(*d*) Rent

60. What is the formula to compute Operating Surplus?

(*a*) Gross Value Added at Factor Cost - Compensation of Employees + Depreciation

(*b*) Gross Value Added at Factor Cost + Compensation of Employees + Depreciation

(*c*) Gross Value added at Factor Cost - Compensation of Employees - Depreciation

(*d*) Gross Value Added at Market Price - Compensation of Employees

61. The ratio [(Nominal GDP)/(Real GDP)] is known as:

(*a*) Wholesale Price Index

(*b*) GNP deflator

(*c*) Consumer price index

(*d*) GDP deflator

62. Which of the following is not included in Domestic Income?

(*a*) Wage & Salaries

(*b*) Interest & Dividends

(*c*) Income earned from abroad

(*d*) None of the above

63. Which of the following will give Personal Income?

(*a*) Private Income - Undistributed Corporate Profits - Profits Taxes

(*b*) Private Income + Undistributed Corporate Profits - Profits Taxes

(*c*) Private Income + Undistributed Corporate Profits + Profits Taxes

(*d*) Private Income - Undistributed Corporate Profits - All Taxes

64.

Private Income	**:**	**₹ 10,000**
Undistributed Corporate Profits	**:**	**₹ 2,000**
Profit Taxes	**:**	**₹ 500**

What is Personal Income?

(*a*) ₹ 7,500

(*b*) ₹ 8,000

(*c*) ₹ 8,500

(*d*) ₹ 10,000

65. When imports exceed exports, which of the following is incorrect?

(*a*) Net income earned from abroad is negative

(*b*) Domestic income will be different from national income

(*c*) Domestic income is greater than national income

(*d*) National income is more than domestic income.

66. The GDP per capita is

(*a*) a measure of a country's economic output per person

(*b*) actual current income receipts of persons

(*c*) national income divided by population

(*d*) (*a*) and (*c*) above

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

(*a*) Old age pensions and family pensions

(*b*) Scholarships given to deserving diligent students.

(*c*) Compensation given for loss of property due to floods

(*d*) All of the above

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

(*a*) Transfer payments to individuals

(*b*) Undistributed profits of corporate

(*c*) Transfer payments made to foreigners

(*d*) Mixed income of self employed

69. What is the relationship of Disposable Personal Income (DI) and Personal Income (PI)?

(*a*) DI = PI + Personal Income Taxes + Non-Tax Payments

(*b*) DI = PI – Personal Income Taxes + Non-Tax Payments

(*c*) DI = PI – Personal Income Taxes – Non-Tax Payments

(*d*) None of the above

70. Consider the following data:

Particulars	₹ in crores
GNP at MP	9,500
Depreciation	540
Net Factor income from abroad	410
Net indirect Taxes	630

Calculate NDP at FC.

(*a*) ₹ 7,920

(*b*) ₹ 8,550

(*c*) ₹ 8,960

(*d*) None of these

71. The net domestic product at market price of an economy is ₹ 6,400 crores. The Capital Stock is worth ₹ 6,000 crores and it depreciates at the rate of 10% p.a Indirect Taxes amounted to ₹ 290 Crores, Subsidies amounted to ₹ 30 Crores, Factor Income from the rest of the world is ₹ 500 crores & to rest of the world is ₹ 650 Crores. What will be GNP_{FC}?

(*a*) ₹ 7,190 Crores

(*b*) ₹ 6,590 Crores

(*c*) ₹ 6,330 Crores

(*d*) ₹ 6,180 Crores

72. Consider the following information:

Particulars	₹ in crores
GNP_{FC}	35,600
Consumption of fixed capital	3,900
Indirect Taxes	210
Factor Income from abroad	600
NDP_{MP}	32,000
Factor Income to Abroad	750

Calculate the amount of subsidies.

(a) ₹ 40 crores

(b) ₹ 50 crores

(c) ₹ 60 crores

(d) None of these.

73. Calculate consumption of Fixed Capital from the following data:

Particulars	₹ in crores
NNP at Factor Cost	6,250
GDP at Market Price	7,000
Net Indirect Taxes	250
Net Factor Income from Abroad	150

(a) ₹ 450 Crores

(b) ₹ 550 Crores

(c) ₹ 650 Crores

(d) None of these

74. Consider the following data:

Particulars	₹ in Crores
Compensation of Employees	1,200
Operating Surplus	2,400
Consumption of fixed capital	480
Mixed income of Self employed	1,320
Net Indirect Tax	540
Rent	660
Profit	960
Net factor Income from abroad	-60

Which of the following is incorrect?

(a) GDP at MP =₹ 5,940 Crores.

(b) GNP at MP =₹ 5,880 Crores.

(c) NNP at MP =₹ 5,400 Crores.

(d) NNP at FC = ₹ 5,940 Crores.

75. NNP_{MP} = ₹ 15,053 Crores

Indirect Taxes = ₹ 335 Crores

NNP_{FC} = ₹ 14,980 Crores

What will be the amount of subsidies and Net Indirect Taxes?

(a) ₹ 262 crores & ₹ 73 crores.

(b) ₹ 73 crores & 262 crores.

(c) ₹ 335 crores & ₹ 189 crores.

(d) ₹ 189 crores & ₹ 335 crores.

76. The GDP at market price of a country in a particular year was ₹ 1,900 crores. The National Income and Net factor Income from abroad were ₹ 1671 crores and ₹ 107 Crores. If the Value of Net Indirect Taxes was ₹ 210 Crores. What is aggregate value of Depreciation?

(a) ₹ 126 Crores

(b) ₹ 142 Crores

(c) ₹ 336 Crores

(d) None of these

77. NNP_{MP} = ₹ 2,850 Crores

Indirect Taxes = ₹ 209 Crores

Subsidies = ₹ 32 Crores

Net Indirect Taxes = ₹ 177 Crores.

Saving of Private Corporate Sector = ₹ 28 Crores.

Personal Income = ₹ 2,215 Crores.

What is the amount of National Income?

(a) ₹ 3,059 Crores

(b) ₹ 2,673 Crores

(c) ₹ 2,645 Crores

(d) None of these

78. GNP_{MP} = ₹ 58,350 Crores.

Depreciation = ₹ 1,625 Crores.

Subsidies = ₹ 1,540 Crores.

Indirect Tax = ₹ 2,590 Crores.

Net factor Income from abroad = ₹ 240 Crores.

Calculate Domestic Income.

(a) ₹ 58,590 Crores

(b) ₹ 56,965 Crores

(c) ₹ 55,915 Crores

(d) None of these

79. GNP_{FC} is equal to NNP_{FC} When:

(a) Net factor income from abroad is zero

(b) Net Indirect tax is zero

(c) Consumption of Fixed Capital is zero

(d) None of the above

Circular flow of Income

80. Which of the following is a phase of circular flow of Income?

(a) Generation Phase

(b) Distribution Phase

(c) Disposition Phase

(d) All of the above

81. Which one of the following Statement is false as regards the concept of flow?

(a) Flow variable refers to that variable, which is measured over a period of time

(b) Flow has a time dimension as its magnitude can be measured over a period of time.

(c) Flow is a static concept

(d) All of the above

82. There are 3 different phases in circular flow of income. Which one of the following phase is relation with generation of income?

(a) Production Phase

(b) Income Phase

(c) Expenditure Phase

(d) Any of the above

83. The expenditure phase of circular flow of income is related with _____.

(a) Generation of Income

(b) Distribution of Income

(c) Disposition of Income

(d) Production of Income

84. "Distribution of income" is related with which of the following phase of circular flow of income?

(a) Production Phase

(b) Income Phase

(c) Expenditure Phase

(d) None of the above

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

(a) Real Flow

(b) Money Flow

(c) Consumption Flow

(d) Generation Flow

86. Which of the following is correct about Money Flow?

(a) It is the flow of money between firms and households.

(b) It involves exchange of money.

(c) It is also known as Nominal flow.

(d) All of the above

87. Real flow refers to the flow of factor services from _____.

(a) firms to households.

(b) households to firms

(c) firms to Government

(d) Household to Government.

88. Which one of the following is a Stock?

(*a*) Wealth
(*b*) Profits
(*c*) Exports
(*d*) Saving

89. Which one of the following is NOT a flow?

(*a*) Income
(*b*) Depreciation
(*c*) Capital
(*d*) Investment

90. Which of the following is included in Real Flow?

(*a*) Flow of Services
(*b*) Flow of Goods
(*c*) Both (*a*) and (*b*)
(*d*) Neither (*a*) not (*b*)

91. Which of the following is Considered as a part of nominal flow in the circular flow of income?

(*a*) Flow of factor Payments from firms of household
(*b*) Flow of goods and Services from firms to households.
(*c*) Flow of factor Services from household to firms.
(*d*) All of these

Methods of Measurement of National Income in India

92. Under which of the following methods of computing national income, the production value of following sectors are added up- Agriculture, Manufacturing, Construction, Transport and Communication, Banking, Administration and Defence.

(*a*) Income Method
(*b*) Expenditure Method
(*c*) Value Added Method
(*d*) Profit Method

93. Which of the following is one of the three commonly accepted methods for calculating a country's national Income?

(*a*) Market Realisation method
(*b*) Value Added Method
(*c*) Import Substitution
(*d*) Inflation Adjustment method

94. The_____ method of national income measures the contribution of each producing enterprise in the domestic territory of the country.

(*a*) Income
(*b*) Expenditure
(*c*) Product
(*d*) Turnover

95. Which of the following is not the method of measuring national income?

(*a*) Product Method
(*b*) Income Method
(*c*) Profit Method
(*d*) Expenditure Method

96. 'Estimating net value added by each producing enterprise as well as each industrial sector and adding up the net value added by all the sectors', is a step considered for calculating National Income under which of the following methods?

(*a*) Profit Method
(*b*) Income Method
(*c*) Expenditure Method
(*d*) Value Added Method

97. _____ if any, must be deducted from the value added while calculating national income as per the Product Method, as it does not result into real increase in output.

(*a*) Stock Appreciation
(*b*) Stock Depreciation
(*c*) Stock Loss due to theft
(*d*) Stock Insured

98. While adding up the value of output of various sectors for calculation of National Income under Product Method, care should be exercised to avoid the problem of _____

(*a*) single Counting
(*b*) triple Counting
(*c*) quadruple Counting
(*d*) double Counting

99. The production of goods for self-consumption is valued at _____while calculating national income through Product Method

(*a*) Historical Prices
(*b*) Prevailing Market Prices
(*c*) Prevailing Cost Prices
(*d*) None of the above

100. The production value of transport and communication is taken into consideration for computation of National Income under which of the following methods?

(*a*) Income Method
(*b*) Profit Method
(*c*) Expenditure Method
(*d*) Product Method

101. The formula to compute Net National Product at Market Prices is:

(*a*) GDP at Market Prices - Depreciation
(*b*) GNP at Market Prices + Depreciation
(*c*) GNP at Market Prices - Depreciation
(*d*) None of these

102. The production value of transport and communication is taken into consideration for computation of National Income under which of the following methods?

(*a*) Income Method
(*b*) Expenditure Method
(*c*) Product Method
(*d*) Profit Method

103. "Identifying the producing enterprise and classifying them into individual sectors according to their activities", is a step followed in which of the following methods of computing national income?

(*a*) Product Method
(*b*) Income Method
(*c*) Expenditure Method
(*d*) Profit Method

104. The Problem of Double Counting may arise in which of the following methods of calculating national income?

(*a*) Profit Method
(*b*) Product Method
(*c*) Income Method
(*d*) Expenditure Method

105. Which of the following is not a method of measurement of National Income?

(a) Value Added Method
(b) Income Method
(c) Intermediate Consumption Method
(d) Expenditure method

106. Which of the following method gives highest value of National Income?

(a) Value Added Method
(b) Expenditure Method
(c) Income Method
(d) All the three methods given the same value

107. Who is entrusted with the task of estimating national income?

(a) CSO
(b) CSIR
(c) MOF
(d) NSDC

108 Value Added Method is also known as _____.

(a) Product Method
(b) Inventory Method or Net Output Method
(c) Industrial Origin Method
(d) All of the above

109. Which of the following is one of the three accepted methods to calculate a country's national income?

(a) Value Added Method
(b) Inflation Adjustment Method
(c) Import Substitution Method
(d) Nominal Expense Method

110. _____ refers to the addition of value to the raw material (intermediate goods) by a firm, by virtue of its productive activities.

(a) Value Added
(b) Income Added
(c) Inclusive Approach
(d) Exclusive Approach

111. Value Added is calculated as the difference between the value of output and _____.

(a) Value of input
(b) Intermediate consumption
(c) Final consumption
(d) Basic consumption

112. Value added by each producing enterprise is also known as _____.

(a) GVA at market price
(b) GVA at factor price
(c) GDP at market price
(d) GDP at factor price

113. From the following information calculate GDP at Market Price:

GDP at Factor Cost = INR 200 Crore

Indirect Tax = INR 200 Crore

Subsidies = INR 20 Crore

(a) INR 500 Crore
(b) INR 230 Crore
(c) INR 330 Crore
(d) INR 130 Crore

114. The expenditure incurred by a production unit on purchasing those goods and services from other production units, which are meant for resale or for using up completely is known as _____.

(a) Final Consumption
(b) Intermediate Consumption
(c) Basic consumption
(d) None of these

115. The expenditure on goods and services which is meant for final consumption and investment is called as _____.

(a) Final Consumption
(b) Intermediate Consumption
(c) Basic consumption
(d) None of these

116. If purchase of raw material from domestic firm is given at ₹ 158 crore and imports are ₹8 crore, what will be the amount of intermediate consumption under value added method?

(a) ₹ 8 crore
(b) ₹ 150 crore
(c) ₹ 158 crore
(d) ₹ 166 crore

117. What is the value of output on the basis of following information?

Sales	**: ₹ 40,000 Lakhs**
Closing Stock	**: ₹ 2,000 Lakhs**
Opening Stock	**: ₹ 500 Lakhs**

(a) ₹ 42,500 Lakhs
(b) ₹ 42,000 Lakhs
(c) ₹ 41,500 Lakhs
(d) ₹ 38,500 Lakhs

118. Which of the following is not a part of Primary Sector?

(a) Farming
(b) Fishing
(c) Transport
(d) Mining

119. Which of the following is not a part of Tertiary Sector?

(a) Transport
(b) Education
(c) Finance
(d) Animal Husbandry

120. The industrial classification of producing enterprises does not include which of the following?

(a) Primary Sector
(b) Secondary Sector
(c) Mixed Sector
(d) Tertiary Sector

121. Under Value Added Method, the sum total of Gross Value Added at market price of each sector is called as:

(a) GVA_{MP}
(b) GDP_{MP}
(c) GVA_{FC}
(d) GDP_{FC}

122. As per Value Added method, the net domestic product at Factor Cost (NDP_{FC}) is calculated as per which of the following equation?

(a) GDP_{MP} - Depreciation + Net Indirect Taxes
(b) GDP_{MP} - Depreciation - Net Indirect Taxes
(c) GDP_{MP} + Depreciation + Net Indirect Taxes
(d) GDP_{MP} + Depreciation - Net Indirect Taxes

123. Consider the following information:

GDP_{MP}	**: ₹ 8,000 crore**
Depreciation	**: ₹ 400 crore**
Net Indirect Taxes	**: ₹ 300 crore**

GVA_{MP} (Primary Sector)	: ₹ 4,000 crore
GVA_{MP} (Secondary Sector)	: ₹ 1,200 crore
GVA_{MP} (Tertiary Sector)	: ₹ 2,800 crore

What is the value of NDP at Factor Cost?

(*a*) ₹ 7,300 crore

(*b*) ₹ 8,400 crore

(*c*) ₹ 8,700 crore

(*d*) ₹ 16,400 crore

124. Which of the following equation is true?

(*a*) $NNP_{FC} = NDP_{FC} + NFIA$

(*b*) $NNP_{FC} = NDP_{MP} + NFIA$

(*c*) $NNP_{FC} = NDP_{FC} - NFIA$

(*d*) $NNP_{FC} = NDP_{MP} - NFIA$

125. Under value added method, which of the following will be included while computing National Income?

(*a*) Sale and purchase of second-hand goods

(*b*) Intermediate goods

(*c*) Production of goods for self consumption

(*d*) Production of services for self consumption

126. For computation of National Income using value added method, which of the following shall not be included?

(*a*) Change in store of goods

(*b*) Imputed value of owner-occupied house

(*c*) Production of goods for self-consumption

(*d*) Intermediate goods

127. Consider the following data:

Sales	:	**20,00,000**
Closing Stock	:	**40,000**
Opening Stock	:	**10,000**
Indirect Taxes	:	**1,00,000**
Depreciation	:	**60,000**
Intermediate Consumption	:	**3,20,000**
Purchase of Raw Material	:	**1,35,000**
Rent	:	**25,000**

The amount of Net value added at market price is _____.

(*a*) ₹ 16,30,000

(*b*) ₹ 16,50,000

(*c*) ₹ 16,80,000

(*d*) ₹ 16,90,000

128. What is the value of output in respect of following data?

		Amount (₹)
Net value Added at Factor Cost	:	**70,000**
Intermediate consumption	:	**30,000**
Goods and Services Tax	:	**25,000**
Subsidy	:	**4,000**
Deprecation	:	**10,000**

(*a*) ₹ 1,10,000

(*b*) ₹ 1,01,000

(*c*) ₹ 89,000

(*d*) None of these

Income Method

129. Wages, Rents, Interest and Profits are variables considered for computing national income under which of the following methods?

(*a*) Product Method

(*b*) Expenditure Method

(*c*) Income Method

(*d*) Turnover Method

130. If GDP at Market Prices is INR 200 Cr. and Net Income from Abroad is INR 100 Cr., then what will be the value of GNP at Market Prices?

(*a*) INR 100 Cr.

(*b*) INR 400 Cr.

(*c*) INR 300 Cr.

(*d*) INR 500 Cr.

131. Consider the following information:

A. NDP at market price 77,000

B. Net Factor Income from abroad (-) 700

C. Depreciation 1,700

D. Subsidies 6,600

E. Indirect Taxes 7,700

The value of National Income is:

(*a*) 75,000

(*b*) 75,200

(*c*) 75,400

(*d*) 75,500

132. Which of the following is not covered under Income Method of computing Gross National Product?

(*a*) Rents

(*b*) Private consumption expenditure

(*c*) Wages and salaries

(*d*) Interest

133. Windfall gains like, prizes won, lotteries, etc. should not be included in the estimation of national income is the precaution to be followed under which of the following methods of computing national income?

(*a*) Profit Method

(*b*) Product Method

(*c*) Expenditure Method

(*d*) Income Method

134. _____ is the total measure of the flow of goods and services at market value resulting from current production during a year in a country, including net income from abroad.

(*a*) Gross Domestic Product

(*b*) Gross National Product

(*c*) Net Domestic Product

(*d*) None of the above

135. The formula to compute GNP at Market Prices is:

(*a*) GNP at Market Prices = GDP at Market Prices + Depreciation

(*b*) GNP at Market Prices = GDP at Market Prices - Net Income from Abroad

(*c*) GNP at Market Prices = GDP at Market Prices + Net Income from Abroad

(*d*) GNP at Market Prices = GNP at Market Prices + Depreciation

136. The formula to calculate Personal Income is:

(*a*) National Income - Undistributed Corporate Profits + Profit Taxes - Social Security Contribution - Interest on Public Debt

(*b*) National Income + Undistributed Corporate Profits + Profit Taxes + Social Security Contribution

(c) National Income - Undistributed Corporate Profits - Profit Taxes - Social Security Contribution + Transfer Payments + Interest on Public Debt

(d) National Income - Undistributed Corporate Profits + Profit Taxes - Social Security Contribution - Transfer Payments

137. Which of the following formula would be used to calculate Disposable Income?

(a) Private Income - Direct Taxes

(b) Private Income + Direct Taxes

(c) Personal Income - Direct Taxes

(d) Personal Income + Direct Taxes

138. What is the formula to calculate GDP at Market Prices?

(a) GNP at Market Prices + Net Indirect Taxes

(b) GNP at Market Prices + Net Income from Abroad

(c) GNP at Market Prices - Net Income from Abroad

(d) GNP at Market Prices - Net Indirect Taxes

139. Transfer payments such as gifts, donations, scholarships etc. should not be included in the estimation of national income is the precaution to be followed under which of the following methods of computing national income?

(a) Expenditure Method

(b) Income Method

(c) Profit Method

(d) Product Method

140. Which of the following is not the component of calculating national income through expenditure method?

(a) Government expenditure

(b) Production for self consumption

(c) Investment expenditure

(d) Consumption expenditure

141. The sum total of all the factor incomes earned within the domestic territory of a country is known as:

(a) NNP_{FC}

(b) NDP_{FC}

(c) NNP_{MP}

(d) NDP_{MP}

142. Which one of the following is component of Income Method?

(a) Compensation of Employees

(b) Rent and Royalty

(c) Profit and Interest

(d) All of the above

143. The reward to the entrepreneur for his contribution to the production of goods and services is called as _____.

(a) Corporate Tax

(b) Dividend

(c) Retained Earnings

(d) Profit

144. Which of the following is not considered for computation of national income under Income Method?

(a) Interests

(b) Wages

(c) Government Expenditure

(d) Rents

145. A method of national income according is based on the principal that revenues earned by all the firms put together must be distributed among the factors of production as salaries, wages, profits, rent and interest.

The method is known as:

(a) Expenditure method

(b) Product method

(c) Income method

(d) Consumption method

146. When factor incomes of all the sectors are summed up, the result is called as _____.

(a) NNP_{FC}

(b) NDP_{FC}

(c) NDP_{MP}

(d) None of these

147. Which method of calculating GDP of a country gives the following?

If there N firms in the economy, each assigned with a serial number from

1 to N. The GDP = GVA_i where i varies from 1 to N.

(a) Estimation Method

(b) Income Method

(c) Product Method

(d) Expenditure Method

148. Which as the following is included white estimating National Income under Income Method?

(a) Income from sale of second-hand goods

(b) Income from sale of shares, bonds and debentures

(c) Windfall gains like income from lotteries, horse race, etc.

(d) Imputed value of services provided by owners of production units

149. While estimating national income by income method, transfer incomes are not included as there are not connected with any productive activity and there is no value addition, which of the following is included in "Transfer Income"?

(a) Scholarship

(b) Donations & charity

(c) Old age pensions

(d) All of the above

150. Which of the following is not covered under Income Method of computing Gross National Product?

(a) Rents

(b) Private consumption expenditure

(c) Wages and salaries

(d) Interest

151. What is the value of NDP at factor Cost?

Rent	:	**₹ 9,000**
Royalty	:	**₹ 4,000**
Mixed Income	:	**₹ 3,500**
Interest	:	**₹ 11,000**
Profit	:	**₹ 8,700**
Compensation of Employees	:	**₹ 20,000**

(a) ₹ 52,700

(b) ₹ 56,200

(c) ₹ 59,700

(d) None of these

152. Consider the following data:

Value of output	:	**₹ 2,50,000**
Purchase of Raw Material	:	**₹ 58,000**

Wages and Salaries : ₹ 65,000

Net Indirect Tax : ₹ 15,000

The value of operating surplus is .....

(a) ₹ 1,12,000

(b) ₹ 1,27,000

(c) ₹ 1,92,000

(d) None of these

153. What is the formula to compute Operating Surplus?

(a) Gross Value Added at Factor Cost - Compensation of Employees + Depreciation

(b) Gross Value Added at Factor Cost + Compensation of Employees + Depreciation

(c) Gross Value added at Factor Cost - Compensation of Employees - Depreciation

(d) Gross Value Added at Market Price - Compensation of Employees

154. Which of the following method measures national income as the sum of all incomes, wages, rents, interest and profit paid to the four factors of production?

(a) Value Added Method

(b) Expenditure Method

(c) Income Method

(d) Product Method

Expenditure Method

155. The _____ measures national income as total spending on final goods and services produced within nation during a year.

(a) Turnover Method

(b) Product Method

(c) Income Method

(d) Expenditure Method

156. Under _____ comes the expenditure incurred by private enterprise on new investment and on replacement of old capital.

(a) Gross Domestic Private Investment

(b) Net Domestic Private Investment

(c) Total Domestic Private Investment

(d) Accumulated Domestic Private Investment

157. ABC limited incurred capital expenditure of INR 100 Crores in setting up of a new plant. The mentioned capital expenditure will be considered for computation of national income under which of the following methods?

(a) Product Method

(b) Expenditure Method

(c) Income Method

(d) Turnover Method

158. From the following information calculate national income.

Consumption expenditure = INR 1000 Crore

Investment Expenditure = INR 800 Crore

Government Expenditure = INR 1200 Crore

Net Exports = INR 400 Crore

(a) INR 2200 Crore

(b) INR 1800 Crore

(c) INR 3000 Crore

(d) INR 3400 Crore

159. From the following information, compute Gross National Product (GNP) according to the Expenditure Method

Private Consumption Expenditure = INR 200 Crores

Gross Domestic Private Investment = INR 80 Crores

Net Foreign Investment = INR 20 Crores

Rent = INR 60 Crores

Wages = INR 100 Crores

Mixed Income = INR 25 Crores

Government Expenditure on Goods and Services = INR 60 Crores

(a) INR 360 Crores

(b) INR 200 Crores

(c) INR 385 Crores

(d) INR 270 Crores

160. From the following information, compute Gross National Product (GNP) according to the Expenditure Method

Private consumption expenditure = INR 100 Crores

Gross Domestic Private Investment = INR 80 Crores

Net Foreign Investment = INR 20 Crores

Rent = INR 60 Crores

Wages = INR 100 Crores

Mixed Income - INR 25 Crores

Government Expenditure on Goods and Services = INR 70 Crores

(a) INR 360 Crores

(b) INR 200 Crores

(c) INR 385 Crores

(d) INR 270 Crores

161. Gifts, donations and scholarships are which form of payments?

(a) Factor Payments

(b) Explicit Payments

(c) Implicit Payments

(d) Transfer Payments

162. "The expenditure on second hand goods should not be included as they do not contribute to the current year's production of goods", is a precaution suggested under which of the following methods of computing national income?

(a) Profit Method

(b) Product Method

(c) Expenditure Method

(d) Income Method

163. _____ is expenditure incurred on by business firms on (a) new plants, (b) adding to the stock of inventories and (c) on newly constructed houses

(a) Net exports

(b) Investment expenditure

(c) Consumption expenditure

(d) None of the above

164. Which of the following is/are considered for calculating National Income according to the Expenditure Method?

(a) Consumption Expenditure; Investment Expenditure; Government Expenditure and Net Exports

(b) Consumption Expenditure

(c) Net Exports and Consumption Expenditure

(d) Government Expenditure; Investment Expenditure and Net Exports

165. Which of the following is not the component of calculating national income through expenditure method?

(a) Government expenditure

(b) Production for self consumption

(c) Consumption expenditure

(d) Investment expenditure

166. _____ is the largest component of national income under expenditure method.

(a) Investment expenditure

(b) Consumption expenditure

(c) Government Expenditure

(d) None of the above

167. The formula to compute Net National Product at Factor Cost is:

(a) NNP at Market Prices + Indirect Taxes + Subsidies

(b) NNP at Market Prices - Indirect Taxes - Subsidies

(c) NNP at Market Prices - Indirect Taxes + Subsidies

(d) NNP at Market Prices – Subsidies

168. In India, _____ is the apex banking institution that regulates the monetary policy in the country.

(a) State Bank of India

(b) Canara Bank

(c) Reserve Bank of India

(d) Oriental Bank of Commerce

169. Which of the following is not considered for computation of national income under Income Method?

(a) Government Expenditure

(b) Rents

(c) Wages

(d) Interests

170. Which of the following elements are considered for computing national income according to Expenditure Method?

(a) Consumption Expenditure and Net Exports

(b) Consumption Expenditure; Investment Expenditure and Government Expenditure

(c) Consumption Expenditure and Investment Expenditure

(d) Consumption Expenditure; Investment Expenditure; Government Expenditure and Net Exports

171. Which of the following is not covered under Income Method of computing Gross National Product?

(a) Interest

(b) Wages and salaries

(c) Private consumption expenditure

(d) Rents

172. The formula for calculating Private Final Consumption Expenditure (PFCE) is:

(a) Household final consumption expenditure/private non-profit institutions serving households final consumption expenditure.

(b) Household final consumption expenditure X private non-profit institutions serving households final consumption expenditure.

(c) Household final consumption expenditure + private non-profit institution serving households final consumption expenditure.

(d) Household final consumption expenditure - private non-profit institution serving households final consumption expenditure.

173. Under expenditure method, expenditure of which of the following sector is included for computing national income?

(a) Households

(b) Government and firms

(c) Foreign Sector

(d) All of the above

174. Which one of the following is part of expenditure on transfer payments by government?

(a) Unemployment benefit

(b) Old age pension

(c) Interest on public debt

(d) All of the above

175. Under expenditure method, the sum total of final expenditures incurred by households, business firms, government and foreigner is called as _____.

(a) National Income

(b) GDP at market price

(c) GDP at factor cost

(d) NNP at factor cost

176. If Net Value Added at Factor Cost = INR 2 Cr. and Depreciation is INR 1 Cr., then GDP at Factor Cost will be:

(a) INR 3 Cr.

(b) INR 1 Cr.

(c) INR 4 Cr.

(d) INR 5 Cr.

177. The formula to compute GDP at Factor Cost is:

(a) GDP at Factor Cost + Indirect Taxes - Subsidies

(b) GDP at Market Price - Indirect Taxes

(c) GDP at Factor Cost - Indirect Taxes - Subsidies

(d) GDP at Market Price - Indirect Taxes + Subsidies

178. Which of the following elements are considered for computing national income according to Expenditure Method?

(a) Consumption Expenditure; Investment Expenditure and Government Expenditure

(b) Consumption Expenditure and Investment Expenditure

(c) Consumption Expenditure and Net Exports

(d) Consumption Expenditure; Investment Expenditure; Government Expenditure and Net Exports

179. "Private final consumption expenditure" refers to expenditure incurred by households and private non-profit institutions serving households on all types of consumer goods. Which of the following is not included in such computation?

(a) Durable goods

(b) Semi-durable goods

(c) Non-durable goods and services

(d) Construction of owner-occupier houses

180. Under expenditure method, the expenditure on purchase of old shares and bonds is not included as _____.

(a) These are not incurred in cash

(b) These do not represent as currently produced goods and services.

(c) These represent current production

(d) None of these

181. Which of the following is included in the national income?

(a) Expenditure an intermediate goods

(b) Transfer Payments

(c) Expenditure on own account production

(d) Purchase of financial assets

182. In respect of following data given in ₹. What will be national income using expenditure method?

Particulars	₹
Private final consumption	25,000
Government final consumption	12,000
Net Domestic capital formation	6,500
Net Export	5,000
Net factor income from Abroad	1,000
Net Indirect Taxes	1,500

(a) ₹ 49,500

(b) ₹ 48,000

(c) ₹ 47,000

(d) ₹ 45,500

183. The formula to calculate GDP at Factor Cost is:

(a) GDP at Factor Cost = Net Value Added × Depreciation

(b) GDP at Factor Cost = Net Value Added/Depreciation

(c) GDP at Factor Cost = Net Value Added + Depreciation

(d) GDP at Factor Cost = Net Value Added – Depreciation

184. Which of the following is not the component of calculating national income through expenditure method?

(a) Government expenditure

(b) Production for self-consumption

(c) Consumption expenditure

(d) Investment expenditure

185. Read the following statements.

I. 'Value added' refers to the difference between value of output and purchase of intermediate goods.

II. 'Value added' represents the contribution of labour and capital to the production process.

(a) Statements I and II are incorrect

(b) Statements I and II are correct

(c) Statement I is correct and II is incorrect

(d) Statement II is correct and I is incorrect

186. Non-economic activities are:

(a) those activities whose value is excluded from national income calculation as it will involve double counting

(b) those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value

(c) those which do not involve production of goods and services as they are meant to provide hobbies and leisure time activities

(d) those which result in production for self consumption and therefore not included in national income calculation

187. Which one of the following is a component of Triple Identity?

(a) National Product

(b) National Income

(c) National Expenditure

(d) All of the above

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

(a) The value of the services that accompany the sale

(b) Additions to inventory stocks of final goods and materials

(c) Stocks and bonds sold during the current year

(d) (a) and (b) above

189. Consider the following data:

Particulars	₹ In Crores
Sales	1,050
Opening Stock	750
Intermediate Consumption	525
Closing Stock	600
Net factor Income from Abroad	45
Depreciation	225
Excise Tax	165
Subsidies	75

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

(a) ₹ 900 Crores

(b) ₹ 375 Crores

(c) ₹ 105 Crores

(d) None of these

190. The following data is available (In ₹ Crores):

Purchase of Materials	₹ 170
Subsidies	₹ 30
Intermediate Consumption	₹ 400
Sales	₹ 900
Depreciation	₹ 60
Excise Tax	₹ 90
Opening Stock	₹ 80
Closing Stock	₹ 60

Calculate Net Value Added by factor Cost.

(a) ₹ 480 Crores

(b) ₹ 420 Crores

(c) ₹ 360 Crores

(d) None of above

191. Which of the following is not used when National Income is calculated using expenditure method?

(a) Operating Surplus

(b) Private Final Consumption Expenditure

(c) Net Export

(d) Net Domestic Capital Formation

192. Calculate National Income with the help of Expenditure Method with the help of following data.

Particulars	₹ in Crores
Net factor Income from Abroad	15
Net Indirect Taxes	90
Private Final Consumption Expenditure	1,500
Net Domestic Capital Formation	577
Consumption of Fixed Capital	98
Net Export	22
Govt. Final Consumption Expenditure	825

(a) ₹ 1,139 Crores
(b) ₹ 1,237 Crores
(c) ₹ 2,039 Crores
(d) ₹ 3,022 Crores

193. Consider the following Information:

Particulars	₹ in Crores
Private Final Consumption Expenditure	45
Gross Domestic Fixed Capital Formation	1,575
Subsidy	450
Net Import	90
Change in Stock	135
Net acquisition of Valuables	45
Public Final Consumption Expenditure	22
Income Paid to abroad	90
Depreciation	135

What is the value of NNP_{FC} (by expenditure method)?

(a) ₹ 1,957 Crores
(b) ₹ 1,507 Crores
(c) ₹ 1,462 Crores
(d) None of these

194. The following data is available:

Particulars	₹ in Crores
Compensation of Employees	2,250
Interest	675
GNP at Factor Cost	46,125
Profit	975
Net Domestic Capital Formation	600
Gross Domestic Capital Formation	675
Net Exports	(-) 38
Rent	600
Factor Income to abroad	675
Net Indirect Taxes	225

What are GDP_{FC} and GDP_{MP}?

(a) ₹ 4,800 Crores & ₹ 4,575 Crores
(b) ₹ 4,575 Crores & ₹ 4,800 Crores
(c) ₹ 6,750 Crores & ₹ 6,825 Crores
(d) ₹ 6,825 Crores & ₹ 6,750 Crores

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

I. Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production,

II. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.

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

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

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

The System of Regional Accounts in India

197. At present, _____ compute State Income estimates and district level estimates.

(a) All the states only
(b) All Union territories only
(c) All The States and Union territories of India
(d) Central Government

198. _____ is a measure in monetary terms of the volume of all goods and services produced in the State within a given period of time accounted without duplication.

(a) Net State Domestic Product
(b) Net State Disposition Product
(c) Net State Generated Product
(d) None of the above

199. What is the formula to calculate Per Capital State Income?

(a) State Income × Money Multiplier

(b) $\frac{\text{State Income} \times \text{Money Multiplier}}{\text{Year end State Population}}$

(c) $\frac{\text{State Income}}{\text{Year end State Population}}$

(d) $\frac{\text{State Income}}{\text{Mid year projected Population of the State}}$

200. The State level estimates are prepared by the State Income Unit of the respective state _____

(a) Directorates of Commerce Wing
(b) Directorates of Economic Affairs
(c) Directorates of Economic and Statistics
(d) Directorates of CSO

201. In the preparation of State Level estimates the advice an conceptual and Methodological problems is rendered by _____

(a) State Statistical Organisation
(b) State Directorates of Economics and Statistics.
(c) State Economic Affairs Organisation
(d) Central Statistical Organisation

202. Which of the following activities is not assigned to a particular State?

(a) Railways
(b) Communication
(c) Banking and Insurance
(d) All of these

203. Which of the following is part of "Supra-Regional Sectors" of the Economy?

(a) Railways
(b) Communications
(c) Central Government Administration
(d) All of the above

204. The estimates for "Supra-Regional Activities" are compiled for _____ and allocated to _____ on the basis of relevant indicators.

(a) the States, the Centre
(b) the economy, the States
(c) the economy, the Centre
(d) the States, the States.

205. In the preparation of State Income estimates, certain activities cut across State boundaries and thus their economic contribution cannot be assigned to any one State directly. These sectors of the economy are known as _____

(a) Super regional sectors
(b) Supra regional sectors

(c) State balancing sectors
(d) Regional sectors

GDP and Welfare

206. Which of the following aspects are excluded in GDP measures?

(a) Income Distributions
(b) Quality Improvement in Systems
(c) Productions hidden from government authorities.
(d) All of the above.

Limitations and Challenges of National Income Computation

207. Which of the following is an example of conceptual difficulties related to measurement of National Income?

(a) Issue of Transfer Payments
(b) Valuation of Government Services
(c) Lack of an agreed definition of National Income.
(d) All of the above.

UNIT 2 : (THE KEYNESIAN THEORY OF DETERMINATION AT NATIONAL INCOME

Introduction

208. In 1936, who published the masterpiece "The General Theory of Employment, Interest and Money"?

(a) John Maynard Keynes
(b) John Milton Keynes
(c) Jean Maynard Keynes
(d) Jean Milton Keynes

209. In which year, the western word had experienced the Great Depression?

(a) 1928
(b) 1929
(c) 1930
(d) None of these

210. The history of modern microeconomics was revolutionised in 1936 with the publication by John Maynard Kenes. What is the name of that masterpiece?

(a) General Theory of Government Spending
(b) General Theory of Employment, Interest and Money
(c) General Theory of reducing unemployment.
(d) None of these

211. Which one of following is not the model of Keynesian theory of income determination?

(a) The one-sector model
(b) The two-sector model
(c) The three-sector model
(d) The four-sector model

212. Which of the following is not a part of "The Three-sector model" of Keynesian theory of income determination?

(a) Household
(b) Business
(c) Government
(d) Foreign

213. The two-sector model consists of _____ sectors.

(a) Household and Business
(b) Household and Government
(c) Business and Government
(d) Government and Foreign

Circular flow in a simple Two-Sector Model

214. Which of the following Statements about Circular Flow is incorrect?

(a) The circular Flow model demonstrates how money moves through society.
(b) An economy is an endless circular flow of money
(c) Money flows from producers to workers as wages and flows back to producers as payment for products.
(d) All the Statements are correct.

215. The two-sector model breaks the economy down into two primary players namely _____.

(a) Households and corporations
(b) Corporation and Business
(c) Business and Government
(d) Government and Foreign

216. In two sector model, _____ own all factors of production and _____ sell their factor services to earn factor incomes.

(a) Households, Households
(b) Households, Corporations
(c) Corporations, Households
(d) Corporations, Corporations

217. In two sector model, what is the relationship between total Income produced (y) that accrues to the Households and the disposable personal income (Y_d) of households?

(a) $Y > Y_d$
(b) $Y < Y_d$
(c) $Y = Y_d$
(d) Either (a) or (b)

218. Which of the following is true is "Circular Flow in a two sector Economy"?

(a) Factor Payment = Household Income
(b) Household Income = Household Expenditure
(c) Total Receipts of Firms = Value of Output
(d) All of the above

219. As regards "Circular Flow in a Two Sector Economy", _____ refer to the flow of the actual goods or Services while _____ refer to the payment for the Services (wages) or consumption payments.

(a) Real Flows, Money Flows
(b) Money Flows, Real Flows
(c) Real Flows, Circular Flows
(d) Circular Flows, Money Flows.

Basic Concepts and Functions

220. In a simple two-sector economy, the ex ante aggregate demand (AD) for final goods or aggregate expenditure can be calculated as _____

(a) $AD = C + I$
(b) $AD = C + G$
(c) $AD = I + G$
(d) $AD = C + I + G + (X - M)$

221. In a closed economy, AD is a function of Consumption Expenditure(C) and Investment Expenditure (I) of the two components, which accounts for the highest proportion of the GDP?

(*a*) Consumption Expenditure
(*b*) Investment Expenditure
(*c*) Both have equal proportion
(*d*) None of the above

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

(*a*) AD = C + I
(*b*) AD = $\overline{C}$ + I
(*c*) AD = C + $\overline{I}$
(*d*) AD = $\overline{C}$ + $\overline{I}$

223. Which of the following is NOT TRUE about AD in a two-sector economy?

(*a*) AD = Consumption + Saving
(*b*) AD = Consumption + Investment
(*c*) AD = Curve has a positive Slope
(*d*) AD = Curve Starts from same point about origin.

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

(*a*) aggregate demand
(*b*) consumption function
(*c*) the national demand for labour
(*d*) the price level

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

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

226. Which function expresses the functional relationship between aggregate consumption expenditure and aggregate disposable income?

(*a*) Saving Function
(*b*) Consumption Function
(*c*) Disposable Income Function
(*d*) None of these

227. The consumption function is expressed as C = F(y), where Y is disposable income. As per this function, when income is low, consumption expenditure of household will _____ their disposable income and households _____ to purchase consumption goods.

(*a*) exceed, save
(*b*) exceed, dissave
(*c*) be less than, save
(*d*) be less than, dissave

228. As per consumption function, if the disposable income increases, consumers will _____ their planned expenditure but only by _____ than the increase in income.

(*a*) increase, less
(*b*) increase, more
(*c*) decrease, less
(*d*) decrease, more

229. Which of the following is the specific from of consumption-Income relationship (termed as consumption Function) as proposed by Keynes?

(*a*) C = a + by
(*b*) C = a - by
(*c*) C = a + bI
(*d*) C = a – bI

230. The Keynesian assumption is that consumption increase 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%
(*b*) Equal to 30%
(*c*) More than 30%
(*d*) Any of the above

231. In the Keynesian Consumption function C = a + by, what may be the value of b?

(*a*) $b = 0$
(*b*) $b = 1$
(*c*) $b > 1$
(*d*) $0 < b < 1$

232. _____ refers to the ratio of consumption expenditure to the corresponding level of total income.

(*a*) Average propensity of consume
(*b*) Marginal propensity of consume
(*c*) Overall propensity of consume
(*d*) Moderate propensity of consume

233. If 30% of income is not spent on consumption, then what will be the Average propensity to consume?

(*a*) 30%
(*b*) 70%
(*c*) 130%
(*d*) None of these

234. The ratio of change in consumption expenditure to change in total income is referred to as_____

(*a*) APC
(*b*) MPC
(*c*) Consumption function
(*d*) None of these

235. Which of the formula is correct to measure Marginal Propensity to consume (MPC)?

(*a*) $\frac{C}{I}$
(*b*) $\frac{C}{Y}$
(*c*) $\frac{\Delta C}{\Delta I}$
(*d*) $\frac{\Delta C}{\Delta Y}$

236. What is the graph of saving function called?

(*a*) Average Propensity to Save
(*b*) Marginal Propensity to Save
(*c*) Unitary Propensity to Save
(*d*) None of the above

237. Identify which one of the following is Correct?

(*a*) MPC + MPS = 1
(*b*) MPC – MPS = 1
(*c*) MPS – MPC = 1
(*d*) MPS + MPS = 0

238. What will be the value of Average Propensity to Save (APS) When C = 300 at Y = 1,000?

(*a*) 0.3
(*b*) 0.7
(*c*) 1.3
(*d*) 3.1

239. If APS and Y are 0.375 and 1800, then what will be the value of C?

(*a*) 375
(*b*) 675
(*c*) 1,125
(*d*) 1,425

240. According to Keynes, consumption expenditure is determined by

(*a*) the level of interest rates

(*b*) extent of government taxes and subsidies

(*c*) disposable income

(*d*) autonomous investment expenditure

241. The Marginal Propensity to consume (MPC) can be defined as:

(*a*) a change in spending due to a change in income

(*b*) a change in income that is saved after consumption

(*c*) part of income that is spent on consumption

(*d*) part of income that is not saved

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

(*a*) autonomous consumer expenditure when income is zero

(*b*) the marginal propensity to consume.

(*c*) the expenditure multiplier when consumption is increased

(*d*) part of disposable income

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

(*a*) autonomous consumer expenditure

(*b*) the marginal propensity to consume

(*c*) the consumption income relationship

(*d*) Non- linear consumption function

244. If the consumption function is C = 20 + O.5 Yd, then an increase in disposable income by ₹ 100 will result in an increase in consumer expenditure by ₹ _____

(*a*) 25

(*b*) 70

(*c*) 50

(*d*) 100

245. _____ is the total supply of goods and services which firms in a national economy plan on selling during a specific time period.

(*a*) *Ex ante* Aggregate Supply

(*b*) Planned Aggregate Supply

(*c*) Projected Aggregate Supply

(*d*) Both (*a*) and (*b*)

246. Which of the following is correct about Aggregate Supply (AS) ?

(*a*) AS = C + S

(*b*) AS = C – S

(*c*) AS = C + I + G

(*d*) AS = C – I + G

247. When income rises from ₹ 1,000 to ₹ 1,100, saving rises by ₹ 40. What are MPS and MPC?

(*a*) 0.40 and 0.60

(*b*) 0.60 and 0.40

(*c*) 1.40 and 1.60

(*d*) 1.60 and 1.40

248. The consumption expenditure and investment demand are ₹ 800 Crores and ₹ 350 Crores respectively, when income is ₹ 1,250 Crores. What will be the value of AD, AS and Saving?

(*a*) ₹ 1,250, ₹ 1150 and ₹ 450

(*b*) ₹ 1,150, ₹ 1,250 and ₹ 450

(*c*) ₹ 1,700, ₹ 2,050 and ₹ 350

(*d*) None of these

249. The Saving curve of an economy makes a negative intercept of ₹ 60 Crores and 30% of additional income is saved. As regards this data, which of the following is correct?

(*a*) C = – 60 + 0.3 (y)

(*b*) C = 60 + 0.7 (y)

(*c*) S = 60 + 0.3 (y)

(*d*) None of the above

250. 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)

251. If MPC is one third of MPS and consumption at zero level of national income is ₹ 38 Crores then which of the following option is correct?

(*a*) C= 38 + 0.25 (y)

(*b*) C = 38 + 0.75 (y)

(*c*) S = 38 + 0.25 (y)

(*d*) S = 38 + 0.75 (y)

The two – Sector Model of National Income Determination

252. Which of the following reflects the equilibrium level of income and output in the Keynesian frame work (under two sector model)?

(*a*) Aggregate Demand = Aggregate Supply

(*b*) C+I = C+S

(*c*) I = S

(*d*) All of the above

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

(*a*) 8,000

(*b*) 6,000

(*c*) 10,000

(*d*) None of the above

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

(*a*) level of full employment income

(*b*) less than full employment level of income

(*c*) equilibrium level of income which may or may not be full employment level of income

(*d*) autonomous level of income which may not be full employment level of income

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

(*a*) consumer expenditure, demand for exports and government spending.

(*b*) consumer expenditure, planned investment spending and government spending.

(*c*) consumer expenditure, actual investment spending, government spending and net exports.

(*d*) consumer expenditure, planned investment spending, government spending, and net exports.

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

(*a*) 4

(*b*) 2

(*c*) 5

(*d*) 1

257. In determination of equilibrium income under two sector model, the aggregate demand curve is linear and positively sloped indicating that as the level of national income _____, the aggregate demand (or aggregate spending) in the economy _____.

(*a*) rises, falls

(*b*) falls, rises

(*c*) rises, also rises

(*d*) falls, remains constant.

258. According to Keynes, aggregate demand will not always be equal to aggregate supply. Aggregate demand depends on _____ whereas Aggregate supply depends on _____

(*a*) Household's plan to consume and to save; producer's plan to produce goods and services.

(*b*) Household's plan to produce; producer's Plan to consume.

(*c*) Producer's Plan to produce good and services; Household's plan to consume and to save.

(*d*) Producer's plan to consume, Household's plan to produce.

259. As per Keynesian model of macro economy, if the aggregate demand is for an amount of output less than the full employment level of output, then we say there is deficient demand. This deficient demand gives rise to _____

(*a*) Deflationary Gap

(*b*) Recessionary Gap

(*c*) Contractionary Gap

(*d*) All of the above.

260. 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

261. Consider the following data relating to an economy in equilibrium:

Autonomous Consumption	**= 500**
MPS	**= 0.3**
Investment Expenditure	**= 1000**

What is national income?

(*a*) 1,500

(*b*) 5,000

(*c*) 150

(*d*) 5,650

262. Given the empirical consumption function C = 100 + 0.75Y and I = 1000, what will be the equilibrium level of national income and also the consumption expenditure at this equilibrium level of national income?

(*a*) 4400; 3400

(*b*) 1100; 850

(*c*) 3300; 2150

(*d*) None of these

The Investment Multiplier

263. The Investment multiplier explains how many times the equilibrium _____ increases as a result of _____.

(*a*) aggregate expenditure; an increase in autonomous investment

(*b*) aggregate income; an increase in Autonomous investment.

(*c*) aggregate expenditure; a decrease in investment

(*d*) aggregate income; a decrease in investment.

264. The process behind the investment multiplier can be compared to the _____ of water.

(*a*) Triple effect

(*b*) Ripple effect

(*c*) Initial effect

(*d*) Double effect

265. Which of the following is the determinant of the value of the investment multiplier?

(*a*) MPC

(*b*) APC

(*c*) TPC

(*d*) None of these

266. Higher the _____ more will be the value of multiplier, whereas, higher the_____, lower will be the value of multiplier.

(*a*) MPS, MPC

(*b*) MPC, MPS

(*c*) APS, APC

(*d*) APC, APS

267. The value of investment multiplier is the reciprocal of _____.

(*a*) APC

(*b*) APS

(*c*) MPS

(*d*) MPC

268. In an economy investment expenditure is increased by ₹ 600 crores and Marginal Propensity to Consume (MPC) is 0.8. What will be the total increase in saving?

(*a*) 3000

(*b*) 4000

(*c*) 600

(*d*) 500

269. Suppose in a country investment increases by ₹ 320 Crores and consumption is given by C = 45 + 0.6Y (Where C = Consumption and Y = income). How much increases will there take place in income?

(*a*) ₹ 192

(*b*) ₹ 365

(*c*) ₹ 640

(*d*) ₹ 800

270. An increase in investment by ₹ 1000 Crores leads to increase in national income by ₹ 2500 Crore. What will be Marginal Propensity to Consume (MPC)?

(*a*) 2.5

(*b*) 0.6

(*c*) 0.4

(*d*) None of these

271. Which of the following formula can be used to find the value of Multiplier (K)?

(a) $K = \frac{\Delta Y}{\Delta I}$

(b) $K = \frac{1}{1 - MPC}$

(c) $K = \frac{1}{MPS}$

(d) Any of the above.

272. In an economy, income generated is four times the increase in investment expenditure. The values of MPC and MPS are _____ and _____ respectively.

(a) 0.75; 0.25

(b) 0.25; 0.75

(c) 1.75; 1.25

(d) None of the above.

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

(a) 0

(b) 1

(c) Infinity (∞)

(d) –1

274. In an economy, the actual level of income is ₹ 500 crores, whereas, the full employment level of income is ₹ 800 crores. If one–fourth of additional income is saved, what should be increase in investment required to achieve full employment level of income.

(a) 0.25

(b) ₹ 300 crores

(c) ₹ 75 crores

(d) None of these

275. Consider the following data relating to an economy:

(a) increase in investment = ₹ 3,500 Crores

(b) 80% of the increase in income is spent on consumption.

What will be the total increase in income?

(a) ₹ 2,800

(b) ₹ 7,000

(c) ₹ 17,500

(d) None of these

276. According to the Keynesian theory, the equilibrium level of income in an economy is determined when:

(a) Aggregate Demand = Aggregate Supply

(b) Saving = Investment

(c) Both (a) and (b)

(d) None of these

Determination of equilibrium Income: Three Sector Model

277. Which of the following is not considered in three sector model of closed economy?

(a) Household Consumption

(b) Desired Business Investment Demand

(c) Government Sector's Demand for goods and Services

(d) Foreign Trade

278. In three sector model, there is no foreign trade. Which of the following option is correct in this regard?

(a) GDP = National Income

(b) GDP > National Income

(c) GDP < National Income

(d) None of these

279. Which of the following is correct as regards the determination of equilibrium national income?

(a) AD = AS

(b) AD = Y = AS

(c) C + I + G = C + S + T

(d) All are correct

280. $C = 25 + 0.75\ Y_d$, when C is consumption and Y_d is disposable income. What is the size of the multiplier?

(a) 5

(b) 4

(c) 2

(d) Cannot be determined.

281. Consider the following data about a simple economy:

$C = 50 + 0.8Y_d$

I = 250 (Investment)

G = 100 (Government–Expenditure)

T = 100 (Tax)

What will be the equilibrium level of National Income?

(a) 1200

(b) 1400

(c) 1600

(d) None of these

282. The following Information is available regarding structure model of an economy:

$C = 40 + 0.8Y_d$

I = 80

G = T = 40

TR = 15

Where C = Consumption function

I = Investment

G = Government Expenditure

T = Lump Sum Tax

TR = Autonomous Transfer Payment.

What will be the equilibrium level of income?

(a) 700

(b) 610

(c) 175

(d) None of these

283. In an economy, the tax has been levied as a function of income with Government expenditure and transfer payments. The following data is available:

Consumption function (C) = 400 + 0.75 (Y – T + TR)

Investment (I) = 750

Government Expenditure (G) = 380

Tax (T) = 84 + 0.2Y

Autonomous Transfer Payment (TR) = 200

What is the equilibrium level of income?

(a) 4002.50

(b) 4042.50

(c) 4152.50

(d) 4582.50

Determination of National Income : Four Sector Model

284. 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

285. Which of the following indicates the aggregate demand or the total planned expenditure of consumers, investors, governments and foreigners (Net exports) at each income level?

(*a*) C + Y + G + (X+ M)

(*b*) C + I + Tax + TR

(*c*) C + I + G + (X – M)

(*d*) None of these

286. In the determination of equilibrium level of national income, which of the following is correct?

(*a*) Y =C + I + G + (X – M)

(*b*) C= $a + b$ (Y – T)

(*c*) M = $\overline{M}$ + mY

(*d*) All of the above.

287. In four sector model, which of the following formula is used to calculate Foreign Trade Multiplier, if *b* and *m* refer to marginal propensity to consume and Marginal propensity to import?

(*a*) $\frac{1}{1-b-m}$

(*b*) $\frac{1}{1+b-m}$

(*c*) $\frac{1}{1-b+m}$

(*d*) $\frac{1}{1+b+m}$

288. Consider the following:

Consumption function (C) = 40 + 0.8Y_d

T= 0.1Y

I = 60 crores

G = 40 Crores

X = 58

M = 0.05Y

What will be the equilibrium level of income?

(*a*) 800 crores

(*b*) 603 crores.

(*c*) 545 crores

(*d*) None of these

289. C = 60 + 0.9Y_d

I = 10

M = 10 + 0.05Y

What is Foreign Trade Multiplier?

(*a*) 0.98

(*b*) 3.97

(*c*) 6.66

(*d*) None of these

290. Equilibrium income (Y) = 600

Exports (×) = 20

Imports (M) = 10 + 0.05Y

Calculate Trade Balance.

(*a*) Surplus (20)

(*b*) Deficit (20)

(*c*) Surplus (30)

(*d*) Deficit (30)

Answers

1.	(*a*)	2.	(*d*)	3.	(*b*)	4.	(*d*)	5.	(*a*)	6.	(*a*)	7.	(*b*)
8.	(*d*)	9.	(*a*)	10.	(*c*)	11.	(*a*)	12.	(*b*)	13.	(*b*)	14.	(*a*)
15.	(*c*)	16.	(*a*)	17.	(*a*)	18.	(*a*)	19.	(*b*)	20.	(*a*)	21.	(*b*)
22.	(*b*)	23.	(*a*)	24.	(*b*)	25.	(*b*)	26.	(*b*)	27.	(*a*)	28.	(*d*)
29.	(*a*)	30.	(*b*)	31.	(*b*)	32.	(*c*)	33.	(*b*)	34.	(*a*)	35.	(*a*)
36.	(*a*)	37.	(*b*)	38.	(*b*)	39.	(*a*)	40.	(*d*)	41.	(*a*)	42.	(*b*)
43.	(*c*)	44.	(*a*)	45.	(*b*)	46.	(*d*)	47.	(*b*)	48.	(*a*)	49.	(*a*)
50.	(*c*)	51.	(*b*)	52.	(*a*)	53.	(*c*)	54.	(*a*)	55.	(*a*)	56.	(*a*)
57.	(*b*)	58.	(*d*)	59.	(*a*)	60.	(*c*)	61.	(*d*)	62.	(*c*)	63.	(*a*)
64.	(*a*)	65.	(*d*)	66.	(*d*)	67.	(*d*)	68.	(*a*)	69.	(*c*)	70.	(*a*)
71.	(*b*)	72.	(*c*)	73.	(*c*)	74.	(*d*)	75.	(*a*)	76.	(*a*)	77.	(*b*)
78.	(*c*)	79.	(*c*)	80.	(*d*)	81.	(*c*)	82.	(*a*)	83.	(*c*)	84.	(*b*)
85.	(*a*)	86.	(*d*)	87.	(*b*)	88.	(*a*)	89.	(*c*)	90.	(*c*)	91.	(*a*)
92.	(*c*)	93.	(*b*)	94.	(*c*)	95.	(*c*)	96.	(*d*)	97.	(*a*)	98.	(*d*)
99.	(*b*)	100.	(*d*)	101.	(*c*)	102.	(*c*)	103.	(*a*)	104.	(*b*)	105.	(*c*)
106.	(*d*)	107.	(*a*)	108.	(*d*)	109.	(*a*)	110.	(*a*)	111.	(*b*)	112.	(*a*)
113.	(*b*)	114.	(*b*)	115.	(*a*)	116.	(*d*)	117.	(*c*)	118.	(*c*)	119.	(*d*)
120.	(*c*)	121.	(*b*)	122.	(*b*)	123.	(*a*)	124.	(*a*)	125.	(*c*)	126.	(*d*)
127.	(*b*)	128.	(*c*)	129.	(*c*)	130.	(*c*)	131.	(*b*)	132.	(*b*)	133.	(*d*)
134.	(*b*)	135.	(*c*)	136.	(*c*)	137.	(*c*)	138.	(*b*)	139.	(*b*)	140.	(*b*)
141.	(*b*)	142.	(*d*)	143.	(*d*)	144.	(*c*)	145.	(*c*)	146.	(*b*)	147.	(*b*)
148.	(*d*)	149.	(*d*)	150.	(*b*)	151.	(*b*)	152.	(*a*)	153.	(*c*)	154.	(*c*)
155.	(*d*)	156.	(*a*)	157.	(*b*)	158.	(*d*)	159.	(*a*)	160.	(*d*)	161.	(*d*)
162.	(*d*)	163.	(*b*)	164.	(*a*)	165.	(*b*)	166.	(*b*)	167.	(*c*)	168.	(*c*)
169.	(*a*)	170.	(*d*)	171.	(*c*)	172.	(*c*)	173.	(*d*)	174.	(*d*)	175.	(*b*)
176.	(*a*)	177.	(*b*)	178.	(*d*)	179.	(*d*)	180.	(*b*)	181.	(*c*)	182.	(*b*)
183.	(*c*)	184.	(*b*)	185.	(*b*)	186.	(*b*)	187.	(*d*)	188.	(*d*)	189.	(*c*)
190.	(*c*)	191.	(*a*)	192.	(*c*)	193.	(*a*)	194.	(*b*)	195.	(*b*)	196.	(*d*)
197.	(*c*)	198.	(*a*)	199.	(*d*)	200.	(*c*)	201.	(*d*)	202.	(*d*)	203.	(*d*)
204.	(*b*)	205.	(*b*)	206.	(*d*)	207.	(*d*)	208.	(*a*)	209.	(*c*)	210.	(*b*)
211.	(*a*)	212.	(*d*)	213.	(*a*)	214.	(*d*)	215.	(*a*)	216.	(*a*)	217.	(*c*)
218.	(*d*)	219.	(*a*)	220.	(*a*)	221.	(*a*)	222.	(*c*)	223.	(*a*)	224.	(*a*)
225.	(*b*)	226.	(*b*)	227.	(*b*)	228.	(*a*)	229.	(*a*)	230.	(*a*)	231.	(*d*)
232.	(*a*)	233.	(*b*)	234.	(*b*)	235.	(*d*)	236.	(*b*)	237.	(*a*)	238.	(*b*)

239.	(c)	**240.**	(c)	**241.**	(a)	**242.**	(b)	**243.**	(a)	**244.**	(c)	**245.**	(d)
246.	(a)	**247.**	(a)	**248.**	(b)	**249.**	(b)	**250.**	(c)	**251.**	(a)	**252.**	(d)
253.	(c)	**254.**	(c)	**255.**	(b)	**256.**	(c)	**257.**	(c)	**258.**	(a)	**259.**	(d)
260.	(a)	**261.**	(b)	**262.**	(a)	**263.**	(b)	**264.**	(b)	**265.**	(a)	**266.**	(b)
267.	(c)	**268.**	(c)	**269.**	(d)	**270.**	(b)	**271.**	(d)	**272.**	(a)	**273.**	(c)
274.	(c)	**275.**	(c)	**276.**	(c)	**277.**	(d)	**278.**	(a)	**279.**	(d)	**280.**	(b)
281.	(c)	**282.**	(a)	**283.**	(b)	**284.**	(d)	**285.**	(c)	**286.**	(d)	**287.**	(c)
288.	(b)	**289.**	(c)	**290.**	(b)								

Hints of selected question

18. The GDP deflator is used to take inflation out of GDP.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{GPD Deflator}} \times 100$$

20.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{GDP Deflator}} \times 100$$

$$= \frac{1150}{143.75} \times 100$$

= 800 Units.

21.

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

But, nominal GDP = Real GDP in Base Year.

Therefore, GDP Deflator in base year will be equal to 100.

23. The price level has fallen since GDP Deflator is less than 100 at 78.49.

24.

$$\text{Nominal GDP} = \text{Real GDP} \times \frac{\text{Price Index}}{100}$$

$$= \frac{475 \times 118}{100}$$

= 560.5

25.

$$\text{Real GDP} = \frac{\text{GDP for C. Year} \times 100}{\text{Current year Index}}$$

$$= \frac{1200 \times 100}{110} = 1090.9 \text{ Crores.}$$

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$= \frac{1200}{1090.9} \times 100 = 110$$

26.

$$\text{Real GDP} = \frac{\text{Nominal GDP} \times 100}{\text{Current Price Index}}$$

$$\Rightarrow \text{Current Price Index} = \frac{\text{Nominal GDP} \times 100}{\text{Real GDP}}$$

$$= \frac{540 \times 100}{450} = 120$$

28. If the GDP Deflator is greater than 100, then Nominal GDP is greater than Real GDP.

31. If the GDP deflator next year is less than GDP deflator this year, than the price level has fallen.

35. The basis of distinction between "gross" and "Net" is depreciation.

Net = Gross – Depreciation

70. NDP at FC = GNP_{MP} – Dep. – NFIA – NIT

= 9,500 – 540 – 410 – 630

= ₹ 7,920 Crores.

71. $GNP_{FC} = NDP_{MP}$ + Depreciation – Net Indirect Taxes – Net Factor Income from Abroad

= 6,400 + 10% of 6,000 – (290-30) + (500 – 650)

= 6,400 + 600 – 260 – 150

= ₹ 6,590 Crores.

72. $GNP_{FC} = NDP_{MP}$ + Consumption of fixed capital + (Factor Income from Abroad – Factor Income to abroad) – (Indirect Taxes – Subsidies).

35,600 = 32,000 + 3,900 + (600 – 750) – (210 – Subsidies)

35,600 = 35,540 + subsidies

Subsidies = 35,600 – 35,540 = ₹ 60 Crores.

73. GDP_{MP} = NNP_{FC} + Consumption of fixed capital –Net Factor Income from abroad + Net Indirect Taxes

7,000 = 6,250 + Consumption of fixed capital – 150 + 250

7,000 = 6,350 + Consumption of fixed capital

Consumption of fixed capital = 7,000 – 6,350 = ₹ 650 Crores.

74. GDP_{MP} = Compensation of Employees + Mixed Income of Self Employed + Operating Surplus + Depreciation + Net Indirect taxes

= 1,200 + 1,320 + 2,400 + 480 + 540 = ₹ 5,940 Crores.

GNP_{MP} = GDP_{MP} + NFIA = 5,940 + (-60) = ₹5,880 Crores

NNP_{MP} = GNP_{MP} – Dep. = 5,880 – 480 = ₹ 5,400 Crores

NNP_{FC} = NNP_{MP} – NIT = ₹ 5,400 – ₹ 540 = ₹ 4,860 Crores

75. NNP at MP = NNP at FC + Indirect Taxes – Subsidies

Subsidies = NNP_{FC} + Indirect Taxes – NNP_{MP}

= 14,980 + 335 – 15,053

= ₹ 262 crores

Net Indirect Taxes = Indirect Tax – Subsidies

= 335 – 262

= ₹ 73 crores.

76. GDP_{FC} = GDP_{MP} – NIT

= 1900 – 210 = ₹ 1690 Crores

GNP_{FC} = GDP_{FC} + NFIA

= 1690 + 107 = ₹ 1797 Crores

NNP_{FC} = GNP_{FC} – Depreciation

₹ 1,671 = ₹ 1,797 –Depreciation

Depreciation = ₹ 1,797 – ₹ 1,671

= ₹ 126 Crores.

77. NI = NNP_{FC} = NNP_{MP} – Net Indirect Taxes.

= 2850 – 177 = ₹ 2,673 Crores.

78. Domestic Income = NDP_{FC}

= GNP_{MP} – Net Factor Income from abroad – Depreciation – (Indirect Tax – Subsidies)

= 58,350 – (–240) – 1,625 – (2,590 – 1,540)

= ₹ 55,915 Crores.

81. The Option (*c*) is incorrect because flow is a dynamic concept.

187. National income estimated on the basis of all the three methods, amounts to be the same. Thus, national income, national product and national expenditure are always same. This is known as "Triple Identity".

189. Value of Output = Sales + Change in Stock

= 1050 + ₹ (600 – 750) = ₹ 900

GVA_{MP} = Value of Output – Intermediate Consumption

= 900 – 525 = ₹ 375

National Income = NVA_{FC}

= GVA_{MP} – Dep. + NFIA – Net Indirect Tax

= 375 – 225 + 45 – (165 – 75)

= ₹ 105 Crores.

190. GVA_{MP} = Sales + Change in Stock – Intermediate Consumption

= 900 + (60 – 80) – 400

= ₹ 480 Crores

NVA_{MP} = GVA_{MP} – Depreciation

= 480 – 60 = ₹ 420 Crores

NVA_{FC} = NVA_{MP} – (Indirect Tax – Subsidies)

= 420 – (90 – 30)

= ₹ 360 Crores.

192. GDP_{MP} = Private Final Consumption Expenditure + Government Final Consumption Expenditure + Gross domestic Capital Formation (Net domestic Capital Formation + depreciation) + Net Expert

= 1,500 + 825 + (577 + 98) + 22

= ₹ 3,022 Crores

NNP_{FC} (NI) = GDP_{MP} – Depreciation + NFIA – NIT

= 3,022 – 98 + 15 – 900

= ₹ 2,039 Crores.

193. GDP_{MP} = Government Final Consumption Expenditure (Public Final Consumption Expenditure) + Private Final Consumption Expenditure + Gross Domestic Capital Formation (Gross Domestic Fixed Capital Formation + Change Stock + Net acquisition of Valuables) + Net Export.

= 22 + 45 + (1575 + 135+ 45) + (–90) = ₹ 1,732 Crores

NNP_{FC} = GDP_{MP} – Dep. + Net factor income from abroad (Income from abroad – Income paid to abroad) – Net Indirect Tax (Indirect Tax – Subsidies)

= 1732 – 135 + (0 – 90) – (0 – 450) = ₹ 1,957 Crores

194. GDP_{FC} = Compensation of Employees + Rent + Interest + Profit+ Mixed Income + (Gross Domestic Capital Formation – Net Domestic Capital Formation)

= 2250 + 600 + 675 + 975 + Nil + (675 – 600)

= ₹ 4,575 Crores

GDP_{MP} = GDP_{FC} + Net Indirect Taxes

= ₹ 4,575 + ₹ 225

= ₹ 4,800 Crores.

220. Although AD has four components, but in two-sector model (closed economy), AD is a function of only consumption Expenditure and investment expenditure.

222. In a simple economy, the variable I is assumed to be determined exogenously and constant in the short term. This Constant Investment is denoted by $\bar{I}$.

227. When income is less than consumption, the gap is covered by dissaving. (*i.e.*, either by borrowing money or by drawing from past savings).

230. As per Keynesian theory, the increase in consumption will be less than the increase in disposable income.

233. It means 70% of the income is spent on consumption. Therefore, APC= 0.70 or 70%

234.

$$MPC = \frac{\text{Change in Consumption } (\Delta C)}{\text{Change in Income } (\Delta Y)}$$

238. S = Y-C = 1000 – 300 = 700

$$APS = \frac{S}{Y} = \frac{700}{1000} = 0.7$$

239. $APS = \frac{S}{Y} \Rightarrow 0{,}375 = \frac{S}{1800}$

S = 675

S = Y – C ⇒ C = Y-S

C=1800 – 675 = 1,125

246. Aggregate supply is equal to the national income of the economy, which is either consumed or saved. Therefore, AS = C + S

247.

$$MPS = \frac{\text{Change in Saving}}{\text{Change in Income}}$$

$$= \frac{40}{1100-1000} = \frac{40}{100} = 0.40$$

MPC = 1 – MPS = 1 – 0.40 = 0.60

248.

(*i*) AD = C + I = ₹ 800 + ₹ 350, = ₹ 1,150 Crores

(*ii*) AS = National Income (Y) = ₹ 1,250 Crores.

(*iii*) Saving (s) = Y – C = ₹ 1,250 – ₹ 800 = ₹ 450 Crores

249.

Given: Autonomous Consumption (c) = ₹ 60 Crores

MPS (1 – b) = 0.3

Saving Function:

$S = -\bar{C} + (1 - b)\, y$

= –60 + 0.3(y)

Consumption Function:

$C = \bar{C} + b\,(y)$

= 60 + 0.7 (y)

250. S = –30 + 0.25 (y)

Given: Autonomous Consumption ($\bar{c}$) = 30

MPS (1 – b) = 0.25

It means: MPC = 1 – MPS = 1 – 0.25 = 0.75

$C = \bar{C} + b(y)$

= 30 + 0 .75 (y)

251.

Given MPC = $\frac{1}{3}$ MPS

We know that MPC + MPS = 1

Putting value of MPC , we get

(1-MPS) = $\frac{1}{3}$ MPS

3-3 MPS = MPS

4 MPS = 3

MPS = $\frac{3}{4}$ = 0.75

(*b*) MPC = 1 – MPC = 0.25

Autonomous Consumption ($\overline{c}$) = ₹ 38 Crores

C = $\overline{c}$ + b (y) = 38 + 0.25 (y)

S = - $\overline{c}$ + (1-b) (y) = –38+0.75 (y)

252.

Aggregate Demand = C + I

Aggregate supply = C+ S

At equilibrium level

AD = AS

C + I = C + S

I = S

Therefore, all the options are correct.

261.

$$C = \overline{c} + MPC\,(y)$$
$$= \overline{c} + (1 - MPS)(y)$$
$$= 500 + (1 - 0.3)y$$
$$y = C + I$$
$$= 500 + (0.7)(y) + 1000$$
$$= 1500 + 0.7y$$
$$0.3Y = 1500$$
$$Y = \frac{1500}{0.3} = 5000$$

262.

C = 100 + 0.75*y*

I = 1000

In Equilibrium, Y = C + I

Y = 100 + 0.75Y + 1000

Y = 1100 + 0.75Y

Y – 0.75Y = 1100

0.25 Y = 1100

$$Y = \frac{1100}{0.25} = 4400$$

Also, Y = C+I

C = Y-I

= 4400 – 1000

= 3400

265. There exists a direct relationship between MPC and the value of the multiplier.

267.

$$\text{Multiplier} = \frac{1}{MPS} \text{ or } \frac{1}{1 - MPC}$$

268. MPC = 0.8

MPS = 1-08 = 0.2

$$\text{Multiplier (k)} = \frac{1}{MPS} = \frac{1}{0.2} = 5$$

Increase in Income (ΔY) = K × ΔI = 5 × 600 = 3000 Crores

Increase in Saving (ΔS) = ΔY × MPS

= 3000 × 0.2

= 600 Crores.

269. MPC = 0.6 [From Consumption Function]

$$\text{Multiplier (K)} = \frac{1}{1 - MPC} = \frac{1}{1 - 0.6} = 2.5$$

Change in Income (ΔY) = Multiplier (K) × Change in Investment (ΔI)

ΔY = 2.5 × 320 = ₹ 800 Crores.

Thus, increase in investment by ₹ 320

Crores will cause equilibrium income to rise by ₹ 800 Crores.

270. $$\text{Multiplier (K)} = \frac{\Delta Y}{\Delta I}$$
$$= \frac{₹\ 2500}{₹\ 1000} = 2.5$$

We know that,

$$\text{Multiplier (K)} = \frac{1}{MPS}$$
$$2.5 = \frac{1}{MPS}$$
$$MPS = \frac{1}{2.5}$$

$= 0.4$

MPC $= 1 - MPS$

$= 1 - 0.4$

$= 0.6$

272. Increase in Income (ΔY) = 4 Increase in Investment (ΔI)

$\Delta Y = 4\,\Delta I$

$\frac{\Delta Y}{\Delta I} = 4 =$ Multiplier (K)

Multiplier (K) $= \frac{1}{1 - MPC}$

$4 = \frac{1}{1 - MPC}$

$1 - MPC = \frac{1}{4} = 0.25$

$MPC = 0.75$

$MPS = 1 - MPC = 1 - 0.75 = 0.25$

273. $\Delta Y = \Delta C$

i.e MPC = 1

Multiplier (K) $= \frac{1}{1 - MPC} = \frac{1}{0} = \infty$

274. One-fourth of additional income is saved.

It means MPS $= \frac{1}{4} = 0.25$

Multiplier (K) $= \frac{1}{MPS} = \frac{1}{0.25} = 4$

Multiplier (K) $= \frac{\text{Change in Income } (\Delta Y)}{\text{Change in Investment } (\Delta I)}$

Change in income (ΔY) = 800 – 500 = ₹ 300 crores

$4 = \frac{300}{\Delta I}$

$\Delta I = \frac{300}{4} =$ ₹ 75 Crores

Hence, change in investment should be ₹ 75 crores to achieve full employment level in income.

275. 80% of Increase in income is spent on Consumption.

MPC = 0.80

Multiplier (K) $= \frac{1}{1 - MPC} = \frac{1}{1 - 0.8} = \frac{1}{0.2} = 5$

Multiplier (K) $= \frac{\text{Change in Income } (\Delta Y)}{\text{Change in Investment } (\Delta I)}$

$\Delta Y = (K)\,(\Delta I)$

$= 5 \times 3500$

= ₹ 17,500 crores.

280. MPC = 0.75 (Given is Consumption function)

$K = \frac{1}{1 - MPC} = \frac{1}{1 - 0.75} = \frac{1}{0.25} = 4$

281. $C = 50 + 0.8Y_d$

$Y = C + I + G$

$= 50 + 0.8Y_d + 250 + 100$

$= 400 + 0.8Y_d$

$= 400 + 0.8\,(Y - 100)$

$= 320 + 0.8Y$

$Y = \frac{320}{0.2} = 1600$

282. $Y = C + I + G$

$= 40 + 0.8Y_d + 80 + 40$

$= 160 + 0.8Y_d$

$= 160 + 0.8\,[Y - T + TR]$

$= 160 + 0.8\,[Y - 40 + 15]$

$= 160 + 0.8\,[Y - 25]$

$= 160 - 20 + 0.8Y$

$= 140 + 0.8Y$

$Y = \frac{140}{0.2} = 700$

283 $C = a + b\,(Y - \bar{T} - tY + TR)$

$= 400 + 0.75\,[Y - (84 + 0.2Y) + 200]$

$= 400 + 0.75\,[Y - 84 - 0.2Y + 200]$

$= 400 + 0.75\,[0.8Y + 116]$

$= 400 + 0.6Y + 87$

$= 487 + 0.6Y$

$Y = C + I + G$

$= 487 + 0.6Y + 750 + 380$

$= 1617 + 0.6Y$

$0.4Y = 1617$

$$Y = \frac{1617}{0.4} = 4042.50$$

288.

$C = 40 + 0.8Y_d$

$= 40 + 0.8(Y - 0.1Y)$

$= 40 + 0.8\ (0.9Y)$

$I = 60$

$G = 40$

$X = 58$

$M = 0.05Y$

$(X - M) = 58 - 0.05Y$

Equilibrium level of Income (Y) will be:

$Y = C + I + G + (X - M)\ Y$

$= 40 + 0.8\ (0.9Y) + 60 + 40 + (58 - 0.05Y)$

$= 198 + 0.72Y - 0.05Y$

$= 198 + 0.67Y$

$Y - 0.67Y = 198$

$0.33Y = 198$

$$Y = \frac{198}{0.33} = 603$$

289. Foreign Trade multiplier

$$= \frac{1}{1 - b + m}$$

$$= \frac{1}{1 - 0.9 + 0.05} = \frac{1}{0.15}$$

$= 6.66$

290 Trade Balance = X – M = 20 – 10 – 0.05 (600) =–20

Thus, trade balance is in deficit (20).

7

CHAPTER

PUBLIC FINANCE

UNIT 1 : FISCAL FUNCTIONS: AN OVERVIEW, CENTRE AND STATE FINANCE

Introduction

1. Which of the following is covered under the scope of public finance?

(*a*) Public Revenue & Public Expenditure

(*b*) Public Debt

(*c*) Financial Administration (To Control) processes and operations of public revenue, public expenditure and public debt)

(*d*) All of the above

2. Which of the following is not correct about public finance?

(*a*) Public Finance aims at increasing social welfare along with economic gain

(*b*) Public Budgets are always prepared for a year

(*c*) A Public authority can use coercive methods to realise its revenue

(*d*) All of the above are correct

3. Macroeconomic stabilization may be achieved through

(*a*) Free market economy

(*b*) Fiscal policy

(*c*) Monetary policy

(*d*) Both (*b*) and (*c*) above

4. Which one of the following is the main macroeconomic goals of any nation?

(*a*) Economic Growth

(*b*) High levels of employment

(*c*) Stable price levels

(*d*) All of the above

5. Which of the following is not an economic system?

(*a*) Oligopoly

(*b*) Capitalism

(*c*) Socialism

(*d*) Mixed Economy

6. Who is often regarded as a bold advocate of free markets and minimal governmental activity?

(*a*) Marshall

(*b*) Adam Smith

(*c*) Both (*a*) and (*b*)

(*d*) None of the above

7. Who has introduced the three-branch taxonomy of the role of

government in a market economy in the book "The Theory of Public Finance"?

(*a*) Adam Smith

(*b*) J.B. Say

(*c*) J.M. Keynes

(*d*) Richard Musgrave

8. Which of the following is primarily a macroeconomic function?

(*a*) Allocation function

(*b*) Income Redistribution

(*c*) Stabilization Function

(*d*) All of the above

9. In Public Finance, which one of the following is related with the function to ensure price stability?

(*a*) Resource Allocation

(*b*) Income redistribution

(*c*) Macroeconomic stabilization

(*d*) All of the above

10. The function of the government "to ensure efficiency" is executed through____.

(*a*) Resource Allocation

(*b*) Income Redistribution

(*c*) Macroeconomic Stabilization

(*d*) None of the above

The Allocation Function

11. Which of the following is not correct as regards the Allocation Function?

(*a*) It refers to the way in which the available resources are allocated among the various users to which they might be put.

(*b*) It determines how much of the various kinds of goods and services will actually be produced in an economy.

(*c*) It is a critical problem as resources are limited in supply and have alternative uses.

(*d*) All the above are correct.

12. Government of Emeline Land decides to provide most modern road infrastructure throughout the nation. This can be classified as:

(*a*) Distribution function

(*b*) Allocation function

(*c*) Stabilization function

(*d*) None of the above

13. The justification for government intervention is best described by:

(*a*) The need to prevent recession and inflation in the economy

(*b*) The need to modify the outcomes of private market actions

(*c*) The need to bring injustice in distribution of income and wealth

(*d*) All of the above

14. The allocative function in budgeting determines _____

(*a*) Who and what will be taxed?

(*b*) The process by which the total resources of the economy are divided among various uses

(*c*) The level of involvement of the public sector in the national economy

(*d*) All of the above

15. Which of the following is not allocation instruments by which governments can influence resource allocation in the economy?

(*a*) The Government can directly produce an economic good (like electricity, public transportation services).

(*b*) The Government may direct resource allocation through incentives and disincentives.

(*c*) The Government may influence allocation through legislation and force (like ban of single use plastic goods).

(*d*) Employment reservation and preferences to protect certain segments of the population

The Redistribution Function

16. Redistribution policies are likely to have efficiency costs because–

(*a*) They will reduce the efficiency of governments

(*b*) They may create disincentives to work and save

(*c*) Governments have to forego taxes

(*d*) They are likely to make the poor people dependent on the rich

17. Which of the following policies of the government fulfils the redistribution function?

(*a*) Parking the army on the northern borders of the country

(*b*) Supply of food grains at subsidized prices to the poor people

(*c*) Controlling the supply of money through monetary policy

(*d*) All of the above

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

(*a*) It is trying to establish stability in an economy

(*b*) It is trying to redistribute income and wealth

(*c*) It is trying to allocate resources to their most efficient use

(*d*) It is creating a source of market failure

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

(*a*) Allocation

(*b*) Efficiency

(*c*) Distribution

(*d*) None of the above

20. The redistribution measures should be accomplished with _____ efficiency costs by carefully balancing _____ objectives.

(*a*) minimal, equity and efficiency

(*b*) minimal, equity and taxation

(*c*) maximising, equity and efficiency

(*d*) maximising equity and taxation

21. The distributive function of budget is related to which of the following basic questions

(*a*) "For whom" should an economy produce

(*b*) "By whom" should an economy produce

(*c*) Both (*a*) & (*b*)

(*d*) Neither (*a*) nor (*b*)

22. The Government can redistribute income and wealth through _____

(*a*) Expenditure side of the budget

(*b*) Revenue side of the budget

(*c*) Either (*a*) or (*b*)

(*d*) None of these

23. When the redistribution function is done by Government through revenue side, then which of the following method is adopted?

(*a*) Free or subsidised education

(*b*) Healthcare

(*c*) Progressive Taxation

(*d*) Flat rate of Taxation

24. Which of the following is not adopted when redistribution function is done on the expenditure side?

(*a*) Progressive Taxation

(*b*) Subsidised Education

(*c*) Subsidised healthcare

(*d*) Free basic goods to deserving people

25. In exercising the redistributive function, there would be a conflict between _____ and _____.

(*a*) Efficiency and effectiveness

(*b*) Equity and effectiveness

(*c*) Efficiency and equity

(*d*) None of the above

26. Effective demand is determined by the level of income of the households and this, in turn determines the distribution of _____ among people.

(*a*) Real Output

(*b*) Nominal Output

(*c*) Total Output

(*d*) None of the above

27. The distributive function also relates to the manner in which the _____ over the _____ is divided among the various individual and family spending unit of the society.

(*a*) Nominal demand, economic goods

(*b*) Effective demand, economic goods

(*c*) National demand, non-economic goods

(*d*) Effective demand, non-economic goods

28. Which of the following is an objective of distribution function?

(*a*) Redistribution of income to achieve an equitable distribution of societal output among households

(*b*) Advancing the well-being of those members of the society who suffer from deprivations of different types

(*c*) Providing equality of income, wealth and opportunities

(*d*) All of the above

29. Which of the following is not an example of redistribution function?

(*a*) Progressive taxation of the rich along with subsidy to poor

(*b*) Special schemes for backward regions

(*c*) Unemployment-benefits and transfer payments to provide support to underprivileged people

(*d*) Production of goods like electricity by the Government

Stabilization Function

30. In a federal set up, the stabilization function can be effectively performed by:

(*a*) Respective state governments

(*b*) Ministry of taxes

(*c*) The government at the centre

(*d*) None of the above

31. Macroeconomic stability is said to exist when an economy's:

(*a*) Output matches its production capacity

(*b*) Total Spending matches its total output

(*c*) Labour resources are fully employed and inflation is low & stable

(*d*) All of the above

32. The theoretical rationale for the stabilization function is that a market economy does not automatically generate full employment and price stability. Who has given this proposition?

(*a*) Keynesian

(*b*) Hicksian

(*c*) Marshallion

(*d*) None of these

33. The government and the country's central bank promote full employment and price stability through which of the following policy?

(*a*) Fiscal policy

(*b*) Monetary Policy

(*c*) Both (*a*) & (*b*)

(*d*) Neither (*a*) nor (*b*)

34. The stabilization issue also becomes more complex due to _____.

(*a*) Contagion effect

(*b*) Contraction effect

(*c*) Expansion effect

(*d*) Recession effect

35. The increased international interdependence and financial integration causes forces of instability to get easily transmitted from one country to other countries. What is this called?

(*a*) Contagion effect

(*b*) Contraction effect

(*c*) Expansion Effect

(*d*) Recession Effect

36. The stabilization function is concerned with the performance of the aggregate economy in terms of _____.

(*a*) labour employment and capacity utilization

(*b*) general price levels

(*c*) the rate of economic growth

(*d*) all of the above

37. The government stabilization intervention may be through which of the following?

(*a*) Monetary Policy

(*b*) Fiscal policy

(*c*) Monetary Policy as well as fiscal policy

(*d*) None of these

38. Read the following statements:

1. **The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy**
2. **Market failures can at all times be corrected through government intervention**

3. Public goods will not be produced in sufficient quantities in a market economy of the three statements above:

(a) 1, 2 and 3 are correct

(b) 1 and 3 are correct

(c) 2 and 3 are correct

(d) 3 alone is correct

39. Choose the correct statement.

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

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

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

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

40. Which of the following fiscal policy is adopted to alleviate recession?

(a) Expansionary

(b) Contractionary

(c) Both (a) & (b)

(d) Neither (a) nor (b)

41. The Contractionary fiscal policy is resorted to _____.

(a) Alleviate recession

(b) For controlling high inflation

(c) For increasing general price level

(d) None of these

42. If there is high inflation, then which of the following action is taken by the government?

(a) Decrease government spending

(b) Raise taxes

(c) Reduce money supply

(d) Any one/more of the above.

43. As a part of its policy the government has increased its spending, reduced the taxes and also increased the money supply. This fiscal policy is adopted in which of the following situations:

(a) Very high inflation

(b) High employment

(c) High unemployment

(d) High inflation

44. The Monetary policy works through controlling _____:

(a) The size of money supply

(b) The interest rate in economy

(c) Both (a) and (b)

(d) None of these

Centre and State Finance

45. Fiscal Federalism refers to _____.

(a) Organizing and implementing development plans

(b) Sharing of political power between centres and states

(c) The management of fiscal policy by a nation

(d) Division of economic functions and resources among different layers of the government

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

(a) Corporation tax

(b) Wealth tax

(c) Income tax

(d) None of the above

47. Who has introduced the term "Fiscal Federalism"?

(a) Richard Musgrave

(b) Robin Musgrave

(c) Starlin Musgrave

(d) None of the above

48. India is a federation of ___ States and _____ Union territories.

(a) 29,9

(b) 28,9

(c) 29,8

(d) 28,8

49. In terms of fiscal federalism, introduced by Musgrave ,_____ functions should be the responsibility of Central Government and State government & local govt. should be responsible for_____.

(a) Allocation of resources, Economic Stabilization

(b) Economic Stabilization & income distribution, allocation of resources

(c) Stabilization & allocation, income distribution

(d) None of these

50. Which of the following Article of the constitution demarcates the powers of the union and the state by classifying their powers into three lists?

(a) Article 244

(b) Article 245

(c) Article 246

(d) Article 247

51. Which of the following items are contained in the contained in the concurrent list?

(a) Items on which the union parliament alone can legislate

(b) Items on which the State legislative assemblies alone can legislate

(c) Items on which both the parliament and the legislative assemblies can legislate

(d) None of the above

52. In India, Taxes are levied by the:

(a) Centre only

(b) States only

(c) Centre as well as States

(d) Parliament only

53. On which of the following items, the State Government cannot levy taxes?

(a) Lands and Buildings

(b) Electricity

(c) Vehicles

(d) Capital Value of assets

54. Which of the following is not a subject matter of levy of tax by the Union Government?

(a) Taxes on income (Others than agricultural Income)

(b) Corporate Tax

(c) Toll Tax

(d) Security Transaction Tax

55. Which Article provides for an institutional mechanism, namely the Finance commission, for recommending the sharing of taxes?

(a) Article 277

(b) Article 278

(c) Article 279

(d) Article 280

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

(a) The centre can tax agricultural income and mineral rights

(b) Finance commission recommends distribution of taxes between the centre and states

(c) GST subsumes majority of direct taxes and a few indirect taxes

(d) IGST is collected by the state governments

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

I. The distribution between the union and the states of the net proceeds of taxes.

II. Allocation between the states of the respective shares of such proceeds.

III. Make Recommendations on integrated GST on inter-State movement of goods and services.

IV. To recommend expenditure decentralization among different states

(a) I and II are correct

(b) II and III are correct

(c) I, II and III are correct

(d) All the above are correct

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

(a) NITI Aayog

(b) Central bank

(c) Finance Commission

(d) Parliament

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

(a) 38 per cent

(b) 41 per cent

(c) 42 per cent

(d) The commission has not submitted its report

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

(a) Demographic performance

(b) Forest and ecology

(c) Infrastructure performance

(d) Tax and fiscal efforts

61. On which date, the GST was rolled out across the country?

(a) 1st April, 2017

(b) 1st July, 2017

(c) 1st January, 2018

(d) 1st July, 2018

62. For any particular good or service or a combination of the two, what is the ratio of SGST and CGST?

(a) Equal

(b) 60% CGST & 40% SGST

(c) 40% CGST & 60% SGST

(d) None of these

63. Providing social sector services such as health and education is:

(a) The responsibility of the central government

(b) The responsibility of the respective state governments

(c) The responsibility of local administrative bodies

(d) None of the above

64. GST compensation is given:

(a) To the industries which have made losses due to the introduction of GST

(b) To compensate for the lower rates of GST on essential items

(c) To the states to compensate for the loss of revenue due to the introduction of GST

(d) To compensate for the loss of input tax credit in manufacturing

65. As per the Supreme Court verdict in May 2022.

(a) The union has greater powers than the states for enacting GST laws

(b) The union and state legislatures have "equal, simultaneous powers" to make laws on Goods and Services Tax

(c) The union legislature's enactments will prevail in case of a conflict between those of union and states

(d) The state legislatures can make rules only with the permission of central government

66. Which of the following government is/are entrusted with the responsibility of providing public utility services such as water supply and sanitation, local roads, electricity, etc.?

(a) Central Government

(b) State Government

(c) Local Self government (Municipalities and Panchayats)

(d) All of the above

67. Which one of the following is not the responsibility of Central Government?

(a) Defence

(b) Foreign Affairs

(c) Money and Banking

(d) Health and Education

UNIT 2 : MARKET FAILURE/GOVERNMENT INTERVENTION TO CORRECT MARKET FAILURE

Concept of Market Failure

68. 'Market failure' is a situation which occurs when:

(a) Private goods are not sufficiently provided by the market

(b) Public goods are not sufficiently provided by public sector

(c) The market fail to form or they allocate resources efficiently

(d) (b) and (c) above

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

(a) Prices of goods tend to rise because of shortages

(b) Merit goods are not sufficiently produced and supplied

(c) Prices fall leading to fall in profits and closure of firms

(d) None of the above

70. Which of the following State of allocation of resources in an economy is described as market failure?

(a) Inefficient allocation

(b) Efficient allocation

(c) No allocation

(d) None of the above

71. Which of the following is incorrect as regards Market failure?

(a) Inefficient allocation of resources

(b) Market is not working at all

(c) Free market leads to overproduction or underproduction of particular goods or services

(d) All of the above

72. What is the type of market failure when the market does not supply products at all despite the fact that such products and services are wanted by people?

(a) Complete market failure

(b) Partial Market failure

(c) Appropriate Market failure

(d) Misappropriate Market failure

73. Which of the following is not a type of market failure?

(a) Complete market failure

(b) Partial Market failure

(c) Both (a) and (b)

(d) Systematic market failure

74. Which of the following is true about partial market failure?

(a) Market does actually function

(b) Market produces either wrong quantity of product or at wrong price.

(c) There is loss of economic welfare

(d) All of the above

Why do markets fail?

75. Which of the following is not a part of major reasons for market failure?

(a) Market power & Externalities

(b) Public Goods

(c) Incomplete Information

(d) Non-functioning of market at all

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

(a) makes price equal to marginal cost and produce a positive external benefit on others

(b) can cause markets to be efficient due to reduction in costs

(c) makes the firms price makers and restrict output so as to make allocation inefficient

(d) (b) and (c) above

77. Markets do not exist _____.

(a) for goods which have positive externalities

(b) for pure public goods

(c) for goods which have negative externalities

(d) none of the above

78. Market power or monopoly power is the ability of a firm to profitably raise the _____ of a good or service over its _____.

(a) Marginal price, market Cost

(b) Market price, marginal cost

(c) Production, Capacity to produce

(d) Marginal production, actual capacity

79. In a particular type of market failure, the single producer or a small number of producers restrict output and change price higher than what would prevail under perfect competition. This situation is caused due to _____.

(a) Market power

(b) Externalities

(c) Public goods

(d) Incomplete information

80. As a reason of market failure, the externalities will have _____ effect.

(a) Positive

(b) Negative

(c) Either (a) or (b)

(d) No

81. When a consumption or production activity has an indirect effect (either positive or negative) on consumption or production activities of other and such effects are not reflected directly in market prices, then what is this called?

(a) Internality

(b) Externality

(c) Market power

(d) All of the above

82. Which of the following is synonymous to the term "Externalities"?

(a) Spillover Effects

(b) Neighbourhood Effects

(c) Third party or side effects

(d) All of the above

83. Which of the following happens in negative externalities?

(a) When the action of one party imposes costs on another party

(b) When the action of one party Confers benefits on another party

(c) When sale of entire industry increases due to single party

(d) None of these

84. Which one of the following is incorrect about the term "externalities" in relation to market failure?

(a) Externalities are costs which are reflected in free market prices

(b) Externalities are also referred to as third party effects

(c) Negative externalities occur when the action of one party imposes costs on another party

(d) Positive externalities occur when the action of one party confers benefits on another party

85. A factory, which produces aluminium, discharges untreated waste water into a nearby river and pollutes the water causing health hazards for people who use the water for drinking and bathing. What type of externality is this?

(a) A negative production externality in consumption

(b) A negative production externality in production

(c) A positive production externality in consumption

(d) Negative production externalities

86. Smoking in public is a case of:

(a) Negative consumption externality

(b) Negative production externality

(c) Internalising externality

(d) None of the above

87. Which of the following statement is false?

(a) Tradable permits provide incentive to innovate and reduce negative externalities

(b) A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower

(c) Substantial negative externalities are involved in the consumption of merit goods

(d) Merit goods are likely to be underproduced and under consumed through the market mechanism

88. Which one of the following would you suggest for reducing negative externality?

(a) Production subsidies

(b) Excise duty

(c) Pigouvian taxes

(d) All of the above

89. A Pigouvian subsidy:

(a) Cannot be present when externalities are present

(b) Is a good solution for negative externality as prices will increase

(c) Is not measurable in terms of money and therefore not practical

(d) May help production to be socially optimal when positive externalities are present

90. Which of the following is not the instance of negative consumption externalities affecting production?

(a) Act of undisciplined students creating disturbance in the class

(b) Excessive consumption of alcohol causing impairment in efficiency for work

(c) Playing radio loudly obstructing one from enjoying a concert

(d) None of the above

91. Which of the following is part of private cost incurred by the firm?

(a) Wages

(b) Raw Materials

(c) Heating and Lighting

(d) All of these

92. What is the correct relationship between social cost and private cost?

(a) Social cost = Private cost – External Cost

(b) Social cost = Private cost + External Cost

(c) Private cost = Social Cost + External Cost

(d) External Cost = Social Cost + Private Cost

93. Read the following statements.

I. The market-based approaches to control externalities operate through price mechanism

II. When externalities are present, the welfare loss would be eliminated

III. The key is to internalizing an externality is to ensure that those who create the externalities include them while making decisions

Of the above statements

(a) II and III are correct

(b) I only is correct

(c) II only is correct

(d) I and III are correct

94. Read the following statements.

I. Social costs are the total costs incurred by the society when a good is consumed or produced.

II. The external costs are not included in firms' income statements or consumers' decisions.

III. Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs.

IV. Production and consumption decisions are efficient only when private costs are considered

Of the above

(a) Statements I and III are correct

(b) Statements I, II and III are correct

(c) Statement I only is correct

(d) All the above are correct

Public Goods

95. Which economist developed the theory of public goods?

(a) Paul A. Samuelson

(b) Jean Baptist Say

(c) J.R. Hicks

(d) None of these

96. A public good is also called as _____.

(a) Collective Consumption goods

(b) Social goods

(c) Both (a) and (b)

(d) None of above

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

(a) Governments have huge resources at their disposal

(b) Public goods will never cause any type of externality

(c) Markets are unlikely to produce sufficient quantity of public goods

(d) Provision of public goods are very profitable for any government

98. Adequate amount of a pure public good will not be provided by the private market because of:

(a) The possibility of free riding

(b) The existence of very low prices and low profits

(c) Governments would any way produce them, so there will be overproduction

(d) There are restrictions as well as taxes on production of public goods

99. What is the name of the paper in which Paul A. Samuelson introduced the concept of "collective consumption good"?

(a) The pure theory of public expenditure

(b) The Abstract theory of public Expenditure

(c) The applied theory of public Expenditure

(d) The Empirical theory of public Expenditure

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

(a) Is a case of negative externality

(b) Is a case of market efficiency

(c) Is a case of free riding

(d) Is inappropriate and warrant action

101. The free rider problem arises because of:

(*a*) Ability of participants to produce goods at zero marginal cost

(*b*) Marginal benefit cannot be calculated due to externalities present

(*c*) The good or service is non excludable.

(*d*) General poverty and unemployment of people.

102. Which of the following is NOT an example of public goods?

(*a*) Food items

(*b*) Clothing

(*c*) Movie Ticket

(*d*) All of the above

103. When it is possible to prevent consumers who have not paid for them for consuming them, then these are called as:

(*a*) Excludable Goods

(*b*) Non-Excludable Goods

(*c*) Preventive Goods

(*d*) Includable Goods

104. By which of the following issues, Public goods are generally more vulnerable?

(*a*) Externalities

(*b*) Inadequate property rights

(*c*) Free rider problems

(*d*) All of the above

105. In case of which goods, "free –riding" mostly occurs?

(*a*) Private goods

(*b*) Public goods

(*c*) Personal goods

(*d*) Secret goods

106. In case of which goods, market failure occurs?

(*a*) Private goods

(*b*) Public goods

(*c*) Personal goods

(*d*) Secret goods

107. The purchase and consumption of a private goods by one individual prevents another Individual from consuming it. Therefore, consumption of private goods is _____.

(*a*) Rivalrous

(*b*) Non-Competitive

(*c*) Demonstrative

(*d*) Non-Rivalrous

108. In case of pure public goods, which of the following statement is correct?

(*a*) Payment is made by consumer

(*b*) No direct payment by the consumer is involved

(*c*) All consumers have to pay individually

(*d*) None of the above

109. Which of the following is not an example of public goods?

(*a*) National Defence

(*b*) Highways

(*c*) Public Education

(*d*) Clothing

110. Which of the following leads to the problem of free-riding?

(*a*) The absence of excludability in the case of public goods

(*b*) The tendency of people to act in their own self- interest

(*c*) Both (*a*) & (*b*)

(*d*) None of these

One Word Information

111. Complete information is an important element of a competitive market. Perfect information implies that _____ have complete information about anything that may influence their decision making.

(*a*) Buyers

(*b*) Sellers

(*c*) Both Buyers & sellers

(*d*) Government

112. Why the assumption of perfect information to buyers and sellers is not fully satisfied in real markets?

(*a*) Complexity of products and services

(*b*) Difficulty of getting correct information

(*c*) Deliberate misinformation by interested parties

(*d*) All of the above

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

(*a*) Asymmetric information

(*b*) Moral hazard

(*c*) Free riding

(*d*) (*a*) and (*c*) above

114. There may be an imbalance in information between the buyer and the seller *i.e.* when the buyer knows more than the seller or the seller knows more than the buyer. This situation may be referred to as:

(*a*) Symmetric Information

(*b*) Asymmetric Information

(*c*) Adequate information

(*d*) Improper information

115. Which of the following is an example of Asymmetric information?

(*a*) The landlords know more about their properties than the tenants

(*b*) Health insurance buyers know more about their state of health than the insurance companies

(*c*) A used–car seller knows more about the vehicle quality than the buyer

(*d*) All of the above

116. Which of the following is a central concept related to the problem of information gaps in many markets?

(*a*) Adverse selection

(*b*) Moral Hazard

(*c*) Both (*a*) & (*b*)

(*d*) None of these

117. Who has developed "lemons problem" in relation to the used car market?

(*a*) George Martin

(*b*) George Akerlof

(*c*) George Akin

(*d*) None of these

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

(*a*) Free riding

(*b*) Moral hazard

(*c*) Poor upbringing

(*d*) Inefficiency

119. Rules regarding product labelling:

(*a*) Seeks to correct market failure due to externalities

(*b*) Is a method of solving the problem of public good

(*c*) May help solve market failure due to information failure

(*d*) Reduce the problem of monopolies in the product market

120. The Government has intervention mechanism for combating market failure so as to ensure greater welfare to the society. How does the Government insure a well functioning market?

(*a*) By creating the necessary physical infrastructure

(*b*) By provision of institutional infrastructure

(*c*) By ensuring an appropriately framed competition and consumer law framework that regulates the activities of firms and individuals in their market exchanges

(*d*) All of the above

Government Inventions to minimise market failure (Due to Market power and externalities)

121. The Competition Act, 2002 aims to -

(*a*) Protect monopoly positions of firms that have developed unique innovations

(*b*) To promote and sustain competition in markets

(*c*) To determine pricing under natural monopoly

(*d*) None of the above

122. To minimise market Power, the government intervenes through which of the following measures?

(*a*) Controls on mergers and acquisitions

(*b*) Price capping, price regulation, Profit or rate of return regulation and nationalisation

(*c*) Patronage to consumer associations, tough investigations into cartelisation and unfair practices and reduction in import controls

(*d*) All of the above

123. The most commonly referred negative externality is:

(*a*) Pollution

(*b*) Air Pollution

(*c*) Water Pollution

(*d*) Noise Pollution

124. Which of the following is the Government initiative towards negative externalities through direct controls?

(*a*) Licensing and Production quotas

(*b*) Complete ban on smoking at public places

(*c*) Mandatory to install pollution abatement mechanism by the polluting firms

(*d*) All of the above

125. What are Pigouvian taxes?

(*a*) Pollution Taxes

(*b*) Corruption Levy Tax

(*c*) Penalty an over/under production

(*d*) Anti-profiteering tax

126. What is the problem in administrating an efficient pollution tax ?

(*a*) Requirement of complex and costly administrative procedure

(*b*) Insignificant effect in case of in elastic goods

(*c*) Negative consequences on employment and investments

(*d*) All of the above

127. When positive externalities are present, government may attempt to solve the problem through which of the following subsidy?

(*a*) Corrective subsidies to the PRODUCERS aimed at increasing the supply of the good

(*b*) Corrective subsidies to CONSUMERS aimed at increasing the demand for the good.

(*c*) Both (*a*) and (*b*)

(*d*) None of the above

128. In the case of products and services whose externalities are vastly positive, the government enters the market directly as an entrepreneur to produce and provide them . Which of the following is an example in this regard?

(*a*) Public Education

(*b*) Health Care

(*c*) Fundamental Research

(*d*) None of the above

Government Intervention in the case of Merit-Demerit & Public Goods

129. Which of the following cannot be regarded as merit goods?

(*a*) Education

(*b*) Health care

(*c*) Welfare services

(*d*) Intoxicating drugs

130. Indentify the Incorrect statement.

(*a*) Merit goods have substantial positive externalities

(*b*) Merit goods are socially undesirable

(*c*) Merit goods have direct relation with social welfare

(*d*) Public libraries, museum and public parks are the examples of merit goods

131. Which of the following is an example of Government intervention in case of merit goods?

(*a*) Compulsory use of Helmets & Seat belts

(*b*) Mandatory to avail insurance protection

(*c*) Compulsory Immunization

(*d*) All of the above

132. A government subsidy

(*a*) Is a market-based policy

(*b*) Involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities

(*c*) Is generally provided for merit goods

(*d*) All of the above

133. The production and consumption of demerit goods are:

(*a*) Likely to be more than optimal under free markets

(*b*) Likely to be less than optimal under free markets

(*c*) Likely to be subjected to price intervention by government

(*d*) (*a*) and (*c*) above

134. The argument for education subsidy is based on:

(a) Education is costly

(b) The ground that education is merit good

(c) Education creates positive externalities

(d) (b) and (c) above

135. If governments make it compulsory to avail insurance protection, it is because_____.

(a) Insurance companies need to be running profitably

(b) Insurance will generate moral hazard and adverse selection

(c) Insurance is a merit good and government wants people to consume it

(d) None of the above

136. Identify the incorrect statement.

(a) A minimum support price for agricultural goods is a market intervention method to guarantee steady and assured incomes to farmers

(b) An externality is internalised if the ones that generated the externality incorporate them into their private cost- benefit analysis

(c) The production and consumption of demerit goods are likely to be less than optimal under free markets

(d) Compared to pollution taxes, the cap and trade method is administratively cheap and simple to implement and ensures that pollution is minimised in the most cost-effective way

137. Which of the following is not an example of Demerit goods?

(a) Cigarettes

(b) Alcohol

(c) Medical use of Alcohol

(d) Intoxicating drugs

138. Demerit goods are goods which are believed to be:

(a) Socially desirable

(b) Socially Undesirable

(c) Having positive externalities

(d) None of above

139. Which of the following can be used by the Government to correct market failure resulting from demerit goods?

(a) Complete ban an demerit goods

(b) Prohibit the advertising or promotion of demerit goods

(c) Regulatory controls in the form of spatial restrictions

(d) Fixation of maximum price for demerit goods

140. Direct provision of a _____ by the government can help to overcome the free–rider problem which leads to market failure.

(a) Public goods

(b) Private goods

(c) Demerit goods

(d) Goods with negative externalities

141. Which of the following are PUBLIC goods that is invariably provided by the government?

(a) Fire protection

(b) Disease prevention

(c) Defence

(d) All of the above

142. There are some goods which are produced and consumed as public goods and services despite the fact that they can be produced or consumed as private goods. Which of the following is not an example of such goods?

(a) Scientific approval of drugs

(b) Production of strategic products such as atomic energy

(c) Provision of securities at airport

(d) Maintenance of Public Parks

Price Intervention: Non - Market Pricing

143. Which of the following is Not a price intervention in the form of price controls by the Government?

(a) Fixation of minimum wages

(b) Rent controls

(c) Price floor or price ceiling

(d) Pollution taxes

144. With the objective to provide guaranteed steady and assured incomes to farmers, which scheme has been initiated by the Government in this regard?

(a) MSP

(b) MPS

(c) VSP

(d) TSP

145. With the objective of ensuring stability in prices and distribution, governments often intervene in grain markets through:

(a) Building and maintenance of Buffer stocks

(b) Price ceilings

(c) Price floor

(d) None of the above

Government Intervention (For correcting information failure & for Equitable Distribution)

146. Which of the following cannot be regarded as example of government's intervention for correcting information failure?

(a) Mandatory price tag on products indicating maximum, retail price

(b) Mandatory to have accurate labelling and content disclosures

(c) Regulation of advertising and setting of advertising standards

(d) Public dissemination of information to improve knowledge

147. Which of the following is common policy intervention by the government to redistribute incomes?

(a) Progressive Income Tax

(b) Targeted budgetary allocations

(c) Unemployment compensation

(d) All of the above

148. Government failure occurs when

(a) Government fails to implement its election promises on policies

(b) A government is unable to get re-elected

(c) Government intervention is ineffective and produces fresh and more serious problems

(d) None of the above

149. In Order to bring equity and fairness in the society, the government intervenes to redistribute incomes. Which one of the following is NOT an example of such policy?

(a) Social Security Schemes

(b) Job reservations

(c) Unemployment Compensation

(d) Setting advertising standards to make advertising more responsible, information and less persuasive

UNIT 3 : THE PROCESS OF BUDGET MAKING : SOURCES OF REVENUE, EXPENDITURE MANAGEMENT AND MANAGEMENT OF PUBLIC DEBT

Introduction to Indian Union Budget

150. Who among the following presented the first Indian Union Budget on February 18, 1869 after Indian Budget was introduced on April 7, 1860 by the East India Company?

(a) Mr. Lord Dalhousie

(b) Mr. William Bentick

(c) Mr. James Wilson

(d) None of these

151. Who is honoured as Father of Indian Budget?

(a) R. K. Shanmukham Chethy

(b) Mr. Hugh Dalton

(c) Mr. John Mathai

(d) Mr. P.C. Mahalanobis

152. Which Article of the Constitution of India requires the Government to present Union budget?

(a) Article 111

(b) Article 112

(c) Article 113

(d) Article 114

153. Who has presented the budget for the maximum number of times?

(a) Morarji Desai

(b) P. Chidambaram

(c) Pranab Mukherjee

(d) Yashwant Sinha

154. _____ of the Indian Constitution defines the Finance Bill as a Money Bill.

(a) Article 108

(b) Article 109

(c) Article 110

(d) Article 111

155. Who is the first woman to hold the post of the finance minister of India?

(a) Indira Gandhi

(b) Sucheta Kriplani

(c) Nandini Satpathy

(d) Anwara Taimur

The Process of Budget Making

156. The Finances of the government of India have traditionally been controlled by:

(a) Ministry of Finance

(b) Home Ministry

(c) President of India

(d) Prime Minister of India

157. The budget is prepared by the Ministry of Finance in consultation with _____

(a) Finance commission

(b) Niti Aayog

(c) Relevant Ministry

(d) Both (b) & (c)

158. The Budget must be presented and approved by _____ before the beginning of the fiscal year (April to March 31).

(a) Lok Sabha

(b) Rajya Sabha

(c) State legislative

(d) Both houses of parliament

159. Which Article of the Constitution provides that in respect of every financial year. The "President" shall cause to be laid before both the houses of parliament an annual financial Statement?

(a) Article 111

(b) Article 112

(c) Article 113

(d) None of these

160. Which of the following is not considered as a part of the Budgetary procedures:

(a) Preparation of Budget

(b) Presentation and enactment of the budget

(c) Execution of the budget

(d) Collection of taxes & other revenue.

161. In NITI Aayog, NITI stands for:

(a) National Initiative for Transforming India

(b) National Institution for Transforming India

(c) National Institute for Technology and Innovation

(d) None of the above

162. The union budget is usually presented on:

(a) 1st January

(b) 31st January

(c) 1st February

(d) 28th February

163. Although the budget is presented on 1st February but the process of budget preparation commenced in _____ of the previous year.

(a) August – September

(b) September – October

(c) October – November

(d) November – December

164. The budget division of which ministry prepares a comprehensive schedule for carrying out the budget preparation activities?

(a) Ministry of Industry

(b) Ministry of Finance

(c) PMO

(d) None of the above

165. Broadly, the budget documents depict information relating

to receipts and expenditure for _____ years.

(*a*) Strictly one year

(*b*) Usually one year

(*c*) Two Years

(*d*) More than two years

166. Who makes a detailed budget speech at the time of presenting the budget before the Lok Sabha?

(*a*) Prime Minister

(*b*) President

(*c*) Finance Minister

(*d*) Governor (RBI)

167. The budget speech reveals the details of the proposals for the new financial year regarding _____ of the government.

(*a*) Taxation

(*b*) Borrowings

(*c*) Expenditure plans

(*d*) All of the above

168. Traditionally, the finance minsters carried the budget in a leather briefcase. Who broke this tradition by carrying the budget in a Bahi khata?

(*a*) Morarji Desai

(*b*) P. Chidambaram

(*c*) Nirmala Sitharaman

(*d*) None of these

169. Which of the following is a part of Annual Financial Statement?

(*a*) Consolidated fund

(*b*) Contingency fund

(*c*) Public Account

(*d*) All of the above

170. Which of the following is/are charged on the consolidated fund of India but are not subject to the vote of parliament?

(*a*) Emoluments and allowances of the President of India

(*b*) Emoluments of Judges of Supreme Court

(*c*) Emoluments of High Ranking personnel of Constitutional bodies across India

(*d*) All of the above

171. By convention in an election, year the budget may be presented:

(*a*) Once as a full fledged budget

(*b*) First to secure a vote on account for few months followed by the full fledged budget

(*c*) First full budget is presented for few months followed by vote on account for period after election

(*d*) No Budget is presented till the new Government takes charge

172. Which of the following is a statement submitted along with the budget as a requirement of FRBM Act.

(*a*) Annual Financial Statement

(*b*) Macro-Economic Framework Statement

(*c*) Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement

(*d*) (*b*) and (*c*) above

173. The union budget is laid on the table of the Rajya Sabha soon after presentment in Lok Sabha. Which of the following is true about Rajya Sabha?

(*a*) Rajya Sabha does not vote on the demand for grants

(*b*) In Rajya Sabha there is general discussion on the budget

(*c*) In Rajya Sabha, same Procedure is followed as that of Lok Sabha

(*d*) Both (*a*) & (*b*)

174. In how many days of its introduction, pass the parliament has to pass the finance Bill?

(*a*) Within 50 days

(*b*) Within 60 days

(*c*) Within 75 days

(*d*) Within 80 days

175. On the last day of the days allotted for discussion on the demands for grants, the speaker put all the outstanding demands for grants to the vote of the house. What is this process called?

(*a*) Budgeting

(*b*) Appropriation

(*c*) Guillotine

(*d*) None of these

176. After the finance bill has been passed by the lok Sabha:

(*a*) It is transmitted to Rajya Sabha for its APPROVAL

(*b*) It is transmitted to Rajya Sabha for its RECOMMENDATIONS

(*c*) It is transmitted to office of PM for APPROVAL

(*d*) It is transmitted to office of president for Recommendations

177. From which year, the date of presentation of budget has been advanced of 1st February?

(*a*) 2015-16

(*b*) 2016-17

(*c*) 2017-18

(*d*) 2018-19

178. As a part of Budgetary reform, the railway budget was merged with the general budget. It has been implemented from the budget for financial year:

(*a*) 2016-17

(*b*) 2017-18

(*c*) 2018-19

(*d*) None of these

179. The railway budget is:

(*a*) Part of the general budget, but is presented by the railway minister

(*b*) Part of the general budget from the budget for financial year 2017-18

(*c*) Part of the general budget from the budget for financial year 2021-22

(*d*) Part of the general budget but presented on the next day of the general budget

Sources of Revenue

180. The Department of Revenue of the Ministry of Finance exercises control in respect of the revenue matters relating to _____.

(*a*) Direct taxes

(*b*) Indirect taxes

(*c*) Both (*a*) & (*b*)

(*d*) Direct and Indirect Union Taxes.

181. What is the statutory board through which the Department of Revenue exercises control in respect of Matters relating to all the direct and indirect union taxes?

(*a*) CBDT

(*b*) CBEC

(c) CBDT & CBEC

(d) CBDT & CBIC

182. As regards levy and collection, which of the following taxes fall with in the purview of CBIC?

(a) GST

(b) GST and Customs

(c) GST, Customs & Centre excise Duties

(d) All direct taxes

183. Corporate tax:

(a) Is collected by the union government and can be a capital receipt or revenue receipt

(b) May be collected by the respective states and fall under revenue receipts

(c) May be collected either by the centre or states and fall under revenue receipts

(d) Is collected by the union government and is a revenue receipt

184. Which of the following is NOT a part of revenue receipts of the Government?

(a) Tax Revenue

(b) Non-Tax revenue

(c) Debt receipts

(d) All of the above

185. Which of the following is NOT a part of non-tax revenues of the Government?

(a) Interest receipts

(b) Dividends and profits from public sector enterprises

(c) Receipts of Union Territories

(d) Recovery of loans and advances

186. Government borrowing is treated as capital receipt because:

(a) It is mainly used for creating assets by government

(b) It creates a liability for the government

(c) Both (a) and (b) above are correct

(d) None of the above is correct

187. Non-debt capital receipts:

(a) Do not add to the assets of the government and therefore not treated as capital receipts

(b) Are those that do not create any future repayment burden for the government

(c) Are those that create future liabilities for the government

(d) Facilitate capital investments at low cost

188. Which of the following is a capital receipt?

(a) Licence fee received

(b) Sale proceeds from disinvestment

(c) Assistance from Japan for covid vaccine

(d) Dividend from a public sector enterprise

189. Government borrowings from foreign governments and institutions:

(a) Capital receipt

(b) Revenue receipt

(c) Accounts for fiscal deficit

(d) Any of the above depending on the purpose of borrowing

Instruction: Read the Following and answer the questions 190 to 192

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

In ₹ lakh Crores

(a)	Recovery of loans	5.1
(b)	Salaries of govt. servants	41.1
(c)	Capital Expenditure	45.0
(d)	Interest payments	1.3
(e)	Payments towards subsidies	3.2
(f)	Other receipts (mainly from disinvestment)	11.6
(g)	Tax revenue (net of states' share)	26.3
(h)	Non-tax revenue	12.3
(i)	Borrowings and other liabilities	6.8
(j)	States' share in tax revenue	11.9

190. The capital receipts are:

(a) 23.5

(b) 19.7

(c) 11.3

(d) None of the above

191. Revenue deficit is:

(a) 23.6

(b) 13.0

(c) 7.0

(d) 2.6

192. The non-debt capital receipts of this country is:

(a) 45.1

(b) 16.7

(c) 15.8

(d) None of the above

193. Receipts from disinvestments will be covered under which of the following categories of receipts?

(a) Capital receipts

(b) Revenue receipts

(c) Cash receipts

(d) Accrued income receipts

194. _____ are receipts of the government which create liabilities or reduce finance assets, e.g., market borrowing, recovery of loans, etc.

(a) Revenue Receipts

(b) Capital Receipts

(c) Donations to Government

(d) Revenue from export

195. The Government receipts which neither create asset nor reduce any liability are called as _____

(a) Revenue Receipts

(b) Capital Receipts

(c) Deferred Receipts

(d) Progressive Receipts

196. Which of the following is a non-tax revenue of the government?

(a) Income tax

(b) Dividend Income

(c) Corporation tax

(d) None of these

Public Expenditure Management

197. Grants given by the central government to state governments is:

(a) A revenue expenditure as it is meant to meet the current expenditure of the states

(b) A revenue expenditure as it does neither creates any asset, nor reduces any liability of the government

(c) A capital expenditure because it increase the capital base of the states

(d) It is a grant and so does not come under revenue expenditure or capital expenditure

198. Salaries, subsidies and interest payments are part of _____ in union budget.

(a) Indirect Expenditure

(b) Revenue Expenditure

(c) Direct Expenditure

(d) Capital Expenditure

199. If an expenditure by the Government of India results in either creation of physical assets or reduction in financial liabilities, then what is the expenditure called?

(a) Union Expenditure

(b) National Expenditure

(c) Revenue Expenditure

(d) Capital Expenditure

200. Which of the following denotes short-term cost related assets that are not capitalized?

(a) Revenue Expenditure

(b) Planned Expenditure

(c) Capital Expenditure

(d) None of these

201. Which of the following will NOT be the effect of unproductive public expenditure?

(a) Larger deficits

(b) Higher economic growth

(c) Higher level of taxation

(d) Greater debt burden in the future

202. Which department of the ministry of finance is the nodal department for overseeing the public financial management system in the Central Government?

(a) Department of Revenue

(b) Department of Taxation

(c) Department of Expenditure

(d) Department of Revenue and Expenditure

203. Which of the following comes under the responsibility of the Department of Expenditure?

(a) Implementation of recommendation of finance commission

(b) Monitoring of audit comments/ observations

(c) Controlling the costs and prices of public services

(d) All of the above

Public Debt Management

204. Public debt management aims at:

(a) An efficient budgetary policy to avail of domestic debt facilities

(b) Raising loans from international agencies at lower rates of interest

(c) Raising the required amount of funding at the desired risk and cost levels

(d) Management of public expenditure to reduce public debt

205. What is the appropriate term for Government debts from internal and external sources contracted in the consolidated fund of India?

(a) General Debt

(b) Public Debt

(c) Government Revenue

(d) None of these

206. Which of the following institution is responsible for public debt management?

(a) Reserve Bank of India

(b) Ministry of Finance

(c) Both (a) & (b)

(d) None of the above

207. Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as:

(a) RBI credit to states

(b) Commercial credit of RBI

(c) Ways and Means Advances (WMA)

(d) Short-term facility

208. Which department of RBI has the responsibility of managing the domestic debt of the Central Government and of State Governments?

(a) Internal Debt management Department

(b) External Debt Management Department

(c) Central Debt Management Department

(d) None of these

209. In which year, the Fiscal Responsibility and Budget Management (FRBM) Act was passed?

(a) 2001

(b) 2002

(c) 2003

(d) 2004

210. Which one of the following is the objective of FRBM Act?

(a) Inter-generational equity in fiscal management

(b) Long run macro economic stability

(c) Better coordination between fiscal and monetary policy

(d) None of the above

211. 'Retail Direct' scheme is:

(a) Initiated by the Reserve Bank of India

(b) Facilitate investment in government securities by individual investors

(c) Direct sale of goods and services by government departments

(d) Both (a) and (b) are correct

212. In which Year, The Public Debt Management Cell (PDMC) was created under the Department of Economic Affairs?

(a) 2003

(b) 2015

(c) 2016

(d) None of these

Types of Budgets

213. A budget is said to be unbalanced when:

(a) When government's revenue exceeds government's expenditure

(b) When government's expenditure exceeds government's revenue

(c) Either budget surplus of budget deficit occurs

(d) All the above

214. Budget of the government generally impacts

(*a*) The resource allocation in the economy

(*b*) Redistribution of income and enhance equity

(*c*) Stability in the economy by measures to control price fluctuations

(*d*) All the above

215. Which of the following is NOT correct about balanced budget?

(*a*) Revenues are equal to expenditures

(*b*) It is not a surplus budget

(*c*) It is not a deficit budget

(*d*) Revenues fall short of expenditure

216. Which of the following is TRUE about deficit budgetary?

(*a*) Estimated government receipts are less than the government expenditures.

(*b*) It increase the liabilities of the Government

(*c*) It decreases the reserves of the Government

(*d*) All of the above

217. Loan obtained from the Reserve Bank of India by the Government of India will be covered under which of the following budget?

(*a*) Capital Budget

(*b*) Revenue Budget

(*c*) Cash Budget

(*d*) Defence Budget

218. _____ refers to the estimated expenditure of the government during a given financial year.

(*a*) Expenditure Budget

(*b*) Demand for Grants

(*c*) Revenue Expenditure

(*d*) None of these

219. Which part of the Union Budget has accounts for capital payment and receipts of the Government?

(*a*) Revenue Budget

(*b*) Capital Budget

(*c*) Expenditure Budget

(*d*) All the above

220. Budgetary Deficit may be calculated as_____

(*a*) Revenue Expenditure – Revenue Receipts

(*b*) Capital Expenditure – Capital Receipts

(*c*) Total Estimated Expenditure (capital & Revenue) – Total Estimated Revenue (capital & Revenue)

(*d*) Excess of estimated revenue over estimated expenditure

221. The difference between the budget deficit of a government and its debt service payments is

(*a*) Fiscal deficit

(*b*) Budget deficit

(*c*) Primary deficit

(*d*) None of the above

The following hypothetical figures relate to country A?

₹ Crores

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

222. The revenue deficit for country A is:

(*a*) 5,000

(*b*) 24,000

(*c*) 4,500

(*d*) None of the above

223. Fiscal deficit of country A is:

(*a*) 14,000

(*b*) 24,000

(*c*) 23,500

(*d*) None of the above

224. Primary deficit of Country A is:

(*a*) 26,000

(*b*) 26,500

(*c*) 22,000

(*d*) 24,500

225. Fiscal deficit of a government must be financed by:

(*a*) Lending by the government

(*b*) Borrowing by the government

(*c*) Spending by the government

(*d*) Government subsidies and grants

226. Net borrowing at home = ₹ 800 Crore.

Borrowing from RBI = ₹ 600 Crore

Borrowing from abroad = ₹ 300 Crore

What is the value of gross fiscal deficit?

(*a*) ₹ 1100 Crore

(*b*) ₹ 100 Crore

(*c*) ₹ 1,700 Crore

(*d*) ₹ 500 Crore

227. When fiscal deficit is financed by borrowing from _____, it is called deficit financing or money creation.

(*a*) Reserve Bank of India

(*b*) Regional Rural Banks

(*c*) Public Sector Banks

(*d*) Private Sector Banks

228. Fiscal Deficit is calculated as a percentage of:

(*a*) NNP

(*b*) GDP

(*c*) NDP

(*d*) None of these

229. Fiscal deficit refers to:

(*a*) The excess of government's revenue expenditure over revenue receipts

(*b*) The excess of total expenditure over total receipts excluding borrowings

(*c*) Primary deficit - interest payments

(*d*) None of these

230. Finance Bill is the bill introduced immediately after the presentation of the union budget detailing the _____ of taxes proposed in the Budget.

(*a*) Imposition

(*b*) Abolition & Alteration

(*c*) Regulation

(*d*) All of the above

231. How the primary deficit is determined?

(*a*) Fiscal Deficit – Net interest liabilities

(*b*) Fiscal Deficit – Interest Payments

(c) Fiscal Deficit – Interest Receipts

(d) None of these

232. Outcome budgeting:

(a) Shares information about the money allocated for various purposes in a budget

(b) Establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators

(c) Establishes a direct link between budgetary performance targets and public account disbursals

(d) Shares information about public policies and programmes under the budget

Consolidated Fund Contingency Fund and Public Account

233. The Appropriation Bill is intended to:

(a) Reduce unnecessary expenditure on the part of the government

(b) Give authority to government to incur expenditure from and out of the Consolidated Fund of India

(c) Give authority to government to incur expenditure from the revenue receipts only

(d) Be passed before the budget is taken for discussion

234. All revenues raised by the government, money borrowed and receipts from loans given by the government flow into the _____.

(a) State Government fund of India

(b) Consolidated Fund of India

(c) Contingency fund of India

(d) Public Account

235. Which of the following is NOT an item of inflow into the consolidated fund of India?

(a) Revenue raised by the Government

(b) Money borrowed

(c) Receipts from loans given by Government

(d) Provident fund and small savings

236. Which of the following gives power to the government to withdraw funds from the consolidated fund of India?

(a) Finance bill

(b) Appropriation Bill

(c) Demand for Grants

(d) None of these

237. The Appropriation bill is introduced in:

(a) Lok Sabha

(b) Rajya Sabha

(c) Either (a) or (b)

(d) Neither (a) nor (b)

238. Which of the following is the key to the Budget?

(a) Consolidated Fund

(b) Contingency Fund

(c) Public Account

(d) DD for Grants

239. Which of the following is the flows for those transactions were the government merely acts as a banker?

(a) Contingency Fund

(b) Profit and Loss A/c

(c) Consolidated Fund

(d) Public Account

240. The expenditure from which of the following funds do not require the approval of the parliament?

(a) DD for grants

(b) Public Account

(c) Contingency fund

(d) Consolidated Fund

241. Expenditure incurred from contingency fund_____.

(a) Is at the disposal of finance minister

(b) For routine expenditure

(c) Which is a ₹ 1,500 crore fund

(d) Requires a subsequent approval from the parliament

242. Which of the following fund is placed at the disposal of the president to enable him/her to make advances to the executive /Government to meet urgent unforeseen expenditure?

(a) Consolidated fund of India

(b) Contingency fund of India

(c) Public Account

(d) None of the above.

UNIT 4 : FISCAL POLICY

Concept and objectives of Fiscal policy

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

(a) A tax cut aimed at increasing the disposable income and spending

(b) A reduction in government expenditure to contain inflation

(c) An increase in taxes and decrease in government expenditure to control inflation

(d) All of the above

244. Fiscal policy refers to the:

(a) Use of government spending, taxation and borrowing to influence the level of economic activity

(b) Government activities related to use of government spending for supply of essential goods

(c) Use of government spending, taxation and borrowing for reducing the fiscal deficits

(d) and (b) above

245. Policies related to _____ is/are collectively known as fiscal policy through which the government manages the economy.

(a) Public Revenue

(b) Public Revenue and Public Expenditure

(c) Public Revenue, public expenditure and public borrowings

(d) None of the above

246. Fiscal policy is in the nature of:

(a) Demand-side Policy

(b) Cost- Side policy

(c) Taxation policy strictly

(d) State Policy

247. An economy which is _____ does not require government action in the form of fiscal policy.

(a) Producing at partial employment level

(b) Producing at full employment level

(c) Producing at excess employment level

(d) None of these

248. Which of the following held the belief that the government should not intervene in the economy because the market mechanism makes the economy self adjusting.

(a) Classical economists

(b) Modern economists

(c) British economists J.M. Keynes

(d) None of the above

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

(a) Increase corporate taxes

(b) Decrease aggregate demand

(c) Increase government purchases

(d) None of the above is correct

250. Keynesian economists believe that:

(a) Fiscal policy can have very powerful effects in altering aggregate demand, employment and output in an economy

(b) When the economy is operating at less than full employment levels and when there is a need to offer stimulus to demand fiscal policy is of great use

(c) Wages are flexible and therefore business fluctuations would be automatically adjusted

(d) (a) and (b) above

251. In 1936, J.M. Keynes advocated increase in government spending:

(a) To combat the recessionary forces in the economy

(b) To solve the problem of unemployment

(c) Both (a) and (b)

(d) None of these

252. In the period of great depression (1930), there was_____

(a) Very low aggregate demand

(b) High levels of unemployment

(c) Both (a) & (b)

(d) None of these

253. Which of the following is/are the most common objectives of fiscal policy?

(a) Achievement and maintenance of full employment

(b) Maintenance of price stability and acceleration of the rate of economic development

(c) Equitable distribution of income and wealth

(d) All of the above

254. What may be the priorities of developing nations as regards objectives of fiscal policy?

(a) Stability

(b) Stability & Growth

(c) Equity

(d) Employment & Equity

255. Which one of the following is NOT in higher priority in developing countries as regards objectives of fiscal policy?

(a) Economic Growth

(b) Employment

(c) Stability

(d) Equity

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

(a) Government expenditures on public works

(b) The rates of personal income taxes and corporate taxes

(c) Government expenditures on goods and services purchased by government

(d) The rate of interest prevailing in the economy

Types of Fiscal Policy

257. Which of the following is NOT a type of Fiscal policy?

(a) Expansionary Fiscal policy

(b) Contractionary Fiscal policy

(c) Progressive fiscal policy

(d) All of the above

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

(a) A relative large increase in GDP and a smaller increase in price

(b) A relative large increase in price, a relatively smaller increase in GDP.

(c) Both GDP and price will be increasing in the same proportion

(d) Both GDP and price will be increasing in a smaller proportion

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

(a) Increase in government spending

(b) Decrease in taxes

(c) A tax cut along with increase in public expenditure

(d) All the above

260. While resorting to expansionary fiscal policy:

(a) The government may possibly have a budget surplus as increased expenditure will bring more output and more tax revenue

(b) The government may run into budget deficits because tax cuts reduce government income and the government expenditures exceed tax revenues in a given year

(c) It is important to have a balanced budget to avoid inflation and bring in stability

(d) None of the above will happen

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

(a) It is likely that interest rates will go up and firms may not be willing to invest

(b) It is likely that interest rates will go up and the individuals too may be reluctant to borrow and spend

(c) It is likely that interest rates will go up and the desired increase in aggregate demand may not be realized

(d) All the above are possible

262. A recession is characterized by:

(a) Declining prices and rising employment

(b) Declining unemployment and rising prices

(c) Declining real income and rising unemployment

(*d*) Rising real income and rising prices

263. Contractionary fiscal policy

(*a*) Is resorted to when government expenditure is greater than tax revenues of any particular year

(*b*) Increase the aggregate demand to sustain the economy

(*c*) To increase the disposable income of people through tax cuts and to enable greater demand

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

264. Contractionary Fiscal policy works through:

(*a*) Decrease in Government Spending

(*b*) Increase in personal income tax / Business taxes

(*c*) Combination of (*a*) & (*b*)

(*d*) Increase in Government Spending and decrease in personal income tax.

The Instruments of Fiscal policy

265. Which of the following is included in Government Expenditure?

(*a*) Current expenditures to meet the day–to–day running of the government

(*b*) Capital Expenditures

(*c*) Transfer Payments

(*d*) All of the above

266. Which of the following CANNOT be considered as an instrument of fiscal policy?

(*a*) Government Expenditure

(*b*) Taxes and Public Debt

(*c*) Budget

(*d*) RBI Policy

267. Which of the following is an indirect effect of increase in Government expenditure?

(*a*) Generation of Incomes to labour

(*b*) Generation of Incomes to suppliers of material

(*c*) Both (*a*) and (*b*)

(*d*) Spending by people on consumer goods

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

(*a*) The government may cut interest rates to encourage consumption and investment

(*b*) The government may cut taxes to increase aggregate demand

(*c*) The government may follow a policy of balanced the budget

(*d*) None of the above will work

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

(*a*) Increase taxes and decrease government spending

(*b*) Decrease both taxes and government spending

(*c*) Decrease taxes and increase government spending

(*d*) Either (*a*) or (*c*)

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

(A) Rising unemployment rate

(B) Falling unemployment rate

(C) Rising inflation rate

(D) Deflation

(E) Falling or stagnant wage for workers

(F) Increasing tax revenue

(G) Falling tax revenue

(*a*) A, B and F are most likely to occur

(*b*) B, C and F are most likely to occur

(*c*) D, E and F are most likely to occur

(*d*) A, E and G are most likely to occur

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

(*a*) Increasing the taxes and reducing the aggregate demand

(*b*) Decreasing taxes to ensure higher disposable income

(*c*) Increasing government expenditure and increasing taxes

(*d*) None of the above

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

(*a*) The government is resorting to contractionary fiscal policy

(*b*) The government is resorting to expansionary fiscal policy

(*c*) Trying to limit aggregate demand to sustainable levels

(*d*) (*a*) and (*c*) above

273. An increase in personal income taxes:

(*a*) Reduces disposable incomes leading to fall in consumption spending and aggregate demand

(*b*) Is desirable during inflation or when there is excessive levels of aggregate demand

(*c*) Is to compensate the deficiency in effective demand by boosting aggregate spending

(*d*) Both (*a*) and (*b*) are correct

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

(*a*) Decrease in all types of government spending and/or an increase in taxes

(*b*) Increase in government spending and/or a decrease in taxes

(*c*) Decrease in government spending and/or a decrease in taxes

(*d*) All the above

275. Read the following statements.

I. Fiscal policy is said to be contractionary when revenue is higher than spending *i.e.*, the government budget is in surplus

II. Other things constant, a fiscal expansion will raise interest rates and "crowd out" some private investment

III. During inflation new taxes can be levied and the rates of existing taxes are raised to reduce disposable incomes

IV. Classical economists advocated contractionary fiscal policy to solve the problem of inflation

Of the above statements

(*a*) I and II are correct

(*b*) I, II and III are correct

(*c*) Only III is correct

(*d*) All are correct

276. Identify the incorrect statement.

(*a*) A progressive direct tax system ensures economic growth with

stability because it distributes the burden of taxes unequally

(*b*) A carefully planned policy of public expenditure helps in redistributing income from the rich to the poorer sections of the society

(*c*) There are possible conflicts between different objectives of fiscal policy such that a policy designed to achieve one goal may adversely affect another

(*d*) An increase in the size of government spending during recessions may possibly 'crowd-out' private spending in an economy

277. Which of the following is INCORRECT about public Debt?

(*a*) When the government borrows from its own people in the country, it is called internal debt.

(*b*) When the government borrows from outside sources, the debt is called external debt

(*c*) Public debt takes two forms namely, market loans and small savings

(*d*) Public debt cannot be used to fight inflation

Fiscal policy for long-run Economic Growth and for reduction inequalities of income and wealth

278. When the environment taxes are increased by the government, then_____

(*a*) Cost of firms increases

(*b*) The Output of firms reduces

(*c*) Income of individual increases

(*d*) Both (*a*) and (*b*)

279. Which of the following is INCORRECT as regards Fiscal Policy as an instrument for long run economic growth?

(*a*) Fiscal policies such as those involving infrastructure spending generally have positive supply-side effects

(*b*) Taxes can have either positive or negative impact on economic growth depending on whether it encourages or discourages saving and investment

(*c*) Subsidies on inputs and support prices to producers (e.g. farmers) generate higher output

(*d*) None of the above

280. Fiscal policy is a chief instrument available for governments:

(*a*) To influence income distribution

(*b*) In reducing inequality

(*c*) In achieving equity and social justice

(*d*) All of above are correct

281. Which of the following is Not effective in redistribution of income from rich to the poorer sections of the society?

(*a*) Poverty alleviation programmes

(*b*) Free or subsidised medical care, education, housing, etc.

(*c*) Social security schemes

(*d*) A regressive tax systems

Limitations of Fiscal policy

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

(*a*) The time required to identify the appropriate policy

(*b*) The time required to identify to pass a legislation

(*c*) The time required to identify the need for a policy change

(*d*) The time required to establish the outcomes of fiscal policy

283. Which of the following is NOT a type of lags involved in fiscal –policy action?

(*a*) Recognition Lag

(*b*) Decision Lag

(*c*) Implementation Lag

(*d*) Progressive Lag

284. Which of the following lag occurs when the outcomes of a policy are not visible for sometime?

(*a*) Impact Lag

(*b*) Decision Lag

(*c*) Recognition Lag

(*d*) Artificial Lag

285. Which one of the following lags is involved in fiscal –policy action under a democratic setup?

(*a*) Recognition Lag

(*b*) Implementation Lag

(*c*) Decision Lag

(*d*) Impact Lag

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

I. A decline in private spending may be partially or completely offset by the expansion of demand resulting from an increase in government expenditure.

II. Crowding out effect is the negative effect fiscal policy may generate when money from the private sector is 'crowded out' to the public sector.

III. When spending by government in an economy increases government spending would be crowded out.

IV. Private investments, especially the ones which are interest-sensitive, will be reduced if interest rates rise due to increased spending by government.

(*a*) I and III only

(*b*) I, II and III

(*c*) I, II and IV

(*d*) III only

287. During deep recessions crowding-out is less likely to happen as private sector investment is already minimal. Therefore, there is _____ to crowd out.

(*a*) Only insignificant private spending

(*b*) Only insignificant public spending

(*c*) Only significant private spending

(*d*) Only significant public spending

288. During a recession phase, the government would be able to borrow from the market _____ the interest rates.

(*a*) By increasing

(*b*) By decreasing

(*c*) Without increasing

(*d*) None of these

Answer

1.	(d)	2.	(d)	3.	(d)	4.	(d)	5.	(a)	6.	(b)	7.	(d)
8.	(c)	9.	(c)	10.	(a)	11.	(d)	12.	(b)	13.	(d)	14.	(d)
15.	(d)	16.	(b)	17.	(b)	18.	(b)	19.	(c)	20.	(a)	21.	(a)
22.	(c)	23.	(c)	24.	(a)	25.	(c)	26.	(a)	27.	(b)	28.	(d)
29.	(d)	30.	(c)	31.	(d)	32.	(a)	33.	(c)	34.	(a)	35.	(a)
36.	(d)	37.	(c)	38.	(b)	39.	(c)	40.	(a)	41.	(b)	42.	(d)
43.	(c)	44.	(c)	45.	(d)	46.	(d)	47.	(a)	48.	(d)	49.	(b)
50.	(c)	51.	(c)	52.	(c)	53.	(d)	54.	(c)	55.	(d)	56.	(b)
57.	(a)	58.	(c)	59.	(b)	60.	(c)	61.	(b)	62.	(a)	63.	(b)
64.	(c)	65.	(b)	66.	(c)	67.	(d)	68.	(c)	69.	(b)	70.	(a)
71.	(b)	72.	(a)	73.	(d)	74.	(d)	75.	(d)	76.	(c)	77.	(b)
78.	(b)	79.	(a)	80.	(c)	81.	(b)	82.	(d)	83.	(a)	84.	(a)
85.	(a)	86.	(a)	87.	(c)	88.	(c)	89.	(d)	90.	(c)	91.	(d)
92.	(b)	93.	(d)	94.	(b)	95.	(a)	96.	(c)	97.	(c)	98.	(a)
99.	(a)	100.	(c)	101.	(c)	102.	(d)	103.	(a)	104.	(d)	105.	(b)
106.	(b)	107.	(a)	108.	(b)	109.	(d)	110.	(c)	111.	(c)	112.	(d)
113.	(a)	114.	(b)	115.	(d)	116.	(c)	117.	(b)	118.	(b)	119.	(c)
120.	(d)	121.	(b)	122.	(d)	123.	(a)	124.	(d)	125.	(a)	126.	(d)
127.	(c)	128.	(d)	129.	(d)	130.	(b)	131.	(d)	132.	(d)	133.	(d)
134.	(d)	135.	(c)	136.	(c)	137.	(c)	138.	(b)	139.	(d)	140.	(a)
141.	(d)	142.	(d)	143.	(d)	144.	(a)	145.	(a)	146.	(a)	147.	(d)
148.	(c)	149.	(d)	150.	(c)	151.	(d)	152.	(b)	153.	(a)	154.	(c)
155.	(a)	156.	(a)	157.	(d)	158.	(d)	159.	(b)	160.	(d)	161.	(b)
162.	(c)	163.	(a)	164.	(b)	165.	(c)	166.	(c)	167.	(d)	168.	(c)
169.	(d)	170.	(d)	171.	(b)	172.	(d)	173.	(d)	174.	(c)	175.	(c)
176.	(b)	177.	(c)	178.	(b)	179.	(b)	180.	(d)	181.	(d)	182.	(c)
183.	(d)	184.	(c)	185.	(d)	186.	(b)	187.	(b)	188.	(b)	189.	(a)
190.	(a)	191.	(c)	192.	(b)	193.	(a)	194.	(b)	195.	(a)	196.	(b)
197.	(b)	198.	(b)	199.	(d)	200.	(a)	201.	(b)	202.	(c)	203.	(d)
204.	(c)	205.	(b)	206.	(c)	207.	(c)	208.	(a)	209.	(c)	210.	(d)
211.	(a)	212.	(c)	213.	(d)	214.	(d)	215.	(d)	216.	(d)	217.	(a)
218.	(a)	219.	(b)	220.	(c)	221.	(c)	222.	(c)	223.	(b)	224.	(c)
225.	(b)	226.	(c)	227.	(a)	228.	(b)	229.	(d)	230.	(d)	231.	(a)
232.	(b)	233.	(b)	234.	(b)	235.	(d)	236.	(b)	237.	(a)	238.	(a)
239.	(d)	240.	(b)	241.	(d)	242.	(b)	243.	(d)	244.	(a)	245.	(c)

246.	(a)	247.	(b)	248.	(a)	249.	(c)	250.	(d)	251.	(c)	252.	(c)
253.	(d)	254.	(b)	255.	(c)	256.	(d)	257.	(c)	258.	(a)	259.	(d)
260.	(b)	261.	(d)	262.	(c)	263.	(d)	264.	(c)	265.	(d)	266.	(d)
267.	(d)	268.	(b)	269.	(c)	270.	(b)	271.	(b)	272.	(b)	273.	(d)
274.	(a)	275.	(b)	276.	(a)	277.	(d)	278.	(d)	279.	(d)	280.	(d)
281.	(d)	282.	(c)	283.	(d)	284.	(a)	285.	(b)	286.	(c)	287.	(a)
288.	(c)												

Hints of selected questions

8. The allocation and distribution functions are primarily macroeconomic functions, while stabilization is a macroeconomic function.

15. Option (*d*) is related with the redistribution function.

29. Option (*d*) is part of the Allocation function.

129. The Option (*d*) is demerit goods.

130. Merit goods maximised Social welfare. Therefore, merit goods are socially desirable.

139. In case of demerit goods, the government can fix a minimum price below which these goods should not be exchanged.

144. Government has initiated Minimum Support Price (MSP) programme.

149. Option (*d*) is not the government intervention for equitable distribution such advertising standard are infact for correcting information failure.

235. The option (*d*) is an item of public account.

277. A rational policy of public borrowing and debt repayment is a potential weapon to fight inflation and deflation.

281. A regressive tax system levies the same percentage on products or goods purchased regardless of the buyer's income. Infact, A progressive direct tax system ensures that those who have greater ability to pay contribute more towards defraying the expenses of government.

285. Implementation lag occurs when appropriate policy measures are decided on, but there are possible delay in bringing in legislation and implementing them on account of bureaucracy. This is specially so under a democratic Setup.

8

CHAPTER

MONEY MARKET

UNIT 1 : THE CONCEPT OF MONEY DEMAND: IMPORTANT THEORIES

Introduction to Money

1. Barter exchange refers to exchange of goods/services for goods/services. Which of the following is the limitation of Barter exchange?

(*a*) Lack of Double coincidence of wants

(*b*) Lack of store of value

(*c*) Lack of common measure of value

(*d*) All of the above

2. Which of the following is the primary function of money?

(*a*) Medium of exchange

(*b*) Standard of Deferred Payments

(*c*) Store of value

(*d*) All of the above

3. Which function of money is also known by the name of "Unit of Account"?

(*a*) Medium of exchange

(*b*) Standard of deferred Payments

(*c*) Measure of value

(*d*) Store of value

4. If there were no money, we would be reduced to a _____.

(*a*) Non-Monetary Economy

(*b*) Barter Economy

(*c*) Monetary Economy

(*d*) None of the above

5. Fiat money is materially _____ but has _____ simply because a nation collectively agreed to ascribe a value to it.

(*a*) Worthless, value

(*b*) Valuable, worthless

(*c*) Transparent, liquid

(*d*) Liquid, exchangeability

6. Which of the following is Not a Part of general characteristics that money should possess in order to make it serve its function as money.

(*a*) Generally Acceptable & possessing uniformity

(*b*) Durable or long-lasting

(*c*) Portable & effortlessly recognizable

(*d*) Easily counterfeitable

7. Any unit of money, whose face value and intrinsic value are equal, is known as _____.

(*a*) Full-Bodied Money

(*b*) Representative full-bodied money

(*c*) Credit money

(*d*) All of the above

8. Which one of the following form of legal tender money can be paid in discharge of a debt up to a certain limit only?

(*a*) Coins

(*b*) Paper Notes

(*c*) Cheques

(*d*) Bank Draft

9. Choose the incorrect statement.

(*a*) Anything that would act as a medium of exchange is money

(*b*) Money has generalized purchasing power and is generally acceptable in settlement of all transactions

(*c*) Money is a totally liquid asset and provides us with means to access goods and services

(*d*) Currency which represents money does not necessarily have intrinsic value

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

(*a*) Medium of exchange, price control, store of value

(*b*) Unit of account, store of value, provide yields

(*c*) Medium of exchange, unit of account, store of value

(*d*) Medium of exchange, unit of account, income distribution

The Demand for Money

11. Demand for money is:

(*a*) Derived demand

(*b*) Direct demand

(*c*) Real income demand

(*d*) Inverse demand

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

(*a*) Demand for money, opportunity cost, interest rate

(*b*) Price level, opportunity cost, interest rate

(*c*) Real income, opportunity cost, demand for money

(*d*) Interest rate, opportunity cost, demand for money

13. The money is demanded for its purchasing power. Therefore, the demand for money is in the nature of _____.

(*a*) Purchasing power demand

(*b*) Real power demand

(*c*) Direct demand.

(*d*) Derived demand

14. The demand for money is actually

(*a*) Demand for liquidity

(*b*) Demand to store value

(*c*) Both (*a*) and (*b*)

(*d*) None of the above

15. The decision about how much of one's given stock of wealth should be held in the form of money rather than as other assets (like bonds) is called as _____.

(*a*) Demand for money

(*b*) Decision for money

(*c*) Supply of money

(*d*) None of above

16. The individuals, households as well as firms hold money which gives little or no return. This is because _____.

(*a*) Money is liquid

(*b*) Money has demonstration effect

(*c*) Money gives authority

(*d*) None of these

17. The quantity of nominal money or how much money people would like to hold in liquid form depends many factors. Which of the following is the variable on which this demand for money demands?

(*a*) Income

(*b*) General level of prices & rate of interest

(*c*) Real GDP and the degree of financial innovation

(*d*) All of the above

18. The quantity which people desire to hold is _____ proportional to the income.

(*a*) Directly

(*b*) Inversely

(*c*) Regressive

(*d*) None of these

19. The Demand for money depends upon prevailing price level. _____ the prices, _____ should be the holding of money.

(*a*) Lower, Higher

(*b*) Higher, Lower

(*c*) Higher, Higher

(*d*) Lower, Lower

20. Which of the following innovation, has reduced the need for holding liquid money?

(*a*) Internet Banking

(*b*) Application based transfer

(*c*) Automated Teller Machines

(*d*) All of the above

21. The rate of interest is crucial factor on which demand for money depends on. The demand for money is _____ proportional to the interest rate.

(*a*) Directly

(*b*) Inversely

(*c*) Progressively

(*d*) None of the above

Theories of Demand for money

22. Which one of the following is not a theory of Demand for money?

(*a*) The quantity theory of money

(*b*) Hicksian theory of Demand

(*c*) Cash Balance Approach

(*d*) Keynesian theory of Demand for money

23. The quantity theory of money holds that:

(*a*) Changes in the general level of commodity prices are caused by changes in the quantity of money

(*b*) There is strong relationship between money and price level and the quantity of money is the main determinant of the price

(*c*) Changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation

(*d*) All of the above

24. Which theory was propounded in the book "The Purchasing power of money"?

(*a*) Quantity theory of money

(*b*) Cash Balance Approach

(*c*) Keynesian theory of Demand for money

(*d*) None of these

25. As regards Fisher's quantity of money, which of the following is incorrect?

(*a*) There is direct relationship between money supply and inflation

(*b*) There is indirect relationship between money supply and value of money

(*c*) Price is a passive factor

(*d*) The economy is not at full employment

26. Both the versions of the quantity theory of money demonstrate that there is a _____ relationship between money and price level and the quantity of money is the _____ determinant of the price level or value of money.

(*a*) Weak, main

(*b*) Strong, main

(*c*) Weak, very passive

(*d*) Strong, very passive

27. Which one of following is the criticism of Quantity theory of money?

(*a*) Velocity of money (V) and total number of transactions (T) are constant

(*b*) There is full employment in economy

(*c*) Money is only used as medium of exchange

(*d*) All of the above

28. Fisher's version is formally stated as MV=PT. In this equation of exchange.

(*a*) M and V are constant

(*b*) P and T are constant

(*c*) M and P are constant

(*d*) V and T are constant

29. Which are of the following is the expanded form of Fisher's equation of exchange?

(*a*) MV=PT

(*b*) MV+M′V′=P′T′

(*c*) MV=PT+PT

(*d*) MV+M′V′=PT+P′T′

30. As per fisher's expanded quantity theory of money, the total value of transactions made is equal to_____ and the value of money flow is equal to _____.

(*a*) MV; PT

(*b*) PT; MV

(*c*) PT; MV+M′V′

(*d*) MV+M′,V′; PT

31. The Cambridge approach to quantity theory is also known as:

(*a*) Cash balance approach

(*b*) Fisher's theory of money

(*c*) Classical approach

(*d*) Keynesian Approach

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

(*a*) Money's role in acting as a store of value and therefore, demand for money is for storing value temporarily

(*b*) Money as a means of exchange and therefore demand for money is termed as for liquidity preference

(*c*) Money as a means of transactions and therefore, demand for money is only transaction demand for money

(*d*) None of the above

33. The Cambridge equation is:

M^d=K.P.Y.

In above equation, _____ is exogenous.

(*a*) M^d

(*b*) K

(*c*) P

(*d*) Y

34. The Cambridge equation focuses on _____ instead of _____.

(*a*) Money demand; money supply

(*b*) Money supply; money demand

(*c*) Money demand; money movement

(*d*) Money supply; money movement

35. The cash balance approach was put forward by Cambridge economists. The economists associated with this approach are:

(*i*) Alfred Marshall

(*ii*) A.C. Pigou

(*iii*) D.H. Robertson

(*iv*) John Maynard Keynes

(*a*) (*i*) only

(*b*) (*i*) and (*ii*)

(*c*) (*i*), (*ii*) and (*iii*)

(*d*) (*i*), (*ii*), (*iii*) and (*iv*)

36. The Cambridge money demand function is stated as follows:

M_d=KPY.

In this equation, PY stands for:

(*a*) National Income

(*b*) Real National Income

(*c*) Nominal Income

(*d*) Real Income.

37. In Cambridge money demand function, _____ is a parameter reflecting the proportion of national income (PY) that people want to hold as cash balance:

(*a*) M_d

(*b*) K

(*c*) P

(*d*) Y

38. Real money is:

(*a*) Nominal money adjusted to the price level

(*b*) Real national income

(*c*) Money demanded at given rate of interest

(*d*) Nominal GNP divided by price level

39. With reference to Cambridge theory, the product of the price level (P) and the real Income (Y) is known as _____.

(*a*) Nominal Income

(*b*) National Income

(c) Real Income

(d) Equilibrium Income

40. The Keynesian Theory of Demand for money is also called as:

(a) Demand Preference Theory

(b) Liquidity Preference Theory

(c) Preference Demand Theory

(d) Preference Liquidity Theory

41. The people hold their resources in liquid form when they can get interest by lending money or buying bonds or stocks. According to Keynes, by which motive the desire to hold money arises?

(a) Transaction motive

(b) Precautionary motive

(c) Speculative motive

(d) All of the above

42. The receipt of money and payments do not coincide. So, a certain amount of cash is kept in hand to make current payments. Which motive is this, according to the Keynesian Theory?

(a) Transaction motive

(b) Precautionary motive

(c) Speculative motive

(d) Unforeseen motive

43. According to John Maynard Keynes, the transactions demand for money depends only on the _____ and not influenced by the _____.

(a) Rate of Interest, level of Income

(b) Level of Income, Rate of Interest

(c) Psychology of individual, Real Income

(d) Psychology of individual, Rate of Interest

44. As per liquidity preference theory, the transactions demand for money is a _____proportional and _____ function of the level of income.

(a) Direct, positive

(b) Indirect, positive

(c) Direct, negative

(d) Indirect, negative

45. Under Keynesian theory, the aggregate transaction demand for money is a function of _____.

(a) Specific Income

(b) Individual Income

(c) Notional Income

(d) National Income

46. The precautionary money balances people want to hold_____.

(a) As income elastic and not very sensitive to rate of interest

(b) As income inelastic and very sensitive to rate of interest

(c) Are determined primarily by the level of transactions they expect to make in the future

(d) Are determined primarily by the current level of transactions

47. Under _____ motive, people hold money in cash form or liquid form for unforeseen contingencies such as sickness, accident, danger of unemployment and other uncertain perils.

(a) Transaction

(b) Speculative

(c) Precautionary

(d) Non-contingency

48. Prof. J.M. Keynes regarded the Precautionary balances as income _____ and by itself not very sensitive to _____.

(a) Elastic, rate of interest

(b) Inelastic, rate of interest

(c) Elastic, level of income

(d) Inelastic, level of income

49. The amount of money demanded under the precautionary motive depends on _____.

(a) Size of income

(b) Prevailing economic/political conditions

(c) Personal characteristics of individual

(d) All of the above

50. Speculative demand for money _____

(a) Is not determined by interest rates

(b) Is positively related to interest rates

(c) Is negatively related to interest rates

(d) Is determined by general price level

51. Which one the following motive reflects people's, desire to hold cash in order to be equipped to exploit any attractive investment opportunity requiring cash expenditure?

(a) Transaction motive

(b) Precautionary motive

(c) Speculative motive

(d) Non-speculative motive

52. Under liquidity preference theory, Keynes assumed that the expected return on money is _____ while the expected return on bonds are _____ and _____.

(a) Zero, interest payment, expected rate of capital gain

(b) One, interest payment, expected rate of capital gain

(c) Zero, fixed interest, fixed loss

(d) None of the above

53. With reference to speculative demand for money, the market value of bonds and the market rate of interest are _____ related.

(a) Positively

(b) Inversely

(c) Directly

(d) Not

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

(a) People will demand more money because the capital gain on bonds would be less than return on money

(b) People will expect the interest rate to rise and bond price to fall in the future

(c) People will expect the interest rate to fall and bond price to rise in the future

(d) Either (a) or (b) will happen

55. Under liquidity preference theory, if the current rate of interest is lower than the critical rate of interest, his asset portfolio would consist _____.

(a) Only government bonds

(b) Wholly of cash

(c) Both cash and bonds equally

(d) Either cash or bonds

56. _____ is an adverse economic situation that can occur when consumers and investors hoard cash rather than spending or investing it even when interest rates are low.

(*a*) Liquidity trap

(*b*) Monetary trap

(*c*) Precautionary trap

(*d*) Stimulus trap

57. There is a liquidity trap at short term _____ per cent interest rate.

(*a*) 10

(*b*) 7.5

(*c*) 5

(*d*) Zero

58. Which of the following statement is correct, in the situation of liquidity trap?

(*a*) Investors would maintain cash savings rather than hold bonds

(*b*) The speculative demand becomes perfectly elastic with respect to interest rate

(*c*) The speculative money demand curve becomes parallel to the X-axis

(*d*) All of the above

59. In the situation of liquidity trap, the monetary authority is _____ to stimulate the economy with monetary policy.

(*a*) Unable

(*b*) Able

(*c*) Perfectly able

(*d*) Very effective

Post-Keynesian Developments in the Theory of demand for Money

60. The inventory-theoretic approach to the transactions demand for money_____.

(*a*) Explains the negative relationship between money demand and the interest rate

(*b*) Explains the positive relationship between money demand and the interest rate

(*c*) Explains the positive relationship between money demand and general price level

(*d*) Explains the nature of expectations of people with respect to interest rates and bond prices

61. In which approach, the money or real cash balance was essentially viewed as an inventory held for transaction purposes.

(*a*) Inventory explicit Approach

(*b*) Inventory implicit Approach

(*c*) Inventory theoretic Approach

(*d*) Inventory regressive Approach

62. Who has developed deterministic theory of transaction demand for money known as Inventory Theoretic approach?

(*a*) Baumol and Tobin

(*b*) Baumol and Fisher

(*c*) Tobin and Fisher

(*d*) Baumol and Marshall

63. According to Baumol which of the following formula can be used to calculate the average amount of cash withdrawal which minimises cost?

(*a*) $C = \sqrt{2byr}$

(*b*) $C = \sqrt{\frac{2by}{r}}$

(*c*) $C = \sqrt{\frac{byr}{2}}$

(*d*) $C = \sqrt{\frac{2br}{y}}$

64. In accordance with the Inventory Theoretic Approach, an individual combines his asset portfolio of _____ and _____ in such proportions that his _____ of holding the assets is minimized.

(*a*) Cash; bonds; overall cost

(*b*) Shares; bonds; overall cost

(*c*) Cash; bond; bond cost

(*d*) Cash; bond; Cash cost

65. The nominal demand for money rises if:

(*a*) The opportunity costs of money holdings - *i.e.* bonds and stock returns, r_B and r_E, respectively- decline and *vice versa*

(*b*) The opportunity costs of money holdings - *i.e.* bonds and stock returns, r_B and r_E, respectively- rises and *vice versa*

(*c*) The opportunity costs of money holdings - *i.e.* bonds and stock returns, r_B and r_E, respectively remain constant

(*d*) (*b*) and (*c*) above

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

(*a*) Baumol

(*b*) James Tobin

(*c*) J. M. Keynes

(*d*) Milton Friedman

67. As per Milton Friedman's restatement of the quantity Theory, the nominal demand for money is a function of _____, which is represented by permanent income divided by the _____ rates, defined as the average return on the _____ asset classes in the monetarist theory world.

(*a*) Total wealth, discount, five

(*b*) Total wealth, Interest, five

(*c*) Permanent wealth, Interest, six

(*d*) None of these

68. As per Friedman's theory, the nominal demand for money is influenced by inflation, a positive inflation rate _____ the real value of money balances, there by _____ the opportunity costs of money holdings.

(*a*) Increases, reduces

(*b*) Reduces, increasing

(*c*) Stimulates, reduces

(*d*) None of these

69. The present expected value of all future income is Friedman's measure of wealth. Friedman's regarded this as _____.

(*a*) Permanent income

(*b*) Current income

(*c*) Temporary income

(*d*) Flexible income

70. Under Friedman's Quantity theory, the nominal demand for money is _____ related to the price level.

(*a*) Negatively

(*b*) Positively

(c) Regressively

(d) Not

71. According to James Tobin's theory, an individual's behaviour shows risk aversion, which means they prefer ____ risk to _____ risk at a given rate of return.

(a) Less, more

(b) More, less

(c) Less, positive

(d) More, negative

72. Tobin's theory holds that people prefer _____ portfolio of money, bonds and shares, with each person opting for a little different balance between risk and return.

(a) Mixed

(b) Diversified

(c) Mixed or diversified

(d) non-diversified

73. In Tobin's portfolio approach, the demand function for money as an asset slopes downwards, where horizontal axis shows _____ and vertical axis shows _____.

(a) Demand for money, rate of interest

(b) Rate of interest, demand for money

(c) Supply for money, rate of Interest

(d) Demand for money, supply for Money

74. The demand for money as behaviour towards "aversion to risk" was propounded by:

(a) Fisher

(b) Marshall

(c) Friedman

(d) Tobin

75. Which of the following statement holds true with reference to Tobin's Demand for money theory involving individual's behaviour towards risk?

(a) Money is a safe asset

(b) Investor will be willing to exercise a trade-off

(c) Investor sacrifice to some extent, the higher return from bonds for a reduction in risk

(d) All of the above

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

(a) A positive function of income Y and the price level P

(b) A positive function of transactions costs c,

(c) A negative function of the nominal interest rate *i*

(d) All the above

UNIT 2 : CONCEPT OF MONEY SUPPLY

Money Supply : Rationale & Sources

77. The total stock of money held by the _____ in an economy at a particular point of time is called Money Supply.

(a) Public

(b) Government

(c) Banks

(d) Corporate Entities

78. Money Supply is a _____ variable.

(a) Flow

(b) Stock

(c) Both (a) & (b)

(d) None of the above

79. Money Supply does not include stock of money held by the _____ as well as _____ of country.

(a) Public, government

(b) Public, banking system

(c) Government, banking system

(d) Public, banks

80. Which one of the following is the feature of money supply?

(a) Money includes money held by public only

(b) Money does not include money-creating sector (suppliers of money)

(c) Money is a stock concept, as it is concerned with a particular point of time

(d) All of the above

81. Choose the correct statement from the following:

(a) Money is deemed as something held by the public and therefore only currency held by the public is included in money supply

(b) Money is deemed as something held by the public and therefore inter-bank deposits are included in money supply

(c) Since inter-bank deposits are not held by the public, therefore inter-bank deposits are excluded from the measure of money supply

(d) Both (a) and (c) above

82. Which one of the following is not the producers of money?

(a) Government

(b) Banking System

(c) Household & Firms

(d) All of the above

83. In the definition of money supply, the term public includes economic unit:

(a) Households

(b) Firms

(c) Institutions

(d) All of the above

84. While discussing the definition of "Supply of Money" and the Standard measures of money, _____ is/are not included.

(a) Inter bank Deposits

(b) Money held by the Government

(c) Banking System

(d) All of the above

85. In the definition of money supply, the word "public" includes:

(a) All Local Authorities

(b) Non-Banking Financial Institutions

(c) Foreign Central Banks

(d) All of the above

86. The Central Banks all over the World adopt monetary policy which depends to a large extent on the controllability of the:

(a) Monetary base

(b) Money Supply

(c) Monetary base & the money Supply

(d) Money Supply & money demand

87. The empirical analysis of the _____ facilitates analysis of monetary developments in order to

provide a deeper Understanding of the causes of money growth.

(a) Money Supply
(b) Money Demand
(c) Money supplied by households
(d) Money demanded by Governments

88. The supply of money in the economy depends on the decision of:

(a) Commercial Banks
(b) Central Bank
(c) Ministry of Finance
(d) Central Government

89. Paper currency is a:

(a) Representative Money
(b) Full-bodied Money
(c) Metallic Money
(d) None of the above

90. The primary source of money supply in all countries is:

(a) The Reserve Bank of India
(b) The Central bank of the country
(c) The Bank of England
(d) The Federal Reserve

91. The supply of money in an economy depends on.

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

92. Under the 'minimum reserve system' the central bank is_____.

(a) Empowered to issue currency to any extent by keeping an equivalent reserve of gold and foreign securities
(b) Empowered to issue currency to any extent by keeping only a certain minimum reserve of gold and foreign securities
(c) Empowered to issue currency in proportion to the reserve money by keeping only a minimum reserve of gold and foreign securities
(d) Empowered to issue currency to any extent by keeping a reserve of gold and foreign securities to the extent of ₹ 350 crores

93. The Money is a liability of the _____ and an asset of the _____.

(a) Issuing central bank, holding public
(b) Pubic, central bank
(c) Issuing central bank, central government
(d) Central government, issuing central bank

94. The currency issued by the Central Bank is "FIAT MONEY" and is backed by supporting _____ and its value is guaranteed by the _____.

(a) Currency, central Bank
(b) Currency, government
(c) Reserves, government
(d) Reserves, central bank

95. Banks create money supply in the process of borrowing and lending transactions with the public. Money so created by the commercial Banks is called:

(a) Credit Money
(b) Artificial Money
(c) Debit Money
(d) None of these

96. Which of the following is a type of money?

(a) Metallic Currency
(b) Paper Currency
(c) Digital Currency
(d) All of the above

97. With the advent of cutting edge technologies and advancement in technology has made it possible for the development of new form of money *viz.* CBDC. What is the full form of CBDC?

(a) Central Bank Digital Certificate
(b) Central Bank Dynamic Certificate
(c) Central Bank Digital Currency
(d) Central Bank Dynamic Currency

98. At present, which of the following Statement is true about the crypto currencies?

(a) These face Significant Legislative Uncertainties
(b) These are not legally recognised in India as currency
(c) These are not categorized as money
(d) All of the above

99. Banks in the country are required to maintain deposits with the central bank_____.

(a) To provide the necessary reserves for the functioning of the central bank
(b) To meet the demand for money by the banking system
(c) To meet the central bank prescribed reserve requirements and to meet settlement obligations
(d) To meet the money needs for the day to day working of the commercial banks

100. "Money" consists of currency and _____, while "High Powered Money". Consists of currency and _____.

(a) Demand deposits, cash reserves with banks
(b) Cash reserves with Banks, demand Deposits
(c) Public money, paper money
(d) Paper money, public money

Measurement of Money Supply

101. Till 1967-68, the RBI used to publish_____measure of money supply.

(a) M_1
(b) M_1 and M_2
(c) M_1, M_2 and M_3
(d) M_1, M_2, M_3 and M_4

102. In India, who releases data on money supply?

(a) RBI
(b) Central Government
(c) Ministry of Finance
(d) Commercial Banks

103. M_1 and M_2 are generally known as _____ supply concepts, whereas, M_3 and M_4 are known as _____ supply concepts.

(a) Narrow Money, Broad Money
(b) Broad Money, Narrow Money

(c) Least Liquid Money, Narrow Money

(d) Broad Money, Most liquid money

104. The four measures of money supply represent different degrees of liquidity. In this regard, _____ is the most liquid and _____ is least liquid.

(a) M_4, M_1

(b) M_1, M_4

(c) M_2, M_3

(d) M_3, M_2

105. Reserve money is also known as.

(a) Central bank money

(b) Base money

(c) High powered money

(d) All of the above

106. Reserve Money is composed of:

(a) Currency in circulation + demand deposits of banks (Current and Saving accounts) + Other deposits with the RBI

(b) Currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI

(c) Currency in circulation + demand deposits of banks + Other deposits with the RBI

(d) Currency in circulation + demand and time deposits of banks + Other deposits with the RBI

107. M_1 is the sum of

(a) Currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.

(b) Currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.

(c) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI

(d) none of the above

108. The empirical definition of measure M_3 is _____.

(a) $M_3 = M_1 + M_2$

(b) $M_3 = M_1$ + Saving deposits with post office saving banks

(c) $M_3 = M_1$ + Time deposits with the banking system

(d) $M_3 = M_2$ + Saving deposit with post office saving banks

Consider the following data and answer the following questions 109-111.

Currency with Public	₹ 45,000 crores
Demand Deposit with Banking System	₹ 1,00,000 crores
Time Deposits with Banking System	₹ 1,10,000 crores
Other deposit with RBI	₹ 1,40,000 crores
Saving Deposits of Post Office Saving Banks	₹ 30,000 crores

109. What is the amount of Narrow Money (M_1)?

(a) ₹ 2,85,000 crores

(b) ₹ 3,15,000 crores

(c) ₹ 3,95,000 crores

(d) None of the above

110. The calculated value of M_2 is _____.

(a) ₹ 2,85,000 crores

(b) ₹ 3,95,000 crores

(c) ₹ 3,15,000 crores

(d) None of the above

111. The value of M_3 will be _____.

(a) ₹ 2,85,000 crores

(b) ₹ 3,95,000 crores

(c) ₹ 3,15,000 crores

(d) None of the above

112. Consider the following data (₹ crore)?

Notes in circulation	**26,09,005**
Circulation of Rupee Coin	**40,715**
Circulation of Small Coins	**1,080**
Cash on hand and Bank	**99,200**

What is the currency with the Public?

(a) ₹ 26,09,005 crores

(b) ₹ 26,49,720 crores

(c) ₹ 26,50,800 crores

(d) ₹ 25,51,600 crores

113. Consider the following data:

M_1 ₹ 42,90,550 crores

M_2 ₹ 44,42,695 crores

Calculate the value of Post Office Saving Bank Deposits.

(a) ₹ 87,33,245

(b) ₹ 1,52,145

(c) ₹ 3,04,290

(d) None of these

Read the following data and answer the questions 114 to 116.

Mr. X has calculated following four alternative measures of money supply:

M_1	**₹ 4,85,000 crores**
M_2	**₹ 5,50,000 crores**
M_3	**₹ 5,90,000 crores**
M_4	**₹ 6,24,000 crores**

114. What is the amount of "Time Deposits with the Banking System"?

(a) ₹ 74,000 crores

(b) ₹ 65,000 crores

(c) ₹ 1,05,000 crores

(d) ₹ 34,000 crores

115. What is the amount of "Saving deposits with Post Office Saving Bank"?

(a) ₹ 74,000 crores

(b) ₹ 65,000 crores

(c) ₹ 1,05,000 crores

(d) ₹ 34,000 crores

116. The Total Deposits with the Post Office Saving Organisation (excluding National Savings certificates) is _____.

(a) ₹ 74,000 crores

(b) ₹ 65,000 crores

(c) ₹ 1,05,000 crores

(d) ₹ 34,000 crores

117. Find M_2, from the following information:

M_4	**₹ 4,41,260 cr.**
Saving deposits with Post Office Saving Banks	**₹ 41,200 cr.**
Total Deposits with the Post Office Saving Organisation (excluding National Savings Certificate)	**₹ 31,245 cr.**
Time Deposits with the Banking System	**₹ 65,315 cr.**

(a) ₹ 4,10,015 cr.

(b) ₹ 3,44,700 cr.

(c) ₹ 3,85,900 cr.

(d) Cannot be determined

118. On the recommendations of the Second Working Group on money supply, from April 1977, the RBI has been publishing data on which of the following alternative measures of money supply?

(a) M_1 only

(b) M_1 and M_2

(c) M_1, M_2 and M_3

(d) M_1, M_2, M_3 and M_4

Read the following data, and answer the questions (119 to 121)

Particulars	₹ in crores
Notes in Circulation	24,20,964
Circulation of Rupee Coin	25,572
Circulation of Small Coins	743
Post Office Saving Bank Deposits	1,41,786
Cash on Hand with Banks	97,563
Deposit Money of the Public	17,76,199
Demand Deposits with Banks	17,37,692
Other Deposits with RBI	38,507
Total Post Office Deposits	14,896
Time Deposits with Banks	1,78,694

119. Calculate M_1

(a) ₹ 43,04,609

(b) ₹ 41,25,915

(c) ₹ 42,07,046

(d) ₹ 42,67,701

120. Calculate M_2

(a) ₹ 43,04,609

(b) ₹ 41,25,915

(c) ₹ 42,07,046

(d) ₹ 42,67,701

121. Calculate M_3

(a) ₹ 43,04,609

(b) ₹ 41,25,915

(c) ₹ 42,07,046

(d) ₹ 42,67,701

Money Multiplier Approach

122. The Money Multiplier Approach holds that total Supply of nominal money in the economy is determined by the _____ behaviour of the _____.

(a) Single; Central Bank

(b) Joint; Central Bank and Commercial Bank

(c) Joint; Central Bank and Public

(d) Joint; Central Bank, Commercial Banks and the Public

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

(a) Required reserve ratio

(b) Money multiplier

(c) Deposit ratio

(d) Discount rate

124. The money multiplier will be large:

(a) For higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)

(b) For constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)

(c) For lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)

(d) None of the above

125. The money multiplier and the money supply are:

(a) Positively related to the excess reserves ratio?

(b) Negatively related to the excess reserves ratio?

(c) Not related to the excess reserves ratio?.

(d) Proportional to the excess reserves ratio?.

126. The currency ratio represents:

(a) The behaviour of central bank in the issue of currency

(b) The behaviour of central bank in respect cash reserve ratio

(c) The behaviour of the public

(d) The behaviour of commercial banks in the country

127. The size of the money multiplier is determined by:

(a) The currency ratio (c) of the public

(b) The required reserve ratio (r) at the central bank, and

(c) The excess reserve ratio (e) of commercial banks

(d) All of the above

128. The required reserved ratio is 10% for every ₹ 2,00,000 deposited in the banking system. What will be the Credit Multiplier and Credit Creation?

(a) 10, ₹ 20,00,000

(b) 10, ₹ 20,000

(c) 8, ₹ 20,00,000

(d) 8, ₹ 20,000

129. For initial deposit of ₹ 5,00,000, the credit creation is calculated at ₹ 40,00,000. What is RRR (required reserved ratio)?

(a) 8

(b) .08

(c) 12.5%

(d) Cannot be calculated

130. When there are excess reserves, the money multiplier (m) is expressed as _____.

(a) $m = \frac{1+c}{r+e+c}$

(b) $m = \frac{1+r}{r+e+c}$

(c) $m = \frac{1+e}{r+e+c}$

(d) $m = \frac{c}{r+e+c}$

131. Which formula is used to find out Money Supply (m) where:

r = required reserve ratio

c = currency - deposit ratio (C/D)

e = ratio of Excess Reserves to Deposits

H = Stock of high powered money

(a) $M = \frac{1+c}{r+e+c} + H$

(b) $M = \frac{1+C}{r+e+c} \times H$

(c) $M = \frac{1+H}{r+e+c} + C$

(d) $M = \frac{1+H}{r+e+c} \times C$

132. If M is the money supply, m is the money multiplier and MB is the monetary base or high-powered

money, then which of the following equation is correct?

(*a*) MB = M × m

(*b*) m = MB × M

(*c*) M = MB × m

(*d*) M = MB ÷ m

133. For a given level of the monetary base, an increase in the required reserve ratio will denote

(*a*) A decrease in the money supply

(*b*) An increase in the money supply

(*c*) An increase in demand deposits

(*d*) Nothing precise can be said

134. For a given level of the monetary base, an increase in the currency ratio causes the money multiplier to _____ and the money supply to _____.

(*a*) Decrease; increase

(*b*) Increase; decrease

(*c*) Decrease; decrease

(*d*) Increase; increase

135. _____ tells us how much new money will be created by the banking system for a given increase in the high-powered money.

(*a*) The currency ratio

(*b*) The excess reserve ratio (*e*)

(*c*) The credit multiplier

(*d*) The currency ratio (*c*)

136. Consider the following data:

Required Reserve Ratio	**10 Per cent**
Currency in circulation	**₹ 400 Billion**
Demand Deposits	**₹ 1000 Billion**
Excess Reserves	**₹ 1 Billion**

The value of money multiplier will be _____.

(*a*) 1.74

(*b*) 2.74

(*c*) 1.79

(*d*) 2.79

137. The _____ the reserve ratio, the _____ of each deposit bank loan out and the _____ the money multiplier.

(*a*) Higher, less, smaller

(*b*) Higher, high element, smaller

(*c*) Smaller, less, smaller

(*d*) None of these

138. Under the fractional reserve system:

(*a*) The money supply is an increasing function of reserve money (or high powered money) and the money multiplier

(*b*) The money supply is an decreasing function of reserve money (or high powered money) and the money multiplier

(*c*) The money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier

(*d*) None of the above as the determinants of money supply are different

139. If commercial banks reduce their holdings of excess reserves

(*a*) The monetary base increases

(*b*) The monetary base falls

(*c*) The money supply increases

(*d*) The money supply falls

140. The Money Multiplier is a function of the current ratio which depends on the :

(*a*) Behaviour of the public

(*b*) Excess reserve ratio of the banks

(*c*) Required reserve ratio set by the Central Bank

(*d*) All of the above

141. Excess reserves ratio (e) is _____ related to the market interest ratio (*i*).

(*a*) Positively

(*b*) Negatively

(*c*) Uniformily

(*d*) Not

142. As a rule, an increase in monetary base that goes into _____ is not multiplied, whereas an increase in monetary based that goes into _____ is multiplied.

(*a*) Supporting deposits, currency

(*b*) Currency, Supporting deposits

(*c*) High Powered Currency, currency

(*d*) Currency, High Powered Currency

143. If some portion of the increase in high-powered money finds its way into _____, this portion does not undergo multiple deposit expansion.

(*a*) Currency

(*b*) Supporting deposits

(*c*) Both (*a*) and (*b*)

(*d*) Neither (*a*) nor (*b*)

144. The size of the money multiplier is reduced when funds are held as _____ rather than as _____.

(*a*) Term Deposits, Cash

(*b*) Cash, Term Deposits

(*c*) Demand deposits, Cash

(*d*) Cash, demand deposits

The Money Multiplier Approach to Supply of Money

145. The Money multiplier approach to money supply was propounded by _____.

(*a*) Milton Friedman

(*b*) Milton Friedman and Anna Schwartz

(*c*) Milton Friedman and Irvin fisher

(*d*) Milton Friedman and Marshall

146. The money multiplier approach to money Supply considers three factors as immediate determinants of money supply. Which one of the following is not included in these factors?

(*a*) Stock of high-powered money (H)

(*b*) The ratio of reserves to deposits or reserve-ratio (*r*)

(*c*) The ratio of currency to deposits or currency-deposit ratio (*c*)

(*d*) The ratio of high-powered money to deposits (*h*)

147. Whose behaviour among the following, has been considered, under Money Multiplier approach?

(*a*) Central Bank

(*b*) Commercial Banks

(*c*) General Public

(*d*) All of the above

148. Under Money Multiplier Approach, the behaviour of the Central Bank which controls the issue of currency is reflected in the _____.

(a) Supply of the Nominal High-Powered money

(b) Total amount of nominal demand deposits

(c) Degree of adoption of banking habits by the people

(d) All of the above

149. If the behaviour of the Public and the Commercial banks remain unchanged over time, the total supply of nominal money in the economy will vary _____ with the supply of nominal high-powered money issued by the _____.

(a) Directly, Central Bank

(b) Negatively, Central Bank

(c) Directly, Central Government

(d) Negatively, Central Government

150. The Money Multiplier and the money supply are _____ related to the ratio of currency to deposits (c) *i.e.* C/D.

(a) Negatively

(b) Positively

(c) Not

(d) Progressively

151. The behaviour of Commercial Banks is important under money multiplier approach to supply of money. By creating credit, the commercial banks determine the total amount of _____.

(a) Nominal High-Powered Money

(b) Nominal Demand Deposits

(c) National High-Powered Money

(d) National Demand Deposits

152. Which of the following reflects the behaviour of commercial banks in the economy regarding money multiplier approach to supply of money?

(a) Ratio of cash reserves to deposits

(b) Ratio of currency to deposits

(c) Ratio of cash reserves to currency

(d) Ratio of High-powered money to currency

153. Considering all other variables remain the same, If ratio of cash reserves to deposits (reserve ratio) increases, then _____ will decrease.

(a) Deposits

(b) Money Supply

(c) Reserves

(d) High-powered money

154. When reserve ratio (r) is 8%, the money multiplier is calculated at 2.58. If the reserve ratio is increased to 12%, the value of money multiplier will be _____.

(a) Less than 2.58

(b) More than 2.58

(c) 2.58

(d) Cannot be decided

Monetary Policy and Effect of Government Expenditure on Money Supply

155. The value of money multiplier is zero when:

(a) Interest rates are too low

(b) Banks prefer to hold the newly injected reserves as excess reasons with no risk attached to it

(c) Both (a) and (b)

(d) Money Multiplier can never be zero

156. As a part of monetary policy, an open market purchase by Central Bank will _____ the reserves and thereby _____ the money supply.

(a) Reduce, reduce

(b) Increase, increase

(c) Reduce, increase

(d) Increase, reduce

157. The credit creation process by the banking system in the country will create money to the tune of Δ money supply = $\frac{1}{R}$ × Δ Reserves. It holds true, when it assumed that _____.

(a) Banks do not hold excess reserves

(b) People do not hold more currency than before

(c) There is demand for loans from businesses.

(d) All of the above

158. If the Central Bank of a country wants to stimulate economic activity it does so by infusing liquidity into the system. The high powered money (monetary base) is injected into the system when _____.

(a) Government securities are purchased

(b) Government Securities are sold

(c) Any of (a) and (b)

(d) Both (a) and (b)

159. Whenever the Central and the State Government's cash balances fall short of the minimum requirement, they are eligible to avail of a facility. What is the name of that facility?

(a) Ways & Means Advances (WMA)

(b) Overdraft facility (OD)

(c) Both (a) & (b)

(d) None of the above

160. When the Reserve Bank of India lends to the governments under WMA/OD, it can potentially lead to an _____ in money supply through the money multiplier process.

(a) Increase

(b) Decrease

(c) Substantial Decrease

(d) No effect

161. Identify the Correct Statement?

(a) There is no difference between the type of money created by commercial bank and that which are issued by the Central Bank

(b) Money creation is same as is the wealth creation

(c) The deposit multiplier and the money multiplier are identical

(d) In actual practice, all borrowers spend every rupee they have borrowed

162. If required reserve ratio is 20%, then what will be credit multiplier?

(a) 0.2

(b) 0.8

(c) 1.2

(d) 5

163. What is the formula used to calculate credit Multiplier?

(*a*) 100 – Required Reserve Ratio

(*b*) 100 + Required Reserve Ratio

(*c*) 100 × Required Reserve Ratio

(*d*) $\frac{1}{\text{Required Reserve Ratio}}$

164. The credit multiplier is also referred to as the _____.

(*a*) Deposit multiplier

(*b*) Deposit expansion multiplier

(*c*) Both (*a*) & (*b*)

(*d*) None of the above

165. Which describes the amount of additional money created by commercial bank through the process of lending the available money it has in excess of the Central Banks reserve requirement?

(*a*) Credit multiplier

(*b*) Deposit multiplier

(*c*) Deposit Expansion

(*d*) All of the above

166. What will be the total deposit created if initial deposit is of ₹ 800 crores and required reserve ratio is 10%?

(*a*) ₹ 80 crores

(*b*) ₹ 800 crores

(*c*) ₹ 8000 crores

(*d*) None of these

167. The total deposits created by the commercial banks is ₹ 16,800 crores and the required reserve ratio is 12.5%. Calculate the amount of initial deposits.

(*a*) ₹ 16,800

(*b*) ₹ 2,100

(*c*) ₹ 18,900

(*d*) None of these

168. Initial Deposit of ₹ 1,521 crores lead to creation of total deposits of ₹ 12,168 crores by the commercial banks. What is required reserve ratio?

(*a*) 15%

(*b*) 12.5%

(*c*) 10%

(*d*) 7.5%

UNIT 3 : MONETARY POLICY

The Monetary Policy Framework

169. Monetary Policy refers to the use of monetary policy instruments which are at the disposal of the Central Bank _____.

(*a*) To regulate the availability, cost and use of money and credit

(*b*) To achieve price stability

(*c*) To promote economic growth/ optimum levels of output and employment, balance of payment equilibrium, etc.

(*d*) All of the above

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

(*a*) Regulate the exchange rate and keep it stable

(*b*) Regulate the movement of credit to the corporate sector

(*c*) Regulate the level of production and prices

(*d*) Regulate the availability, cost and use of money and credit

171. Which of the following is a basic component of monetary policy framework?

(*a*) The objectives of monetary policy

(*b*) The analytics of monetary policy which focus on the transmission mechanism

(*c*) The operating procedure which focus on the operating targets and instruments

(*d*) All of the above are basic components

172. The main objective of monetary policy in India is_____:

(*a*) Reduce food shortages to achieve stability

(*b*) Economic growth with price stability

(*c*) Overall monetary stability in the banking system

(*d*) Reduction of poverty and unemployment

173. When the Central Bank lowers interest rates, monetary policy is _____.

(*a*) Easing

(*b*) Tightening

(*c*) Ineffective

(*d*) None of the above

174. Fundamentally, the primary objective of the monetary policy has been:

(*a*) To reduce price stability

(*b*) To curb economic growth

(*c*) To maintain judicious balance between price stability and economic growth

(*d*) None of the above

175. Which of the following is an explicit objective included in the monetary policy of developing countries?

(*a*) Maintenance of economic growth

(*b*) Ensuring an adequate flow of credit to the productive sectors

(*c*) Sustaining a moderate structure of interest rates to encourage investments, and creation of an efficient market for government securities

(*d*) All of the above

176. The monetary transmission mechanism refers to:

(*a*) How money gets circulated in different sectors of the economy post monetary policy

(*b*) The ratio of nominal interest and real interest rates consequent on a monetary policy

(*c*) The process or channels through which the evolution of monetary aggregates affects the level of product and prices

(*d*) None of the above

177. A contractionary monetary policy-induced increase in interest rates.

(*a*) Increases the cost of capital and the real cost of borrowing for firms

(*b*) Increases the cost of capital and the real cost of borrowing for firms and households

(*c*) Decreases the cost of capital and the real cost of borrowing for firms

(*d*) Has no interest rate effect on firms and households

178. During deflation:

(*a*) The RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy

(*b*) The RBI increases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy

(*c*) The RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy

(*d*) The RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy

179. The analytics of monetary policy focus on the transmission mechanisms. Which of the following is included in such mechanism?

(*a*) The interest rate channel

(*b*) The exchange rate channel

(*c*) The quantum channel and the asset price channel

(*d*) All of the above

180. Which of the following statement is correct?

(*a*) The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same

(*b*) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself

(*c*) When repo rates increase, it means that banks can now borrow money through Open Market Operations (OMO)

(*d*) None of the above

181. Which of the following Statements is incorrect?

(*a*) Quantitative instruments are general in nature

(*b*) Quantitative instruments affects all the sectors making use of bank credit

(*c*) Quantitative controls are designed to regulate the direction of credit

(*d*) Quantitative Controls are also known as traditional methods of control

182. As a part of credit control instruments of RBI, which of the following is not a part of Quantitative method?

(*a*) Cash Reserve Ratio (CRR)

(*b*) Statutory Liquidity Ratio (SLR)

(*c*) Open Market Operations (OMO)

(*d*) Margin requirements

183. As a part of open market operations, sale of securities by the Central Bank _____ the money supply in the economy.

(*a*) Decreases

(*b*) Increases

(*c*) Brings no change in

(*d*) Either (*a*) or (*b*)

184. _____ refers to the minimum percentage of net demand and time liabilities, to be kept by commercial banks with the central bank.

(*a*) Statutory Liquidity Ratio

(*b*) Cash Reserve Ratio

(*c*) Bank Rate

(*d*) Repo Rate

185. In order to control money supply, the RBI buys and sells government securities in the open market. These operations conducted by the central bank are referred to as:

(*a*) Open Monetary Operations

(*b*) Open Money Operations

(*c*) Open Market Operations

(*d*) Open Marginal Operations

186. The commercial banks are required to maintain with themselves, a minimum percentage of Net Demand & Time liabilities, in the form of designated liquid assets. This ratio is called as:

(*a*) Statutory Liquidity Ratio

(*b*) Cash Reserve Ratio

(*c*) Bank Rate

(*d*) Repo Rate

187. Which one of the following statement is incorrect about Qualitative method of credit control instruments of RBI?

(*a*) These include margin requirements, moral suasion, selective credit controls, etc.

(*b*) These are general in nature and affect all the sectors

(*c*) These are designed to regulate the direction of credit

(*d*) These are also known as selective methods of control

188. Which one of the following is not a part of Qualitative method of credit control instruments of RBI?

(*a*) Open Market Operations

(*b*) Margin requirements

(*c*) Moral suasion

(*d*) Selective credit control

189. _____ is the interest rate at which RBI lends long-term funds to banks.

(*a*) Interest Rate

(*b*) Bank Rate

(*c*) Repo Rate

(*d*) Marginal Rate

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

(*a*) Market Stabilisation Scheme (MSS)

(*b*) The Marginal Standing Facility (MSF)

(*c*) Liquidity Adjustment Facility (LAF)

(*d*) Statutory Liquidity Ratio (SLR)

191. In India, the term 'Policy rate' refers to:

(*a*) The bank rate prescribed by the RBI in its half yearly monetary policy statement

(*b*) The CRR and SLR prescribed by RBI in its monetary policy statement

(*c*) The fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)

(*d*) The fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)

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

(*a*) OMO

(*b*) CRR

(*c*) SLR

(*d*) Repo

193. Reverse repo operation takes place when:

(*a*) RBI borrows money from banks by giving them securities

(*b*) Banks borrow money from RBI by giving them securities

(*c*) Banks borrow money in the overnight segment of the money market

(*d*) RBI borrows money from the central government

194. The Monetary Policy Framework Agreement is on _____.

(*a*) The maximum repo rate that RBI can charge from government

(*b*) The maximum tolerable inflation rate that RBI should target to achieve price stability

(*c*) The maximum repo rate that RBI can charge from the commercial banks

(*d*) The maximum reverse repo rate that RBI can charge from the commercial banks

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

(*a*) Bonds and bills of exchange

(*b*) Debentures and shares

(*c*) Government securities

(*d*) None of these

196. Monetary Policy Committee (MPC) determines the policy rate to achieve the inflation target through debate and majority vote by a panel of experts. How many members does this MPC consists of?

(*a*) Three members

(*b*) Four members

(*c*) Five members

(*d*) Six members

197. Under _____ the Government of India borrows from the RBI (Such borrowing being additional to its normal borrowing requirements) and issues treasury bills/dated securities.

(*a*) Market Stabilisation Scheme (MSS)

(*b*) Minimum Statutory Scheme (MSS)

(*c*) Marginal Standing Facility (MSF)

(*d*) Minimum Statutory Facility (MSF)

198. _____ is defined as an instrument for lending funds by purchasing securities with an agreement to resell the securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.

(*a*) Reverse Repo

(*b*) Repo Rate

(*c*) Bank Rate

(*d*) MSF

199. The Monetary Policy Framework Agreement is an agreement reached between the Government of India and the Reserve Bank of India (RBI) to keep the Consumer Price Index (CPI) inflation rate between _____.

(*a*) 1 to 5 per cent

(*b*) 2 to 6 per cent

(*c*) 3 to 5 per cent

(*d*) 4 to 6 per cent

Answers

1.	(*d*)	2.	(*a*)	3.	(*c*)	4.	(*b*)	5.	(*a*)	6.	(*d*)	7.	(*a*)
8.	(*a*)	9.	(*a*)	10.	(*c*)	11.	(*a*)	12.	(*d*)	13.	(*d*)	14.	(*c*)
15.	(*a*)	16.	(*a*)	17.	(*d*)	18.	(*a*)	19.	(*c*)	20.	(*d*)	21.	(*b*)
22.	(*b*)	23.	(*d*)	24.	(*a*)	25.	(*d*)	26.	(*b*)	27.	(*d*)	28.	(*d*)
29.	(*b*)	30.	(*c*)	31.	(*a*)	32.	(*c*)	33.	(*d*)	34.	(*a*)	35.	(*d*)
36.	(*c*)	37.	(*b*)	38.	(*a*)	39.	(*a*)	40.	(*b*)	41.	(*d*)	42.	(*a*)
43.	(*b*)	44.	(*a*)	45.	(*d*)	46.	(*a*)	47.	(*c*)	48.	(*a*)	49.	(*d*)
50.	(*c*)	51.	(*c*)	52.	(*a*)	53.	(*b*)	54.	(*c*)	55.	(*b*)	56.	(*a*)
57.	(*d*)	58.	(*d*)	59.	(*a*)	60.	(*a*)	61.	(*c*)	62.	(*a*)	63.	(*b*)
64.	(*a*)	65.	(*a*)	66.	(*d*)	67.	(*a*)	68.	(*b*)	69.	(*a*)	70.	(*b*)
71.	(*a*)	72.	(*c*)	73.	(*a*)	74.	(*d*)	75.	(*d*)	76.	(*d*)	77.	(*a*)
78.	(*b*)	79.	(*c*)	80.	(*d*)	81.	(*c*)	82.	(*c*)	83.	(*d*)	84.	(*d*)
85.	(*d*)	86.	(*c*)	87.	(*a*)	88.	(*b*)	89.	(*a*)	90.	(*b*)	91.	(*b*)
92.	(*b*)	93.	(*a*)	94.	(*c*)	95.	(*a*)	96.	(*d*)	97.	(*c*)	98.	(*d*)
99.	(*c*)	100.	(*a*)	101.	(*a*)	102.	(*a*)	103.	(*a*)	104.	(*b*)	105.	(*d*)
106.	(*b*)	107.	(*a*)	108.	(*c*)	109.	(*a*)	110.	(*c*)	111.	(*b*)	112.	(*d*)
113.	(*b*)	114.	(*c*)	115.	(*b*)	116.	(*d*)	117.	(*c*)	118.	(*d*)	119.	(*b*)
120.	(*d*)	121.	(*a*)	122.	(*d*)	123.	(*b*)	124.	(*c*)	125.	(*b*)	126.	(*c*)
127.	(*d*)	128.	(*a*)	129.	(*c*)	130.	(*a*)	131.	(*b*)	132.	(*c*)	133.	(*a*)
134.	(*c*)	135.	(*c*)	136.	(*d*)	137.	(*a*)	138.	(*a*)	139.	(*c*)	140.	(*d*)
141.	(*b*)	142.	(*b*)	143.	(*a*)	144.	(*d*)	145.	(*b*)	146.	(*d*)	147.	(*d*)
148.	(*a*)	149.	(*a*)	150.	(*a*)	151.	(*b*)	152.	(*a*)	153.	(*b*)	154.	(*a*)
155.	(*c*)	156.	(*a*)	157.	(*d*)	158.	(*a*)	159.	(*c*)	160.	(*a*)	161.	(*a*)
162.	(*d*)	163.	(*d*)	164.	(*c*)	165.	(*d*)	166.	(*c*)	167.	(*b*)	168.	(*b*)
169.	(*d*)	170.	(*d*)	171.	(*d*)	172.	(*b*)	173.	(*a*)	174.	(*c*)	175.	(*d*)
176.	(*c*)	177.	(*b*)	178.	(*a*)	179.	(*d*)	180.	(*b*)	181.	(*c*)	182.	(*d*)
183.	(*a*)	184.	(*b*)	185.	(*c*)	186.	(*a*)	187.	(*b*)	188.	(*a*)	189.	(*b*)
190.	(*c*)	191.	(*c*)	192.	(*d*)	193.	(*a*)	194.	(*b*)	195.	(*c*)	196.	(*d*)
197.	(*a*)	198.	(*a*)	199.	(*b*)								

Hints of selected questions

2. The primary functions of money are medium of exchange & measure of value. Whereas the secondary functions are standard of Deferred Payment & store of value.

3. Money is regarded as a "Unit of Account" because it helps in calculating relative prices of goods and services.

6. Money should be difficult to counterfeit *i.e.* not easily reproducible by people.

7. In case of full-bodied money, the money value is equal to commodity value for example: During the British period, one rupee coin was made of silver. The face value (*i.e.* value written on unit of currency) was rupee one. The intrinsic value (*i.e.* the value of the metal contained in the unit of money) was also Rupee one. In other words, the value of coin as money was same as its value as a commodity.

8. In India, coins are limited legal tender. As per Coinage Act, 2011, coins shall be a legal tender in case of coin of any denomination not lower than one rupee, for any sum not exceeding ₹ 1,000.

18. It is directly proportional because higher the income of individuals, higher the expenditure; richer people hold more money to finance their expenditure.

21. The opportunity cost of holding money is the interest rate a person could earn an other assets. Therefore, higher the interest rate, higher would be opportunity cost of holding cash and lower the demand for money. Thus, there is inverse relationship between the two.

45. Prof. J.M. Keynes considered the aggregate demand for money for transaction purposes as the sum of individual demand. Therefore, the aggregate transaction demand for money is a function of national income.

53. Because a rise in the market rate of interest leads to a decrease in the market value of the bond, and *vice-versa*.

57. When interest is zero, people would not want to hold any bonds, since money, which also pays zero per cent interest, has the advantage of being usable in transactions.

59. In the situation of liquidity trap, the opportunity cost of holding money is zero. Therefore, even if the monetary authority increases money supply to stimulate the economy, people would prefer to hoard money. Consequently, excess funds may not be converted into new investment. Thus, liquidity trap is synonymous with ineffective monetary policy.

79. Money Supply does not include stock of money held by the Government as well as banking system of country because they are suppliers of money & money held by then is not treated as part of money supply.

109-111:

M_1 =	Currency with Public + Demand Deposits with banking system + Other deposit with RBI
=	45,000 + 1,00,000 + 1,40,000
=	₹ 2,85,000 crores

M_2 =	M_1 + Saving deposit with Post Office Saving Banking
=	2,85,000 + 30,000 = ₹ 3,15,000 crores
M_3 =	M_1 + Time Deposit with the Banking System
=	2,85,000 + 1,10,000
=	₹ 3,95,000 crores

112. Currency with the Public

= 26,09,005 + 40,715 + 1,080 – 99,200

= ₹ 25,51,600 crores

113.

M_2 = M_1 + Post Office Saving Bank Deposits

⇒ Post Office Saving Bank Deposit = $M_2 - M_1$

= 44,42,695 – 42,90,550

= ₹ 1,52,145 crores

114 to 116

1.	Time Deposits with the Banking System = $M_3 - M_1$ = 5,90,000 – 4,85,000 = ₹ 1,05,000
2.	Saving deposits with Post Office Saving Banks = $M_2 - M_1$ = 5,50,000 – 4,85,000 = ₹ 65,000
3.	Total Deposits with the Post Office Saving Organisation (excluding National Saving Certificate) = $M_4 - M_3$ = 6,24,000 – 5,90,000 = ₹ 34,000

117.

Step 1	M_3 = M_4 – Total Deposits with the Post Office Saving Organisation (Excl. NSC)
	= 4,41,260 – 31,245 = ₹ 4,10,015 cr.
Step 2	M_1 = M_3 – Time Deposits with the Banking System
	= 4,10,015 – 65,315 = ₹ 3,44,700 cr.
Step 3	M_2 = M_1 + Saving deposits with Post Office Saving Bank
	= 3,44,700 + 41,200 = ₹ 3,85,900 cr.

119 to 121.

M_1 =	24,20,964 + 25,572 + 743 – 97,563 + 17,76,199 = ₹ 41,25,915
M_2 =	41,25,915 + 1,41,786 = ₹ 42,67,701
M_3 =	41,25,915 + 1,78,694 = ₹ 43,04,609

128.

$$\text{Credit Multiplier} = \frac{1}{\text{Required Reserved Ratio}}$$

$$= \frac{1}{0.10} = 10$$

$$\text{Credit Creation} = \text{Initial Deposits} \times \frac{1}{\text{Required Reserve ratio}}$$

$$= ₹\ 2,00,000 \times \frac{1}{0.10}$$

$$= ₹\ 20,00,000$$

129.

$$\text{Credit Creation} = \text{Initial Deposits} \times \text{Credit Multiplier}$$

$$\text{Credit Multiplier} = \frac{\text{Credit Creation}}{\text{Initial Deposits}} = \frac{40,00,000}{5,00,000} = 8$$

$$\text{Credit Multiplier} = \frac{1}{\text{RRR}}$$

$$\text{RRR} = \frac{1}{\text{Credit Multiplier}} = \frac{1}{8} = 0.125 \text{ or } 12.5\%$$

136.

Money Supply (M) = Currency + Deposits

= ₹ 400 + ₹ 1000 = ₹ 1400 Billion

$$\text{Currency-deposit ratio} = \frac{\text{Currency}}{\text{Deposits}}$$

$$= \frac{₹\ 400}{₹\ 1,000} = 0.4$$

$$e = \frac{\text{Excess Reserves}}{\text{Deposits}} = \frac{₹\ 1 \text{ Billion}}{₹\ 1000 \text{ Billion}} = 0.001$$

$$\text{Multiplier} = \frac{1+c}{r+e+c} = \frac{1+0.4}{0.1+0.001+0.4}$$

$$= \frac{1.5}{0.501} = 2.79$$

Therefore, a 1 unit increase in MB leads to 2.79 units increase in M.

141. If interest rate increases, the opportunity cost of holding excess reserves rises, and the desired ratio of excess reserves to deposits falls.

150. When bank deposits are being converted into currency, banks can create only less credit money. The overall level of multiple-expansion declines, and therefore, money multiplier also falls. Hence, money multiplier and the money supply are negatively related to currency ratio (c).

153. If the required reserve ratio on demand deposits increases while all the other variables remain the same, more reserves would be needed. This implies that banks must contract their loans, causing a decline in deposits and hence in the money supply.

154. $m = \frac{1+c}{r+e+c}$

r and m are negatively related. When r rises, m falls and when r falls, m rises. The reason is that less multiple deposit creation can occur when r rises, while more multiple deposit creation can occur when r falls.

160. When lending is made under WMA/OD, it results in the generation of excess reserves (*i.e.* excess balances of commercial banks with the Reserve Bank). The excess reserves thus created can potentially lead to an increase in money supply through the money multiplier process.

162.

$$\text{Credit Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$= \frac{1}{20\%} = \frac{1}{0.20} = 5$$

166.

Required Reserve Ratio = 10% or 0.10

$$\text{Money Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

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

Total Deposit = Initial Deposit × Money Multiplier

= 800 × 10

= ₹ 8000 crores.

167.

$$\text{Money Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$= \frac{1}{0.125} = 8$$

Total Deposit Created = ₹ 16,800

$$\text{Initial Deposits} = \frac{\text{Total Deposits}}{\text{Money Multiplies}} = \frac{16,800}{8}$$

= ₹ 2100 crores.

168.

$$\text{Money Multiplier} = \frac{\text{Total Deposit}}{\text{Initial Deposits}} = \frac{12,168}{1,521} = 8$$

$$\text{Money Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$\text{Required Reserve Ratio} = \frac{1}{\text{Money Multiplier}}$$

$= \frac{1}{8} = 0.125$

= 12.5%

181. Option (*c*) is incorrect because Quantitative controls are designed to regulate the total volume of credit whereas qualitative controls are designed to regulate the direction of credit.

182. Margin requirements is one of the qualitative method adopted by RBI as a part of credit control instrument.

183. Sale of securities by central bank reduces the reserves of commercial banks. It adversely affects the bank's ability to create credit and therefore decreases the money supply in the economy.

187. The option (*b*) is incorrect because qualitative instruments are specific in nature *i.e.* they affect the flow of credit for a particular use.

188. The open market operation is a part of quantitative method.

9 CHAPTER

INTERNATIONAL TRADE

UNIT 1 : THEORIES OF INTERNATIONAL TRADE

International Trade

1. International Trade is the exchange of _____ between countries and involves greater complexity compared to Internal Trade.

(*a*) Goods

(*b*) Services

(*c*) Resources

(*d*) All of the above

2. Which of the following does not represent a difference between internal trade and international trade?

(*a*) transactions in multiple currencies

(*b*) homogeneity of customers and currencies

(*c*) differences in legal systems

(*d*) none of the above

3. Which of the following is NOT the benefit of International Trade?

(*a*) It is powerful stimulus to economic efficiency and contributes to economic growth.

(*b*) Efficient deployment of productive resources to their best use.

(*c*) Economic exploitation of under privileged countries.

(*d*) Opening up of new markets results in broadening the production base.

Theories of International Trade

4. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports?

(*a*) Capitalism

(*b*) Socialism

(*c*) Mercantilism

(*d*) Laissez faire

5. Which one of the following is the first theory of International Trade that emerged in England in the 16th Century?

(*a*) Mercantilism

(*b*) Absolute Cost Advantage Theory

(*c*) Comparative Cost Advantage Theory

(*d*) Product Life-Cycle Theory

6. Which theory suggested that the wealth of a nation consisted of gold and silver only?

(*a*) Mercantilism

(*b*) Absolute Cost Advantage Theory

(*c*) Comparative Cost Advantage Theory

(*d*) Product Life-Cycle Theory

7. Which of the following is NOT an assumption of Absolute Cost Advantage Theory?

(*a*) There are two countries.

(*b*) There are two commodities.

(*c*) The commodities are heterogeneous.

(*d*) There is only labour Cost of Production.

8. Who propounded the theory that a country should specialize in the production of goods for which it has an absolute cost advantage and then trade these goods for goods produced by another country?

(*a*) Adam Smith

(*b*) David Hume

(*c*) Heckscher and Ohlin

(*d*) Ricardo

9. The theory of absolute advantage states that

(*a*) national wealth and power are best served by increasing exports and decreasing imports

(*b*) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.

(*c*) that the value or price of a commodity depends exclusively on the amount of labour going into its production and therefore factor prices will be the same

(*d*) differences in absolute advantage explains differences in factor endowments in different countries.

10. Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage?

(*a*) Modern theory of international trade

(*b*) The factor endowment theory

(*c*) The Heckscher-Ohlin Theory

(*d*) None of the above

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

Labour Cost (hours) for production of one unit

	Country A	Country B
Cloth	40	80
Grain	80	40

(*a*) Country A

(*b*) Country B

(*c*) Neither A nor B

(*d*) Both A and B

12. According to the theory of comparative advantage

(*a*) trade is zero-sum game so that the net change it wealth or benefits among the participants is zero.

(*b*) trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive

(*c*) nothing definite can be said about the gains from trade

(*d*) gains from trade depends upon factor endowment and utilization

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

Labour Cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

(*a*) 20 labour hours

(*b*) 10 labour hours

(*c*) 30 labour hours

(*d*) Does not gain anything

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

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

(*a*) Bangladesh has a comparative advantage in mats

(*b*) India has a comparative advantage in tables

(*c*) Bangladesh has an absolute advantage in mats

(*d*) All the above are true

15. Comparative advantage refers to:

(*a*) a counrty's ability to produce some good or service at the lowest possible cost compared to other countries

(*b*) a country's ability to produce some good or service at a lower opportunity cost than other countries.

(*c*) Choosing a productive method which uses minimum of the abundant factor

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

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

(*a*) opportunity costs

(*b*) the law of diminishing returns

(*c*) economies of scale

(*d*) the labour theory of value

17. Which theory of international trade identified the role of labour and capital, so-called factor endowments, as a determinant of advantage?

(*a*) Theory of Absolute Advantage

(*b*) Theory of Comparative Advantage

(*c*) Heckscher–Ohlin theory of trade

(*d*) None of these

18. The theory given by Swedish economists "Eli Heckscher and Bertil Ohlin" is also known as:

(*a*) The Heckscher – Ohlin theory of trade

(*b*) Factor – Endowment theory of trade

(*c*) Modern theory of trade

(*d*) All of the above

19. Michael Porter has described four attributes as the "diamond of national advantage". Which of the following is not a part of these four attributes?

(a) Factor Endowments
(b) Silver conditions
(c) Related and Supporting Industries
(d) Firm's Strategy, Structure and rivalry

20. Who has propounded "New Trade Theory" in the 1970's?

(a) Paul Krugman
(b) Norman
(c) Dixit
(d) All of the above

21. Which theory argues that trade leads to cost reduction and product variety. Also, a firm enjoying the "first mover advantage" can capture economies of scale earlier than its rivals?

(a) Product Life Cycle Theory
(b) New Trade Theory
(c) Factor Endowment theory
(d) Absolute Cost Advantage Theory

22. What is the title of the book published in 1817, in which David Ricardo explained the Comparative Cost Advantage Theory?

(a) The Wealth of Nations
(b) Principles of Political Economy
(c) The effect of Foreign Trade
(d) The Leontief Paradox

UNIT 2 : THE INSTRUMENTS OF TRADE POLICY

Tariff : Forms and Effects

23. Protectionism is a State policy aimed to protect domestic producers against Foreign Competition through the use of _____ instruments.

(a) Tariffs
(b) Quotas
(c) Non-tariff trade policy
(d) All of the above

24. _____ refers to opening up of domestic markets to goods and services from the rest of the world by bringing down trade barriers.

(a) Trade liberalization
(b) Trade Globalisation
(c) Trade Privatisation
(d) LPG

25. A specific tariff is

(a) a tax on a set of specified imported good.
(b) an import tax that is common to all goods imported during a given period
(c) a specified fraction of the economic value of an imported good
(d) a tax on imports defined as an amount of currency per unit of the good

26. Tariff means the taxes or duties imposed on _____

(a) Imports
(b) Exports
(c) Both (a) & (b)
(d) Local Sales

27. Tariff can be based on _____

(a) Quantity only
(b) Value of Import
(c) Quantity and/or value
(d) None of these

28. When a specified amount of tariff is charged per unit of the product (e.g., ₹ 1000 per tonne of cement), then it is categorised as _____

(a) Specific Duty
(b) *Ad valorem* Duty
(c) A Compound Duty
(d) Value Duty

29. Tariff levied as a percentage of value of product is termed as_____

(a) Specific Duty
(b) Fixed Duty
(c) *Ad valorem* Duty
(d) A Compound Duty

30. The tariff rate is ₹500 per tonne plus 10 per cent of the value of the product imported. This type of tariff is termed as _____

(a) Fixed Rate Duty
(b) Variable Rate Duty
(c) *Ad valorem* Duty
(d) Compound Duty

31. What is disadvantage of specific tariff which is the fixed amount of money per physical unit or according to weight?

(a) It discourages the import.
(b) The Government revenue remains Unchanged irrespective of change in value of product.
(c) It is difficult to calculate it precisely.
(d) None of these

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

(a) preferential tariff
(b) *ad valorem* tariff
(c) specific tariff
(d) mixed or compound tariff

33. Which of the following is INCORRECT about *ad valorem* tariff?

(a) It is levied as a fixed percentage of the value of the traded commodity.
(b) It preserves the protective value of tariff an home producer.
(c) It is similar to specific tariff.
(d) It is one of the widely used across the world.

34. The Government has imposed tariff as under:

₹ 3000 on each solar panel plus ₹ 50 per kg on the battery.

What is the type of tariff?

(a) Specific Tariff
(b) *ad valorem* Tariff
(c) Compound Tariff
(d) Technical Tariff

35. _____ is calculated on the basis of both the value of the imported goods (an *ad valorem* duty) and a Unit of measure of the imported goods (a specific duty).

(a) Compound Tariff
(b) *Ad valorem* Duty
(c) Technical Tariff
(d) Tariff Rate Quotas

36. _____ tariffs refers to import tariffs. Which countries

promise to impose on imports from other members of two WTO. Unless the country is a part of preferential trade agreement.

(a) MFN
(b) MTN
(c) CFN
(d) CTN

37. Escalated tariff refers to

(a) nominal tariff rates on raw materials which are greater than tariffs on manufactured products
(b) nominal tariff rates on manufactured products which are greater than tariffs on raw materials
(c) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries
(d) none of the above

38. What is the type of tariff which is set so high that no imports can enter?

(a) Restricted Tariff
(b) Prohibitive Tariff
(c) Anti-Dumping duty
(d) None of these

39. Dumping occurs when manufactures sell goods in a Foreign country _____.

(a) Below the Sales prices in their domestic market.
(b) Below their full average cost of the product.
(c) Free of cost
(d) Either (a) or (b)

40. Dumping, in international trade, is _____.

(a) fair
(b) unfair
(c) good
(d) none of these

41. Anti-dumping duties are

(a) additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.
(b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government.
(c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market.
(d) Both (a) and (c) above

42. A countervailing duty is _____.

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

43. Which of the following is an outcome of tariff?

(a) Create obstacles to trade and increase the volume of imports and exports
(b) Domestic consumers enjoy consumer surplus because consumers must now pay only a lower price for the good.
(c) Discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes.
(d) Increase government revenues of the importing country by more than value of the total tariff it charges.

44. A tariff on imports is beneficial to domestic producers of the imported good because

(a) they get a part of the tariff revenue.
(b) it raises the price for which they can sell their product in the domestic market.
(c) it determines the quantity that can be imported to the country.
(d) it reduces their producer surplus, making them more efficient.

45. Which of the following is not the effects of Tariff?

(a) By making imported goods more expensive, tariff discourage domestic consumers from consuming imported Foreign goods.
(b) Domestic consumers suffer a loss in consumer surplus.
(c) Tariffs create trade distortions by disregarding comparative advantage.
(d) Tariff decreases the government revenues substantially.

46. On import of goods, which of the following is levied?

(a) CGST
(b) SGST
(c) UTGST
(d) IGST

Non-Tariff Measures (NTMs)

47. Which of the following is not a non-tariff barrier.

(a) Complex documentation requirements
(b) Import quotas on specific goods
(c) Countervailing duties charged by importing country
(d) Pre-shipment product inspection and certification requirements

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

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

49. SPS measures and TBTs are

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

50. _____ measures of NTMs refer to product-specific properties such as characteristics of the product, technical specifications and production processes.

(a) Financial
(b) Standard
(c) Technical
(d) Non-Technical

51. Which of the following is NOT a component of Technical measures under Non-Tariff Measures?

(a) Import Quota
(b) Characteristics of the Product
(c) Technical Specifications
(d) Production Processes

52. Which of the following is/are an example of Technical Barriers To Trade (TBT)?

(a) Food Laws
(b) Quality Standard
(c) Organic Certification & Eco-labelling
(d) All of the above

53. Which of the following is NOT an example of Sanitary and Phyto Sanitary (SPS) measures of NTM?

(a) Prohibition of import of poultry from countries affected by avian flu.
(b) Residue limits for pesticides in foods
(c) Organic Certification
(d) All of the above

54. Which of the following is not a measure of Non-Technical measures?

(a) Import Quotas
(b) Sanitary and Phyto sanitary (SPS) measures
(c) Price control measures
(d) Non-automatic Licensing and Prohibitions

55. Under tariff rate quota.

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

56. _____ is a total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period.

(a) Embargos
(b) Anti-Dumping
(c) SPS
(d) TBT

57. An Embargo is the most extreme form of trade barrier. This may be done due to _____.

(a) Political Reasons
(b) Health Reasons
(c) Religion Reasons
(d) Any of the above

Export Related Measures

58. Voluntary export restraints involve:

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

59. Which of the following is the form of Export Subsidies and incentives?

(a) Grants
(b) Loans
(c) Equity Infusions
(d) All of these

60. An export tax is a tax collected on exported goods. It may be _____.

(a) specific
(b) *ad valorem*
(c) either (a) or (b)
(d) always fixed

61. Due to shortage in domestic market, Government has prohibited the export of onion. This export related measure can be categorised as _____.

(a) Ban' on Exports
(b) Export Taxes
(c) Export Subsidies
(d) Voluntary Export Restraints

UNIT 3: TRADE NEGOTIATIONS

Taxonomy of Regional Trade Agreements (RTAs)

62. _____ are defined as grouping of countries, which are formed with the objective of reducing barriers to trade between member countries.

(a) Regional Trade Agreements
(b) Restrictive Trade Agreements
(c) Geographical Trade Agreements
(d) Common Trade Agreements

63. _____ has a group of countries that have a free Trade agreement between themselves and may apply a common external tariff to other countries.

(a) Trading Centres
(b) Free-Trade Area
(c) Trading Bloc
(d) Common market

64. Which term is used to describe a group of countries that eliminate all tariffs on trade among themselves but maintain a common external tariff on trade with countries outside the union.

(a) Common Market
(b) Customs Market
(c) Common Union
(d) Customs Union

65. _____ is a group of countries that eliminate all tariff and quota barriers on trade with the objective of increasing exchange of goods with each other.

(a) Customs Union
(b) Free-Trade Area

(c) Common Trade Area

(d) Unilateral Trade Agreements

66. Which of the following is a type of Regional Trade Agreement?

(a) Unilateral Trade Agreements

(b) Bilateral Agreements

(c) Free-trade area

(d) All of the above

The General Agreement on Tariffs and Trade (GATT)

67. The General Agreement on Tariffs and Trade Covers _____ trade in _____.

(a) National, goods

(b) International, goods

(c) National, Services

(d) International, Services

68. The GATT lost its relevance by the _____.

(a) 1975

(b) 1980

(c) 1982

(d) 1985

69. What is the reason behind losing its relevance by GATT by the 1980's?

(a) Substantial Expansion of international investments.

(b) Non-coverage of intellectual property rights and trade in services by GATT

(c) Ambiguities in the multilateral System

(d) All of the above

70. Choose the correct statement.

(a) The GATT was meant to prevent exploitation of poor countries by richer countries.

(b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.

(c) All members of the World Trade Organization are required to avoid tariffs of all types.

(d) All of the above

The Uruguay Round and the Establishment of WTO

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

(a) The Doha Round

(b) The Tokyo Round

(c) The Uruguay Round

(d) The Kennedy Round

72. The World Trade Organization (WTO).

(a) has now been replaced by the GATT

(b) has an inbuilt mechanism to settle disputes among members.

(c) was established to ensure free and fair trade internationally.

(d) (b) and (c) above

73. Which of the following is NOT a part of key objectives of the WHO?

(a) To restrict international trade

(b) To provide a forum for negotiating and monitoring further trade liberalization.

(c) To resolve trade disputes

(d) To increase the transparency of decision-making processes.

74. World Trade Organisation (WTO) was set up on _____, replacing the General Agreement on Tariffs and Trade.

(a) 1st January, 1990

(b) 1st January, 1993

(c) 1st January, 1995

(d) None of these

75. The headquarters of WTO is in _____.

(a) USA

(b) Switzerland

(c) Australia

(d) Germany

76. India is a _____ of World Trade Organisation.

(a) Temporary members

(b) Standing members

(c) Funding members

(d) Not a member

77. Which of the following is covered under protection of intellectual properties (TRIPS)?

(a) Copyrights, Trade Marks and Patents.

(b) Geographical indications, industrial designs and patents.

(c) Layout designs of integrated circuits and undisclosed information (*i.e.* trade secrets).

(d) All of the above.

78. The WTO accounts for about _____ of world trade.

(a) 50%

(b) 70%

(c) 85%

(d) 95%

79. The WTO's top-level decision-making body is the _____ which can take decisions an all matters under any of the multilateral trade agreements.

(a) Ministerial conference

(b) General council

(c) Goods council

(d) Services council and intellectual property council

80. The Ministerial conference, top decision making body of WTO, meets at least _____ to take decisions.

(a) Once every year

(b) Twice every year

(c) Once every two years

(d) No such fixed frequency

81. Which of the following is/are responsible for overseeing the implementation of the WTO agreements?

(a) Ministerial Conference

(b) General Council

(c) Goods Council, Services Council and Intellectual Property Council

(d) All of the above

82. Which of the following meets several times a year at the Geneva headquarters?

(a) Ministerial Conference

(b) General Council

(c) Goods Council

(d) Services Council

83. The Goods Council, Services Council and Intellectual Property Council report to which of the following?

(a) Ministerial Conference

(b) General Council

(c) Director General of WTO

(d) Both (a) and (b)

84. Which one of the following is NOT the guiding principles of WTO agreements?

(a) Non-Discrimination

(b) Fair Competition

(c) Restricted Trade

(d) Predictability

85. The essence of 'MFN principle' is

(a) equality of treatment of all member countries of WTO in respect of matters related to trade

(b) favour one, country, you need to favour all in the same manner

(c) every WTO member will treat all its trading partners equally without any prejudice and discrimination

(d) all the above

86. The 'National treatment' principle stands for

(a) the procedures within the WTO for resolving disagreements about trade policy among countries

(b) the principle that imported products are to be treated no worse in the domestic market than the local ones.

(c) exported products are to be treated no worse in the domestic market than the local ones

(d) imported products should have the same tariff, no matter where they are imported from

87. 'Bound tariff' refers to:

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

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

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

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

88. Which of the following is True for "Free-Trade" principle of WTO?

(a) Member countries to reduce tariff and non-tariff barriers to encourage free-trade.

(b) Quantitative restrictions are prohibited.

(c) Developing and other countries facing difficulties in their balance of payments are allowed to reduce trade barriers gradually.

(d) All of the above

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

(a) on increasing agricultural productivity and rural development.

(b) market access and agricultural credit support.

(c) market access, domestic support and export subsidies.

(d) market access, import subsidies and export subsidies.

90. The Agreement on Textiles and Clothing

(a) provides that textile trade should be deregulated gradually and the tariffs should be increased

(b) replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974

(c) granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries

(d) stipulated that tariffs in all countries should be the same

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

(a) stipulates to administer a system of enforcement of intellectual property rights

(b) provides for most-favoured-nation treatment and national treatment for intellectual properties

(c) mandates to maintain high levels of intellectual property protection by all members

(d) All of the above

92. Which of the following agreements aims to prevent Standards and Conformity assessment systems from becoming unnecessary trade barriers by securing their transparency and harmonization with international Standards?

(a) Agreement or Agriculture

(b) Agreement or SPS

(c) Agreement on Technical Barriers & Trade (TBT)

(d) Agreement on Trade Related Investment Measures.

93. _____ relates to simplifications of administrative procedures and to ensure their fair operation so that import licensing procedures of different countries may not act as trade-barriers.

(a) Agreements on Rules of Origin

(b) Agreement on Import Licensing Procedures

(c) Agreement on safeguards

(d) Agreement on Trade-in-Services

94. TPRM Stands for _____

(a) Trade Policy Review Mechanism

(b) Trade Practices Regulatory Measures

(c) Transparent Practices Regulatory Mechanism

(d) None of these

95. TRIM stands for _____

(a) Trade Policy International Mechanism

(b) Trade Related Investment Measures

(c) Transparent Reforms Inherent Mechanism

(d) None of these

The Doha Round

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

(a) trade in manufactured goods.

(b) trade in intellectual property rights-based goods.

(c) trade in agricultural goods.

(d) market access to goods from developed countries.

97. The WTO commitments.

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

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

(c) affect both developed and developing countries equally.

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

98. The most controversial topic in the Doha Agenda was _____

(a) Services trade

(b) Market access

(c) Agriculture trade

(d) Geographical problems

9.10 G20 Economies : Facilitating Trade

99. Which of the following is NOT a member of G20?

(a) Italy

(b) Japan

(c) Australia

(d) Pakistan

100. When was G20 established?

(a) 1985

(b) 1995

(c) 1999

(d) 2000

101. Which of the following has organised the recent G20 submit in 2023?

(a) Osaka

(b) India

(c) America

(d) China

102. What was the theme of the G20 summit held in September 2023?

(a) One-Earth – one family

(b) One-Earth – one future

(c) One Family- one future

(d) One Earth – one family – one futue

103. Which of the following is NOT the member of G20?

(a) Mexico

(b) India

(c) Singapore

(d) Indonesia

104. Where was the first submit of G20 held?

(a) USA

(b) Britain

(c) France

(d) Canada

105. Which country will hold the G20 Presidency in 2024?

(a) Brazil

(b) South Africa

(c) USA

(d) India

UNIT 4 : EXCHANGE RATE AND ITS ECONOMIC EFFECTS

The Exchange Rate Regimes

106. A Foreign Currency transaction is a transaction that is _____ a Foreign currency.

(a) Dominated in

(b) Requires settlement in

(c) Dominated in or requires settlement in

(d) Convertible into

107. Which of the following is NOT a part of Foreign currency Transaction?

(a) Buys or sells goods or services whose price is denominated in domestic currency

(b) Borrows or lends funds, dominated in Foreign currency

(c) becomes a party to an unperformed forward exchange contract

(d) Acquires or disposes of assets, denominated in Foreign currency.

108. Choose the correct statement.

(a) An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency.

(b) The fixed exchange rate regime is said to be efficient and highly transparent.

(c) A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency.

(d) Exchange rates are generally fixed by the central bank of the country.

109. _____ refers to a system in which exchange rate for a currency is fixed by the Government.

(a) Fixed Exchange Rate System

(b) Pegged Exchange Rate System

(c) Floating Exchange Rate System

(d) Both (a) and (b)

110. When value of domestic currency is tied to the value of another currency, it is known as:

(a) Pegging

(b) Parity value

(c) Floating value

(d) None of the above

111. When value of a currency is fixed in terms of some other currency or in terms of gold, it is known as _____

(a) Pegging

(b) Parity value

(c) Floating value

(d) None of the above

112. Which of the following is NOT the merit of fixed Exchange Rate System?

(a) Stability in the Exchange Rate

(b) Prevent speculative activities

(c) Huge Foreign Exchange Reserve required

(d) Promotes International Investment

113. Which of the following is NOT the feature of fixed Exchange Rate System?

(a) Exchange Rate is officially fixed in terms of gold or any other currency by Government.

(b) There is complete Government Control as only government has the power to change it.

(c) The exchange rate keeps on changing frequently.

(d) Government is required to keep a large stock of Foreign exchange reserves.

114. Which of following is NOT true about the outcome of fixed exchange rate system?

(a) Brings more currency stability

(b) Brings more Monetary stability

(c) Brings Credibility

(d) Brings more flexibility

115. _____ refers to reduction in price of domestic currency in terms of all Foreign currencies under fixed exchange rate regime.

(a) Depreciation

(b) Devaluation

(c) Revaluation

(d) None of the above

116. _____ refers to fall in market price of domestic currency in terms of a Foreign currency under flexible exchange rate regime.

(a) Depreciation

(b) Devaluation

(c) Revaluation

(d) None of the above

117. Which term is used to a system in which exchange rate is determined by forces of demand and supply of different currencies in the Foreign exchange market?

(a) Fixed Exchange Rate System

(b) Floating Exchange Rate System

(c) Managed floating Rate System

(d) Pegged Exchange Rate System

118. Which of the following is a merit of flexible Exchange Rate System?

(a) Maintains Equilibrium level

(b) No need for huge Foreign Exchange reserves

(c) Optimum Utilisation of resources

(d) All of the above

119. Which of the following is NOT the feature of Flexible Exchange Rate System?

(a) Exchange rate is fixed officially by the Government.

(b) The exchange rate keeps on changing.

(c) Foreign Exchange Reserves are not required to be kept.

(d) Flexible exchange rate may lead to depreciation or appreciation.

120. What is the name of the system in which Foreign exchange rate is determined by market forces and central bank influences the exchange rate through intervention in the Foreign exchange market?

(a) Fixed Exchange Rate System

(b) Floating Exchange Rate System

(c) Managed Floating Rate System

(d) Managed Fixed Rate System

121. Which of the following statement is true?

(a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency.

(b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency

(c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.

(d) All of the above

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

(i) floating exchange rate

(ii) pegged exchange rate

(iii) devaluation

(iv) appreciation

(a) fixed exchange rate

(b) depreciation

(c) revaluation

(d) flexible exchange rate

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

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

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

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

Nominal Versus Real Exchange Rates

123. 'The nominal exchange rate is expressed in units of one currency per unit of the other currency. A real exchange rate adjusts this for changes in price levels'. The statement is:

(a) wholly correct

(b) partially correct

(c) wholly incorrect

(d) None of the above

124. The Real Exchange Rate (RER) between two countries is the _____ of the nominal exchange rate and the ratio of the _____ between the two countries.

(a) addition, Domestic & foreign price

(b) product, Domestic & Foreign price

(c) addition, Foreign & Domestic price

(d) Product, Foreign & Domestic price

125. On which of the following factors, the real exchange rate depends?

(a) Nominal Exchange Rate

(b) Domestic Price

(c) Foreign Price

(d) All of the above

126. When studying the economy as a whole, which ratio is used in the determination of Real Exchange Rate?

(a) $\frac{\text{Domestic Price}}{\text{Foreign Price}}$

(b) $\frac{\text{Foreign Price}}{\text{Domestic Price}}$

(c) $\frac{\text{Domestic Price Index}}{\text{Foreign Price Index}}$

(d) $\frac{\text{Foreign Price Index}}{\text{Domestic Price Index}}$

127. An increase in Real Effective Exchange Rate (REER) implies that _____

(a) Exports become more expensive

(b) Imports become cheaper

(c) Both (a) and (b)

(d) Neither (a) nor (b)

128. An increase in Real Effective Exchange Rate (REER) indicates _____ in trade competitiveness.

(a) a loss

(b) a gain

(c) No change

(d) Substantial gain

129. The price indices are used, when studying the economy as a whole, for determination of Real Exchange

Rate. Which of the following formulas is used for this?

(a) $\text{Nominal Exchange Rate} \times \frac{\text{Domestic Price Index}}{\text{Foreign Price Index}}$

(b) $\text{Real Exchange Rate} \times \frac{\text{Domestic Price Index}}{\text{Foreign Price Index}}$

(c) $\text{Nominal Exchange Rate} \times \frac{\text{Foreign Price Index}}{\text{Domestic Price Index}}$

(d) $\text{Real Exchange Rate} \times \frac{\text{Foreign Price Index}}{\text{Domestic Price Index}}$

The Foreign Exchange Market

130. _____ refers to the market in which sale and purchase of Foreign currency is settled on a specified future date at a rate agreed upon today.

(a) Spot Market
(b) Forward Market
(c) Direct Market
(d) Indirect Market

131. _____ refers to the market in which the receipts and payments are made immediately.

(a) Spot Market
(b) Forward Market
(c) Future Market
(d) Spontaneous Market

132. 'Vehicle Currency' refers to

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

133. In case of spot trading, the settlement is done by and large in _____ days.

(a) Same
(b) One
(c) Two
(d) Three

134. The forward exchange rate is always _____ the spot exchange rate.

(a) Equal to
(b) more than
(c) less than
(d) Any of the above

135. If the forward exchange rate is quoted at more than a spot exchange rate, then there is a _____

(a) forward premium
(b) forward discount
(c) Spot Premium
(d) Spot discount

136. In the case of forward discount, the forward exchange rate is _____ the spot exchange rate.

(a) more than
(b) less than
(c) equal to
(d) Either (a) or (b)

137. In practice, most transactions involve exchanges of foreign currencies for the U.S. dollars even when it is not the national currency of either the importer or the exporter. On account of the critical role in the forex market, the dollar is called as _____

(a) Dominating Currency
(b) Strong Currency
(c) Communicable Currency
(d) Vehicle Currency

Determination of Nominal Exchange Rate

138. For variety of reasons, _____ participate in the Foreign exchange market.

(a) Individuals
(b) Institutions
(c) Governments
(d) All of the above

139. On the demand side, the participants operate for _____

(a) Purchase of goods and services from another country.
(b) To make investment income payment aboard.
(c) To purchase financial assets aboard.
(d) Any of the above

140. Which one of following is Unilateral transfer?

(a) Gifts and awards
(b) Grants and donations
(c) Endowments
(d) All of the above

141. The Foreign exchange market faces _____ sloping demand curve and an _____ sloping supply curve.

(a) Downward, upward
(b) Upward, downward
(c) Downward, downward
(d) Upward, upward

142. In the determination of Nominal exchange rate, _____ and _____ are represented on the x-axis and y-axis, respectively.

(a) quantity of currency, exchange Rate
(b) exchange Rate, quantity of Currency
(c) demand of currency, supply of currency
(d) supply of currency, demand of currency

9.15 Changes in Exchange Rates

143. The changes in exchange rates portray _____ of one currency.

(a) depreciation
(b) appreciation
(c) either (a) or (b)
(d) none of these

144. The exchange rate $1 = ₹78 becomes $1 = ₹81. What does this indicate?

(a) Value of Indian Rupee has gone down.

(*b*) Indian Rupee has depreciated in its value.

(*c*) Value of US dollar has decreased

(*d*) Both (*a*) and (*b*)

145. After few months, one had to exchange a greater amount of domestic currency to get same one unit of Foreign currency. In this case _____:

(*a*) Domestic currency is devalued.

(*b*) Domestic currency is depreciated.

(*c*) Foreign currency is devalued.

(*d*) Foreign currency is depreciated

146. When one currency depreciates against another, the second currency must _____ against the first.

(*a*) also depreciate

(*b*) appreciate after some time

(*c*) simultaneously depreciate

(*d*) simultaneously appreciate.

147. Home-currency depreciation means _____

(*a*) Home currency becomes relatively less valuable

(*b*) There is increase in the home Currency price of the Foreign currency.

(*c*) Foreign currency appreciation

(*d*) All of the above

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

(*a*) The demand curve for dollars shifts to the right and Indian Rupee appreciates.

(*b*) The supply of US dollars shrinks and, therefore, import prices decrease.

(*c*) The demand curve for dollars shifts to the right and Indian Rupee depreciates.

(*d*) The demand curve for dollars shifts to the left and leads to an increase in exchange rate.

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

(*a*) The US decides not to import from Country X

(*b*) An increase in remittances from the employees who are employed abroad to their families in the home country.

(*c*) Increased imports by consumers of Country X.

(*d*) Repayment of foreign debts by Country X.

150. An increase in the supply of foreign exchange.

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

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

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

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

151. Under a floating rate system, if the demand for Foreign currency increases and supply curve remains unchanged, then the exchange value of _____ rises and the _____ depreciates in value.

(*a*) domestic currency, foreign Currency

(*b*) Foreign currency, domestic currency

(*c*) domestic currency, outside currency

(*d*) None of these

152. Which of the following is INCORRECT?

(*a*) An increase in the supply of Foreign exchange shifts the supply curve to the right.

(*b*) An increase in demand of Foreign currency shift the demand curve to the right.

(*c*) An increase in demand with no change in supply will bring an increase in the equilibrium exchange rate.

(*d*) None of the above

Devaluation and Appreciation

153. Currency devaluation.

(*a*) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries.

(*b*) may reduce export prices and increase the international competitiveness of domestic industries

(*c*) may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services

(*d*) (*a*) and (*c*) above

154. _____ is a deliberate downward adjustment in the value of a country's currency relative to another country's currency or group of currencies or standard.

(*a*) Devaluation

(*b*) Devolvement

(*c*) Degradation

(*d*) None of these

155. Devaluation is a _____ policy tool used by the countries that have a _____ exchange rate.

(*a*) Monetary, floating

(*b*) Monetary, fixed

(*c*) Fiscal, Floating

(*d*) Fiscal, fixed

156. Revaluation is _____ to/of devaluation.

(*a*) opposite

(*b*) synonymous

(*c*) similar

(*d*) better

157. Which one of following is incorrect?

(*a*) Revaluation refers to a discrete official increase of the otherwise fixed par value of a nation's currency.

(*b*) Devaluation is a monetary policy tool.

(*c*) Depreciation is a decrease in a currency's value due to market forces of demand and supply under a floating exchange rate.

(*d*) None of the above

9.17 Impacts of Exchange Rate Fluctuations on Domestic Economy

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

(a) Hedging

(b) Speculation

(c) Arbitrage

(d) Currency futures

159. All other things remaining the same, an appreciation of a country's currency _____.

(a) raises the relative price of its exports

(b) lowers the relative price of its imports

(c) raises the price of imports & lowers the price of export

(d) Both (a) and (b)

160. For which type of economy, a depreciated currency would mean a lot of gain?

(a) Where imports are high

(b) Where exports are high

(c) Where imports are significantly high

(d) Where export are significantly high

161. If currency depreciates in an economy, where the exports are significantly high and the exports originate from labour – intensive industries, then what will happen?

(a) Increase in Export Prices

(b) Increase in employment

(c) Increase in wages

(d) All of the above

162. Which of the following is NOT a consequences of appreciation, on real economy?

(a) Rise in price of exports

(b) Reduction in levels of inflation

(c) Insignificant loss of competitiveness

(d) Positive effect on domestic industry.

UNIT 5 : INTERNATIONAL CAPITAL MOVEMENTS

Types of Foreign Capital

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

(a) Direct inter government loans

(b) Loans from international institutions (e.g. World Bank, IMF, ADB)

(c) Soft loans for e.g. from affiliates of World Bank such as IDA

(d) All of the above

164. Which of the following is a form of Borrowings?

(a) Direct Inter government loans.

(b) Loans from international institutions (e.g. World Bank, IMF, ADB).

(c) External Commercial Borrowings.

(d) All of the above.

165. Which of the following is NOT a Component of Foreign Capital Flows?

(a) Foreign aid or assistance

(b) Borrowings/loans from international institutions.

(c) FDI in industrial, commercial and similar other enterprises.

(d) Deposits of Resident Indians.

Foreign Direct Investment (FDI)

166. Which of the following statements is incorrect?

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

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

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

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

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

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

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

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

(d) None of the above

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

(a) Brown field investment

(b) Merger and acquisition

(c) Greenfield investment

(d) Strategic alliances

169. A foreign direct investor

(a) May enter India only through automatic route

(b) May enter India only through government route

(c) May enter India only through equity in domestic enterprises

(d) Any of the above

170. Based on the nature of Foreign investments, FDI may be categorized as:

(a) Horizontal

(b) Vertical

(c) Conglomerate

(d) All of the above

171. United Inc. is a cell phone service provider based in the United States. The corporation is moving to India to provide the same service. Which type of investment is said to have taken place?

(a) Horizontal

(b) Vertical

(c) Conglomerate

(d) Same-axis

172. _____ is a type of Foreign direct investment is one where an investor makes a foreign investment in a business that is unrelated to its existing business in its home country.

(*a*) Horizontal

(*b*) Vertical

(*c*) Conglomerate

(*d*) None of the above

Foreign Portfolio Investment (FPI)

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

(*a*) Portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments.

(*b*) Is effected largely by individuals and institutions through the mechanism of capital market.

(*c*) Is difficult to recover as it involves purely long-term investments and the investors have controlling interest.

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

174. The Foreign Portfolio Investment (FPI) is NOT concerned with _____

(*a*) manufacture of goods

(*b*) provision of services

(*c*) the intention of exercising voting power

(*d*) all of the above

FDI: Reasons, Modes & Benefits

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

(*a*) Secure access to minerals or raw materials

(*b*) Desire to capture of large and rapidly growing emerging markets

(*c*) Desire to influence home country industries

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

176. An argument in favour of direct foreign investment is that it tends to.

(*a*) promote rural development

(*b*) increase access to modern technology

(*c*) protect domestic industries

(*d*) keep inflation under control

Answer

1.	(*d*)	**2.**	(*b*)	**3.**	(*c*)	**4.**	(*c*)	**5.**	(*a*)	**6.**	(*a*)	**7.**	(*c*)
8.	(*a*)	**9.**	(*b*)	**10.**	(*d*)	**11.**	(*b*)	**12.**	(*b*)	**13.**	(*b*)	**14.**	(*d*)
15.	(*b*)	**16.**	(*d*)	**17.**	(*c*)	**18.**	(*d*)	**19.**	(*b*)	**20.**	(*d*)	**21.**	(*b*)
22.	(*b*)	**23.**	(*d*)	**24.**	(*a*)	**25.**	(*d*)	**26.**	(*c*)	**27.**	(*c*)	**28.**	(*a*)
29.	(*c*)	**30.**	(*d*)	**31.**	(*b*)	**32.**	(*b*)	**33.**	(*c*)	**34.**	(*d*)	**35.**	(*a*)
36.	(*a*)	**37.**	(*b*)	**38.**	(*b*)	**39.**	(*d*)	**40.**	(*b*)	**41.**	(*d*)	**42.**	(*d*)
43.	(*c*)	**44.**	(*b*)	**45.**	(*d*)	**46.**	(*d*)	**47.**	(*c*)	**48.**	(*b*)	**49.**	(*d*)

50.	(*c*)	**51.**	(*a*)	**52.**	(*d*)	**53.**	(*c*)	**54.**	(*b*)	**55.**	(*b*)	**56.**	(*a*)
57.	(*d*)	**58.**	(*c*)	**59.**	(*d*)	**60.**	(*c*)	**61.**	(*a*)	**62.**	(*a*)	**63.**	(*c*)
64.	(*d*)	**65.**	(*b*)	**66.**	(*d*)	**67.**	(*b*)	**68.**	(*b*)	**69.**	(*d*)	**70.**	(*b*)
71.	(*c*)	**72.**	(*d*)	**73.**	(*a*)	**74.**	(*c*)	**75.**	(*b*)	**76.**	(*c*)	**77.**	(*d*)
78.	(*d*)	**79.**	(*a*)	**80.**	(*c*)	**81.**	(*c*)	**82.**	(*b*)	**83.**	(*b*)	**84.**	(*c*)
85.	(*d*)	**86.**	(*b*)	**87.**	(*c*)	**88.**	(*d*)	**89.**	(*c*)	**90.**	(*b*)	**91.**	(*d*)
92.	(*c*)	**93.**	(*b*)	**94.**	(*a*)	**95.**	(*b*)	**96.**	(*c*)	**97.**	(*b*)	**98.**	(*c*)
99.	(*d*)	**100.**	(*c*)	**101.**	(*b*)	**102.**	(*d*)	**103.**	(*c*)	**104.**	(*a*)	**105.**	(*a*)
106.	(*c*)	**107.**	(*a*)	**108.**	(*c*)	**109.**	(*d*)	**110.**	(*a*)	**111.**	(*b*)	**112.**	(*c*)
113.	(*c*)	**114.**	(*d*)	**115.**	(*b*)	**116.**	(*a*)	**117.**	(*b*)	**118.**	(*d*)	**119.**	(*a*)
120.	(*c*)	**121.**	(*d*)	**122.**	(*d*)	**123.**	(*a*)	**124.**	(*b*)	**125.**	(*d*)	**126.**	(*c*)
127.	(*c*)	**128.**	(*a*)	**129.**	(*a*)	**130.**	(*b*)	**131.**	(*a*)	**132.**	(*d*)	**133.**	(*c*)
134.	(*d*)	**135.**	(*a*)	**136.**	(*b*)	**137.**	(*d*)	**138.**	(*d*)	**139.**	(*d*)	**140.**	(*d*)
141.	(*a*)	**142.**	(*a*)	**143.**	(*c*)	**144.**	(*d*)	**145.**	(*b*)	**146.**	(*d*)	**147.**	(*d*)
148.	(*c*)	**149.**	(*b*)	**150.**	(*a*)	**151.**	(*b*)	**152.**	(*d*)	**153.**	(*b*)	**154.**	(*a*)
155.	(*b*)	**156.**	(*a*)	**157.**	(*d*)	**158.**	(*c*)	**159.**	(*d*)	**160.**	(*d*)	**161.**	(*d*)
162.	(*d*)	**163.**	(*d*)	**164.**	(*d*)	**165.**	(*d*)	**166.**	(*c*)	**167.**	(*c*)	**168.**	(*c*)
169.	(*d*)	**170.**	(*d*)	**171.**	(*a*)	**172.**	(*c*)	**173.**	(*c*)	**174.**	(*d*)	**175.**	(*d*)
176.	(*b*)												

Hints of selected questions

19. The option (*b*) is incorrect. The correct 4th attribute is demand conditions.

30. Compound Duty is a tariff that combines both per unit and percentage of value.

34. It is technical tariff since it has been calculated on the basis of the specific contents of the imported goods *i.e.* The duties are payable by its components or related items.

36. These are Most-Favoured Nation (MFN) tariffs.

53. Organic Certification is an example of Technical Barriers to Trade (TBT)

100. G20 was established in 1999 to bring together finance ministers and Central Bank Governors of developed and developing countries.

104. The first summit of the G20 was held in Washington (USA) in 2008.

109. Fixed Exchange Rate System is also known as Pegged Exchange Rate System.

112. The option (*c*) is a demerit because Government has to maintain large reserves of Foreign currencies to maintain the exchange rate at the level fixed by it.

113. The option (*c*) is NOT the feature of fixed exchange rate system. Rather, the exchange rate generally remains stable and only a small variations is possible.

114. The option (*d*) is incorrect. Because the fixed exchange rate system lacks flexibility.

119. Under flexible Exchange rate System, the exchange rate is determined by the forces of demand and supply of Foreign exchange. Therefore, option (*a*) is NOT the feature of flexible Exchange Rate System.

124. RER = Nominal Exchange Rate $\times \frac{\text{Domestic Price}}{\text{Foreign Price}}$

162 With increasing export prices, the competitiveness of domestic industry is adversely affected. Thus, option (*d*) is not a consequence of appreciation.

10

CHAPTER

INDIAN ECONOMY

Status of Indian Economy: Pre-Independence Period (1850 -1947)

1. Between the first and the 17th Century AD, India was prosperous and self-radiant and is believed to have controlled _____ of the world's wealth.

(*a*) One Tenth
(*b*) One Third
(*c*) One Fourth
(*d*) Between one third and one fourth

2. During the time of Emperor Chandragupta Maurya, the great intellectual guru of the emperor, outlined the public policy of the State.

(*a*) Akbar
(*b*) Sultan
(*c*) Chanakya
(*d*) Todarmal

3. Who has authored the book "Arthashastra", a Conceptual frame work of State Craft and public Policy?

(*a*) Chandragupta Maurya
(*b*) Chanakya
(*c*) Plato
(*d*) Akbar

4. The advent of the Europeans and the rule of British from _____ brought about a marked shift in the economic history of India.

(*a*) 1700 to 1947
(*b*) 1717 to 1947
(*c*) 1757 to 1947
(*d*) 1787 to 1947

5. The Indian industry stagnated under the colonial rule because:

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

6. In British era, what was the reason of virtual collapse of Indian agriculture?

(*a*) Absentee landlordism
(*b*) High indebtedness of agriculturists, growth of a class of exploitative money lenders

(c) Low attention to productivity enhancing measures

(d) All of the above

7. In British era, which of the following factors forced many to depend on agriculture for livelihood?

(a) Large scale unemployment

(b) Absence of alternate sources of employment

(c) Both (a) and (b)

(d) None of these

8. In British era, the increased pressure on land led to _____

(a) Sub-division and fragmentation of land holdings

(b) Subsistence farming

(c) Reduced agricultural productivity and poverty

(d) All of the above

9. Before 1950, the factory-based production _____ in India.

(a) Did not exist

(b) Existed in petroleum

(c) Existed in digital products

(d) Existed in agriculture

10. The 'Modern' industrial enterprises in colonial India started to grow in the _____

(a) Mid-16th century

(b) Mid-18th century

(c) Mid-19th century

(d) Mid-20th century

11. At the end of the 19th century, the Indian jute mill industry was the _____ in the world in terms of the amount of raw jute consumed in production.

(a) Largest

(b) Second Largest

(c) Negligible

(d) Lowest

12. Heavy industries such as the iron industry were established as early as 1814 by British capital. India's iron industry was ranked _____ in the world in terms of output in 1930.

(a) First

(b) Fifth

(c) Seventh

(d) Eighth

13. Just before the Great Depression, India was ranked as the _____ largest industrialised country measured by the value of manufactured products.

(a) 10th

(b) 11th

(c) 12th

(d) 13th

14. In pre-independence era, the consequence of collapse of manufacturing sector was felt heavily on agricultural sector in the form of _____

(a) Overcrowding on farms

(b) Subdivision and fragmentation

(c) Subsistence farming, low productivity, lower incomes and aggravated poverty

(d) All of the above

Indian Economy: Post Independence (1947-1991)

15. The post-independence economic policy was rooted in _____

(a) A capitalist mode of production with heavy industrialization

(b) Social and economic redistribution and industrialization directed by the state

(c) Social and economic redistribution through private sector initiatives

(d) Industrialization led by private entrepreneurs and redistribution by state

16. At the time of independence, which of the following is correct about India?

(a) India was overwhelmingly rural, inhabited by mostly illiterate and poor people with low life expectancy

(b) The social structure was deeply stratified and exceedingly heterogeneous on many counts

(c) India was deficient in physical financial and human capital

(d) All of the above

17. Which of the following was NOT the ideology of industrialization prevailed in the early days of independence?

(a) Establishing an economic system in which the central government would have authority to design the economic strategy

(b) To carry out the necessary investments in coordination with the private sector.

(c) Systematic planning to support industrialization.

(d) Lowest level of industrialization of the economy

18. The Industrial Policy Resolution (1948) aimed at _____

(a) Market oriented economic reforms and opening up of economy

(b) A shift from state led industrialization to private sector led industrialisation

(c) An expanded role for the public sector and licensing to the private sector

(d) An expanded role of private sector a limited role of public sector

19. Which of the following economic philosophy was the guiding force for planning in 1950's?

(a) The then prime minister Nehru's visualization to build a socialistic society with emphasis on heavy industry

(b) The Gandhian philosophy of small scale and cottage industry and village republics

(c) Both (a) and (b)

(d) None of the above

20. In independent India, the comprehensive import controls were maintained until _____

(a) 1955

(b) 1962

(c) 1966

(d) 1970

21. Rapid industrialization of the economy was the cornerstone of whose development strategy?

(a) Nehru

(b) Patel

(c) Indira

(d) None of these

22. The Industrial Policy Resolution of 1956 though provided a comprehensive framework for industrial development, was lopsided as its

guiding principle supported enormous expansion of the scope of the _____

(a) Private Sector
(b) Public sector
(c) Both (a) and (b)
(d) None of these

23. In Industrial Policy Resolution (1956), a natural outcome of the undue priority for public sector was the _____

(a) Dampening of private initiative and enterprise
(b) Private investments were discouraged
(c) Negative consequences of industrial growth
(d) All of the above

24. The 'Hindu growth rate' is a term used to refer to _____

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

25. In 1954, India signed a long-term agreement with the US for food aid. What was the name of this agreement?

(a) PL-480
(b) PL-440
(c) PL-420
(d) PL-400

26. The Industrial Policy Resolution (1948) envisaged _____

(a) An expanded role for the public sector
(b) Licensing to the private sector
(c) Both (a) and (b)
(d) None of these

27. The policies in 1950's were guided by _____

(a) Nehruvian philosophy of visualizing a socialistic society with emphasis on heavy industries
(b) Gandhian philosophy of stressing on small scale and cottage industry and village republics
(c) Both (a) and (b)
(d) None of these

28. Which one of the following is a feature of green revolution?

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

29. The strategy of agricultural development in India before green revolution was _____

(a) High yielding varieties of seeds and chemical fertilizers to boost productivity
(b) Institutional reforms such as land reforms
(c) Technological upgradation of agriculture
(d) All the above

30. 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

31. The economic performance during the period of 1965-81 is the worst in independent India's history the decline in growth during this period is attributed mainly to decline in productivity. Which of the following factors contributed to the decelerated growth that lasted two decades?

(i) The license-raj, the autarchic policies that dominated the 1960s and 1970s
(ii) The external shocks of three wars (in 1962, 1965, and 1971)
(iii) The major droughts (especially 1966 and 1967)
(iv) The oil shocks of 1973 and 1979

(a) (i) only
(b) Both (i) and (ii)
(c) (i), (ii) and (iii)
(d) (i), (ii), (iii) and (iv)

32. The government nationalized 14 banks in _____ and then followed it up with nationalizing another 6 in _____

(a) 1967, 1977
(b) 1969, 1980
(c) 1980, 1969
(d) None of the above

33. Which of the following is NOT the part of major reforms in 1980's?

(a) De-licensing of 25 broad categories of industries, granting of the facility of 'broad-banding' to allow flexibility and rapid changes in the product mix of industries without going in for fresh licensing
(b) Increase in the asset limit of MRTP firms from 20 crore to 100 crore, introduction of modified value-added (MODVAT)
(c) Extension of the Open General License (OGL), export incentives, Liberalisation of imports, reduction in tariffs and removal of price and distribution controls on cement and aluminum
(d) Establishment of planning commission

34. In which year, the policy of reservation of many products for exclusive manufacture by the small scale sector was initiated with the objective of promotion of small-scale industries.

(a) 1967
(b) 1969
(c) 1971
(d) 1973

The Era of Reforms

35. The first wave of liberalization starts in India _____

(a) In 1951

(b) In 1980's

(c) In 1990's

(d) In 1966

36. On which date the Securities and Exchange Board of India (SEBI) was established as a non-statutory body on through a resolution of the Government of India?

(a) April 1, 1982

(b) April 12, 1982

(c) April 1, 1988

(d) April 12, 1988

37. The number of capital goods items included in the OGL list expanded steadily reaching 1,329 in April 1990. What is the full form of OGL?

(a) Open General License

(b) Other Goods List

(c) Open Goods List

(d) Other General List

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

(a) The historical pattern of prominence of sectors as agriculture, industry, services

(b) The historical pattern of prominence of sectors as industry, services, agriculture

(c) Unique experience of the sequence as agriculture, services, industry

(d) All the above are correct

39. Based on the Real Effective Exchange Rate (REER), the rupee was depreciated by about 30 per cent from _____

(a) 1980-81 to 1990-91

(b) 1982-83 to 1990-91

(c) 1985-86 to 1989-90

(d) None of these

40. The budget for 1986 introduced policies of _____

(a) Cutting taxes further

(b) Liberalizing imports

(c) Reducing tariffs

(d) All of the above

The Economic Reforms of 1991

41. In 1991, the foreign exchange reserves touched the lowest point with a reserve which was barely sufficient for two weeks of imports. What was the status of reserves at that time?

(a) $5.2 billion

(b) $4.2 billion

(c) $3.2 billion

(d) $1.2 billion

42. The economic condition of India in the year 1991 was very miserable. Which of the following is NOT the reason behind the major economic reforms in the economy?

(a) Poor performance of public sector

(b) Deficit in Balance of Payment

(c) Rise in foreign exchange reserves

(d) Huge burden of taxes

43. To manage the economic crises of 1991, Indian Government approached World Bank and IMF. What is the amount of loan received by India?

(a) $ 10 billion

(b) $ 7 billion

(c) $ 5 billion

(d) None of these

44. Which of the following was the objective of the LPG reforms, taken in 1991?

(a) Reorientation of the economy from a centrally directed and highly controlled one to a 'market friendly' or market-oriented economy

(b) Macroeconomic stabilization by substantial reduction in fiscal deficit

(c) Both (a) and (b)

(d) None of these

45. In the context of the new economic policy of 1997, 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

46. Which of the following is a part of fiscal reforms of 1991?

(a) Introduction of a stable and transparent tax structure

(b) Ensuring better tax compliance

(c) Reduction in subsidies and abolition of unnecessary subsidies

(d) All of the above

47. Which one of the following is NOT correct about fiscal reforms of 1991?

(a) Thrust on curbing government expenditure

(b) Substantial increase in subsidies and addition in many subsidies

(c) Disinvestment of part of government's equity holdings in select public sector undertakings

(d) Encouraging private sector participation

48. What was the focus of monetary and fiscal sector reforms (1991)?

(a) Reducing the burden of non-performing assets on government banks

(b) Introducing and sustaining competition

(c) Deregulating interest rates

(d) All of the above

49. In line with the recommendations of the Narasimham Committee Report, 1991, what was done as regards Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR)?

(a) Increase in both SLR and CRR

(b) Decrease in both SLR and CRR

(c) Increase in SLR and Decrease in CRR

(d) Decrease in SLR and Increase in CRR

50. In which year the Securities and Exchange Board of India (SEBI) was given statutory recognition in 1992.

(a) 1988

(b) 1991

(c) 1992

(d) 1993

51. The new economic policy of 1991 manifest in _____

(a) State led industrialization and import substitution

(b) Rethinking the role of markets versus the state

(c) Emphasized the role of good governance

(d) Bringing about reduction in poverty and redistributive justice

52. Which of the following is not a policy reform included in the new economic policy of 1991?

(a) Removing licensing requirements for all industries

(b) Foreign investment was liberalized

(c) Liberalisation of international trade

(d) The disinvestment of government holdings of equity share capital of public sector enterprises

53. In "New Industrial Policy" of 1991, the public sector was limited to _____ sectors based on security and strategic grounds.

(a) Ten

(b) Eight

(c) Six

(d) Five

54. The New Economic Policy put an end to the 'License Raj' by removing licensing restrictions for all industries except for 18 that 'related to:

(a) Security and strategic concerns

(b) Social reasons

(c) Problems related to safety and overriding environmental issues

(d) All of the above

55. The trade policy reforms aimed at _____

(a) Dismantling of quantitative restrictions on imports and exports

(b) Focusing on a more outward oriented regime with phased reduction and simplification of tariffs

(c) Removal of licensing procedures for imports

(d) All of the above

56. In July, 1991 the Indian government devalued the rupee by between _____

(a) 14 to 15 per cent

(b) 15 to 16 per cent

(c) 16 to 17 per cent

(d) 18 to 19 per cent

Niti Aayog: A Bold Step for Transforming India

57. When was NITI AAYOG established?

(a) 1st January 2013

(b) 15th August 2013

(c) 1st January 2015

(d) 15th August 2015

58. The Parent agency of NITI AAYOG is _____.

(a) Ministry of Planning

(b) Ministry of Industries

(c) Ministry of Corporate Affairs

(d) Prime Minister's Office

59. Who is the current Chief Executive officer of the NITI AAYOG?

(a) V.K. Saraswat

(b) B.V.R. Subrahmanyam

(c) Vinod Paul

(d) Rajiv Kumar

60. The current vice-chairperson of NITI AAYOG is _____.

(a) V.K. Saraswat

(b) Amitabh Kant

(c) Vinod Paul

(d) Suman Bery

61. Who amongst the following is not ex-officio member of NITI AAYOG?

(a) Amit Shah

(b) Rajnath Singh

(c) Nirmala Sitharaman

(d) Narendra Modi

62. Who leads the NITI AAYOG as its Chairperson?

(a) President

(b) Prime Minister

(c) Home Minister

(d) Finance Minister

63. Think tank of the Government of India, that replaced the planning Commission, is _____.

(a) Mission Commission

(b) NITI AAYOG

(c) NITI Commission

(d) None of these

64. Which of the following is the function of NITI AAYOG?

(a) Instrument to bring outside ideas into Policy-making

(b) Fostering Cooperative federalism

(c) Platform for resolution of Inter-Sectoral and inter-department issues

(d) All of the above

65. What is the name given to NITI AAYOG'S ambitious project to develop a nation-wide block chain network?

(a) Indo chain

(b) India chain

(c) Bharat chain

(d) Atal chain

66. The programme "SATH" of NITI AAYOG focuses on which of the following Sector?

(a) Education and Health

(b) Health and Power

(c) Power and safety

(d) Safety and Environment

67. The programme "SATH" focuses on Sectors "Education and Health" & to build three Role Model States. Which of the following is not selected for the programme?

(a) Jharkhand

(b) Madhya Pradesh

(c) Uttar Pradesh

(d) Odisha

68. What is the full form of "SATH"?

(a) Sustainable Action for Transforming Human Capital

(b) Suitable Action Training High-tech

(c) Separate Augmented Theory

(d) None of these

69. The SATH Programme is implemented along with which of the following Knowledge Partner?

(a) Boston Consulting Group

(b) Piramal foundation for Education Leadership

(c) Reliance Foundation

(d) Both (a) & (b)

70. What is the role of NITI Aayog in "SATH"?

(a) Facilitator & Financer

(b) Facilitator & Coordinator
(c) Facilitator & Knowledge Partner
(d) Facilitator & Technical Partner

71. Which of the following is/are comes under the gamut of activities of NITI Aayog?

(a) Design Policy & Programme Frame-work
(b) Foster Cooperative Federalism
(c) Monitoring & Evaluation
(d) All of the above

72. One of the objectives of NITI AAYOG is to evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States. What is the full form of NITI?

(a) National Institution for Transforming India
(b) New Institute for Training India
(c) Notional Integration and Technical Integrity
(d) NITI stands for planning

73. Which of the following is not covered under NITI Aayog's entire gamut of activities?

(a) Design Policy & Programme framework
(b) Foster Cooperative Federalism, Monitoring & Evaluation
(c) Think Tank and knowledge and Innovation Hub
(d) Co-ordination among domestic and International transactions

The Current State of The Indian Economy: A Brief Overview

74. India has the world's _____ area planted under wheat, rice and cotton.

(a) Smallest
(b) Largest
(c) Negligible
(d) Significantly low

75. India is the world's _____ producer of fruits, vegetables, tea, farmed fish, cotton, sugarcane, wheat, rice, cotton and sugar.

(a) Largest
(b) Second-largest
(c) Third Largest
(d) Fifth

76. Indian food and grocery market is the world's _____ largest, with retail contributing 70% of the sales.

(a) Third
(b) Fourth
(c) Sixth
(d) None of these

77. India has the world's _____ cattle herd (buffaloes).

(a) Largest
(b) Second-largest
(c) Third Largest
(d) Fifth

78. According to the latest estimates, _____ of India's population is directly dependent on agriculture for living.

(a) 30%
(b) 40%
(c) 47%
(d) 72%

79. As per the economic survey, 2022-23, agriculture remained robust, recording a growth of 3.5 per cent in 2022-23, driven by buoyant rabi sowing and allied activities. Which of the following measures have been taken by the Government which has contributed to this robust performance of the agriculture and allied sectors?

(a) Improve market infrastructure through the impetus provided for the setting up of farmer-producer organisations
(b) Ensure certainty of returns to the farmers through price support (The Minimum Support Price (MSP) of all 23 mandated crops is fixed at 1.5 times of all India weighted average cost of production)
(c) Promotion of investment in infrastructure facilities through the Agriculture Infrastructure Fund
(d) All of the above

80. India is among the top _____ exporters of agricultural products in the world.

(a) Three
(b) Five
(c) Ten
(d) Eleven

81. APEDA is entrusted with the responsibility of export promotion of Agri products. What is the full form of APEDA?

(a) Agricultural and Processed Food Export Development Authority
(b) Agricultural and Processed Fund Enriching Development Authority
(c) Agri and Products Facilitator Export Development Authority
(d) Agri and Products Food Export Development Authority

82. As part of liberalization measures, the Government of India has allowed _____ FDI in marketing of food products and in food product E-commerce under the automatic route.

(a) 30%
(b) 40%
(c) 50%
(d) 100%

83. What is the name of the novel insurance scheme for financial support to farmers suffering crop loss/damage?

(a) Pradhan Mantri Fasal Bima Yojana (PMFBY)
(b) Pradhan Mantri Farmers Bima Yojana (PMFBY)
(c) Pradhan Mantri Financial Bima Yojana (PMFBY)
(d) None of these

84. What is the name of the scheme for the holistic growth of the horticulture sector?

(a) Ministry for Integrated Development of Horticulture (MIDH)
(b) Mission for Integrated Development of Horticulture (MIDH)
(c) Mission for Informal Development of Horticulture (MIDH)

(*d*) Mission for Intensified Development of Horticulture (MIDH)

85. Paramparagat Krishi Vikas Yojana (PKVY) is the scheme for supporting and promoting _____

(*a*) Organic farming

(*b*) Improvement of soil health

(*c*) Traditional farming methods of agriculture

(*d*) Both (*a*) and (*b*)

86. PDMC scheme to increase water use efficiency at the farm level. What is the full form of PDMC?

(*a*) Per Drop More Crop

(*b*) Perfect Drop More Crop

(*c*) Perfect Development Mission Crop

(*d*) None of these

87. E-NAM is _____

(*a*) An electronic name card given to citizens of India

(*b*) National Agriculture Market with the objective of creating a unified national market for agricultural commodities.

(*c*) A pan-India electronic trading portal which networks the existing APMC mandis

(*d*) Both (*b*) and (*c*) above

88. India's rank in the Global Innovation Index (GII) improved to 40th in 2022 from _____ in 2015.

(*a*) 71st

(*b*) 81st

(*c*) 91st

(*d*) 99th

89. The Department for Promotion of Industry and Internal Trade (DPIIT) has a role in the _____ of industrial policy and strategies for industrial development in conformity with the development needs and national objectives.

(*a*) Formulation

(*b*) Implementation

(*c*) Formulation and implementation

(*d*) Critical evaluation

90. The introduction of which of the following on 1 July 2017 as a single domestic indirect tax law for the entire country has replaced many indirect taxes in India such as the excise duty, VAT, services tax, etc.

(*a*) CBIC

(*b*) CBDT

(*c*) Customs Duty

(*d*) GST

91. In terms of Ease of Doing Business in 2020 India ranks _____

(*a*) 63

(*b*) 77

(*c*) 45

(*d*) None of the above

92. _____ is to facilitate data-based decisions related to integrated planning of multimodal infrastructure, thereby reducing logistics cost.

(*a*) PM Gati Shakti National Master Plan

(*b*) Mission Gati Shakti National Master Plan

(*c*) PM Multi-modal National Master Plan

(*d*) PM Integrated Plan for Multi-Modal

93. FAME-India Scheme aims to:

(*a*) Enhance faster industrialization through private participation

(*b*) To promote manufacturing of electric and hybrid vehicle technology

(*c*) To spread India's fame among its trading partners

(*d*) None of the above

94. _____ aims at the empowerment of Micro Small and Medium Enterprises (MSMEs).

(*a*) Naya Bharat

(*b*) Viksit Bharat

(*c*) Udyog Bharat

(*d*) Udyami Bharat

95. The Foreign Investment Promotion Board (FIPB) _____

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

(*b*) No more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal

(*c*) No more exists as all inward investments are through automatic route and need no approval

(*d*) Is the body which connects different ministries in respect of foreign portfolio investments

96. Merchandise Exports from India Scheme was replaced by _____

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

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

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

(*d*) None of the above

97. Which of the following is/are the challenges to the industrial sector?

(*a*) Shortage of efficient infrastructure and manpower and consequent reduced factor productivity

(*b*) Reliance on imports, exchange rate volatility and associated time and cost overruns

(*c*) Heavy losses, inefficiencies, lower productivity and unsustainable returns plaguing public sector industries

(*d*) All of the above

98. India is among the _____ World Trade Organization (WTO) members in service exports and imports.

(*a*) Top 3

(*b*) Top 5

(*c*) Top 8

(*d*) Top 10

99. To ensure the liberalisation of investment in various industries, the government has permitted _____foreign participation in telecommunication services through the Automatic Route including all services and infrastructure providers.

(*a*) 30%

(*b*) 40%

(*c*) 50%

(*d*) 100%

100. 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

Answers

1.	(d)	**2.**	(c)	**3.**	(b)	**4.**	(c)	**5.**	(c)	**6.**	(d)	**7.**	(c)
8.	(d)	**9.**	(a)	**10.**	(c)	**11.**	(a)	**12.**	(d)	**13.**	(c)	**14.**	(d)
15.	(b)	**16.**	(d)	**17.**	(d)	**18.**	(c)	**19.**	(c)	**20.**	(c)	**21.**	(a)
22.	(b)	**23.**	(d)	**24.**	(b)	**25.**	(a)	**26.**	(c)	**27.**	(c)	**28.**	(c)
29.	(b)	**30.**	(d)	**31.**	(d)	**32.**	(b)	**33.**	(d)	**34.**	(a)	**35.**	(b)
36.	(d)	**37.**	(a)	**38.**	(c)	**39.**	(c)	**40.**	(d)	**41.**	(d)	**42.**	(c)
43.	(b)	**44.**	(c)	**45.**	(b)	**46.**	(d)	**47.**	(b)	**48.**	(d)	**49.**	(b)
50.	(c)	**51.**	(b)	**52.**	(a)	**53.**	(b)	**54.**	(d)	**55.**	(d)	**56.**	(d)
57.	(c)	**58.**	(a)	**59.**	(b)	**60.**	(d)	**61.**	(d)	**62.**	(b)	**63.**	(b)
64.	(d)	**65.**	(b)	**66.**	(a)	**67.**	(c)	**68.**	(a)	**69.**	(d)	**70.**	(b)
71.	(d)	**72.**	(a)	**73.**	(d)	**74.**	(b)	**75.**	(b)	**76.**	(c)	**77.**	(a)
78.	(c)	**79.**	(d)	**80.**	(c)	**81.**	(a)	**82**	(d)	**83.**	(a)	**84.**	(b)
85.	(d)	**86.**	(a)	**87.**	(d)	**88.**	(b)	**89.**	(c)	**90.**	(d)	**91.**	(a)
92.	(a)	**93.**	(b)	**94.**	(d)	**95.**	(b)	**96.**	(a)	**97.**	(d)	**98.**	(d)
99.	(d)	**100.**	(c)										

Hint of selected questions

25. India signed a long-term Public Law (PL) 480 agreement to get food aid under Government agricultural trade development assistance, with the US in 1954.

MEMORY BASED SOLVED PAPER: DEC. 2023 (SUGGESTED ANSWERS)

CHAPTER 1 : NATURE AND SCOPE OF BUSINESS ECONOMICS

1. The word economics owes its origin with the Greek word Oikonomia which means _____.

(a) Commodity

(b) Household

(c) Price

(d) Consumer expectations

2. Which type of industries not primarily profit oriented but are set by state for the welfare of the community?

(a) Combined sector

(b) Private sector

(c) Independent sector

(d) Public sector

3. _____ wrote "An inquiry into the nature and causes of wealth of nations".

(a) Adam smith

(b) Pigou

(c) Marshall

(d) Hicks

4. 'The Communist Manifesto' published in 1848 by Karl Marx and Federic Engles propounded the concept of _____.

(a) Capitalist economy

(b) Socialist economy

(c) Laissez-faire economy

(d) Free market economy

5. In which type of central economic problem, an economy must decide whether more Indian electric toys should be produced and how many units of each toy should be produced?

(a) How to produce

(b) What to produce

(c) For whom to produce

(d) What provision should be made for economic growth

6. What implications does the resource scarcity of economy have?

(a) Political problems

(b) Economic problems

(c) Geographical problems

(d) Cultural problems

7. Which one of the following is not a business economics?

(a) Demand forecasting & Analysis

(b) Cost and production analysis

(c) Profit Analysis

(d) Capital budgeting

8. Impact of balances of trade and balances of payments on GDP are studied as a part of _____.

(a) Microeconomics

(b) Consumer economics

(c) Trade economics

(d) Macro economics

9. Match the following.

Types of economic system	Tool to solve economic problem
(a) Capitalist economy	(i) Central Planning
(b) Mixed economy	(ii) Price Mechanism
(c) Socialist economy	(iii) Mix of price mechanism and central planning

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

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

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

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

10. In a _____ the producer is free to set up any type of firms produce goods and services of his choice.

(a) Capitalist economy

(b) Command Economy

(c) Centrally planned economy

(d) Planned economy

11. The India's Employment rate has increased in March 2023 as compared to March 2022. The study of this aspect comes under _____.

(a) Microeconomics

(b) Macro Economics

(c) Price theory

(d) Market Economics

CHAPTER 2 : THEORY OF DEMAND AND SUPPLY

12. Which of the following is an exception to the law of demand?

(a) Substitute goods

(b) Marginal utility

(c) Conspicuous goods

(d) Cross elasticity of demand

13. If the percentage change in demand of good X is -2.5% and the percentage change in income is 5%, then the income elasticity for and the good X will be good X is treated as:

(a) -0.5, normal goods

(b) -0.5, inferior goods

(c) 0.5, normal goods

(d) 0.5, inferior goods

14. If both the total revenue of a product and price are moving in the same direction, demand is:

(a) Elastic

(b) Perfectly inelastic

(c) Inelastic

(d) Unrelated

15. The price of a good decreases from ₹ 80 to ₹40 per unit. If the price elasticity of demand for the given product is 1.5 and the original quantity is 20 units, then the new quantity demanded will be:

(a) 15 Units

(b) 35 Units

(c) 18 Units

(d) 48 Units

16. Price of one can of pepsi is ₹25. At this price, 10 cans of pepsi are demanded. If the price of coca cola increases from ₹20 to ₹30 per can, then quantity demanded of pepsi rises from 10 cans to 16 cans. Find the cross-price elasticity of pepsi.

(a) 1.2

(b) 1.25

(c) 0

(d) 1

17. Calculate the price elasticity of demand if the household increases his demand for commodity x from 80 units to 100 units and price of a product x decreases by 10%.

(a) 2.5

(b) 0.4

(c) 10

(d) 1.25

18. Cross elasticity of commodity X is (-)1.5. It indicates that commodity X is:

(a) Complementary Goods

(b) Suspicious Goods

(c) Industrial Goods

(d) Substitute Goods

19. Dinesh's annual income increases from ₹3,00,000 to ₹3,60,000. Accordingly, he increases his purchases of commodity X from 50 Nos. to 60 Nos. What is the Dinesh's income elasticity of demand for commodity X? (use Arc elasticity method)

(a) 0.5

(b) 1.0

(c) 2.0

(d) Zero

20. At ₹5 per unit, Ram supplies 500 units of commodity X. At what price, 650 units of X should be supplied for at unit elasticity of supply?

(a) 3.5

(b) 4.5

(c) 6.5

(d) 7.5

21. If the elasticity of Supply is 5 and the price of product Y increases by 15%, then what percentage of quantity supplied will increase?

(a) 10%

(b) 3%

(c) 75%

(d) 15%

22. The Price of Good Increases from ₹200 to ₹300 the quantity supplied Increases from 200 to 2500 units. The elasticity of supply will be:

(a) Less than one

(b) Greater than two

(c) Equal to one

(d) Equal to two

23. More consumption of commodity of X and less consumption of commodity Y make indifference curve.

(a) Slope downwards from left to right

(b) Intersect with each other

(c) Touch two axes

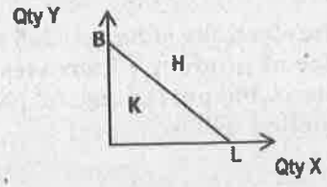
(d) Concave at mid-point

24. From the information provided, what will be the Total utility of 2nd unit

Units	TU	MU
1	200	--
2	--	150
3	480	--

(a) 350
(b) 380
(c) 50
(d) 330

25. BL is the budget line. What does the points 'K' and 'H' represent from the consumer's point of view?



(a) Point 'K' is not reachable of the consumer, point 'H' shows under spending by the consumer
(b) Point 'K' and 'H' shows equal consumer spending behaviour.
(c) Point 'K' shows under spending by the consumer and point 'H' shows beyond the reach of consumer
(d) Point 'K' and 'H' shows the price ratio

CHAPTER 3 : THEORY OF PRODUCTION AND COST

26. 'Innovation' theory of entrepreneurship is Propounded by:

(a) Schumpeter
(b) Frank Knight
(c) John Stuart Mill
(d) Jeremy Bentham

27. Which of the following is not a characteristic of labour?

(a) Labour is perishable
(b) Labour is an active factor
(c) Labour power differs from one labour to labourer
(d) Labour is immobile

28. Consider the examples-seeds, fuel, raw material etc. These are a form of capital, performs its functions in production for single use and is not available for further use.

(a) Individual capital
(b) Social capital
(c) Circulating capital
(d) Human capital

29. The Cobb-Douglas production function explained _____ returns to scale in production.

(a) Decrease
(b) Fluctuate
(c) Increase
(d) Constant

30. It shows all those combinations of different factors of production which give the same output to the producer is called _____.

(a) Kinked demand curve
(b) Isoquant curve
(c) Marginal cost curve
(d) Short run cost curve

31. Money not paid out to the owners of the firm for self-owned factors employed in a business and therefore not entered in the books of account is considered as:

(a) Explicit cost
(b) Implicit cost

(c) Sunk cost
(d) Incremental cost

32. Which one of the following is statement is correct in relation to the profit in accounting and economic sense:

(a) Accounting profit considers explicit and implicit costs
(b) Accounting profit is generally less than the economic profit
(c) Economic profit includes opportunity cost related with self-owned factors
(d) No difference between accounting and economic profit

33. The fixed cost of a firm is ₹300. The average Total cost is ₹3 and an average variable cost is ₹2.50 the firm's output will be:

(a) 850 Units
(b) 680 Units
(c) 600 Units
(d) 150 Units

CHAPTER 4 : PRICE DETERMINATION IN DIFFERENT MARKETS

34. _____ is price at which quantity demand of a commodity = Quantity supply and there is no unsold stock or no excess demand.

(a) Market Clearance Price
(b) Disequilibrium price
(c) Psychological Price
(d) Skimming Price

35. Grains sold in the market and paid cash immediately. Which type of market belongs to according to the nature of the transaction.

(a) Spot market
(b) Forward market
(c) Wholesale market
(d) Regulated market

36. A firm will earn _____ at equality between MC and MR.

(a) Maximum profit
(b) Minimum profit
(c) Maximum loss
(d) No (zero) profit

37. Rajesh realizes ₹6000 while he is selling 60 units of mats and ₹7,200 while selling 61 units. His marginal revenue is _____.

(a) ₹118
(b) ₹1,200
(c) ₹6,000
(d) ₹7,200

38. When MR = 0; then TR =?

(a) Minimum
(b) Maximum
(c) Zero
(d) Infinity

39. MR of nth term:

(a) TR_n/TR_{n-1}
(b) $TR_n + TR_{n-1}$
(c) $TR_n - TR_{n+1}$
(d) $TR_n - TR_{n-1}$

40. When price is ₹200, quantity demanded is 10 units. Then price decreases by 3% and quantity de-

manded increased by 20%. The marginal revenue will be:

(a) ₹164
(b) ₹328
(c) ₹300
(d) ₹160

41. The relationship between AR and MR of a monopoly firm or imperfect competition is _____.

(a) AR cannot be zero, but MR can be zero or negative
(b) AR can be zero, MR also be zero or negative
(c) AR cannot be zero, MR cannot be zero or negative
(d) AR can be zero, but MR cannot be zero or negative

42. A Market Structure in which there is only a single buyer and a single seller is known as _____.

(a) Bilateral monopoly
(b) Duopoly
(c) Oligopsony
(d) Monopsony

43. Telecom Industry is an example of _____.

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

44. XYZ deals with financial products. Its demand curve will be:

(a) Horizontal axis; perfectly elastic
(b) Vertical axis; perfectly inelastic
(c) Horizontal axis; inelastic
(d) Vertical axis; elastic

45. In which type of oligopoly, the firm sell their product through a centralized body?

(a) Open oligopoly
(b) Organized oligopoly
(c) Full oligopoly
(d) Syndicated oligopoly

46. In the perfect competition, an individual firm demand curve is _____.

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

47. A group of firms that explicitly agree (called) to coordinate their activities is called a _____.

(a) Cartel
(b) Mutual group
(c) Friendship group
(d) Agreement

48. Electricity commission sells electricity at cheaper rate for home consumption in rural areas than for industrial consumption. This is an example of _____.

(a) Perfect Competition
(b) Price discrimination
(c) Product discrimination
(d) Price taker

49. Which of the following is not a feature of the monopoly market.

(a) Single seller of the product
(b) Large sellers of the product
(c) No close substitutes
(d) Market power

CHAPTER 5 : BUSINESS CYCLES

50. Fiscal Policies are associated with _____.

(a) Government Expenditure
(b) Reserve Equipment
(c) Inflation
(d) Supply of money

51. Consumer price index number belongs to which of the following indicator?

(a) Leading Indicator
(b) Lagging Indicator
(c) Coincident Indicator
(d) Stock market Indicator

52. Which of the following is an external cause of business cycle?

(a) Fluctuations of effective demand
(b) Microeconomic Policy
(c) Changes in government Spending
(d) Technological shocks

53. Which of the following is a coincident indicator?

(a) New order of plant and Equipment
(b) Corporate Profits
(c) GDP
(d) Labour Cost per Unit

54. Production of new and better goods and services using new technology:

(a) Troughs in business cycle
(b) Loss of employment
(c) Expansion of employment
(d) Reduced need of investment

55. It is very important to understand the phase of business cycle and is relevant for new business because _____.

(a) It affects the demand for their product
(b) It helps frame appropriate policies and planning
(c) It helps to decide an entry into the market
(d) It affects their profits

56. Expansionary monetary policy of government directs towards _____.

(a) Reduction in inflation
(b) Rising of aggregate demand
(c) Decline in employment rate
(d) Increase in interest rates

57. Which business cycles phase are collectively known as Turning points?

(a) Peak & trough
(b) Expansion & Contraction
(c) Peak & boom
(d) Trough & depression

58. A measurable economic factor that changes before the economy starts to choose a particular pattern is _____.

(a) Coincident indicator
(b) Leading indicator
(c) Cyclical indicator
(d) Lagging indicator

59. Which of the following is not a feature of business cycles?

(a) Business cycles are contagious and international in character
(b) The duration of these business cycles will vary
(c) The intensity of fluctuation varies
(d) The length of each phase is definite

60. XYZ is an Advertisement Agency. Its future projects are closely related to the rate of economic growth. Then XYZ business referred to as _____.

(*a*) Durable business

(*b*) Non-Durable business

(*c*) Cyclical business

(*d*) Non-Cyclical business

61. Which one of the following is not for expansion phase of business cycle?

(*a*) Involuntary unemployment is almost zero

(*b*) Price and costs also tend to rise faster

(*c*) Increase in capital and consumer expenditure

(*d*) Supply exceeds demand

Answers:

1.	(*b*)	**2.**	(*d*)	**3.**	(*a*)	**4.**	(*b*)	**5.**	(*b*)	**6.**	(*b*)	**7.**	(*d*)
8.	(*d*)	**9.**	(*d*)	**10.**	(*a*)	**11.**	(*b*)	**12.**	(*c*)	**13.**	(*b*)	**14.**	(*c*)
15.	(*c*)	**16.**	(*a*)	**17.**	(*a*)	**18.**	(*a*)	**19.**	(*b*)	**20.**	(*c*)	**21.**	(*c*)
22.	(*b*)	**23.**	(*a*)	**24.**	(*a*)	**25.**	(*c*)	**26.**	(*a*)	**27.**	(*d*)	**28.**	(*c*)
29.	(*d*)	**30.**	(*b*)	**31.**	(*b*)	**32.**	(*c*)	**33.**	(*c*)	**34.**	(*a*)	**35.**	(*a*)
36.	(*a*)	**37.**	(*b*)	**38.**	(*b*)	**39.**	(*d*)	**40.**	(*a*)	**41.**	(*a*)	**42.**	(*a*)
43.	(*d*)	**44.**	(*a*)	**45.**	(*d*)	**46.**	(*a*)	**47.**	(*a*)	**48.**	(*b*)	**49.**	(*b*)
50.	(*a*)	**51.**	(*c*)	**52.**	(*d*)	**53.**	(*c*)	**54.**	(*c*)	**55.**	(*c*)	**56.**	(*b*)
57.	(*a*)	**58.**	(*b*)	**59.**	(*d*)	**60.**	(*c*)	**61.**	(*d*)				

Hints to Questions

1. The word 'economics' owes its origin to the Greek word 'Oikonomia', which means **Household**. It referred to the management of household affairs in ancient Greece.

2. Industries that are not primarily profit-oriented but are set up by the state for the welfare of the community fall under the **Public sector**. These industries are typically concerned with providing essential services and goods to the public, often with a focus on social welfare rather than profit.

3. "An Inquiry into the Nature and Causes of the Wealth of Nations" was written by **Adam Smith**. This book, published in 1776, is considered one of the founding works of classical economics.

4. 'The Communist Manifesto', published in 1848 by Karl Marx and Friedrich Engels, propounded the concept of a **Socialist economy**. This manifesto laid the foundation for the development of Marxist theory.

5. The central economic problem of deciding whether more Indian electric toys should be produced and how many units of each toy should be produced falls under **What to produce**. This problem deals with determining which goods and services should be produced in the economy.

6. The resource scarcity of an economy has **Economic problems** implications. Scarcity of resources means that there are limited resources to satisfy unlimited wants, leading to the fundamental economic problem of allocation and necessitating choices and trade-offs.

7. Capital budgeting is not typically considered a part of business economics. Business economics mainly focuses on factors like demand forecasting, cost and production analysis, and profit analysis. Capital budgeting, although important in business decisions, is more related to financial management.

8. The **Impact of balances of trade and balances of payments on GDP** are studied as a part of **Macro economics**. Macro economics deals with the performance, structure, behaviour, and decision-making of an economy as a whole, including topics like GDP, inflation, and trade balances.

9. The correct match is:

(*a*) Capitalist economy: **(*ii*) Price Mechanism**

(*b*) Mixed economy: **(*iii*) Mix of price mechanism and central planning**

(*c*) Socialist economy: **(*i*) Central Planning** So, the answer is **(*a*)(*ii*); (*b*)(*iii*); (*c*)(*i*)**.

10. In a **Capitalist economy**, the producer is free to set up any type of firms and produce goods and services of his choice. A capitalist economy is characterized by private ownership and the freedom to produce and trade.

11. The study of **India's Employment rate** and how it has changed over a period is a part of **Macro Economics**. Macroeconomics looks at economy-wide phenomena, such as changes in unemployment, national income, rate of growth, and gross domestic product.

12. Conspicuous goods are an exception to the law of demand. This is because their demand often increases with higher prices due to their status symbol, contrary to normal goods where demand decreases as price increases.

13. Income Elasticity of Demand $= \frac{\%\text{ Change in Demand}}{\%\text{ Change of Income}} = \frac{2.5\%}{5\%} = -0.5$

A negative income elasticity indicates an inferior good, where demand decreases as income increases. Thus, the income elasticity for good X is **-0.5, inferior goods**.

14. If both total revenue and price are moving in the same direction, demand is **inelastic**. In this case, a price increase does not lead to a proportionally larger decrease in quantity demanded, hence total revenue increases.

15.

	Original	New	Change
Price	80	40	-40
Quantity	20	x	X - 20

$$\text{Price elasticity of Demand} = \frac{\Delta Q}{\Delta P} \times \frac{P_1}{Q_1}$$

$$-1.5 = \frac{x - 20}{-40} \times \frac{80}{20}$$

$$-1.5 = \frac{x - 20}{-10}$$

$15 = x - 20$

$X = 15 + 20 =$ **35 units**

16.

	Original	New	Change
Price of Coke	20	30	10
Quantity of Pepsi	10	16	6

$$\text{Cross Elasticity of Pepsi} = \frac{\text{Change in DD of Pepsi}}{\text{Change in Qty. of Coke}} \times \frac{\text{Price of Coke}}{\text{Price of Pepsi}}$$

$$= \frac{6}{10} \times \frac{20}{10} = \frac{6}{5} = \textbf{1.2}$$

17.

$$\text{Price Elasticity of Demand} = \frac{\%\text{ change in Quantity Demanded}}{\%\text{ change in Price}} = \frac{25\%}{-10} = \textbf{2.5}$$

18. A cross elasticity of -1.5 indicates that commodity X and the other commodity are **Complementary Goods**. Negative cross elasticity suggests that an increase in the price of one good leads to a decrease in the demand for the other.

19. Using the arc elasticity method,

$$\text{Income Elasticity} = \frac{\Delta Q}{\Delta Y} \times \frac{Y_1 + Y_2}{Q_1 + Q_2} = \frac{10}{60{,}000} \times \frac{6{,}60{,}000}{110} = \textbf{+ 1}$$

20.

$$\text{Elasticity of Supply} = \frac{\Delta Q}{\Delta P} \times \frac{P_1 + P_2}{Q_1 + Q_2}$$

$$1 = \frac{150}{x - 5} \times \frac{x + 5}{1150}$$

$X =$ **₹6.5**

21. If the elasticity of supply is 5 and the price increases by 15%, the quantity supplied will increase by elasticity × price change percentage = 5 × 15% = **75%.**

22. Greater than two. Elasticity of supply is calculated as (% change in quantity supplied)/(% change in price). Here, (2500 - 200)/200 = 1150% change in quantity, and (₹300 - ₹200)/₹200 = 50% change in price. So, 1150%/50% = 23, which is greater than two.

23. More consumption of commodity X and less consumption of commodity Y makes indifference curves **slope downwards from left to right**. This downward slope represents a trade-off between the two commodities, showing how much of one commodity a consumer is willing to give up to obtain more of the other.

24. The Total Utility (TU) of the 2nd unit can be found by adding the Marginal Utility (MU) of the 2nd unit to the TU of the 1st unit. Since TU of 1st unit is 200 and MU of 2nd unit is 150, TU of 2nd unit = 200 + 150 = **350.**

25. In a budget line scenario, **Point 'K' is not reachable for the consumer, point 'H' shows under spending by the consumer**. Point 'K' represents a combination of goods that exceeds the consumer's budget, while point 'H' represents a combination that falls within the budget but doesn't utilize it fully.

26. The 'Innovation' theory of entrepreneurship was **Propounded by Schumpeter**. Joseph Schumpeter emphasized the role of the entrepreneur as an innovator who implements change within markets through the carrying out of new combinations.

27. Labour is immobile is **NOT** a characteristic of labour. Labour is often mobile, although its mobility can vary depending on factors such as skills, geographic location, and legal restrictions.

28. Items like seeds, fuel, raw material, which are used up in production and not available for further use, are examples of **Circulating capital**. Circulating capital is used up in the production of other goods and needs to be replaced regularly.

29. The Cobb-Douglas production function is known for explaining **Constant returns to scale** in production. This means that a proportional increase in all inputs leads to an equivalent proportional increase in output.

30. An **Isoquant curve** shows all those combinations of different factors of production which give the same output to the producer. It represents equal levels of production output.

31. Money not paid out to the owners of the firm for self-owned factors employed in a business and therefore not entered in the books of account is considered as **Implicit cost**. These are non-monetary opportunity costs, unlike explicit costs which are direct, out-of-pocket payments.

32. Economic profit includes opportunity cost related with self-owned factors. Economic profit differs from accounting profit in that it includes opportunity costs for all factors of production, including those owned by the entrepreneur.

33. To find the firm's output, use the relationship between Total Cost (TC), Average Total Cost (ATC), and output (Q): TC = ATC × Q. Here, ATC = ₹3 and fixed cost (FC) is ₹300. Since ATC = AVC + AFC and AVC is ₹2.50, AFC (which is FC/Q) is ₹0.50. So, ₹3 = ₹2.50 + ₹0.50. TC = ₹3 × Q and FC = ₹300, thus TC = FC + Variable Cost (VC), so ₹3Q = ₹300 + ₹2.50Q. Solving for Q gives **600 Units**.

34. The price at which the quantity demanded of a commodity equals the quantity supplied, and there is no unsold stock or no excess demand, is known as the **Market Clearance Price**. This is also often referred to as the equilibrium price.

35. Grains sold in the market and paid for in cash immediately belong to the **Spot market**. A spot market is where financial instruments, such as commodities and securities, are traded for immediate delivery.

36. A firm will earn **Maximum profit** at the equality between Marginal Cost (MC) and Marginal Revenue (MR). This is because it's the most efficient point of production where the cost of producing an additional unit equals the revenue gained from selling that unit.

37. Rajesh's marginal revenue for selling an additional unit (from 60 to 61 units) can be calculated as the change in total revenue divided by the change in quantity. That is (₹7200 - ₹6000)/(61 - 60) = ₹1200/1 = ₹**1,200**.

38. When Marginal Revenue (MR) = 0, then Total Revenue (TR) is at its **Maximum**. This is because any further increase in production and sales would start to decrease the total revenue.

39. MR (Marginal Revenue) of the nth term is calculated as **TRn - TRn-1**. This is the change in total revenue that results from selling one additional unit of the product.

40. Original price is ₹200, and it decreases by 3%, so the new price is ₹200 - 3% of ₹200 = ₹200 - ₹6 = ₹194. Quantity demanded increases by 20%, so the new quantity is 10 units + 20% of 10 units = 12 units. Marginal Revenue (MR) can be calculated as the change in Total Revenue (TR) divided by the change in quantity. So, MR = [(12 units × ₹194) - (10 units × ₹200)]/(12 - 10) = (₹2328 - ₹2000)/2 = ₹328/2 = ₹**164**.

41. The relationship between AR (Average Revenue) and MR (Marginal Revenue) in a monopoly firm or imperfect competition is **AR cannot be zero, but MR can be zero or negative**. In such markets, MR can fall faster than AR and can become zero or negative, but AR, being an average, will not be zero until quantity is zero.

42. A market structure in which there is only a single buyer and a single seller is known as **Bilateral monopoly**. This is a unique market situation where both the monopoly (single seller) and the monopsony (single buyer) conditions apply.

43. The Telecom Industry is an example of **Oligopoly**. This market structure is characterized by a few large firms dominating the market, often with significant barriers to entry for new competitors.

44. For XYZ dealing with financial products, without more context, it's challenging to definitively categorize the demand curve. However, typically, the demand for financial products is neither perfectly elastic nor perfectly inelastic. It may be more realistic to consider it as **neither horizontal nor vertical axis**, meaning not perfectly elastic or inelastic.

45. In the type of oligopoly where firms sell their product through a centralized body, it is known as **Syndicated oligopoly**. In this arrangement, the output is sold through a common selling agency.

46. In perfect competition, an individual firm's demand curve is **Horizontal**. This reflects the fact that the firm is a price taker and can sell any quantity of its product at the market price.

47. A group of firms that explicitly agree to coordinate their activities is called a **Cartel**. Cartels are often formed to control prices, limit competition, or regulate production.

48. The practice of selling electricity at a cheaper rate for home consumption in rural areas than for industrial consumption is an example of **Price discrimination**. This involves charging different prices to different groups of consumers for the same product, based on their willingness or ability to pay.

49. A feature not associated with a monopoly market is **Large sellers of the product**. A monopoly is characterized by a single seller or producer in the market, with no close substitutes for its product, giving it significant market power.

50. Fiscal Policies are associated with Government Expenditure. Fiscal policy involves government spending and tax policies to influence the economy.

51. The **Consumer Price Index (CPI)** number is a **Coincident Indicator**. It measures the average change over time in the prices paid by consumers for a market basket of consumer goods and services.

52. An external cause of business cycles is **Technological shocks**. Technological changes can have significant impacts on the economy, causing fluctuations in economic activity.

53. A coincident indicator is one that moves at the same time as the economy. Of the options provided, **GDP** is a coincident indicator as it reflects the current state of the economy.

54. Expansion of employment is a result of the production of new and better goods and services using new technology. Technological advancements often create new job opportunities and expand employment.

55. Understanding the phase of the business cycle is relevant for new businesses because **it affects the demand for their product, helps frame appropriate policies and planning, and helps to decide an entry into the market.** All these factors are crucial for the success and strategic planning of new businesses.

56. An **Expansionary monetary policy** of government is directed towards **Rising of aggregate demand.** This type of policy typically involves lowering interest rates to stimulate economic growth.

57. The phases of the business cycle that are collectively known as Turning Points are **Peak & Trough.** These points represent the shifts from expansion to contraction and *vice versa* in the business cycle.

58. A measurable economic factor that changes before the economy starts to follow a particular pattern is a **Leading indicator**. Leading indicators are used to predict the future movements of an economy and typically change before the economy as a whole change.

59. The length of each phase is definite is not a feature of business cycles. Business cycles are characterized by fluctuations in economic activity, but the duration and length of each phase (expansion, peak, recession, and trough) can be unpredictable and vary each time.

60. XYZ, an Advertisement Agency, whose future projects are closely related to the rate of economic growth, is referred to as a **Cyclical business**. These businesses are highly sensitive to the cycles of the economy, flourishing in economic booms and suffering in downturns.

61. In the expansion phase of the business cycle, **Supply exceeds demand** is not a characteristic. During expansion, there is typically an increase in demand, leading to higher production, employment, and prices. The characteristic of supply exceeding demand is more indicative of a recessionary phase.