PW SCANNER

BUSINESS ECONOMICS

- Topic-wise MCQs from Past papers, RTPs & MTPs
- Chapter-wise Quick Highlights – Short Notes and Formulas
- Chapter-wise Answer Key + Smart Hints
- QuickTest after Every Chapter
- QR Code for ICAI Module Q & A

Love Kaushik

Made Simple. Made Smart. Made for You

By PW CA Wallah

Preface

At **CA Wallah by PW,** our mission is simple—help CA Foundation aspirants prepare smarter with content that is accurate, exam-focused, and easy to revise.

In a market filled with study materials, we are delighted to introduce the **first edition of the CA Foundation PW Scanner,** a book designed to prioritize clarity, relevance, and practical utility—saving you time while strengthening your exam performance.

This Scanner is the result of close collaboration between experienced subject experts, content developers, reviewers, and faculty mentors. We also gratefully acknowledge the contribution of **Mrs. Sangeeta Chetia (Content Professor),** whose subject expertise and dedication have been invaluable in enhancing the quality and depth of this book. Together, they have distilled concepts into concise explanations, selected high-yield problems, and curated exam-oriented practice that closely reflects real question patterns.

We believe in **clear concepts + smart practice.** The core objective of this Scanner is to give you an edge by offering short, crisp, and high-quality content that's easy to revise and practice. With a multi-pronged approach—conceptual highlights, formula summaries, topic-wise MCQs from past papers, RTPs and MTPs, ICAI Module questions, and quick chapter-wise tests—you'll be able to revise rapidly while strengthening accuracy, speed, and recall under exam conditions.

Designed as a **compact revision and practice companion,** this book works best when paired with your regular study plan, especially for targeted last-stage preparation. Use the quick tests to check your readiness and the smart hints to sharpen your problem-solving strategy.

Key Features

- Topic-wise MCQs from Past Papers, RTPs & MTPs
- Chapter-wise Quick Highlights (short notes & formulas)
- Answer keys with smart hints for better recall
- Quick tests after every chapter for self-assessment
- QR Code for ICAI Module Q&A

We hope this Scanner becomes a reliable, time-saving partner in your CA Foundation journey. Wishing you focused preparation and great success!

About the Author

Sir, Love Kaushik, An "Ecomanian" and Visionary Educator.

A passionate educator and economics enthusiast has dedicated his career to simplifying and demystifying the subject of economics. With both undergraduate and master's degrees in economics, he proudly identifies himself as an "Ecomanian".

Since 2010, he has extended his influence beyond academia by mentoring students preparing for CA, CMA, CS, and senior secondary examinations. Renowned for his ability to break down complex concepts into simple engaging lessons, he has made learning not just informative but also enjoyable.

Through online platforms, his dynamics teaching style has inspired and educated hundreds of thousands of students, empowering the next generation of financial and business leaders. for Sir Kaushik, teaching economics is not merely about delivering knowledge – it is about igniting a passion for understanding the global forces that shape our world.

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1 Nature and Scope of Business Economics

QUICK HIGHLIGHTS

1. Positive vs. Normative Economics–Examples:

Positive Economics	Normative Economics
The unemployment rate is 6%.	The government should reduce unemployment benefits.
A rise in fuel prices leads to higher transportation costs.	The government should subsidise fuel to lower costs.
A rise in the minimum wage leads to job losses in some sectors.	The minimum wage should be increased to improve workers' living standards.

2. Nature of Business Economics (SPAM-MINT- Love sir's way of learning):
   - Business Economics is a Science
   - Based on Micro Economics
   - Incorporates elements of Macro Analysis
   - Business Economics is also an Art
   - Use of Theory of Markets and Private Enterprises
   - Pragmatic in Approach
   - Normative in Nature
   - Interdisciplinary in nature
3. Central Economic Problems:
   1. What to Produce? (Deciding goods & services based on limited resources.)
   2. How to Produce? (Labour vs. Capital Intensive technology choices.)
   3. For Whom to Produce? (Allocating goods & services among people.)
   4. What Provisions are to be made for economic Growth? (Saving & investing for future growth.)
4. Definition of Types of Economies:
   - Capitalist Economy: Private ownership, profit-driven, minimal government role.
   - Socialist Economy: Government controls production and collective ownership.
   - Mixed Economy: Combined sector i.e. mixture of both market economy and planned economy.
5. Persons Behind Subjects (Fathers):
   - Economics: Adam Smith
   - Business Economics: Joel Dean

QUESTIONS

UNIT-I: INTRODUCTION

Introduction

1. _____ wrote "An Inquiry into the Nature and Causes of the Wealth of Nations". **[Dec. 2023]**

   (a) Adam Smith (b) Pigou
   (c) Marshall (d) Hicks

2. The word "Economics" owes its origin to the Greek word 'Oikonomia', which means: **[Dec. 2023]**

   (a) Commodity
   (b) Household
   (c) Price
   (d) Consumer expectations

3. In Economics, we use the term "scarcity" to mean: **[Nov. 2019]**

(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

4. Human wants are _____ in response to satisfy their wants. **[CA CPT Nov. 2018]**

(a) Unlimited (b) Limited

(c) Scarce (d) Multiple

5. Economic goods are considered scarce resources because _____. **[CA CPT May 2019]**

(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

Meaning of Business Economics

6. _____ 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 alternative courses of action.

(a) Decision making

(b) Strategy

(c) Problem solving

(d) Effectiveness

7. Business Economics is also known as: **[CA CPT Nov. 2018]**

(a) Applied Economics

(b) Managerial Economics

(c) Micro Economics

(d) All of the above

8. Concept of Business Economics was given by: **[CA CPT May 2018]**

(a) Joel Dean (b) Alfred Marshall

(c) Adam Smith (d) L. Robbins

9. Business Economics is basically concerned with: **[Sep. 2024]**

(a) Applied Economics

(b) Managerial Economics

(c) Micro Economics

(d) Macro Economics

Micro and Macro Economics

10. Sarah runs a lemonade stall; her decision-making process involves assessing the demand for her lemonade, pricing strategies, and maximising her profit within the limited scope of her small business. Which level of the economy does Sarah's lemonade stall represent? **[CA CPT Sep. 2024]**

(a) Macro Economy

(b) Global Economy

(c) Micro Economy

(d) National Economy

11. Micro Economics does not study: **[CA CPT Dec. 2015]**

(a) Consumer behaviour

(b) Factor pricing

(c) General price level

(d) Firms' equilibrium

12. Micro Economics is also known as _____. **[Nov. 2020]**

(a) Public Economics

(b) Income Theory

(c) Demand Theory

(d) Price Theory

13. Economics is classified into _____. **[June 2023]**

(a) Normative and Positive

(b) Micro and Macro

(c) Internal and External

(d) None of the above

14. Which of the following is not the subject matter of Microeconomics? **[June 2023]**

(a) Consumer Behaviour

(b) Foreign Exchange Rate

(c) Behaviour of Firms

(d) Location of Industry

15. Which of the following is used for the allocation of resources? **[Nov. 2019]**

(a) Micro Economics
(b) Macro Economics
(c) Econometrics
(d) Descriptive Economics

16. Which of these is a part of Microeconomics? **[CA CPT June 2011]**

(a) Factor pricing (b) National Income
(c) Balance of payment (d) None of the above

17. The study of the behaviour of different individuals and organisations within an economic system is called? **[July 2021]**

(a) Industrial Economics
(b) Macro Economics
(c) Micro Economics
(d) Welfare Economics

18. Which of the following is not a subject matter of Microeconomics?

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

19. India's employment rate increased in March 2023 as compared to March 2022. The study of this aspect comes under _____. **[Dec. 2023]**

(a) Microeconomics (b) Macroeconomics
(c) Price Theory (d) Market Economics

20. Which of the following is not a study of Macro-Economics? **[July 2021]**

(a) Consumer behaviour
(b) National Income
(c) General Price Level
(d) Level of employment

21. Which of the following is the subject matter of Macroeconomics? **[June 2024]**

(a) Behaviour of firms
(b) Factor pricing
(c) Overall level of savings and investments
(d) The economic condition of a section of people

22. A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of: **[Nov. 2019]**

(a) Macro Economics
(b) Descriptive Economics
(c) Micro Economics
(d) Normative Economics

23. Which one of the areas comes under Macroeconomics? **[Jan. 2021]**

(a) Product pricing
(b) Consumer behaviour
(c) The general price level and interest rates
(d) Economic conditions of a section of people

24. The Finance Minister was discussing the balance of trade and balance of payments.
This area comes under: **(January 2025)**

(a) Micro Economics (b) Macro Economics
(c) Capitalist Economy (d) Mixed Economy

Nature of Business Economics

25. Which of the following is an example of a normative statement? **[Jan. 2025]**

(a) The demand for a good will increase if its price decreases
(b) The government should increase taxes on liquor to reduce its consumption
(c) A decrease in interest rates will lead to an increase in investment
(d) An increase in government spending will reduce the unemployment rate

26. Positive statements concern what is; normative statements concern:

(a) What was
(b) What is the normal situation
(c) What will be
(d) What ought to be

27. Normative science suggests which of the following? **[June 2022]**

(a) What should be (b) What to produce
(c) How to produce (d) When to produce

28. What is the nature of business economics, which is an applied branch of economics? **[June 2024]**

(a) It is positive in nature
(b) It is normative in nature
(c) It is neutral in nature
(d) It is both positive as well as normative in nature

29. Mr. X has been given a task to segregate normative and non-normative statements. Help him identify which of the following is a normative economic statement. **[June 2024]**

(a) Pollution levels are rising day by day because of urbanisation

(b) The part-time working hours of students should be increased to 25 hours per week

(c) Due to the increased number of cars on the roads, people will be stuck in traffic jams

(d) The government has allotted a major portion of revenue to defence

30. Which of the following does not describe the nature of business economics? **[Jan. 2025]**

(a) It is normative in nature

(b) It is abstract and purely theoretical

(c) It is an art

(d) It incorporates elements of Macro Analysis

31. Business Economics is pragmatic in approach because of which of the following causes? **[June 2022]**

(a) Based on assumptions

(b) Tackles practical problems

(c) Considers profit only

(d) Considers internal value

32. Under pragmatic approach, Microeconomics is abstract and purely_____ in nature and takes ___ assumptions. **[June 2024]**

(a) Practical, Unrealistic

(b) Practical, Realistic

(c) Theoretical, Unrealistic

(d) Theoretical, Realistic

33. Which of the following is not a correct statement? **[June 2023]**

(a) Business Economics is a normative science

(b) Business Economics is an art

(c) Business Economics is based largely on Microeconomics

(d) Business Economics does not incorporate elements of Macroeconomics

34. Which of the following is not a correct statement? **[June 2022]**

(a) Business economics is a normative science

(b) Business economics is an art

(c) Business economics is based largely on microeconomics

(d) Business economics does not incorporate elements of macroeconomic analysis

35. 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: **[Jan 2021]**

(a) Rama (b) Manoj

(c) Meera (d) Bharti

36. Business economy involves the theory of Business economics with _____. **[CA CPT Nov. 2018]**

(a) Normative economics

(b) Business practices

(c) Microeconomics

(d) Macroeconomics

37. Which of the following is not within the scope of Business Economics? **[Nov. 2019]**

(a) Capital Budgeting

(b) Risk Analysis

(c) Business Cycles

(d) Accounting Standards

38. Which factor is included in Business Economics? **[CA CPT Nov. 2018]**

(a) Business economics is an art

(b) Interdisciplinary in nature

(c) Normative in nature

(d) All of the above

39. Business economics is pragmatic in its approach because? **[July 2021]**

(a) It tackles practical problems which the firm faces in the real world

(b) It tackles practical problems which the firm faces due to WTO policies

(c) It tackles practical problems which the firm faces due to a lack of directors

(d) Business economics is abstract and purely theoretical

40. Which of the following enables application of economic logic and analytical tools to bridge the gap between theory and practice? **[June 2023]**

(a) Macroeconomics
(b) Microeconomics
(c) Business economics
(d) Traditional economics

41. The nature of business economics is: **[Nov. 2020]**

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

42. Which of the following is an example of a normative statement?

(a) The government should increase taxes on liquor to reduce its consumption
(b) The demand for a good will increase if its price decreases
(c) A decrease in interest rates will lead to an increase in investment
(d) An increase in government spending will reduce the unemployment rate

43. Which of the following does not describe the nature of business economics? **[Jan., 2025]**

(a) It is abstract and purely theoretical
(b) It is normative in nature
(c) It is an art
(d) It incorporates elements of Macro analysis

Scope of Business Economics

44. Which one of the following is not a scope of business economics? **[Dec. 2023]**

(a) Demand forecasting & analysis
(b) Cost and production analysis
(c) Profit analysis
(d) Capital budgeting

45. Which one of the following is not the scope of business economics? **[July 2021]**

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

UNIT-II: BASIC PROBLEMS OF AN ECONOMY AND ROLE OF PRICE MECHANISM

Basic Problems of an Economy

46. "For whom to produce?" refers to:

(a) Export or domestic market decision
(b) Deciding the allocation of goods among different people
(c) Choice of production technique
(d) Deciding which goods to import

47. Which of the following is not one of the four basic economic problems of an economy? **[Jan 2025]**

(a) What to produce?
(b) Where to produce?
(c) For whom to produce?
(d) What provisions are to be made for economic growth?

48. The central economic problem of an economy arises due to _____. **[July 2021]**

(a) Scarcity of resources relative to the wants
(b) Co-existences of private and public sectors
(c) Govt. interference in economic activities
(d) Federal structure of the Constitution

49. 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? **[Dec. 2023]**

(a) How to produce
(b) What to produce
(c) For whom to produce
(d) What provision should be made for economic growth

50. What implications does the resource scarcity of the economy have? **[Dec. 2023]**

(a) Political problems
(b) Economic problems
(c) Geographical problems
(d) Cultural problems

51. Which of the following is the central problem of the economy? **[June 2023]**

(a) Scarcity of resources
(b) Unemployment
(c) Poverty
(d) Inflation

52. The 'Central Economic Problem' does not deal with which of the following economic problems? **[July 2021]**

(a) What to produce?
(b) How to produce?
(c) For whom to produce?
(d) Where to produce?

53. Which of the following refers to the sum total of arrangements for the production and distribution of goods and services in society? **[June 2023]**

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

Capitalist Economy

54. "Buyers ultimately determine which goods and services will be produced and in what quantities." The given statement is the meaning of:

(a) Consumer sovereignty
(b) Planned economy
(c) Freedom of economic choice
(d) Freedom of enterprise

55. The capitalist economy uses _____ as principal means of allocation of resources. **[Nov. 2019]**

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

56. In capitalistic economy, _____ and _____ will be more. **[Nov. 2020]**

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

57. An economy is called capitalist economy, when _____ is given. **[Jan. 2021]**

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

58. An economic system in which all means of production are owned and controlled by private individuals for profit is called? **[June 2023]**

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

59. A laissez-faire economy is also known as: **[Jan. 2021]**

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

60. Capitalist incentives for the system offer _____ incentives for _____. **[Jan. 2021, June 2024]**

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

61. Capitalist economy solves its economic problems through which of the following? **[June 2023]**

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

62. Exploitation and inequality will be more in _____. **[CA CPT May 2019]**

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

63. In a _____, the producer is free to set up any type of firms to produce goods and services of his choice. **[Dec. 2023]**

(a) Capitalist economy
(b) Command economy
(c) Centrally planned economy
(d) Planned economy

64. Price in a capitalist economy is determined by: **[Sept., 2024]**

(a) Small private firms
(b) Big corporates
(c) Market forces of demand and supply
(d) Government

65. "Buyers ultimately determine which goods and services will be produced and in what quantities." The given statement is the meaning of: **[CA CPT Sep. 2023]**

(a) Planned economy
(b) Consumer sovereignty
(c) Freedom of economic choice
(d) Freedom of enterprise

Socialist Economy

66. Under which of the following economies, consumers have the limited freedom of choice? **[June 2023]**

(a) Social (b) Mixed
(c) Capital (d) Restricted

67. The concept of a socialist economy was propounded by _____.

(a) Alfred Marshall
(b) Joel Dean
(c) Albert Einstein
(d) Karl Marx and Fredric Engels

68. The economic system in which production and distribution of goods are aimed at maximising the welfare of the community as a whole is known as _____. **[July 2021]**

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

69. Which of the following statements is not correct? **[June 2022]**

(a) Scarcity of resources is the key problem of all economies
(b) Economic inequalities lead to wide differences in economic opportunities for people
(c) Economic instability is very common under capitalism
(d) Freedom of enterprise is one of the main characteristics of a command economy

70. Which of the following is one of the merits of socialism? **[June 2023]**

(a) Importance given to personal efficiency
(b) Importance given to productivity
(c) Incentive for economic decisions
(d) Rapid growth and balanced economic development

71. In a socialistic economy, the allocation of resources is done by: **[June 2022]**

(a) Market prices
(b) Consumer preferences
(c) A central planning authority
(d) The level of corporate profits

72. A socialist economy is called as which of the following? **[June 2022]**

(a) Command economy (b) Military economy
(c) Behavioural economy (d) Applied economy

73. _____ involves the predominance of bureaucracy and resulting inefficiencies and delays. **[June, 2022]**

(a) Socialistic economy
(b) Capitalist economy
(c) Mixed economy
(d) Free market economy

74. In which economy, the material means of production, i.e. factories, capital, mines, etc., are owned by the whole community represented by the State? **[Sept., 2024]**

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

Mixed Economy

75. Co-existence of public and private sectors is the feature of _____. **[Jun. 2021]**

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

76. In a mixed economy, there are _____ sectors of industry. **[Jan. 2021]**

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

77. Which of the following statements is correct? **[June 2022, July 2021]**

(a) A Mixed economy is not always a 'golden path' between a capitalistic and a socialistic economy
(b) A socialist economy is not always a 'golden path' between a mixed economy and capitalism
(c) A capitalistic economy is not always a 'golden path' between a mixed economy and socialism
(d) A local economy is not always a 'golden path' between internal and international economy

ANSWER KEY

1. (a)	**2.** (b)	**3.** (b)	**4.** (a)	**5.** (a)	**6.** (a)	**7.** (b)	**8.** (a)	**9.** (b)	**10.** (c)
11. (c)	**12.** (d)	**13.** (b)	**14.** (b)	**15.** (a)	**16.** (a)	**17.** (c)	**18.** (d)	**19.** (b)	**20.** (a)
21. (c)	**22.** (a)	**23.** (c)	**24.** (b)	**25.** (b)	**26.** (d)	**27.** (a)	**28.** (b)	**29.** (b)	**30.** (b)
31. (b)	**32.** (c)	**33.** (d)	**34.** (d)	**35.** (d)	**36.** (b)	**37.** (d)	**38.** (d)	**39.** (a)	**40.** (c)
41. (c)	**42.** (a)	**43.** (a)	**44.** (d)	**45.** (a)	**46.** (b)	**47.** (d)	**48.** (a)	**49.** (b)	**50.** (b)
51. (a)	**52.** (d)	**53.** (a)	**54.** (a)	**55.** (a)	**56.** (b)	**57.** (a)	**58.** (b)	**59.** (a)	**60.** (d)
61. (b)	**62.** (b)	**63.** (a)	**64.** (c)	**65.** (b)	**66.** (a)	**67.** (D)	**68.** (b)	**69.** (d)	**70.** (d)
71. (c)	**72.** (a)	**73.** (a)	**74.** (a)	**75.** (b)	**76.** (a)	**77.** (a)			

HINTS & SOLUTIONS

1. (a) "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.

2. (b) The word 'economics' owes its origin to the Greek word 'Oikonomia', which means Household. It refers to the management of household affairs in ancient Greece.

19. (b) The study of India's employment rate and how it has changed over a period is a part of Macroeconomics. Macroeconomics looks at economy-wide phenomena, such as changes in unemployment, national income, rate of growth, and gross domestic product.

44. (d) 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.

49. (b) 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.

50. (b) The resource scarcity of an economy has economic 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.

Scan the QR code for ICAI Module Q&A

Chapter Wrap-Up Test

This is a 20-minutes test. Read each question carefully and attempt all.

1. In which of the following situations does scarcity arise?
   (a) Supply of resources > Demand for resources
   (b) Supply of resources < Demand for resources
   (c) Supply of resources = Demand for resources
   (d) None of these

2. Which of the following statements is incorrect?
   (a) Business economics is a normative in nature
   (b) Business economics is closely related with statistics
   (c) Business economics only considers micro variables
   (d) Business economics is also called Managerial economics

3. Business Economics depends heavily on the techniques of:
   (a) Micro Economics
   (b) Macro Economics
   (c) Normative Science only
   (d) Economics Discipline only

4. To reduce pollution, the Government should impose heavy penalties on polluting vehicles. This is a _____statement.
   (a) Subjective
   (b) Negative
   (c) Positive
   (d) Normative

5. Which of the following statements accurately represents the scope of Business Economics?
   (a) Business Economics only deals with the analysis of supply and demand in the market
   (b) The scope of Business Economics includes production analysis, cost analysis, pricing analysis, and profit management
   (c) Business Economics is limited to the study of economic conditions in a single industry
   (d) The scope of Business Economics excludes the study of external economic factors influencing business

6. How does Business Economics differ from traditional Economics?
   (a) It focuses solely on theoretical models
   (b) It emphasises practical application for business decisions
   (c) It ignores economic principles
   (d) It only studies government policies

7. The problem of 'what to produce' relates to:
   (a) The distribution of produced goods and services
   (b) The technique of production to produce good
   (c) The distribution of income among factor owners
   (d) None of these

8. The questions like "What? How? and for whom?" arise due to the existence of _____.
   (a) Scarcity of resources
   (b) Capitalism
   (c) Government control
   (d) Inequality of income distribution.

9. Positive economics deals with:
   (a) What is
   (b) What ought to be
   (c) Both (a) and (b)
   (d) None of these

10. _____ is outside the domain of Macro Economics?
    (a) Consumer behaviour
    (b) National income
    (c) Economic growth
    (d) Balance of payment and trade

11. In a Socialist Economy, who primarily makes the decisions about what to produce, how to produce, and for whom to produce?
(a) Private individuals and businesses
(b) Market forces of supply and demand
(c) Central government planning agencies
(d) International organisations

12. A system of economy in which all means of production are owned and controlled by private individuals for the purpose of profit is called:
(a) Socialistic economy
(b) Capitalistic economy
(c) Mixed economy
(d) All of the above

13. Which of the following is not a characteristic of a capitalist economy?
(a) Right to private property
(b) Freedom of enterprise
(c) Consumer sovereignty
(d) Combined sector

14. Who controls economic activities under centrally planned economies?
(a) Industrialists (b) Private firms
(c) Government (d) Consumers

15. In a mixed type of economy, the price mechanism is found:
(a) Dual price system
(b) Market driven system
(c) Administrative price control
(d) None

16. Business Economics is an art because:
(a) It teaches us to do
(b) It provides practical solutions to various economic problems.
(c) It is practice of knowledge
(d) All the above

17. A mixed economy to solve its central problems relies on:
(a) Economic planning
(b) Price mechanism
(c) Price fixing
(d) Both (a) and (b)

18. Capital-intensive technique would be 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

19. Administered prices are:
(a) Prices set by an external authority, typically the government
(b) Prices set by market demand and supply forces
(c) Prices set by sellers in the marketplace.
(d) Prices set by entrepreneurs

20. In a command economy, who primarily decides 'how to produce' goods and services?
(a) Individual consumers
(b) Private businesses
(c) Government planners
(d) Foreign investors

ANSWER KEY

1. (b)	2. (c)	3. (a)	4. (d)	5. (b)	6. (b)	7. (d)	8. (a)	9. (a)	10. (a)
11. (c)	12. (b)	13. (d)	14. (c)	15. (c)	16. (d)	17. (d)	18. (b)	19. (a)	20. (c)

2 Theory of Demand and Supply

QUICK HIGHLIGHTS

1. Law of Demand Examples:
   - If a cinema hall reduces ticket prices, more people attend the movie.
   - When the price of a popular smartphone drops due to a discount, demand increases.
2. Exceptions to the Law of Demand (with Reasons) Examples:
   a. Giffen Goods (Inferior Goods with No Close Substitutes)
      - Example: If the price of grains (like bajra) rises, low-income groups may buy more because they can't afford better substitutes like wheat.
      - Reason: Higher price forces people to spend more on essentials, reducing their ability to buy substitutes.

   b. Veblen Goods (Prestige or Luxury Goods)
      - Example: A rise in the price of Rolex watches makes them more desirable among the wealthy, increasing demand.
      - Reason: Higher prices signal exclusivity and status.

   c. Future Price Expectations
      - Example: If consumers expect gold prices to rise in the future, they buy more even if prices are already high.
      - Reason: Fear of higher future prices makes people buy now.

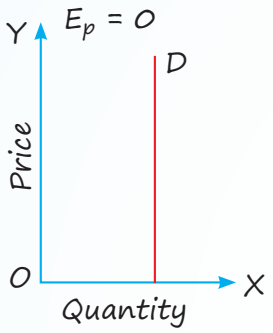
   d. Necessities (Goods with Inelastic Demand)
      - Example: Medicines like insulin are bought in the same quantity, regardless of price changes.
      - Reason: Life-essential goods have no substitutes, so demand remains constant.
3. Interpretation of the Numerical Values of Elasticity of Demand:
   a. Perfectly Inelastic Demand ($E_p = 0$)
      - Example: A diabetic patient will buy the same quantity of insulin, no matter how much the price increases.

   b. Unitary Elastic Demand ($E_p = 1$)
      - Example: If a coffee shop raises prices by 10% and experiences exactly a 10% drop in coffee sales.

   c. Perfectly Elastic Demand ($E_p = \infty$)
      - Example: A street vendor selling bottled water at ₹20, if he increases the price to ₹21, customers will switch to another vendor selling at ₹20.

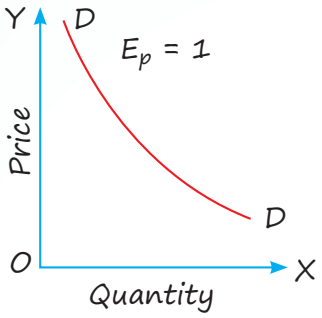
   d. Elastic Demand ($E_p > 1$)
      - Example: If the price of movie tickets decreases by 10% and ticket sales increase by 30%.

   e. Inelastic Demand ($E_p < 1$)
      - Example: If petrol prices rise by 20%, demand might fall by only 5% because people still need to drive.



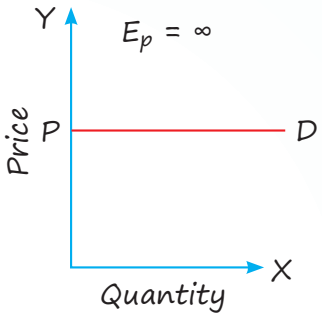
Demand curve of zero elasticity

Figure: 3.a



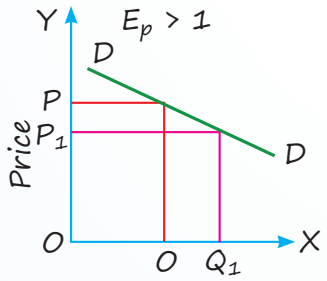
Demand curve of unitary elasticity

Figure: 3.b



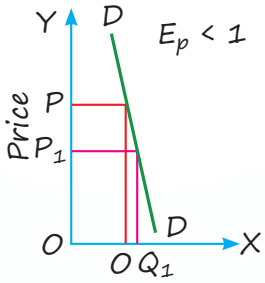
Demand curve of infinite elasticity

Figure: 3.c



Demand curve of elasticity greater than one

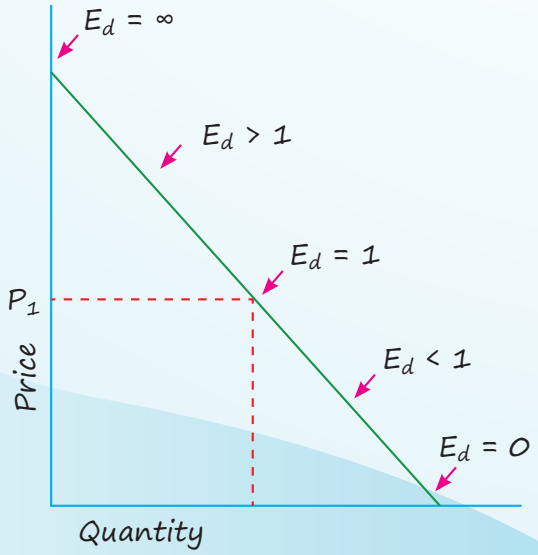
Figure: 3.d



Demand curve of elasticity less than one

Figure: 3.e

4. Measurement of Elasticity on a Linear Demand Curve – Geometric Method:



- The elasticity is high as we move to the upper segment of the demand curve.
- The elasticity becomes smaller as we move down the curve.

5. The Relationship between Price elasticity and Total Revenue (TR):

	Demand		
	Elastic	Unitary Elastic	Inelastic
Price increase	TR Decreases	TR remains same	TR Increases
Price decrease	TR Increases	TR remains same	TR Decreases

6. Exceptions to the shape of Indifference Curve:
   - **Perfect Substitutes:** Indifference curves are straight lines, not convex.
   - **Perfect Complements:** Indifference curves are L-shaped.
7. Consumer Equilibrium under Ordinal Approach:
   - **Meaning:** A consumer attains his equilibrium at the point where the budget line is tangent to IC, and this point gives maximum satisfaction to the consumer.
   - Condition: ü ü ü/ü
8. Consumer Equilibrium under the Cardinal Approach:
   - The consumer is at equilibrium (one good) where the Marginal Utility of the commodity = Price of the commodity or ü/— üüüü
   - The consumer is said to be in equilibrium (two goods) under the condition ü/ü ≷ ü/— üüüü
9. A Few Examples of Vertical Supply Curve (Perfectly Inelastic Supply):
   - Total land area in a country.
   - Original artwork (e.g., Mona Lisa) and Antique items (e.g., vintage coins, rare stamps).
   - Perishable Goods in the Very Short Run
   - Natural Resources (like minerals already extracted).

QUESTIONS

UNIT -I: LAW OF DEMAND AND ELASTICITY OF DEMAND

Basics of Demand

1. The term 'demand' refers to: **[Dec. 2021]**
   (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
2. The quantity demanded is a _____.
   (a) Flow
   (b) Stock
   (c) Single isolated purchase
   (d) Concept without reference to time
3. 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 (short trick to learn-TIPPER A CNG)

4. Which is not an important factor that determines demand? **[Dec. 2021]**
   (a) Price of commodity
   (b) Disposable income of consumer
   (c) Tastes and preferences of buyers
   (d) Educational qualification of buyers
5. Price of goods expresses value of _____. **[June 2023]**
   (a) Exchange (b) Cost
   (c) Demand (d) Fair
6. Which of the following will affect the demand for non-durable goods? **[CA CPT May 2019]**
   (a) Disposable income (b) Price
   (c) Demography (d) All of the above
7. What is not a determinant of demand? **[Jan. 2021]**
   (a) Consumer's expectations
   (b) Consumer's tastes and preferences
   (c) Income of the consumers
   (d) Prices of unrelated goods

8. 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

9. Goods which are inferior, with no close substitutes easily available and which occupy a substantial place in consumer's budget are called _____ goods. **[July 2021]**
   (a) Speculative (b) Prestige
   (c) Conspicuous (d) Giffen

10. In case of Veblen goods, the demand curve is: **[June 2022]**
   (a) Horizontal
   (b) Vertical
   (c) Upward sloping to the right
   (d) Downward sloping to the right

11. Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This is called as: _____. **[July 2021]**
   (a) Veblen Effect (b) Snob Effect
   (c) Helen Effect (d) None of these

12. 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) Halo effect
   (b) Snob effect
   (c) Veblen effect
   (d) Demonstration effect

13. Consumption of high-priced goods by status seeking rich people for conspicuous consumption is called as _____. **[June 2024]**
   (a) Snob effect
   (b) Bandwagon effect
   (c) Demonstration effect
   (d) Veblen effect

14. Increase in price of pulses leads to increase in demand of green vegetables. The pulses and green vegetables are _____. **[June 2023]**
   (a) Substitutes
   (b) Complimentary goods
   (c) Normal goods
   (d) None of the above

15. "High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods" is: **[CA CPT May 2018]**
   (a) Veblen effect
   (b) Bandwagon effect
   (c) Snob effect
   (d) Demonstration effect

16. 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? **[July 2021]**
   (a) Selling price
   (b) Asking price
   (c) Future price
   (d) Market clearing price

The Law of Demand

17. What are exceptions to Law of Demand? **[Jan. 2021]**
   (a) Law of Diminishing Marginal Utility
   (b) Substitution effect
   (c) Conspicuous goods
   (d) Different uses

18. When Price of a commodity increases what will be the affect on Quantity demanded? **[CA CPT Nov. 2018]**
   (a) Increases
   (b) Decreases
   (c) No change
   (d) None of these

19. An increase in the demand of 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 computer
   (d) Increase the price and number of computers bought

20. In case of normal goods, rise in price leads to _____? **[CA CPT Nov. 2018]**
   (a) Fall in demand
   (b) Rise in demand
   (c) No change
   (d) Initially rise then ultimately fall

21. 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

22. Comforts lies between:

(a) Inferior goods and necessaries

(b) Luxuries and inferior goods

(c) Necessaries and luxuries

(d) None of the above

23. If price of the commodity increases, what will be the effect on quantity demanded? **[CA CPT Nov. 2018]**

(a) Decreases (b) Increases

(c) No change (d) Can't say

24. Due to increase in price of coffee, the demand for tea increases. The two commodities under consideration are: **[June 2022]**

(a) Substitute goods

(b) Complementary goods

(c) Unrelated goods

(d) Producers goods

25. The demand for petrol decreases due to increase in its price, it is termed as: **[June 2022]**

(a) A decrease in demand

(b) A change in demand

(c) A contraction in demand

(d) An increase in demand

26. Which of the following is not an exception to the law of demand? **[June 2022]**

(a) Giffen goods

(b) Speculative goods

(c) Conspicuous goods

(d) White goods

27. Suppose the demand for automobile decreases due to increase in price of petrol. Both the goods are: **[July 2021]**

(a) Perishable

(b) Complementary

(c) Substitute

(d) Normal

28. Which of the following statements is not correct? **[June 2022]**

(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

29. Which of the following is an exception to the law of demand? **[Dec. 2023]**

(a) Substitute goods

(b) Marginal utility

(c) Conspicuous goods

(d) Cross elasticity of demand

30. For what type of goods does demand fall with a rise in income levels of households? **[CA CPT May 2018]**

(a) Inferior goods (b) Substitutes

(c) Luxuries (d) Necessities

31. A situation where after a price decrease, more units are sold causing increase in revenue is called as which of the following? **[June 2022]**

(a) Price effect (b) Quantity effect

(c) Income effect (d) Substitution effect

32. Price effect is described as which of following? **[June 2023, June 2024]**

(a) Income effect + Veblen effect

(b) Substitution effect + Veblen effect

(c) Income effect + Substitution effect

(d) Veblen effect + Demonstration effect

33. In case of inferior goods, with rise of income of consumers, demand of good will? **[CA CPT Nov. 2018]**

(a) Increases (b) Decreases

(c) No change (d) None of these

34. 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

35. In case _____ there is an inverse relationship between income and demand for a product. **[CA CPT May 2019]**

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

36. If the demand of Bajra decreases due to decrease in its price then Bajra is a: **[June 2023]**

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

Expansion and Contraction of Demand

37. Movement along the same demand curve represents: **[June 2023]**

(a) Change in demand
(b) Change in quantity demand
(c) Increase in demand
(d) Decrease in demand

38. When the price of an apple is ₹120 per kg, Ram buys one kg of apples at that price. Now, other things remain the same, but the price of apples falls to ₹90 per kg. Now Ram buys 2 kg of apples. It is called: **[Nov. 2020]**

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

39. _____ 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

40. 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. **[Dec. 2021]**

(a) Inferior goods (b) Necessaries
(c) Giffen goods (d) Luxury goods

41. 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) and (b)

Increase and Decrease in Demand

42. Leftward shift of demand curve of coffee represents: **[June 2023]**

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

43. 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

Price Elasticity of Demand

44. If both the total revenue of a product and price are moving in the same direction, demand is: **[Dec. 2023]**

(a) Elastic (b) Perfectly inelastic
(c) Inelastic (d) Unrelated

45. At ₹5 per unit, Ram supplies 500 units of commodity X. At what price, 650 units of X should be supplied at the unit elasticity of supply? **[Dec. 2023]**

(a) 3.5 (b) 4.5
(c) 6.5 (d) 7.5

46. The price of a commodity decreases from ₹10 per unit to ₹5 per unit and the quantity demanded increases from 20 units to 40 units. The Coefficient of Price Elasticity will be _____.

(a) 2 (b) 3
(c) 4 (d) 1

47. The demand for the commodity is _____ when a consumer is a habitual consumer. **[June 2022]**

(a) Relative elasticity
(b) Inelastic
(c) Unit elasticity
(d) Perfectly elastic

48. Identify the factor which generally keeps the price elasticity of a good low? **[Jan. 2021]**

(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

49. Calculate the price elasticity of demand, when the price increases from ₹20 to ₹22 and quantity demand falls from 300 to 200 units (Midpoint Method). **[June 2024]**

(a) 4.2 (b) –4.2
(c) 4 (d) –4

50. 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: **[Dec. 2023]**

(a) 15 Units (b) 35 Units
(c) 18 Units (d) 48 Units

51. 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 et X decreases by 10%. **[Dec. 2023]**

(a) 2.5 (b) 0.4
(c) 10 (d) 1.25

52. 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 _____. **[June 2023]**

(a) 1.27 (b) –2
(c) 0.63 (d) 0.67

53. For which of the following product elasticity of demand is highly elastic? **[July 2021]**

(a) Salt
(b) Life-saving medicines
(c) Water
(d) Jewellery

54. The price of commodity X decreases from ₹10 to 8, owing to which its demand increases from 100 to 120 units. Calculate the price elasticity of demand. **[June 2022]**

(a) (–)1 (b) 1
(c) 0.8 (d) 1.2

55. If price decreases from ₹ 80 to ₹60 and elasticity of demand is 1.25, then: **[CA CPT May 2019]**

(a) Demand increases by 25%
(b) Demand decreases by 25%
(c) Remains constant
(d) None of the above

56. 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

57. 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: **[June 2023]**

(a) 1.2 (b) –1.25
(c) 0.8 (d) –0.8

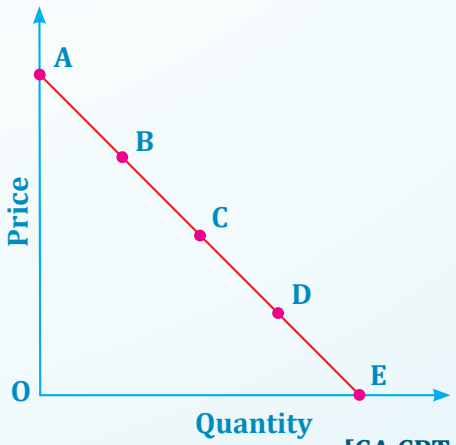
58. The price elasticity of demand for X is 1, and the original quantity demanded of X is 90 units. If the price of X decreases from ₹300 to ₹180 per unit, calculate the new quantity demanded. **[Nov. 2020]**

(a) 36 units (b) 120 units
(c) 126 units (d) 144 units

59. Mr. Z went to a stationery shop to buy pens. The price of pen decreased from ₹5 to ₹3 per unit. If the price elasticity of demand for pen is 2.5 and the original quantity demand for pen is 20, then how much is the new quantity of demanded? **[June 2024]**

(a) 10 (b) 40
(c) 30 (d) 20

60.



[CA CPT May 2018]

(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

61. The price elasticity of demand at the midpoint of the straight line demand curve under point method is _____. **[CA CPT May 2019]**

(a) 0 (b) 1

(c) >1 (d) <1

62. 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

63. Which of the following method is used to calculate elasticity of demand when price and quantity demanded are large? **[June 2023]**

(a) Zero elasticity

(b) Cross elasticity

(c) Point elasticity

(d) Arc elasticity

64. 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. **[July 2021]**

(a) 48 units

(b) 100 units

(c) 108 units

(d) 120 units

65. The demand for a generic good like soap and for Lux soap are _____ respectively. **[July 2021]**

(a) Elastic and elastic

(b) Inelastic and inelastic

(c) Inelastic and elastic

(d) Elastic and inelastic

Income Elasticity of Demand

66. If the percentage change in demand for good X is –2.5% and the percentage change in income is 5%, then the income elasticity of good X will be___, and the good X is treated as___. **[Dec. 2023]**

(a) –0.5, normal goods

(b) –0.5, inferior goods

(c) 0.5, normal goods

(d) 0.5, inferior goods

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

(a) $\frac{\text{Change in Demand}}{\text{Demand}}$

(b) $\frac{\text{Change in Demand}}{\text{Demand}}$

(c) $\frac{\text{Change in Demand}}{\text{Demand}}$

(d) None of the above

68. Income elasticity of luxury goods is _____. **[Nov. 2019]**

(a) Zero

(b) Positive and greater than one

(c) Positive and lesser than one

(d) Negative and greater than one

69. Suppose there is an increase in income by 15%, which increases demand by 30% the income elasticity of demand will be _____. **[June 2023]**

(a) 0.67 (b) 0.5

(c) 2 (d) 1.0

70. 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

71. Dinesh's annual income increases from Rs 3,00,000 to Rs3,60,000. Accordingly, he increases his purchases of commodity X from 50 to 60 units. What is the Dinesh's income elasticity of demand for commodity X? (use Arc elasticity method) **[Dec. 2023]**

(a) 0.5 (b) 1.0

(c) 2.0 (d) Zero

72. 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 an accurate comment

73. In the case of inferior goods, the income elasticity of demand is: **[Jan. 2021]**

(a) Positive (b) Zero

(c) Negative (d) Infinite

Cross Elasticity of Demand

74. Cross elasticity of perfect substitutes is: **[CA CPT May 2018]**

(a) Zero

(b) Negative

(c) One

(d) Infinity

75. When two goods are unrelated then cross elasticity of demand will be _____. **[June 2023]**

(a) 0 (b) 00

(c) 1 (d) (–)

76. 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 _____. **[July 2021]**

(a) + 0.25 (b) – 0.25

(c) – 0.4 (d) + 0.4

77. If the quantity demand of coffee increased by 8% the price of tea increase by 25% the cross elasticity of demand between coffee and tea is _____. **[June 2024]**

(a) –0.32 (b) 0.32

(c) 3.125 (d) –3.125

78. The cross elasticity between personal computers and software is:

(a) Positive

(b) Negative

(c) Zero

(d) One

79. 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 _____. **[Jan. 2021]**

(a) 1 (b) 0.5

(c) 1.5 (d) 0

Advertisement Elasticity

80. Advertising elasticity of demand is typically _____. **[June 2022]**

(a) Negative

(b) Zero

(c) Infinity

(d) Positive

81. 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

82. If the advertisement expenditure on commodity X increases by 20% and demand for it increases only by 5%. The advertisement elasticity of demand for X commodity is: **[June 2022]**

(a) 0.25 (b) – 0.25

(c) 4 (d) – 4

83. 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

UNIT-II: THEORY OF CONSUMER BEHAVIOUR

Nature of Human Wants

84. Wants may arise due to _____ causes.
(a) Elementary
(b) Psychological
(c) Internal
(d) Both (a) and (b)

85. Wants arise from multiple causes including _____.
(a) Natural instincts
(b) Social obligations
(c) Individual's economic & social status
(d) All of the above

86. 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

87. Which of the following statements about utility is incorrect? **[Dec. 2021]**
(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

88. Utility is the numerical score in terms of '_____' representing the satisfaction that a consumer obtains from the consumption of a particular good. **[Dec. 2021]**
(a) Points (b) Utils
(c) Units (d) Numbers

89. When total utility is diminishing, the marginal utility is: **[June 2022]**
(a) Diminishes (b) Zero
(c) Negative (d) Increases

90. At the point of satiation, TU is _____ and MU is _____. **[Dec. 2021]**
(a) Maximum, Zero
(b) Minimum, Zero
(c) Zero, Zero
(d) Maximum, Diminishing

91. From the information provided, what will be the Total utility of 2nd unit? **[Dec., 2023]**

Units	TU	MU
1	200	–
2	–	150
3	480	–

(a) 350 (b) 380
(c) 50 (d) 330

92. Which Equation is CORRECT? **[CA CPT Nov. 2018]**

(a) $\frac{Đ_{Đ}}{Đ_{Đ}}$ — (b) $\frac{Đ_{Đ}}{Đ_{Đ}}$ —

(c) $\frac{Đ_{Đ}}{Đ_{Đ}}$ — (d) $\frac{Đ_{Đ}}{Đ_{Đ}}$ —

93. Marginal Rate of Substitution X for Y is calculated as _____. **[Dec. 2021]**

(a) $\frac{ĐĐĐĐÂ}{ĐĐĐĐÂ}$ (b) —

(c) — (d) $\frac{ĐĐĐĐÂ}{ĐĐĐĐÂ}$

From the following data given below answer questions 94 and 95: **[CA CPT Nov. 2018]**

Units	TU	MU
1	200	–
2	–	180
3	480	–

94. Total utility derived from 2nd unit is?
(a) 380 (b) 20
(c) 100 (d) 280

95. Marginal utility of 3rd unit is?
(a) 200 (b) 280
(c) 100 (d) 50

96. When marginal utility is zero then total utility is _____.
(a) Maximum (b) Lower
(c) Negative (d) Increasing

97. 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 _____. **[June 2023]**

(a) 8 (b) 100
(c) 108 (d) 101

98. Budget line is also called: **[Nov. 2019]**

(a) Money line
(b) Preference line
(c) Income line
(d) Price line

99. The consumer is in equilibrium when the following condition is satisfied: **[CA CPT May 2019]**

(a) Budget line is tangent to the IC curve

(b) $\frac{\text{Đ}\text{Đ}_{\text{Đ}}}{\text{Đ}_{\text{Đ}}} \lesssim \frac{\text{Đ}}{\text{____}}$ ____

(c) Both (a) and (b)
(d) None of the above

100. Which of the following is/are the assumptions of the Law of Diminishing Marginal Utility?

(a) Only standard units of the commodity are consumed.
(b) Consumption must be continuous
(c) Both (a) and (b)
(d) None of the above

101. Cardinal approach is related to: **[CA CPT May 2018]**

(a) Indifference curve
(b) Equi marginal utility
(c) Law of diminishing returns
(d) None of these

102. Which economist said that money is the measuring rod of utility? **[CA CPT May 2018]**

(a) A.C. Pigou
(b) Marshall
(c) Adam Smith
(d) Robbins

103. Which of the following relation is true with MU? **[CA CPT May 2019]**

(a) When MU is positive, TU rises at a diminishing rate
(b) When MU is zero, TU is maximum
(c) When MU is negative, TU diminishes
(d) All of the above

Consumer's Surplus

104. Consumer's surplus = what the consumer is ready to pay minus _____? **[June 2022]**

(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

105. Purushottam wanted to buy laptop by paying ₹60,000 but the actual price is ₹55,000, then consumer surplus is: **[Nov. 2020]**

(a) 6,500 (b) 55,000
(c) 5,000 (d) 60,000

106. Ram wanted to purchase an Apple tab at ₹12,000/-. Actual price in the market (MRP) is ₹11,000/- and discount was given at 20%. Also there is an additional cash discount of ₹300. Find consumer surplus. **[June 2024]**

(a) 3200 (b) 3500
(c) 1000 (d) 3300

107. Which of the following is/are the condition(s) of theory of consumer surplus if price is same for all the units he purchased? **[CA CPT May 2019]**

(a) Consumer gains extra utility or surplus
(b) Consumer surplus for the last commodity is zero
(c) Both
(d) None

108. The concept of consumer's surplus is derived from: **[CA CPT May 2018]**

(a) The law of diminishing marginal utility
(b) The law of equal-marginal utility
(c) The law of diminishing returns
(d) Engel's law

109. The concept of consumer surplus is derived from _____. **[Dec. 2021]**

(a) The Law of Demand
(b) The Law of Supply
(c) The Law of Diminishing Marginal Utility
(d) Indifference Curve Analysis

Indifference Curve Analysis

110. Which of the following is not an assumption of the Theory of Demand based on Indifference Curve Analysis?

(a) A given scale of preferences 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

111. More consumption of commodity X and less consumption of commodity Y make indifference curves: **[Dec. 2023]**

(a) Slope downwards from left to right

(b) Intersect with each other

(c) Touch two axes

(d) Concave at mid-point

112. Which of the following is not the property of indifference curve? **[CA CPT May 2019]**

(a) Slopes downwards to the right

(b) Always convex to the origin

(c) Intersects each other

(d) Will not touch either of the axes

113. Indifference curve analysis is based on which approach? **[July 2021]**

(a) Ordinal (b) Cardinal

(c) Marginal (d) All of the above

114. Which of the following is not the property of indifference curve? **[CA CPT Nov. 2018]**

(a) IC is convex to the origin

(b) IC scopes downwards from left to right

(c) Two ICs can touch each other

(d) IC cannot touch either of the axis

115. The Indifference curve for two perfect complementary goods is _____. **[July 2021]**

(a) U-shaped (b) Straight line

(c) Z-shaped (d) L-shaped

116. A shift in budget line occurs, when prices of the two goods remain constant, is due to _____. **[Dec. 2021]**

(a) Change in preferences

(b) Change in demand

(c) Change in income

(d) Change in utility

117. What does a point inside the budget line indicate? **[Jan. 2021]**

(a) Unaffordable combination of goods

(b) Equilibrium point

(c) Affordable combination of goods

(d) Maximum utility

118. If indifference curve is 'L' shaped then two goods will be called as _____. **[June 2023]**

(a) Perfect superior goods

(b) Perfect inferior goods

(c) Perfect quality goods

(d) Perfect complementary goods

119. The scope of the indifference curve shows consumer equilibrium at point where MRS_{xy} _____ Px/Py (Price line). **[CA CPT Nov. 2018]**

(a) Less than (b) More than

(c) Equal to (d) None of the above

120. 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

UNIT-III: SUPPLY

Basics of supply

121. The supply of a good refers to: **[Nov. 2019]**

(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

122. Supply is a _____ concept. **[CA CPT May 2018, Jan. 2021]**

(a) Flow

(b) Stock

(c) Flow and stock, both

(d) Qualitative

Law of Supply

123. According to law of supply, change in supply is related to? **[CA CPT Nov. 2018]**

(a) Price of goods
(b) Price of related goods
(c) Factors of production
(d) None of the above

124. When supply price increase in the short run, the profit of the producer _____. **[CA CPT May 2018]**

(a) Increases
(b) Decreases
(c) Remains constant
(d) Decreases marginally

Movement on Supply Curve and Shifts in Supply Curve

125. Contraction of supply implies _____. **[CA CPT May 2019]**

(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

126. When supply curves moves to right, it means _____. **[Jan. 2021]**

(a) Supply increases
(b) Supply decreases
(c) Supply remains constant
(d) Supply expands

127. 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

128. When supply curve moves to the right, it means:

(a) Supply increases
(b) Supply decreases
(c) Supply remains constant
(d) None of the above

129. When supply curve shifts to the right there is: **[CA CPT May 2018]**

(a) An increase (b) Expansion
(c) Contraction (d) Decrease

130. 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

131. When the supply curve shifts to the left or right, it is called as _____ or _____ in supply, respectively.

(a) Decrease, Decrease
(b) Decrease, Increase
(c) Increase, Increase
(d) Increase, Decrease

Elasticity of Supply

132. A vertical supply curve parallel to the Y-axis exhibits that the elasticity of supply is: **[June 2022]**

(a) Zero (b) Infinite
(c) Elastic (d) Inelastic

133. 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

134. Price elasticity of supply refers to change in responsiveness of quantity to change in: **[Nov. 2019]**

(a) Price (b) Price in substitute
(c) Income (d) Preference

135. 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

136. If the elasticity of supply is 5 and the price of product Y increases by 15%, then what percentage of the quantity supplied will increase? **[Dec. 2023]**

(a) 10% (b) 3%
(c) 75% (d) 15%

137. The price of a good increases from ₹100 to ₹150, and the quantity supplied increases from 500 to 800 units. The elasticity of supply will be:

(a) Less than one (b) Greater than two
(c) Equal to one (d) Equal to two

138. When price of a commodity rises from Rs 200 to Rs 300, and quantity supplied increases from 2,000 to 5,000 units. Find the elasticity of supply. **[CA CPT Nov. 2018]**

(a) 3.0 (b) 2.5
(c) 0.3 (d) 3.5

139. If the price of sugar increases from Rs 8,000 to Rs 10,000 per tone and due to that, quantity supplied of sugar increases from 2000 to 2500 tones. Compute the elasticity of supply. **[June 2022]**

(a) (–) 1 (b) 1
(c) (–) 0.4 (d) 0.4

140. If the price of computers increases by 25% and the supply increases by 10%, the elasticity of supply is:

(a) 0.4 (b) 1.5
(c) –1.5 (d) –0.4

141. Due to introduction of 5G mobiles in the market, the price of such mobiles has increased by 20% and thereby supply increased by 40%. The elasticity of supply will be which of the following? **[June 2023]**

(a) 0.5 (b) –0.5
(c) –2 (d) 2

142. When number of tourists increase at a place for which the room rent of hostel also increases. Then the elasticity of supply of room will be _____ . **[June 2023]**

(a) Zero (b) <1
(c) >1 (d) =1

143. If quantity supplied changes substantially in response to small changes in price of the good, then it is: **[Nov. 2020]**

(a) Perfect elastic
(b) Unitary elastic
(c) Relatively less elastic supply
(d) Relatively greater elastic supply

144. When elasticity is measured at a given point on the supply curve, it is called which of the following? **[June 2022]**

(a) Unit elasticity (b) Point elasticity
(c) Supply elasticity (d) Limited elasticity

145. The price of commodity X increased from ₹500 per unit to ₹600 per unit, and consequently, the quantity supplied rose from 1,000 units to 1,200 units. The elasticity of supply will be:

(a) 1 (b) 2
(c) 0.5 (d) 3

146. The supply function is given as Q = 20p – 200 . The elasticity of supply using point method, when the price is ₹30, will be: **[Dec. 2021]**

(a) –1.5 (b) +1.5
(c) +0.66 (d) –0.66

147. Perishable commodities will have _____. **[CA CPT May 2019]**

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

148. When the supply of a product is perfectly inelastic, then the curve will be: **[CA CPT May 2019]**

(a) Parallel to Y-axis (b) Parallel to X-axis
(c) At the angle of 45° (d) Sloping upwards

149. If a straight-line supply curve passes through the origin with unitary elasticity, what is the value of Es?

(a) $E_s = 0$ (b) $E_s = 1$
(c) $E_s > 0$ (d) $E_s < 0$

150. 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

151. 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

152. The equilibrium price is determined by the intersection 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 KEY

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

HINTS & SOLUTIONS

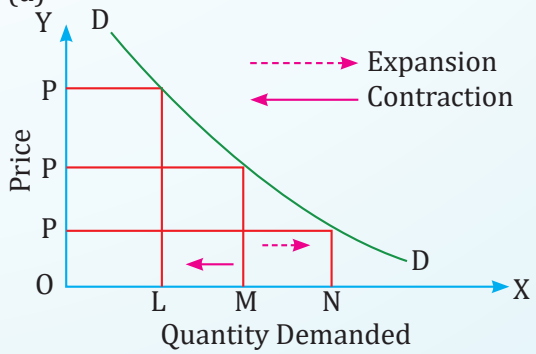
2. (a) The quantity demanded is a flow. We are concerned not with a single isolated purchase, but with a continuous flow of purchases. Therefore, demand is expressed as "So much per period of time".

7. (d) The prices of related commodities are included in determinant of demand, which may be either complimentary goods or substitutes.

17. (c) In the case of conspicuous goods, their attractiveness increases if their prices rise. Such goods will not conform to the usual law of demand.

29. (c) 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.

41. (d)



Expansion and contraction of Demand

46. (a) % Change in Quantity Demanded

$$\frac{\text{ÐÐÐ}}{\text{ÐÐ}} \text{ÑÐÐÐÐÐ}$$

% Change in Price

$$\frac{\text{ÐÐ}}{\text{ÐÐ}} \text{ÑÐÐÐÐ}$$

Elasticity

$$Ð_Ð \text{Ñ} \frac{Ð}{Ð} \quad \text{ÐÐ}$$

49. (b) Price Elasticity of Demand $\text{Ñ}\frac{Ð_Ð}{\text{ÑÐ}}$

$$\text{Ñ}=\frac{\text{ÐÐÐÐÐÐÐÐ}}{\text{ÐÐÐÐÐÐÐÐ}} \quad \text{Ð}$$

50. (b)

	Original	New	Change
Price	80	40	–40
Quantity	20	*x*	*X*-20

Price elasticity of Demand $\text{Ñ}\frac{}{Ð}$ —

$$\text{ÑÐ} \quad \frac{\text{ÐÐ}}{\text{ÐÐ}}$$

$$\text{ÑÐ} \quad \frac{Ð}{Ð}$$

$15 = x - 20$

$x = 15 + 20 = 35$ units

51. (a) Price Elasticity of Demand

$$\text{Ñ}\frac{\text{ÐÐÐÐÂÐÐÐÐÐÐÐÐ}}{\text{ÐÐÐÐÐÂÐÐÐ}} \quad \text{Ð}$$

52. (b) Elasticity of Demand $\text{Ñ}\frac{}{Ð}$ —

$$\text{Ñ}=\frac{\text{ÐÐÐÐ}}{\text{ÐÐÐÐÐ}}$$

55. (d) % change in Price $\text{Ñ}\frac{\text{ÐÐ}}{Ð}$ Ð

Price Elasticity of Demand = 1.25

Price Elasticity

$$\frac{\text{ÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐ}}{\text{ÐÐÐÐÐÐÐÐÐÐÐÐÐÐ}}$$

$$\text{ÐÐ} \quad \frac{\text{ÐÐÐÐÐÂÐÐÐÐ}}{Ð} = 31.25\%$$

Hence, None of the above is correct option.

57. (d) Price elasticity of Demand $\text{Ñ}\frac{}{Ð}$ —

$$\text{Ñ}=\frac{Ð}{\text{ÐÐ}} \quad — \quad Ð$$

59. (c) Price elasticity of Demand $\text{Ñ}\frac{}{Ð}$ —

$$\text{ÑÐÐ} \quad \frac{\text{ÐÐ}}{\text{ÐÐÐ}}$$

60. (a) Price Elasticity (Ep) $\frac{\text{ÐÐÐÐÐÐÐÐ}}{\text{ÐÐÐÐÐÐÐ}}$

64. (a) Price Elasticity (Ep) $\text{Ñ}\frac{}{Ð}$ —

$$\text{Ñ}\frac{}{\text{ÐÐ}} \frac{Ð}{}$$

$$\text{Ñ} \quad \frac{\text{ÐÐÐ}}{Ð} \quad Ð$$

Therefore, New quantity Demanded = 60 + 48

= 108 units

66. (b) Income Elasticity of Demand

$$\text{Ñ}=\frac{\text{ÐÐÐÐÐÂÐÐÐÐÐ}}{\text{ÐÐÐÐÐÐÐÐÐÐÐ}} \quad \text{Ð}$$

A negative income elasticity indicates an inferior good, where demand decreases as income increases. Thus, the income elasticity for good *X* is –0.5. Thus, inferior goods.

71. (b) Using the are elasticity method,

Income Elasticity $\text{Ñ}\frac{Ð_Ð}{\text{ÑÐ}}$

$$\text{Ñ}\text{Ñ}\frac{\text{ÐÐÐÐ}}{\text{ÐÐÐÐ}}$$

73. (c) When income increases, consumers choose to consume superior substitutes. Thus, income elasticity is negative in case of inferior goods.

75. (a) 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 interrelated commodities, other things remaining the same.

If two goods are totally unrelated, the cross price elasticity between them is zero.

76. (a) E_c ĐĐĐĐĐĐĐĐĐĐĐĐ / ĐĐĐĐĐĐĐĐĐĐ ĐĐĐĐĐĐĐĐĐĐ

Ð / Ð ĐĐ

77. (b) Cross elasticity of demand

ĐĐĐĐĐÂĐĐĐĐĐĐĐĐ / ĐĐĐĐĐÂĐĐĐĐĐĐĐ —— ĐĐ

79. (c) — / $Đ_Đ$ — [Where X = Tea and Y = Coffee]

ĐĐĐ / ĐĐĐ — —— — Đ

81. (a) ĐĐĐĐĐÂĐĐĐ / ĐĐĐĐĐÂĐĐĐĐĐÂĐĐĐĐĐ

Ð / Ð Ð

91. (a) 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.

94. (a) $TU_2 = TU_1 + MU_2$

$= 200 + 180 = 380$

95. (c) $MU_n = TU_n - TU_{n-1}$

$MU_3 = TU_3 - TU_2$

$= 480 - 380 = 100$

97. (a) Marginal utility = The additional made to the total utility by the addition of consumption of one more unit of a commodity. Symbolically,

$MU_n = TU_n - TU_{n-1}$

$MU_{11} = TU_{11} - TU_{10} = 108 - 100 = 8$

99. (c) The conditions for consumer attaining equilibrium is the point where:

(a) The budget line is tangent to the indifference curve and

(b) Đ / $Đ_Đ$ Đ

106. (b) MRP = ₹11,000

Discounted price = 11,000 – (20% of 11,000)

= 8,800

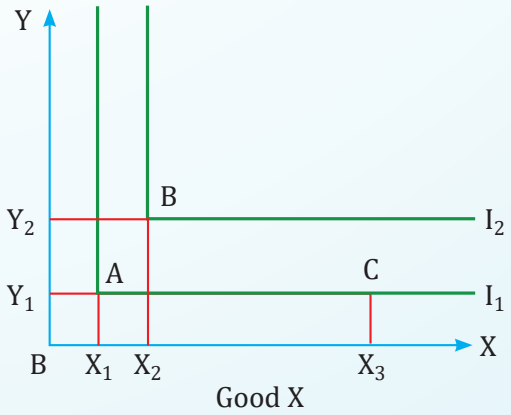
Final price after cash discount = 8,800 – 300

= 8,500

Consumer surplus = 12,000 – 8,500 = 3,500

110. (c) The theory of demand based on Indifference Curve Analysis makes certain assumptions: consumers have a given and consistent scale of preferences between combinations of goods, they always prefer more of a good to less (monotonicity), and the marginal rate of substitution diminishes, making indifference curves convex to the origin. However, the assumption of constant marginal utility of money belongs to the cardinal utility approach, not the ordinal utility approach used in indifference curve analysis. Therefore, the assumption which does not apply here is (c) Constant marginal utility of money.

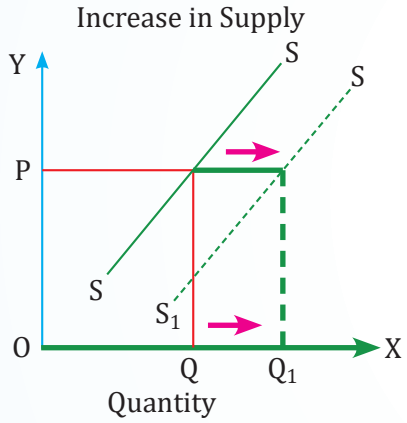
115. (d) When two goods are perfect complementary goods (e.g left shoe and right shoe), the consumer consumes only bundles in which both X and Y in equal proportions. With a bundle like A or 8, he will not substitute X for Y because an extra piece of the other good (here a single shoe) is worthless for 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

117. (c) A point inside the budget line means the consumer is not spending their entire income — the combination of goods is affordable, but not the best use of income.

126. (a) 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.



136. (c) 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%.

137. (a) Less than one.

$$\% \text{ Change in Qs} = \frac{\text{ĐĐĐ}}{\text{Đ}} \text{ ĐĐĐ}$$

$$\% \text{ Change in Price} = \frac{\text{ĐĐĐ}}{\text{Đ}} \text{ ĐĐĐ}$$

$$\frac{\text{Đ}}{\text{Đ}} \text{ Đ}$$

138. (a) Elasticity of Supply (E_s)

$$\frac{\text{Đ}}{\text{Đ}} \text{ ĐĐĐĐ} \text{ ĐĐĐĐ} \text{ Đ}$$

140. (a) $\frac{\text{Đ}}{\text{Đ}}$ Đ

Elasticity of supply is positive because both price and supply increase.

141. (d) Elasticity of Supply

$$\frac{\text{ĐĐĐĐÂĐĐĐĐĐĐĐĐĐ}}{\text{ĐĐĐĐÂĐĐĐĐ}}$$

145. (a) Elasticity of Supply (E_s)

$$\frac{\text{ĐĐĐĐÂĐĐĐĐĐĐĐ}}{\text{ĐĐĐĐÂĐĐ}}$$

% change in quantity supplied

$$\frac{\text{Đ}_{\text{Đ}}}{\text{ĐĐĐ}} \text{ ĐĐĐĐ}$$

$$\frac{\text{Đ}}{\text{ĐĐ}} \text{ ĐĐĐ}$$

% change in price

$$\frac{\text{Đ}_{\text{Đ}}}{\text{ĐĐĐ}} \text{ ĐĐĐĐ}$$

$$\frac{\text{Đ}}{\text{Đ}} \text{ ĐĐĐ} \Rightarrow \frac{\text{Đ}}{\text{Đ}}$$

Scan the QR code for ICAI Module Q&A

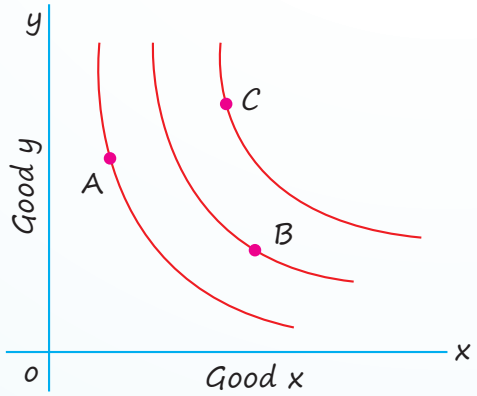
Chapter Wrap-Up Test

This is a 20-minutes test. Read each question carefully and attempt all.

1. Utility is measured in terms of:
   (a) Grams (b) Seconds
   (c) Centimeter (d) Utils

2. Demand for a commodity refers to:
   (a) Desire for the commodity
   (b) Need for the commodity
   (c) Quantity demanded of that commodity
   (d) Quantity of the commodity demanded at a certain price during any particular period of time

3. Considering the map, the satisfaction derived from the combination is:



   (a) A > B, B > C but A > C
   (b) A > B > C
   (c) A < B > C
   (d) C > B > A

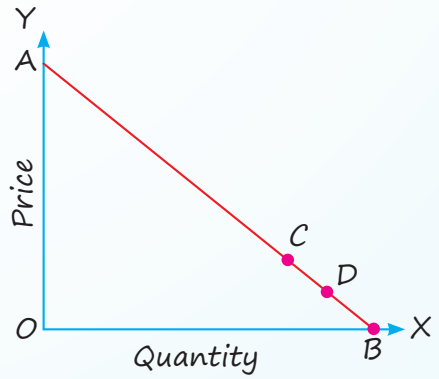
4. Expansion of supply takes place due to:
   (a) Change in goal of the firm
   (b) Rise in price of the commodity
   (c) Number of firms
   (d) Technique of production

5. When demand of any good depends upon the demand of another good, it is said to have _____ demand.
   (a) Joint
   (b) Derived
   (c) Competitive
   (d) Direct

6. Refer the following: A consumer wants to buy two good X and Y. The prices of the two goods are 4 and 5 respectively. The consumer's income is ₹20. If the consumer spends the full income only to buy Good-Y, how much quantity would he be able to buy of it?
   (a) 5 Units (b) 4 Units
   (c) 6 Units (d) 3 Units

7. Which one of the following is income inelastic product/service?
   (a) Air travel
   (b) Visit to water park
   (c) Life saving drugs
   (d) Dinner at a five star hotel

8. The price at point 'B' is _____ and therefore the elasticity of demand is _____.



   (a) High, high
   (b) Low; low
   (c) Zero; zero
   (d) Zero; high/low

9. When marginal utility is negative, total utility is:
   (a) Zero (b) Diminishing
   (c) Maximum (d) Minimum

10. A positively sloped demand curve implies:
   (a) Violation of the law of demand
   (b) Giffen good
   (c) Income effect is negative and greater than substitution effect
   (d) All the above

11. A leftward shift of the demand curve shows:
   (a) More is demanded at the same price
   (b) Less is demanded when the price of good rises
   (c) Less is demanded at the same price
   (d) More is demanded when the price of good falls

12. All Giffen goods are:
   (a) Inferior goods
   (b) Non-Inferior goods
   (c) Normal goods
   (d) None of these

13. If the price elasticity of demand is –2.5, what type of demand is it?
   (a) Elastic (b) Inelastic
   (c) Unitary (d) Perfectly Inelastic

14. In the context of cross price elasticity, what does it mean when the coefficient is greater than 1?
   (a) Complements
   (b) Elastic demand
   (c) Inelastic demand
   (d) Unitary elastic demand

15. What does an advertisement elasticity of 0.5 indicate?
   (a) Inelastic demand
   (b) Elastic demand
   (c) Unitary elastic demand
   (d) Perfectly elastic demand

16. A consumer's income decreases by 20%, and as a result, the quantity demanded for a normal good decreases by 8%. What is the income elasticity of demand for this good?
   (a) –0.4 (b) –2.5
   (c) 0.4 (d) 2.5

17. The concept of consumer's surplus is useful in _____.
   (a) Distinguishing between value-in-use and value-in-exchange
   (b) Comparing the advantages of different places
   (c) Useful In cost benefit analysis of projects
   (d) All the above

18. State an example of Vertical Supply Curve.
   (a) Supply of old rare manuscripts
   (b) Supply of currency
   (c) Supply of shoes
   (d) All of the above

19. What is the elasticity of supply, when the price changes from ₹15 to ₹12 and supply changes from 6 units to 5 units?
   (a) 0.79 (b) 0.98
   (c) 0.83 (d) 0.63

20. If a 10% rise in the price of a commodity causes the demand to fall by 20%, then:
   (a) Demand was inelastic
   (b) Demand was infinitely elastic
   (c) Demand was elastic
   (d) None of the above

ANSWER KEY

1. (d)	2. (d)	3. (d)	4. (b)	5. (b)	6. (b)	7. (c)	8. (c)	9. (b)	10. (d)
11. (c)	12. (a)	13. (a)	14. (b)	15. (a)	16. (c)	17. (d)	18. (a)	19. (c)	20. (c)

3 Theory of Production and Cost

QUICK HIGHLIGHTS

1. Types of Capital Examples:

- *Fixed Capital:* Tools, machines, buildings.
- *Circulating Capital:* Seeds, fuel, raw materials.
- *Real Capital:* Buildings, plants, machinery.
- *Human Capital:* Education, training, skills.
- *Tangible Capital:* Land, vehicles, equipment.
- *Intangible Capital:* Copyrights, goodwill, patents.

2. Cobb-Douglas Production Function:

Formula:

$Q = KL^aC^{(1-a)}$ (Old)

$Q = KL^aC^b$ (New)

Where 'Q' is output, 'L' the quantity of labour and 'C' the quantity of capital. 'K' and 'a' are positive constants.

3. The Law of Variable Proportions or The Law of Diminishing Returns Examples:

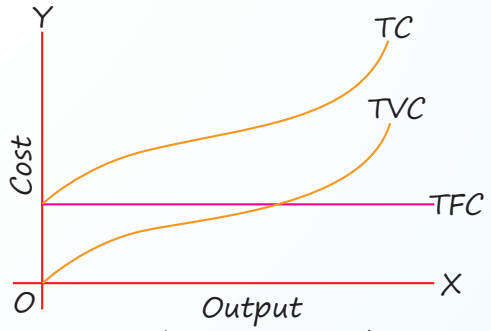
- *Inflection point:* The inflection point is where Total Product (TP) shifts from increasing at an increasing rate to increasing at a decreasing rate. It marks the end of Stage I and the beginning of Stage II in production.
- *Stage of Operation:* A rational producer operates in Stage II, as MP and AP are diminishing but still positive.

4. Capital Formation:

- Process of increasing real capital stock.
- Also called investment.
- *Stages of Capital Formation:*
  1. Savings
  2. Mobilisation of Savings,
  3. Investment

5. Short Run Total Costs:

- Total Cost (TC): TC = TFC + TVC
- Total Variable Cost (TVC): TVC =TC –TFC
- Total Fixed Cost (TFC): TFC = TC – TVC

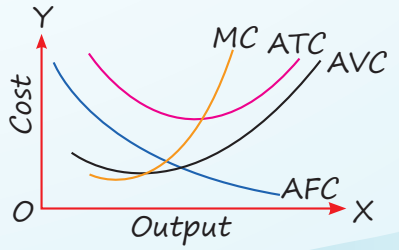


Short Run Total Cost Curves

6. Short Run Average Costs:

- Average Fixed Cost (AFC): AFC = $\frac{ü}{\quad}$
- Average Variable Cost (AVC): AVC = $\frac{ü}{\quad}$
- AC = AFC + AVC or AC = $\frac{ü}{\quad}$
- Marginal Cost (MC): MC = $\frac{ü}{\quad}$ or

$MC_n = TC_n - TC_{n-1}$



Short Run Average Cost Curves

7. Long Run Average Cost Curve (Also known as):

- Planning Curve
- Envelope Curve

QUESTIONS

UNIT-I: THEORY OF PRODUCTION

Meaning of Production

1. What is "Production" in Economics? **[CA CPT Dec. 2008]**

(a) Creating/Addition of utility
(b) Production of food grains
(c) Creation of services
(d) Manufacturing of goods

2. According to _____, Production is the organised 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)

3. Production does not include work done _____.

(a) Within a household out of love and affection
(b) Voluntary services
(c) For self-consumption
(d) All of the above

Factors of Production

4. The term "_____" means any mental or physical exertion directed to produce goods or services. **[Dec. 2021]**

(a) Land (b) Labour
(c) Capital (d) Entrepreneur

5. Which among the following is not a characteristic of land? **[CA CPT Dec. 2016]**

(a) It is an active factor
(b) It has a variety of uses
(c) Its production powers are indestructible
(d) Its supply is limited

6. Which of the following is not a characteristic of land? **[June 2023]**

(a) Land is immobile
(b) Land is an active factor
(c) Land has multiple uses
(d) Land is heterogeneous

7. A person went to buy a piece of land and thought that one of the following was a wrong feature regarding land. **[June 2024]**

(a) Homogeneous (b) Heterogeneous
(c) Immobile (d) No supply price

8. Which of the following statements about factors of production is not true? **[CA CPT Nov. 2018]**

(a) Land is a passive factor
(b) Land is a free gift of nature
(c) Land is immobile
(d) Land is perishable

9. 'Land is heterogeneous' implies which of the following? **[June 2022]**

(a) Two lands are alike
(b) Two lands are not alike
(c) Two lands are fixed
(d) Two lands are mobile

10. No two pieces of land are alike. They differ in fertility and situation. Therefore, Land is _____.

(a) Homogeneous (b) Heterogeneous
(c) Nitrogeneous (d) None of these

11. 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

12. Supply of land is: **[Nov. 2019]**

(a) Elastic (b) Perfectly Elastic
(c) Perfectly Inelastic (d) Inelastic

13. Labour force wants more _____. **[CA CPT Dec. 2009]**

(a) Facility (b) Leisure
(c) Benefit (d) All of the above

14. Which of the following is not a characteristic of labour? **[CA CPT Dec. 2016]**

(a) It is perishable
(b) It has weak bargaining power
(c) Labour and labour power cannot be separated
(d) Labour is not mobile

15. The concept of "Innovative Entrepreneurship" was given by: **[Nov. 2020]**

(a) Adam Smith (b) Marshall
(c) JK Mehta (d) Schumpeter

16. Human capital refers to: **[CA CPT June 2016]**

(a) Savings by individuals
(b) Mobilisation of savings
(c) Human skills and abilities
(d) Productive investment

17. Which of the following is not a passive factor of production? **[July 2021]**

(a) Building (b) Machine
(c) Land (d) Labour

18. Functions of the entrepreneur are: **[CA CPT June 2009]**

(a) Risk bearing
(b) Initiating a business enterprise and resource coordinating
(c) Introducing new innovations
(d) All of the above

19. An Entrepreneur undertakes which one of the following functions? **[CA CPT June 2014]**

(a) Initiating a business and resource coordination
(b) Risk or uncertainty bearing
(c) Innovations
(d) All of the above

20. The Innovation Theory of Entrepreneurship is Propounded by: **[CA CPT June 2008, Dec. 2013, June 2023, Dec. 2023]**

(a) Knight (b) Schumpeter
(c) Max Weber (d) Peter Drucker

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

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

Production Function

22. Technological relationship between input and output is: **[June, 2023]**

(a) Production function
(b) Marketing
(c) Supply function
(d) Social function

23. 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

24. Production function is: **[CA CPT Dec. 2013]**

(a) Purely a technical relationship between input and output
(b) Purely an economic relationship between input and output
(c) Both the technical and economic relationship between input and output
(d) None of the above

25. Which function shows the relationship between input and output? **[CA CPT Dec. 2010]**

(a) Consumption function
(b) Investment function
(c) Production function
(d) Cost function

Cobb-Douglas Production Function

26. The Cobb-Douglas production function explained _____ returns to scale in production. **[Dec. 2023]**

(a) Decrease (b) Fluctuate
(c) Increase (d) Constant

27. In the Cobb-Douglas production function, the two inputs are: **[CA CPT Dec. 2013]**

(a) Land and Labour
(b) Labour and Capital
(c) Capital and Entrepreneur
(d) Entrepreneur and Land

28. The famous Cobb-Douglas production function is based on studies of _____ industries in the United States of America. **[CA CPT June 2017]**

(a) Manufacturing
(b) Construction
(c) Consumer
(d) Aviation

29. If Cobb-Douglas production function is given by $Q = KL^aC^b$ then there will be _____ when (a + b) is _____. **[CA CPT May 2018]**

(a) Increasing returns, > 1

(b) Increasing returns to scale, > 1

(c) Diminishing returns, < 1

(d) Constant returns to scale, = 1

30. The conclusion drawn from the Cobb-Douglas production function is that labour contributed about _____ and capital about _____ of the increase in the manufacturing production. **[CA CPT Dec. 2015]**

(a) $\frac{Đ^{ĐĐ}}{Đ}$ —— (b) $\frac{Đ^{ĐĐ}}{Đ^{ĐĐ}}$ ——

(c) $\frac{Đ^{ĐĐ}}{Đ}$ —— (d) None of the above

31. According to the Cobb-Douglas production function, we will get _____ returns to scale. **[CA CPT Nov. 2018]**

(a) Constant

(b) Diminishing

(c) Increasing

(d) Any of the above

32. According to the Cobb-Douglas production function, labour contribution in increasing manufacturing production is: **[Jan. 2021]**

(a) — (b) —

(c) — (d) —

Total, Average and Marginal Product

33. What will be the total product when two labourers are hired according to the table given below? **[CA CPT Dec. 2010]**

No. of Labourers	Total Product	Marginal Product
0	–	–
1	350	350
2	–	280

(a) 680 (b) 580

(c) 350 (d) 230

34. Marginal Product is the slope of: **[Nov. 2019]**

(a) Total Product

(b) Average Product

(c) Marginal Product

(d) Implicit Product

35. Consider the following table:

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

(a) 80 (b) 100

(c) 180 (d) 200

36. Suppose the first four units of a variable input generate corresponding total outputs of 150, 200, 350, 550. What will be the marginal product of the third unit of input? **[CA CPT Dec. 2016]**

(a) 50 (b) 100

(c) 200 (d) 150

37. When Average Product falls, Marginal Product is _____ the Average Product. **[Jan. 2021]**

(a) Less than (b) More than

(c) Equal to (d) Maximum

38. Marginal, Average and total product of a firm in the short run will not comprise with: **[CA CPT May 2019]**

(a) When marginal product 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

39. When average product rises as a result of an increase in the quantity of variable factor, marginal product is: **[CA CPT Dec. 2016]**

(a) Equal to average product

(b) More than average product

(c) Less than average product

(d) Becomes negative

40. The marginal product curve is above the average product curve when the average product is: **[CA CPT Feb. 2007]**

(a) Increasing (b) Decreasing
(c) Constant (d) None

41. Which of the following is correct in relation to Marginal Product? **[Jan. 2021]**

(a) This 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

42. If the marginal product of labour is below the average product of labour, it must be true that: **[CA CPT Aug. 2007]**

(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

Law of Variable Proportion

43. Law of variable proportion is valid when: **[CA CPT Nov. 2007]**

(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

44. Diminishing marginal returns implies: **[CA CPT May 2007]**

(a) Decreasing average variable costs
(b) Decreasing marginal costs
(c) Increasing marginal costs
(d) Decreasing average fixed costs

45. In short run the law of variable proportions is also known as _____. **[Jan. 2021]**

(a) Law of increasing returns
(b) Law of diminishing returns
(c) Law of decreasing returns
(d) Law of constant returns

46. Production activity in the short period is analysed with the help of: **[CA CPT Dec. 2012]**

(a) Law of variable proportion
(b) Laws of returns to scale
(c) Both (a) and (b)
(d) None of the above

47. The Law of Variable Proportions is associated with: **[CA CPT June 2016]**

(a) Short period
(b) Long period
(c) Both short and long periods
(d) Neither short nor long period

48. The "law of diminishing returns" applies to: **[Nov. 2019]**

(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

49. Law of increasing returns is applicable because of_____. **[CA CPT June 2010]**

(a) Indivisibility of factors
(b) Specialisation
(c) Economies of scale
(d) Both (a) and (b) above

50. In the first stage of law of variable proportions, total product increases at the_____. **[CA CPT Dec. 2010]**

(a) Decreasing rate (b) Increasing rate
(c) Constant rate (d) Both (a) and (b)

51. During 2nd stage of law of diminishing returns: **[CA CPT June 2008]**

(a) MP and TP are maximum
(b) MP and AP are decreasing
(c) AP is negative
(d) TP is negative

52. A rational producer will produce in the stage in which marginal product is positive and: **[CA CPT June 2016]**

(a) MP > AP (b) MP = AP
(c) MP < AP (d) MP is zero

53. Reason for operating the law of diminishing returns is_____. **[CA CPT May 2007]**

(a) Imperfect Substitution between factors
(b) Scarcity of factors
(c) Both (a) and (b)
(d) None of these

Returns to Scale

54. The concept of Returns to Scale is related with: **[CA CPT June 2012, 2013]**

(a) Very short period (b) Short period
(c) Long period (d) None of the above

55. The Law of returns to scale is: **[Jan. 2021]**

(a) Short run
(b) Long run
(c) Short and Long run
(d) Medium run

56. Increasing returns to scale can be explained in terms of: **[CA CPT Feb. 2007, May 2018]**

(a) External and internal economies
(b) External and internal diseconomies
(c) External economies and internal diseconomies
(d) All of these

57. The stage of "Decreasing returns to scale" will occur when _____. **[June 2023]**

(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

58. Returns to scale will said to be in operation when quantity of: **[CA CPT Feb. 2008]**

(a) All inputs are changed
(b) All inputs are changed in already established proportions
(c) All inputs are not changed
(d) One input is changed while the quantity of all other inputs remains the same

59. Diminishing returns occur: **[Nov. 2019]**

(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

60. With a view to increasing 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? **[CA CPT June 2014]**

(a) Increasing returns to scale
(b) Decreasing returns to scale
(c) Constant returns to scale
(d) None of the above

Production Optimisation

61. Isoquants are equal to: **[CA CPT Nov. 2006, May 2018]**

(a) Product lines (b) Total utility lines
(c) Cost lines (d) Revenue lines

62. Which of the following defines all those combinations of inputs which are capable of producing the same level of output? **[June 2024]**

(a) Indifference curve (b) Isoquant
(c) Isocost (d) Budget line

63. Among the following statements, which is incorrect in relation to isoquants? **[Nov. 2020]**

(a) These are negatively sloped
(b) These are concave to the origin
(c) These are not intersecting
(d) These are convex to the origin

64. Isoquants are also known as: **[CA CPT June, 2016]**

(a) Production possibility curves
(b) Indifference curves
(c) Production indifference curves
(d) None of the above

65. An Isoquant is _____ to an Isocost line at equilibrium point: **[CA CPT May 2007]**

(a) Convex
(b) Concave
(c) Tangent
(d) Perpendicular

66. Large production of _____ goods would lead to higher production in future. **[Nov. 2019]**

(a) Consumer Goods
(b) Capital Goods
(c) Agricultural Goods
(d) Public Goods

67. An Isoquant shows:

(a) All the alternative combinations of two inputs that can be produced by using a given set of outputs 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)

68. It shows all the combinations of different factors of production which give the same output to the producer. This is called _____.

[CA CPT June 2015]

(a) Kinked demand curve

(b) Isoquant curve

(c) Marginal cost curve

(d) Short run cost curve

69. Isoquants are negatively sloped and _____ to the origin due to _____ Marginal Rate of Technical Substitution (MRTS).

(a) Convex, Increasing

(b) Convex, Decreasing

(c) Concave, Increasing

(d) Concave, Decreasing

70. Which of the following statements is true in relation to an Isoquant Curve?

[CA CPT June 2015]

(a) It represents those combinations 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 touch either axis

UNIT-II: THEORY OF COST

Accounting Costs and Economic Costs

71. Which one of the following statements is correct in relation to the profit in accounting and economic sense? **[Dec. 2023]**

(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

72. Suppose the total cost of production of commodity X is ₹1,25,000. Out of this cost, the implicit cost is ₹35,000, and the normal profit is ₹25,000. What will be the explicit cost of commodity X?

[CA CPT Aug.2007, Dec.2011, June 2013]

(a) 90,000 (b) 65,000

(c) 60,000 (d) 1,00,000

73. 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) Interest payments made by a firm on borrowed funds

(d) The normal return on the entrepreneur's own capital

74. 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) Payment of rent by the firm for the building it occupies

(c) The interest payment made by the firm for funds borrowed from a bank

(d) The payment of wages by the firm

75. The normal returns on capital invested by the entrepreneur himself in his own business is an example of _____. **[June 2024]**

(a) Explicit cost (b) External cost

(c) Private cost (d) Implicit cost

76. Total Cost = Explicit cost + Implicit cost + _____. **[Nov. 2019]**

(a) Super normal profit
(b) Normal profit
(c) Super normal losses
(d) Average fixed cost

77. Which of the following statements is false? **[Jan. 2021]**

(a) Economic costs include the opportunity costs of the resources owned by the firm
(b) Accounting costs include only explicit costs
(c) Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs
(d) Accounting profit is equal to total revenue less implicit costs

78. Accounting cost is _____ Economic cost. **[CA CPT Nov. 2018]**

(a) Equal to (b) Less than
(c) More than (d) Not included

Outlay Costs and Opportunity Costs

79. The money cost of producing goods and services incurred by the firm, such as wages, lighting, lease payments, etc., is called _____ cost. **[June 2020]**

(a) Implicit cost (b) Opportunity cost
(c) Outlay cost (d) Economic cost

80. Opportunity Cost is _____. **[CA CPT Nov. 2006]**

(a) Direct Cost
(b) Total Cost
(c) Accounting Cost
(d) Cost of forgone opportunity

81. The alternative cost of one thing in terms of what must be given up is known as: **[CA CPT Nov. 2006]**

(a) Opportunity Cost (b) Real Cost
(c) Economic Cost (d) Implicit Cost

82. If the market price of a good is more than the opportunity cost of producing it, then: **[CA CPT June 2016]**

(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

83. In which of the following cases does the opportunity cost concept apply? **[CA CPT June 2013]**

(a) Resources have alternative uses
(b) Resources have limited uses
(c) Resources have no use
(d) None of the above

84. Opportunity Cost is: **[CA CPT May 2018]**

(a) Marginal cost (b) Variable cost
(c) Total fixed cost (d) None of these

85. Opportunity Cost is _____. **[CA CPT May 2019]**

(a) Recorded in the books of account
(b) Sacrificed alternative
(c) Both (a) and (b)
(d) None of the above

Historical Costs and Replacement Costs

86. A company is willing to replace its existing machinery (6 years old) with a new one at a cost of ₹12,50,000. The cost of ₹12,50,000 may be regarded as:

(a) Historical Cost (b) Replacement Cost
(c) New Cost (d) Market Cost

87. 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

88. 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

Cost Function

89. 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

90. In a cost function, the dependent variable is unit cost and the independent or total cost variable(s) are _____.

(a) Units sold and purchased
(b) Price of factor, and size of output
(c) Relevant phenomenon which has a bearing on which technology, level of capacity like utilisation, efficiency, etc
(d) Both (b) and (c)

91. The cost function expresses the relationship between _____ and _____.

(a) Costs, input
(b) Costs, output
(c) Dependent Variable, cost
(d) None of these

Short Run Costs, Total Cost

92. A company produces 10 units of output and incurs ₹30 per unit as variable cost and ₹5 per unit as fixed cost. What will be the total cost of producing 10 units? **[CA CPT Dec. 2014]**

(a) ₹300 (b) ₹35
(c) ₹305 (d) ₹350

Variable Cost

93. The difference between Total Cost and Total Fixed Cost is equal to _____. **[July 2021]**

(a) Zero (b) MC
(c) AFC (d) TVC

Semi-Variable Cost

94. Semi-variable costs are _____ in relation to changes in the size of output.

(a) Only fixed
(b) Only variable
(c) Partly fixed and partly variable
(d) Neither fixed nor variable

95. 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

96. The Semi-Variable Cost:

(a) Remains constant
(b) Remains variable proportionately
(c) Increases in stair-step fashion
(d) Increases proportionately

97. Which of the following costs remains fixed over a certain range of output but suddenly jumps to a new, higher level when output goes beyond a given limit?

(a) Total Fixed cost (b) Total Variable Cost
(c) Both (a) and (b) (d) Semi-Variable Cost

98. 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

99. 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: **[CA CPT June 2017, May 2018]**

(a) Variable cost
(b) Semi-variable cost
(c) Stair-step variable cost
(d) Jumping cost

Average Fixed Cost

100. Average fixed cost can be obtained through: **[CA CPT Nov. 2006, Jan. 2021]**

(a) Đ $\frac{Đ}{Đ}$ (b) Đ $\frac{Đ}{Đ}$
(c) Đ $\frac{Đ}{Đ}$ (d) Đ $\frac{Đ}{\quad}$

101. Which one of the following is correct? **[CA CPT June 2009, May 2018]**

(a) AFC = AVC + ATC (b) ATC = AFC + AVC
(c) AVC = AFC + ATC (d) ATC = AFC – AVC

102. Which of the following cost curves is never 'U' shaped? **[CA CPT Aug. 2007, June 2009, Dec. 2015, May 2018, Nov. 2019]**

(a) Average Total Cost Curve
(b) Marginal Cost Curve
(c) Total Cost Curve
(d) Total Fixed Cost Curve

103. AFC curve is: **[CA CPT Feb. 2007]**

(a) Convex and downward sloping
(b) Concave and downward sloping
(c) Convex and upward sloping
(d) Concave and upward rising

104. Which of the following curves never touches any axis but is downward sloping? **[CA CPT Feb. 2008, June 2013]**

(a) Marginal cost curve
(b) Total cost curve
(c) Average fixed cost curve
(d) Average variable cost curve

105. The slope of Average Fixed Cost curve is: **[CA CPT Nov. 2018]**

(a) Falls from left to right
(b) Rises from left to right
(c) Parallel to X-axis
(d) Parallel to Y-axis

106. Which of the following statements is correct with reference to Average Fixed Cost? **[CA CPT Nov. 2006, Dec. 2015, Dec. 2017]**

(a) Increases
(b) Decreases
(c) Remains constant
(d) First declines and then rises

107. Which statement among below is correct in reference to Average Fixed Cost? **[CA CPT Dec. 2013]**

(a) Never becomes zero
(b) Curve never touches X-axis
(c) Curve never touches Y-axis
(d) All of the above

108. Average fixed cost curve is always: **[CA CPT Dec. 2014]**

(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

109. A firm producing 5 units of output has an average total cost of rupees 250 and has to pay rupees 250 to its fixed factors of production whether it produces or not. Find total variable costs.

(a) 1000 (b) 2000
(c) 5000 (d) 3000

110. 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? **[CA CPT Dec.2014, Dec. 2016]**

(a) ₹10 (b) ₹30
(c) ₹20 (d) ₹5

111. Average Fixed Cost = ₹20
Quantity Produced = 10 units
What will be the Average Fixed Cost of 20 units? **[CA CPT Dec. 2008]**

(a) ₹10 (b) ₹20
(c) ₹5 (d) None

112. Find AFC of 3rd unit: **[CA CPT Dec. 2009]**

Unit	0	1	2	3
Total Cost	15	25	35	45

(a) 5 (b) 10
(c) 15 (d) 25

113. What will be the AFC of 2nd unit according to the table given below: **[CA CPT Dec. 2009]**

Unit	0	1	2
Total Cost (in ₹)	580	689	850

(a) 105 (b) 125
(c) 270 (d) 290

114. Average cost curve is _____. **[Jan 2021]**

(a) 'U' shaped
(b) Positively sloped
(c) Negatively sloped
(d) Rectangular hyperbola

115. U-shaped average cost curve is based on: **[Dec. 2023]**

(a) Law of increasing cost
(b) Law of decreasing cost
(c) Law of constant returns to scale
(d) Law of variable proportions

116. 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? **[CA CPT Feb. 2007]**

(a) ₹200 (b) ₹50
(c) ₹300 (d) ₹100

Marginal Cost

117. 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

118. The change in total cost due to one unit change in the output is called _____ cost. **[CA CPT June 2014]**

(a) Marginal (b) Average
(c) Average variable (d) Average fixed

119. Marginal cost changes due to change in _____ cost. **[CA CPT June 2012]**

(a) Total (b) Fixed
(c) Average (d) Variable

120. The total cost incurred for 6 units is ₹915 and 5 units is ₹810, the Marginal Cost of the fifth unit of output is _____. **[July 2021]**

(a) ₹105 (b) ₹174
(c) ₹225 (d) ₹675

121. Diminishing marginal returns starts to occur between _____ Units. **[July 2021]**

(a) 1 and 2 (b) 2 and 3
(c) 3 and 4 (d) 4 and 5

122. At 10 units, Total Cost = ₹200
At 20 units, Total Cost = ₹600
Marginal Cost = ? **[CA CPT Dec. 2008]**

(a) 50 (b) 40
(c) 30 (d) 400

123. The total cost incurred for 10 units is ₹400, and for 20 units is ₹800. Find the marginal cost. **[CA CPT June 2009, June 2010, June 2012, June 2014]**

(a) ₹400 (b) ₹40
(c) ₹200 (d) ₹20

Long Run Average Cost Curve

124. If LAC curve falls as output expands, this is due to _____. **[CA CPT Nov. 2006]**

(a) Law of diminishing returns
(b) Economics of scale
(c) Law of variable proportion
(d) Diseconomies of scale

125. Planning curve is related to which of the following? **[CA CPT June 2015]**

(a) Short run average cost curve
(b) Long run average cost curve
(c) Average variable cost
(d) Average total cost

126. The shape of long run average cost curve depends upon _____. **[June 2024]**

(a) Law of returns
(b) Returns to scale
(c) Diminishing returns
(d) Law of variable proportions

127. Which of the following is known as the Envelope curve? **[CA CPT Feb. 2008, Dec. 2011, June 2012]**

(a) Marginal Cost Curve
(b) Average Fixed Cost Curve
(c) Long Run Average Cost Curve
(d) Total Fixed Cost Curve

Economies and Diseconomies of Scale

128. The positively sloped (rising) part of the long run average cost curve indicates the working of the _____. **[CA CPT Dec. 2014]**

(a) Diseconomies of scale
(b) Increasing returns to scale
(c) Constant returns to scale
(d) Economies of scale

129. External economies accrue due to _____. **[CA CPT Nov. 2007, May 2018]**

(a) Increasing returns to scale
(b) Increasing returns to factor
(c) Law of variable proportion
(d) Low cost

130. External economies arise due to: **[CA CPT June 2013]**

(a) Growth of ancillary industries
(b) High cost of technologies
(c) Increase in the price of factors of production
(d) None of the above

131. External economies of scale are obtained by: **[CA CPT Dec. 2008]**

(a) A firm (b) A group of firms
(c) Small production (d) Society

132. External economies are enjoyed: **[CA CPT June 2011]**

(a) By large producers only
(b) As firm expands
(c) Both (a) and (b)
(d) None of the above

PYQs of May, 2025

133. Suppose that a sole proprietor is earning a total revenue of ₹ 120,000/- and is incurring an explicit cost of ₹ 95,000/-. If the owner could work for another company for ₹ 30,000/- a year, which of the following statements is false? **[May, 2025]**

(a) The firm incurred an economic loss of ₹5,000/-
(b) The firm is having accounting profit of ₹25,000/-
(c) Total economic costs are ₹30,000/-
(d) The total accounting costs are ₹95,000/-

134. Use the following data to answer the question.

Quantity	0	10	20	30	40
Total Cost (in ₹)	100	220	320	410	510

What is the average variable cost when 20 units are produced? **[May, 2025]**

(a) ₹5 (b) ₹10
(c) ₹11 (d) ₹220

135. Use the following data to answer question

Quantity	0	10	20	30	40
Total Cost (in ₹)	100	220	320	410	510

Between 10 and 20 units, what is the marginal cost per unit? **[May, 2025]**

(a) ₹10 (b) ₹20
(c) ₹100 (d) ₹220

136. The form of capital which performs its function in production in a single use and is not available for further use is termed as: **[May, 2025]**

(a) Fixed capital
(b) Circulating capital
(c) Real capital
(d) Intangible capital

137. Survival, growth and expansion come under which of the following objectives of an enterprise? **[May, 2025]**

(a) Organic objective
(b) Economic objective
(c) Social objective
(d) National objective

138. Which of the following is not true about the relationship between average product and marginal product? **[May, 2025]**

(a) When the average product rises as a result of an increase in the quantity of variable input, the marginal product is more than the average product
(b) When the average product is maximum, the marginal product is equal to the average product
(c) When the average product falls, the marginal product is less than the average product
(d) When the average product is negative, the marginal product becomes zero

139. Total product starts declining in which stage of production? **[May, 2025]**

(a) Stage 1: The stage of increasing returns
(b) Stage 2: The stage of diminishing returns
(c) Stage 3: The stage of negative returns
(d) It may decline at any stage of production

140. Returns to scale refers to: **[May, 2025]**

(a) Changes in output as a result of proportionate change in one of the variable factors of production

(b) Changes in output as a result of proportionate change in all factors of production

(c) Changes in output as a result of proportionate change in any two variable factors of production

(d) Changes in output as a result of variation in factor proportions

141. Linear Homogeneous Production function is another name for _____. **[May, 2025]**

(a) Law of variable proportion

(b) Constant returns to scale

(c) Increasing returns to scale

(d) Decreasing returns to scale

142. The minimum quantities of various inputs that are required to yield a given quantity of output is termed as: **[May, 2025]**

(a) Demand function

(b) Supply function

(c) Production function

(d) Investment function

143. All but one are the assumptions of the law of variable proportions. Which one is not? **[May, 2025]**

(a) There is only one factor which is variable

(b) All units of variable factor are homogeneous

(c) State of technology remains constant

(d) Applies in long run

144. Use the following data to answer question

Output (Q)	0	1	2	3	4	5
Total Cost (TC)	₹200	₹310	₹410	₹500	₹604	₹710

The average fixed cost of 2 units of output is: **[May, 2025]**

(a) ₹85 (b) ₹100

(c) ₹110 (d) ₹205

145. Use the following data to answer question

Output (Q)	0	1	2	3	4	5
Total Cost (TC)	₹200	₹310	₹410	₹500	₹604	₹710

Diminishing marginal returns start to occur between units: **[May, 2025]**

(a) 1 and 2 (b) 2 and 3

(c) 3 and 4 (d) 4 and 5

ANSWER KEY

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

HINTS & SOLUTIONS

1. (a) In economics, the word "Production is used in a wider sense to denote the process by which man utilises resources such as men, material, capital, time, etc., working upon them to transform them into commodities and services so as to make them satisfy human wants.

7. (a) Land is heterogeneous, meaning no two parcels are exactly alike in terms of location, fertility, and other characteristics.

20. (b) The Innovation theory of entrepreneurship was propounded by Schumpeter. Joseph Schumpeter emphasised the role of the entrepreneur as an innovator who implements change within markets through the carrying out of new combinations.

26. (d) 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.

29. (b) 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

30. (a) As per Cobb-Douglas production function, labour contributed about 3/4th and capital about 1/4th of the increase in the manufacturing.

32. (b) 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.

33. (b) 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,

$TP_n = TP_{n-1} + MP_n$

$TP_2 = TP_1 + TP_2 = 350 + 230 = 580$ units

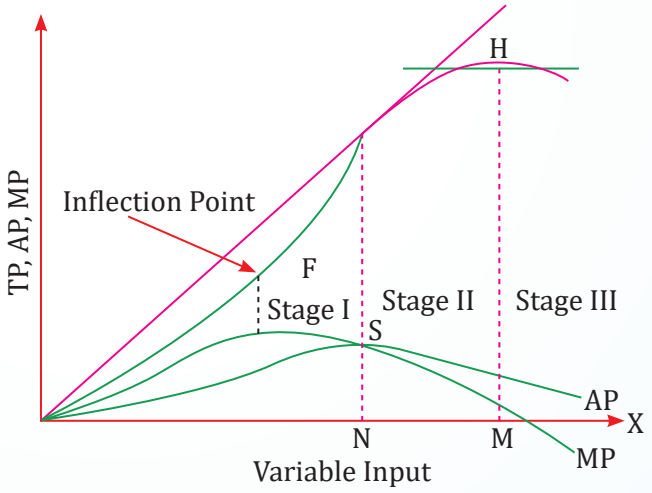
35. (c) $TP_n = TP_{n-1} + MP_n$

$TP_2 = TP_1 + MP_2$

$= 100 + 80 = 180$ Units

36. (d) $MP_3 = TP_3 - TP_2 = 350 - 200 = 150$ Units

37. (a) When average product falls, marginal product is less than the average product.



41. (b) Marginal product is the change in total product per unit change in the quantity of the variable factor. In other words, it is the additional output added to the total production by an additional unit of input.

63. (b) An Isoquant curve shows all those combinations of different factors of production which give the same output to the producer. It represents equal level of production output.

71. (c) 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.

72. (b) Total Cost = Explicit Cost + Implicit Cost + Normal Profit

1,25,000 = Explicit Cost + 35,000 + 25,000

Explicit Cost = ₹ 65,000

92. (d) Total Fixed Cost = 10 units at ₹ 5 = ₹ 50

Total Variable Cost = 10 units at ₹ 30 = ₹ 300

Total Cost = Total Fixed Cost + Total Variable Cost

Total Cost = ₹ 50 + ₹ 300 = ₹ 350

109. (a) TC = ATC × Output

TC = 250 × 5 = ₹1250

VC = TC – TFC

TVC = 1250 – 250 = ₹1000

110. (a) AFC_{100} = ĐĐĐĐ / ĐĐĐ ≈ ——— Đ

111. (a) TFC = ₹ 20 × 10 = ₹ 200

ĐĐ ₫ ≈ Đ / Đ

112. (a) TFC = ₹ 15

ĐĐ ≈ ĐĐ / Đ —

113. (d) TFC = ₹ 580

ĐĐĐ ≈ ĐĐĐ / Đ ———

116. (d) Total Cost (TC) = ATC × Q

= 150 × 7 = ₹1050

Fixed Cost (TFC) = ₹350

Variable Cost (TVC) = TC – TFC

= 1050 – 350 = ₹700

Average Variable Cost (AVC) = Đ ——

= Đ —— = ₹100

120. (a) $MC_5 = TC_5 - TC_4 = 915 - 810 = 105$

122. (b) ĐĐ ≈ =ĐĐĐĐ / =ĐĐĐ ——— ——

123. (b) Đ ≈ =ĐĐĐĐ / =ĐĐ ——— ≈ Đ / Đ Đ

Scan the QR code for ICAI Module Q&A

Chapter Wrap-Up Test

This is a 20-minutes test. Read each question carefully and attempt all.

1. The term 'production' in economics means:
   (a) Creation of a physical product only
   (b) Rendering of a service only
   (c) Creation of economic utilities
   (d) None of the above

2. Which of the following is not a feature of land:
   (a) Free gift
   (b) Limited in quantity
   (c) Mobile factor
   (d) Indestructible

3. The reward of all factors of production is usually predetermined (pre-fixed) except:
   (a) Land (b) Labour
   (c) Capital (d) Entrepreneur

4. The production function means a relationship between:
   (a) Cost of input
   (b) Cost of output
   (c) Physical input to physical output
   (d) Wages of profit

5. When there is a fixed factor and a variable factor, then the law would be:
   (a) Law of increasing returns to scale
   (b) Law of constant returns to scale
   (c) Law of decreasing returns to scale
   (d) Law of variable proportions

6. When AP and MP curves are rising, AP curve ____.
   (a) Lies above the MP curve
   (b) Lies below the MP curve
   (c) Co-inside with the MP curve
   (d) None of the above

7. If as a result of 50% increase in all inputs, the output rises by 75%, this is a case of:
   (a) Increasing returns of a factor
   (b) Increasing returns to scale
   (c) Constant returns to a factor
   (d) Constant returns to scale

8. A rational producer operates in short-run production at which stage?
   (a) First Stage (b) Second Stage
   (c) Third Stage (d) None of these

9. _____ includes all payments made to factors of production and opportunity cost.
   (a) Accounting costs (b) Economic costs
   (c) Implicit costs (d) Explicit costs

10. When the long run average cost curve is falling, it is tangent to:
    (a) The falling portion of SAC curve
    (b) The rising portion of SAC curve
    (c) The minimum point of the SAC curve
    (d) The minimum point of MC curve

11. _____ economies are common to all the firms in an industry and shared by many firms or industries.
    (a) Internal (b) External
    (c) Real (d) All the above

12. The vertical distance between TVC and TC is equal to:
    (a) Marginal cost
    (b) Total Fixed Cost
    (c) Average Variable Cost
    (d) None of the above

13. The isocost line is tangent to an isoquant means:
    (a) The number of factors is equal to the output
    (b) The prices of the factors are equal
    (c) The ratio of prices of the two factors equals MRTS
    (d) None of the above

14. What is the Average Cost of producing 20 units if the Total Fixed Cost is ₹ 5,000 and AVC is ₹ 2?
    (a) ₹ 250 (b) ₹ 260
    (c) ₹ 258 (d) ₹ 252

15. Condition for the producer's equilibrium is:
   (a) Isoquant should be tangent to the isocost line
   (b) At tangency point, isoquant should be convex to origin
   (c) DMRTS
   (d) All the above

16. A production function is said to be linear homogeneous when it exhibits which of the following characteristics?
   (a) Increasing Returns to Scale
   (b) Constant Returns to Scale
   (c) Diminishing Returns to Scale
   (d) Negative Returns to Scale

17. What is the slope of an isoquant curve?
   (a) The marginal product of labor
   (b) The average product of labor
   (c) The marginal rate of technical substitution
   (d) The total product of labor

18. Which of the following falls continuously?
   (a) Marginal Cost
   (b) Average Fixed Cost
   (c) Average Variable Cost
   (d) Total Fixed Cost

19. Use the following data:

Hours of Labour	Total Output	Marginal Output
0	-	-
1	300	300
2	540	240
3	720	180

What is the marginal product of the 3rd hour of labour?

   (a) 170 (c) 190
   (b) 180 (d) 160

20. The TC of a firm increased by 450, when production increased from 12 units to 14 units. What is the MC of the firm?

   (a) ₹ 150 (b) ₹ 175
   (c) ₹ 200 (d) ₹ 225

ANSWER KEY

1. (c)	2. (c)	3. (d)	4. (c)	5. (d)	6. (b)	7. (b)	8. (b)	9. (b)	10. (a)
11. (b)	12. (b)	13. (c)	14. (d)	15. (d)	16. (b)	17. (c)	18. (b)	19. (b)	20. (d)

4 Price Determination in Different Markets

QUICK HIGHLIGHTS

1. Classification of Market:

Area	Time	Nature of Transaction	Regulation	Volume of Business	Types of Competition
Local Market	Very Short Period/market period	Spot Market	Regulated Market	Wholesale Market	Perfectly competition
Regional	Short Period	Future Market	Unregulated Market	Retail Market	Imperfectly Competition
National Market	Long Period				
International Market	Very Long/ Secular				

2. Features of Major Types of Markets (Theoretical- Based on Competition):

Assumption	Market Types			
	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of sellers	Very large	Large	Small numbers	One
Product differentiation	None	Slight	None to substantial	Extreme
Price elasticity of demand of a firm	Infinite	Large	Small	Small
Degree of control over price	None	Some	Some	Very considerable

3. Conditions for equilibrium of a firm:

- MR = MC: Marginal Revenue should be equal to Marginal Cost.
- MC cuts MR from below: The MC curve must intersect the MR curve from below at the point of equilibrium.

4. Shut Down Point:

- The point at which a firm's revenue just covers its variable costs.
- If the price falls below this, the firm has to stop production.
- P = AVC

5. Other Markets:

- **Duopoly** – A type of oligopoly with only two firms.
- **Monopsony** – Single buyer, usually in factor markets.
- **Oligopsony** – Few large buyers, relevant to factor markets.
- **Bilateral Monopoly** – Single buyer & single seller (Monopoly + Monopsony).

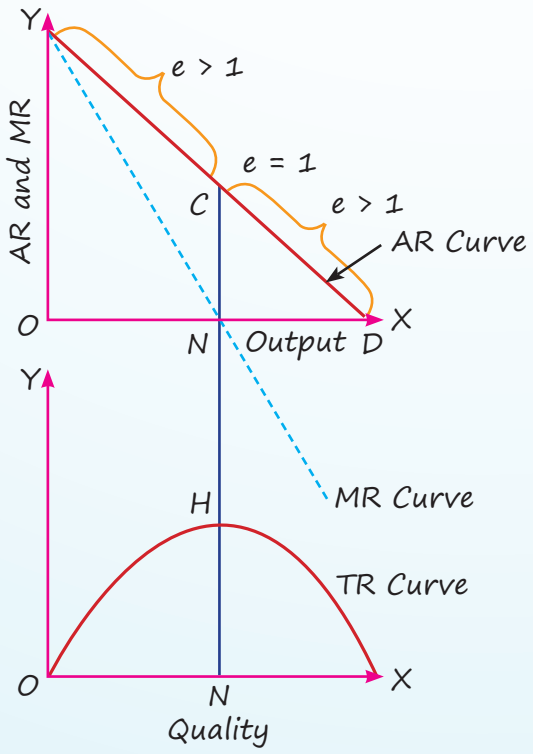
6. Concept of TR, AR, MR:

- **Total Revenue :** $TR = P \times Q$
- **Average Revenue :** $AR = \frac{TR}{Q}$
- **Marginal Revenue :** $MR = \frac{\Delta TR}{\Delta Q}$

  or $MR_n = TR_n - TR_{n-1}$

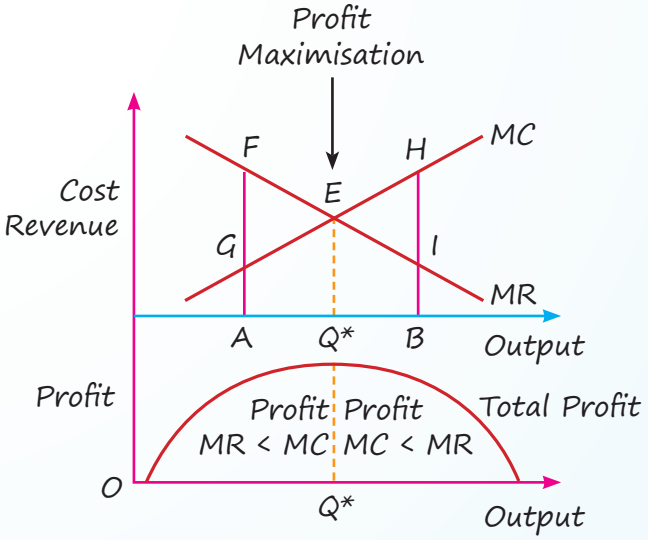
7. Relationship Between TR, AR, MR and Price Elasticity of Demand:

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



8. Determination of Prices: General View:

- **Price Determination** – Demand and supply interaction sets the equilibrium price and quantity.
- **Meaning of Equilibrium** – A state where quantity demanded equals quantity supplied.
- **Equilibrium Price/Market Clearing Price** – The price at which demand and supply balance, ensuring no unsold stock or unmet demand.



9. Changes in Demand & Supply:

Situation	Effect on Equilibrium Price	Effect on Quality Sold and Purchased
Demand ↑, Supply same	Increases	Increases
Demand ↓, Supply same	Decreases	Decreases
Supply ↑, Demand same	Decreases	Increases
Supply ↓, Demand same	Increases	Decreases

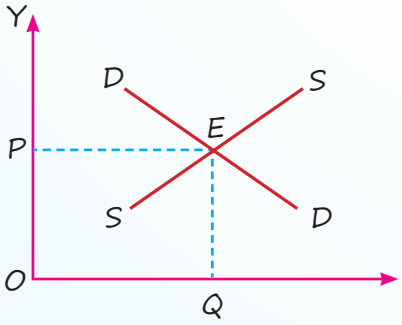
10. Simultaneous Changes in Demand & Supply:

Change in Demand	Change in Supply	Effect on Equilibrium Price	Effect on Equilibrium Quantity
Increase	Increase	Uncertain	Increases
Decrease	Decrease	Uncertain	Decreases
Increase	Decrease	Increases	Uncertain
Decrease	Increase	Decreases	Uncertain

11. Price Determination in Different Markets:

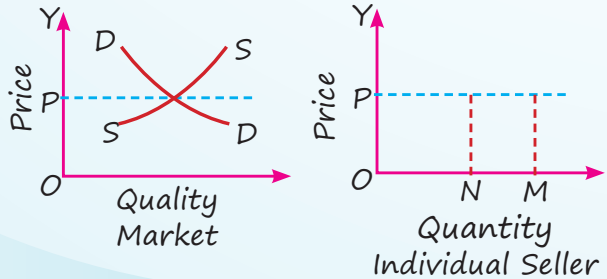
◈ Perfect Competition:

◆ Equilibrium of the Industry:



At point E, demand = supply. It is market equilibrium.

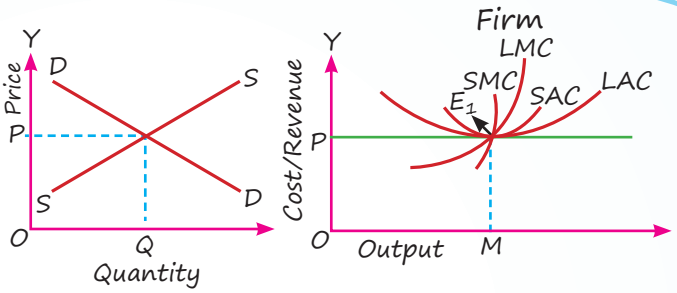
◆ Equilibrium of the firm:



(Price line = Demand Curve/MR/AR)

◆ Long Run Equilibrium:

LMR = LAR = P = LMC = LAC



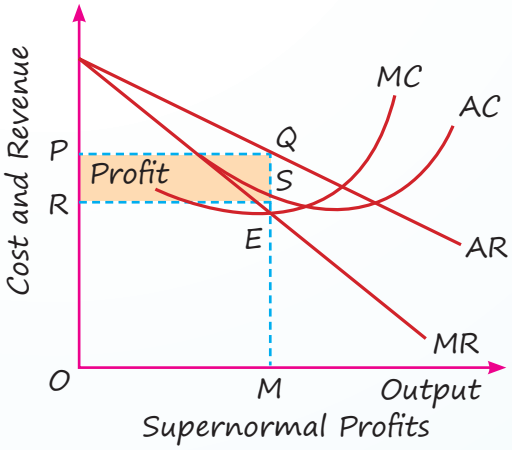
◈ Monopoly:

Conditions:

(i) MR = MC

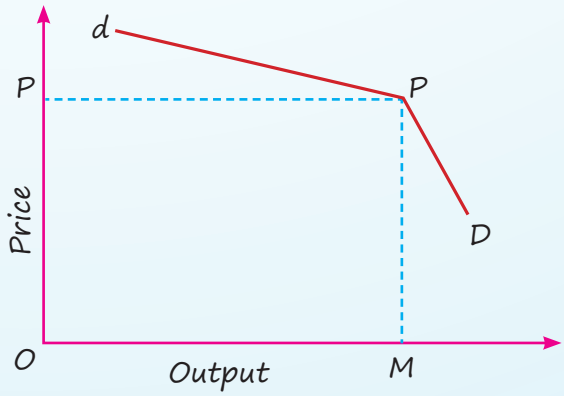
(ii) MC curve cuts MR curve from below.

◈ Monopolistic Competition (Firm's equilibrium):



◈ Oligopoly:

- ◆ Price Leadership: Dominant firms influence smaller firms.
- ◆ Example: OPEC influences global oil prices by setting output levels.
- ◆ Kinked Demand Curve/ Sweetzy's Model:
- ◆ Elastic above the kink, inelastic below.



12. Price Discrimination:

- A pricing method to earn abnormal profits by charging different prices for the same commodity.
  - Examples: Doctors, lawyers, consultants charging different fees.
- Key Pricing Strategy:
  - Higher prices in inelastic demand markets.
  - Lower prices in highly responsive markets.
- Equilibrium Conditions:
  - Profit maximisation → MC = Aggregate MR (AMR)
  - MR should be equal in both markets.
  - MC should be equal across markets.
- Types of Price Discrimination–A C Pigou
  - First-Degree → The monopolist charges each consumer the maximum price they can pay, extracting full consumer surplus.
  - Examples: Doctors, lawyers, consultants charging different fees; auctions; bid and offer system.
  - Second-Degree → Prices vary based on quantity or usage, partially taking consumer surplus.
  - Examples: Bulk discounts (family pack soaps cost less per kg), tiered pricing in electricity, and water.
  - Third-Degree → Prices differ based on consumer segments or locations, dividing the market.
  - Examples: Senior citizen discounts in railways, different prices for domestic and commercial users, and dumping.

QUESTIONS

UNIT-I: MEANING AND TYPES OF MARKETS

Introduction

1. In Economics, the term 'market' refers to a:
   (a) Place where the buyer and seller bargain for a product or service at a price
   (b) Place where the buyer does not bargain
   (c) Place where the seller does not bargain
   (d) None of the above

2. Which one is not a part of the elements of a market? **[Jan. 2021]**
   (a) Buyers and sellers
   (b) A product or service
   (c) Bargaining for a price
   (d) Volume of business

3. A market is a network of dealings between which of the following? **[June 2022]**
   (a) Dealers and wholesalers
   (b) Buyers and sellers
   (c) Owners and channel partners
   (d) Salesman and competitors

4. Which one of the following is not an element of the market? **[June 2023]**
   (a) Buyer
   (b) Service
   (c) Firm
   (d) Bargaining for price

5. Market consists of: **[CA CPT May 2019]**
   (a) Buyer and seller
   (b) One price for one product at a given time
   (c) Both (a) and (b)
   (d) None

Classification of Market

6. On the basis of the nature of the transaction, a market may be classified into: **[Nov. 2020]**
   (a) Wholesale and retail market
   (b) Cash and forward rate
   (c) National and international market
   (d) Regulated and unregulated market

7. On the basis of the nature of the transaction, a market can be classified into which of the following? **[June 2023]**
   (a) Cash and forward market
   (b) National and international market
   (c) Organized and unorganised market
   (d) Retail and wholesale market

8. Grains are sold in the market and payment is made in cash immediately. To which type of market does this transaction belong according to its nature? **[Dec. 2023]**
   (a) Spot market
   (b) Forward market
   (c) Wholesale market
   (d) Regulated market

9. On the basis of the nature of transactions, a market may be classified into: **[CA CPT June 2017]**
   (a) Spot market and future market
   (b) Regulated market and unregulated market
   (c) Wholesale market and retail market
   (d) Local market and national market

10. Secular period is also known as: **[Jan. 2021]**
   (a) Very short period (b) Short period
   (c) Very long period (d) Long period

11. Very short period market is suitable for which of the following products? **[June 2022]**
   (a) Gold and silver
   (b) Vegetables and fruits
   (c) Bricks and sand
   (d) Supply of capital

12. On the basis of nature of transactions, market can be classified into _____. **[July 2021]**
   (a) Wholesale market and retail market
   (b) Future market and spot market
   (c) Regulated market and unregulated market
   (d) Money market and futures market

13. Which of the following commodities is/are generally the traded in the international market?
   (a) Perishable Goods
   (b) High Value and Small Bulk Commodities
   (c) Product whose trading is restricted by the government
   (d) Bulky Articles

14. The stock exchange market is an example of:
   (a) Unregulated market
   (b) Regulated market
   (c) Spot market
   (d) None of the above

15. The market for the ultimate consumer is known as: **[CA CPT Dec. 2016]**
   (a) Wholesale market
   (b) Regulated market
   (c) Unregulated market
   (d) Retail market

16. The _____ is the market where commodities are bought and sold in bulk or large quantities, and transactions generally take place between traders. **[July 2021]**
   (a) Wholesale market (b) Regulated market
   (c) Local market (d) Retail market

17. A market where goods are exchanged for money payable either immediately or within a short span of time is: **[Nov. 2020]**
   (a) Forward market
   (b) Regulated market
   (c) Wholesale market
   (d) Spot market

18. A market where there are no restrictions on the transactions is called as: **[Nov. 2019]**
   (a) Regulated market
   (b) Unregulated market
   (c) Spot market
   (d) Future market

19. Monopsony means: **[CA CPT May 2019]**
   (a) Where there are large firms
   (b) There is a single buyer
   (c) Small number of large buyers
   (d) Single seller and single buyer

Revenue

20. Average revenue curve is also known as:
   (a) Profit Curve (b) Demand Curve
   (c) Average Cost Curve (d) Indifference Curve

21. Total revenue curve is: **[Jan. 2021]**
   (a) Positively Sloped (b) Negatively Sloped
   (c) Downward Sloped (d) Vertical to X axis

22. Average revenue curve is also called as: **[Dec. 2021]**

(a) Firm's demand curve
(b) Total revenue Curve
(c) Marginal revenue curve
(d) Quantity curve

23. Another name of the average revenue curve is: **[June 2023]**

(a) Production possibility curve
(b) Demand curve
(c) Supply curve
(d) Indifference curve

24. 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

25. Average Revenue can be symbolically written as:

(a) $\frac{Đ}{\quad}$ (b) Price × Quantity

(c) $\frac{Đ}{\quad}$ (d) None of the above

26. Total profits are maximised when:

(a) TR equals TC
(b) The TR curve and the TC curve are parallel
(c) TC exceeds TR
(d) TR exceeds TC

27. When the price is ₹20, the quantity demanded is 10 units. If the price decreases by 5% and the quantity demanded increases by 10%, then the marginal revenue is _____. **[CA CPT May 2019]**

(a) ₹10 (b) ₹11
(c) ₹9 (d) ₹20

28. If a seller obtains ₹6,000 after selling 50 units and ₹6,204 after selling 53 units, then marginal revenue will be: **[Nov. 2020]**

(a) 68 (b) 118
(c) 120 (d) 204

29. Average revenue is equal to:

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

30. If a seller obtains ₹3,000 after selling 50 units and ₹3,100 after selling 52 units, then marginal revenue will be: **[CA CPT Dec. 2013]**

(a) ₹59.62 (b) ₹50.00
(c) ₹60.00 (d) ₹59.80

31. Assume that when the price is ₹40, the quantity demanded is 15 units, and when the 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: **[Nov. 2019]**

(a) 36 (b) 32
(c) 24 (d) 08

32. Suppose a seller realises ₹100 by selling 10th unit of commodity and ₹120 by selling 11th unit. What is the MR of the 11th Unit? **[June 2023]**

(a) 100 (b) 120
(c) 20 (d) 10

33. MR of nth unit is given by: **[CA CPT Feb. 2008]**

(a) $\frac{Đ}{Đ_{\ Đ}}$ (b) $TR_n + TR_{n-1}$
(c) $TR_n - TR_{n-1}$ (d) All of these

34. When a firm produces 7 units of output, TR is ₹42. After increasing production to 8 units, TR rises to ₹46. The marginal revenue will be: _____. **[Nov. 2020]**

(a) ₹5 (b) ₹6
(c) ₹4 (d) ₹8

35. Rajesh realises ₹6,000 while he is selling 60 units of mats and ₹7,200 while selling 61 units. His marginal revenue is _____. **[Dec. 2023]**

(a) ₹118 (b) ₹1,200
(c) ₹6,000 (d) ₹7,200

36. When MR = 0; then TR =? **[Dec. 2023]**

(a) Minimum (b) Maximum
(c) Zero (d) Infinity

37. When the price is ₹200, the quantity demanded is 10 units. Then the price decreases by 3% and the quantity demanded increases by 20%. The marginal revenue will be: **[Dec. 2023]**

(a) ₹164 (b) ₹328
(c) ₹300 (d) ₹160

38. Answer the following question: **[Nov. 2020]**

Units	Total Revenue
0	100
1	180
2	250
3	310
4	360
5	400
6	430

Find the marginal revenue at 5th unit is :

(a) 40 (b) 45
(c) 55 (d) 60

39. Assume that at a price of ₹100 per unit, the quantity demanded is 900 units. When the price falls to ₹90, the quantity demanded increases to 100 units. Compute the marginal revenue. **[June 2022]**

(a) ₹0 (b) ₹10
(c) ₹90 (d) ₹100

40. A seller realises ₹25,000 after selling 15 units, and he realises ₹35,000 after selling 25 units. What is the marginal revenue here? **[July 2021]**

(a) ₹2,500 (b) ₹100
(c) ₹1,000 (d) ₹3,500

41. Which of the following statements is not correct? **[June 2022]**

(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 by 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

42. ABC Ltd. realises 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? **[Nov. 2020]**

(a) 50 (b) 100
(c) 6,000 (d) 6,050

Relationship of AR, MR, TR & Elasticity of DD

43. When TR is at its peak, then MR is equal to: **[CA CPT May 2019, Jan. 2021]**

(a) Zero (b) Positive
(c) Negative (d) None of the above

44. 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? **[CA CPT Dec. 2014]**

(a) ₹20 (b) ₹19
(c) ₹10 (d) ₹01

45. When the Marginal Revenue = 0, then Total Revenue is _____ if the slope of TR is 0. **[June 2024]**

(a) Maximum (b) Minimum
(c) Increasing (d) Decreasing

46. Which one of the following expressions is correct for Marginal Revenue? **[CA CPT June 2016]**

(a) $MR = AR \frac{\Delta D}{\Delta}$ (b) $MR = TR_n - TR_{n+1}$

(c) $MR = \frac{\Delta D}{\Delta}$ (d) $MR = \frac{\Delta}{\Delta D}$

47. Given the relation $MR = P \frac{\Delta}{\Delta} -$, if $e < 1$ then: **[CA CPT June 2011]**

(a) MR < 0 (b) MR > 0
(c) MR = 0 (d) None of these

48. Given the relation $MR = P \frac{\Delta}{\Delta} -$, if $e > 1$ then: **[CA CPT Feb. 2007]**

(a) MR > 0 (b) MR < 0
(c) MR = 0 (d) None

49. Find the Marginal Revenue (MR) for markets A and B, respectively, where the Average Revenue (AR) in both markets is ₹21, and the elasticities of demand in markets A and B are 3 and 7, respectively. **[June 2024]**

(a) 18, 14 (c) 16, 19
(b) 14, 18 (d) 19, 16

50. When Total Revenue (TR) is at the peak, Marginal Revenue is equal to: **[Nov. 2019]**

(a) Zero
(b) Positive
(c) Negative
(d) More than one

51. At 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: **[Nov. 2019]**

(a) ₹20 (b) ₹12
(c) ₹9 (d) ₹11

52. Which of the following is correct? **[CA CPT Nov. 2018]**

(a) MR = $\frac{\text{ĐĐ}}{\text{____}}$

(b) MR = $\frac{\text{ĐĐ}}{\text{____}}$

(c) MR = $\frac{\text{ĐĐ}}{\text{____}}$

(d) None of the above

53. When $e = 1$, then MR is:

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

54. When $e < 1$, then MR is:

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

55. When $e > 1$, then MR is:

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

56. Demand for a product is unitary elastic then: **[CA CPT May 2019]**

(a) MR = 0 (b) MR > 0
(c) MR < 0 (d) None of the above

57. Given, AR = 5 and elasticity of demand = 2. Find MR. **[CA CPT June 2013, Jan. 2021]**

(a) +2.5 (b) –2.5
(c) +1.5 (d) +2.0

58. What should a firm do when marginal revenue is greater than marginal cost? **[CA CPT May 2007]**

(a) The firm should expand output
(b) The effect should be made to make them equal
(c) Prices should be covered down
(d) All of these

59. Marginal revenue will be positive where price elasticity of demand is: **[July 2021]**

(a) Zero
(b) More than one
(c) Less than one
(d) Equal to one

Behavioural Policies

60. According to Behavioural Principles: **[CA CPT May 2019]**

(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

61. The time element was conceived by:

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

62. In a very short period market: **[CA CPT May 2018]**

(a) Supply changes, but demand remains the same
(b) Supply changes, but price remains the same
(c) Supply remains fixed
(d) Supply and demand both change

63. In the long run: **[CA CPT Feb. 2008]**

(a) Only demand can change
(b) Only supply can change
(c) Both demand and supply can change
(d) None of these

UNIT II: DETERMINATION OF PRICES

Determination of Prices – A General View

64. Equilibrium price for an industry in perfect competition is fixed through: **[CA CPT May 2018]**

(a) Input and output
(b) Market demand and market supply
(c) Market demand and firms' supply
(d) None of the above

65. Equilibrium price may be determined through: **[CA CPT May 2007]**

(a) Only demand
(b) Only supply
(c) Both demand & supply
(d) None

66. The equilibrium quantity increases, but the change in equilibrium price is uncertain, when: **[July 2021]**

(a) Both demand and supply decrease
(b) Demand increases and supply decreases
(c) Both supply and demand increase
(d) Demand increases and supply increases

67. _____ is the price at which demand for a commodity is equal to its supply: **[CA CPT June 2008]**

(a) Normal Price (b) Equilibrium Price
(c) Short-run Price (d) Secular Price

Changes in Demand & Supply

68. When the increase in demand is equal to the increase in supply and the equilibrium price remains constant, then what about the equilibrium quantity? **[CA CPT May 2019]**

(a) Increases (b) Decreases
(c) Remains Constant (d) None of the above

69. 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

70. When factors other than price change cause the supply curve to shift to the left, then it is: **[June 2024]**

(a) Expansion of supply
(b) Contraction of supply
(c) Increase in supply
(d) Decrease in supply

71. If supply decreases and demand remains constant, then the equilibrium price will be: **[CA CPT Nov. 2018]**

(a) Increases (b) Decreases
(c) No change (d) Become negative

72. When demand increases equilibrium price will increase only if: **[Dec. 2021]**

(a) Supply also increases
(b) Supply also decreases
(c) Supply remains the same
(d) If the elasticity remains the same

73. 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 _____. **[CA CPT Dec. 2017]**

(a) Increase, also increase
(b) Increase, remain unchanged
(c) Increase, decline
(d) Remain fixed, increase

74. When demand for a commodity is decreasing as a result of a fall in income and its supply remains constant, what will be the impact on its price? **[June 2023]**

(a) Price increases
(b) Price decreases
(c) No change
(d) Uncertain change in price

75. 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 quantity and price
(d) None of these

76. Identify the correct possible outcome when the supply and demand curves shift in the same direction. **[Dec. 2021]**

(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

77. Increase in demand and decrease in supply cause_____. **[June 2024]**

(a) Equilibrium Price uncertain, Equilibrium Quantity rises

(b) Equilibrium Price rises, Equilibrium Quantity falls

(c) Equilibrium Price rises, Equilibrium Quantity uncertain

(d) Equilibrium Price falls, Equilibrium Quantity uncertain

UNIT III: PRICE-OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS

Perfect Competition

78. Which of the following is not an essential condition of pure competition? **[CA CPT Nov. 2006]**

(a) Large number of buyers and sellers

(b) Homogeneous product

(c) Freedom of entry

(d) Absence of transport cost

79. Under perfect competition, the price elasticity of demand of a firm is: **[Nov. 2019]**

(a) Large (b) Slight

(c) Infinite (d) Extreme

80. Under which of the following forms of market structure does a firm have no control over the price of its product: **[CA CPT Feb. 2007]**

(a) Monopoly

(b) Oligopoly

(c) Monopolistic competition

(d) Perfect competition

81. Which of the following is not a condition of perfect competition? **[Jan. 2021]**

(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

82. When AR = ₹10 and AC = ₹8 the firm makes:

(a) Normal Profit

(b) Net Profit

(c) Gross Profit

(d) Supernormal Profit

83. Which of the following is not a characteristic of perfect competition? **[Dec. 2021]**

(a) Large number of sellers

(b) Freedom of entry and exit

(c) No supernormal profits in the long run

(d) Inefficient allocation of resources

84. _____ is a ideal market. **[CA CPT Dec. 2008]**

(a) Monopoly

(b) Monopolistic Competition

(c) Perfect Competition

(d) Oligopoly

85. A firm, to attain the equilibrium position under perfect competition, has to satisfy which of the following conditions? **[July 2021]**

(a) MR > MC

(b) MR = MC

(c) MR curve should cut MC curve from below

(d) MC curve should cut MR curve from below

86. Which of these are characteristics of Perfect Competition? **[CA CPT Dec. 2008]**

(a) Many Sellers & Buyers
(b) Homogeneous Product
(c) Free Entry and Exit
(d) All of the above

87. Under which of the following market conditions are both average and marginal revenue are same? **[June 2023]**

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

88. In the market structure, the demand curve is also known as: **[Jan. 2021]**

(a) Marginal cost curve
(b) Average revenue curve
(c) Total production curve
(d) Marginal utility curve

89. A firm will earn _____ at equality between MC and MR. **[Dec. 2023]**

(a) Maximum profit (b) Minimum profit
(c) Maximum loss (d) No (zero) profit

90. Conditions for equilibrium of a perfectly competitive 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

91. What is true about the perfect competition market? **[Nov. 2019]**

(a) AR = MR = PRICE (b) AR = AC = P
(c) AR > AC (d) None

92. If a perfect competition firm is making losses, then which condition is suitable to carry on business as long as it covers variable costs. **[Nov. 2019]**

(a) Shutdown (b) Expand its plant
(c) Do nothing (d) Reduce production

93. Demand curve is equal to the MR curve in which market? **[CA CPT Dec. 2009]**

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

94. A perfect market is characterised by: **[CA CPT Dec. 2012]**

(a) Existence of a large number of buyers and sellers
(b) Homogeneous products
(c) Perfect knowledge of the market
(d) All of the above

95. Elasticity of demand under perfect competition is: **[Nov. 2019]**

(a) One (b) Two
(c) Zero (d) Infinite

96. 'Zero economic profit' emerges due to which of the following conditions? **[July 2021]**

(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

97. A market structure in which similar and identical products are sold by many firms is known as: **[CA CPT Dec. 2014]**

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

98. One of the following is not correct about perfect competition: **[CA CPT June 2015]**

(a) Purchase and sale of homogeneous goods
(b) Existence of marketing costs
(c) Absence of transportation costs
(d) Perfect mobility of factors of production

99. Under which of the following forms of market structure does a firm have no control over the price of its production? **[CA CPT Dec. 2015]**

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

100. The price elasticity of demand for a product is infinite under: **[CA CPT June 2016]**

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

101. Which of the following statements is correct? **[CA CPT Nov. 2018]**

(a) Price rigidity is an important feature of a monopoly
(b) Selling costs are possible under perfect competition
(c) An industry consists of many firms
(d) Under a perfect completion factor of production do not move freely as there are legal restrictions

102. Which of the following is the supply curve of a competitive firm in the short run? **[June 2023]**

(a) Average variable cost curve
(b) Average total cost curve
(c) Marginal cost curve
(d) Average fixed cost curve

103. In which of the following market products is homogeneous in nature? **[June 2023]**

(a) Pure oligopoly (b) Pure monopoly
(c) Pure duopoly (d) Pure competition

104. It will be profitable for a firm to expand output till which of the following conditions? **[June 2022]**

(a) Marginal revenue is greater 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

105. Which of the following is not a characteristic of MR? **[CA CPT Nov. 2018]**

(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

106. MR Curve in perfect competition is: **[CA CPT Nov. 2018]**

(a) Parallel to X-axis
(b) Parallel to Y-axis
(c) Falls from left to right
(d) Rises from left to right

107. In which of the following markets, prices are determined by market forces of demand and supply? **[June 2023]**

(a) Duopoly Competition
(b) Perfect Competition
(c) Monopolistic Competition
(d) Natural market

108. Which of the following describes a perfect competition firm? **[CA CPT June 2017]**

(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

109. If in the short run, perfect competition earns a super normal profit, then which condition is satisfied? **[Nov. 2019]**

(a) ATC > MC (b) ATC < MC
(c) MR < AR (d) MR > AR

110. In the perfect competition, an individual firm's demand curve is: **[Dec. 2023]**

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

111. Price elasticity of demand by a firm facing perfect competition is: **[Dec. 2021]**

(a) Large (b) Very small
(c) Small (d) Infinite

112. If a perfectly competitive firm earns supernormal profits then _____. **[CA CPT May 2019]**

(a) AR > MR (b) AR < MR
(c) AR = MR (d) None of the above

113. In which market, prices are determined by the market forces of demand and supply? **[Nov. 2020]**

(a) Perfect Competition
(b) Pure Competition
(c) Monopolistic Competition
(d) Oligopoly

114. A competitive firm in the short run incurs losses. The firm continues production, if: **[CA CPT May 2018]**

(a) P > AVC (b) P = AVC
(c) P < AVC (d) P ≥ AVC

Monopoly

115. Which of the following is not a feature of the monopoly market? **[July 2021]**

(a) Large seller of the product
(b) No close substitutes
(c) Market power
(d) Single seller of the product

116. A market structure where there is only a single buyer and a single seller is called: **[Dec. 2021]**

(a) Duopoly (b) Monopsony
(c) Bilateral monopoly (d) Oligopsony

117. Under monopoly market condition, MR is _____ than the AR. **[June 2022]**

(a) Less (b) Greater
(c) Equal (d) Variable

118. 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

119. The relation between AR and MR in a monopoly is stated as: **[June 2024]**

(a) AR can be zero, MR can be zero or negative
(b) AR and MR both are upward sloping
(c) AR curve lies halfway between MR and the Y axis
(d) Slope of MR is twice that of AR

120. In which form of market are patents and copyrights given by the government to protect intellectual property rights? **[June 2024]**

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

121. A market structure in which there is only a single buyer and a single seller is known as: **[Dec. 2023]**

(a) Bilateral monopoly (b) Duopoly
(c) Oligopsony (d) Monopsony

122. If a firm under monopoly wants to sell more, its average revenue curve will be a _____ line. **[CA CPT June 2016]**

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

123. Price discrimination refers to the practices of charging _____ prices for _____ units of the _____ commodity. **[Dec. 2021]**

(a) Different, different, same
(b) Same, different, same
(c) Same, same, same
(d) Different, same, same

124. Price discrimination will be profitable only if the elasticity of demand in different markets is: **[CA CPT Dec. 2015]**

(a) Uniform (b) Different
(c) Less (d) Zero

125. If the electricity department is charging ₹3 per unit to farmers and ₹7 per unit to industries, it is described as: **[June 2024]**

(a) Product differentiation
(b) Price discrimination
(c) Monopoly
(d) Differentiation activity

126. Which of the following is not an objective of price discrimination? **[June 2023]**

(a) To enjoy economies of scale
(b) To dispose of surplus stock
(c) To escape the foreign market
(d) To secure equity through pricing

127. Price discrimination will not be profitable, if the elasticity of demand is _____ in different markets. **[CA CPT Dec. 2014]**

(a) Uniform (b) Different
(c) Less (d) Zero

128. Product differentiation is the condition of which of the following markets? **[June 2022]**

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

129. Which feature of monopolistic competition differs from perfect competition? **[June 2024]**

(a) Large number of sellers
(b) Freedom of entry and exit
(c) Product differentiation
(d) No supernormal profits in the long run

130. The Electricity Commission sells electricity at a cheaper rate for home consumption in rural areas than for industrial consumption. This is an example of: **[Dec. 2023]**

(a) Perfect competition
(b) Price discrimination
(c) Product discrimination
(d) Price taker

Imperfect Competition–Monopolistic Competition

131. In the long run, Monopolistic Competition and Perfect Competition are the same because of: **[Nov. 2019]**

(a) Normal Profit
(b) Abnormal Production
(c) Losses
(d) None of these

132. Extreme Product differentiation is found in which market? **[Nov. 2019]**

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

133. Which of the following is an example of monopolistic competition? **[July 2021]**

(a) De Beers and Diamond
(b) Hotels and Pubs
(c) Microsoft and Windows
(d) Dell and Lenovo

134. The relationship between AR and MR of a monopoly firm or imperfect competition is: **[Dec. 2023]**

(a) AR cannot be zero, but MR can be zero or negative
(b) AR can be zero, and MR can 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

135. Railways charge comparatively cheaper fares to senior citizens. This is an example of: **[Nov. 2020]**

(a) Market analysis
(b) Profit discrimination
(c) Price discrimination
(d) Demand forecasting

136. 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 an oligopoly market
(b) A monopolist always earns super-normal profit
(c) Identical products are not found in a competitive market
(d) Close substitutes are available under monopoly

137. How is price determined in monopolistic competition? **[Dec. 2021]**

(a) Firms set prices where Average Total Cost (ATC) equals Average Revenue (AR)
(b) Firms set prices where Marginal Cost (MC) equals Marginal Revenue (MR)
(c) Firms have no control over prices due to perfect competition
(d) Firms charge prices based on government regulations

138. Electricity companies sell electricity at a cheaper rate for power consumption in rural areas than for industrial consumption. This is an example of: **[July 2021]**

(a) Product discrimination
(b) Perfect competition
(c) Price discrimination
(d) Price taker

139. The long run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures: **[Jan. 2021]**

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

140. Which of the following product markets is close to perfect competition? **[June 2022]**

(a) Mobile phones
(b) Car
(c) Utensils
(d) Agricultural products

141. In a monopolistically competitive market, the demand curve faced by a firm is: **[Dec. 2021]**

(a) Perfectly elastic
(b) Perfectly inelastic
(c) Downward sloping
(d) Upward sloping

Oligopoly

142. Oligopolistic industries are characterised by: **[Jan. 2021]**

(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

143. Strategic interdependence is a characteristic of which type of the following markets? **[June 2024]**

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

144. Product differentiation is the essential feature of _____. **[June 2023]**

(a) Perfect competition
(b) Monopolistic competition
(c) Oligopoly competition
(d) Duopoly competition

145. When a new firm enters into the market and competes with the existing firm, it is a situation called as _____. **[June 2023]**

(a) Pure oligopoly
(b) Open oligopoly
(c) Collusive oligopoly
(d) Competitive oligopoly

146. Markets which have two firms are known as:

(a) Oligopoly (b) Duopoly
(c) Monopsony (d) Oligopsony

147. When a few firms of the oligopolistic market come to a common understanding with each other in fixing price and output, it is called_____. **[June 2024]**

(a) Syndicate oligopoly (b) Collusive oligopoly
(c) Perfect oligopoly (d) Open oligopoly

148. Firms in oligopoly are likely to: **[Dec. 2021]**

(a) Try to differentiate its products
(b) Invest heavily in branding
(c) Act independently of other firms
(d) Try to be a price maker

149. Smart phone market is an example of: **[Nov. 2020]**

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

150. The Telecom Industry is an example of_____. **[Dec. 2023]**

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

151. In which type of oligopoly, the firm sell its product through a centralised body? **[Dec. 2023]**

(a) Open oligopoly
(b) Organised oligopoly
(c) Full oligopoly
(d) Syndicated oligopoly

152. XYZ deals with financial products. Its demand curve will be: **[Dec. 2023]**

(a) Horizontal axis; perfectly elastic
(b) Vertical axis; perfectly inelastic
(c) Horizontal axis; inelastic
(d) Vertical axis; elastic

153. Non-price competition is observed in which type of the following markets? **[July 2021, June 2022]**

(a) Monopoly
(b) Monopolistic competition
(c) Duopoly
(d) Oligopoly

154. The market structure in which the number of sellers is small and there is interdependence in decision making by the firms is known as: **[CA CPT June 2008]**

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

155. Who propounded the price rigidity under the kinked demand curve model of oligopoly? **[July 2021]**

(a) Adam Smith (b) Karl Marx
(c) Keynes (d) Paul A. Sweezy

156. The aluminium industry is an example of which type of oligopoly? **[Nov. 2020]**

(a) Full oligopoly
(b) Open oligopoly
(c) Pure oligopoly
(d) Syndicated oligopoly

157. A group of firms that explicitly agree (called) to coordinate their activities is called a: **[Dec. 2023]**

(a) Cartel (b) Mutual group
(c) Friendship group (d) Agreement

158. "Let and live philosophy" concerns from which market? **[Nov. 2019]**

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

159. An oligopoly having identical products is: **[CA CPT June 2009]**

(a) Pure oligopoly
(b) Imperfect oligopoly
(c) Price leadership
(d) Collusion

160. In which market structure do a few firms dominate and use advertising and branding instead of changing prices to compete?

(a) Monopoly
(b) Oligopoly
(c) Duopoly
(d) Monopolistic competition

161. Price rigidity is a situation found in which of the following market forms? **[CA CPT June 2010]**

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

162. An oligopoly having identical products is known as: **[CA CPT June 2011]**

(a) Pure oligopoly
(b) Collusive oligopoly
(c) Independent oligopoly
(d) None of these

163. Which one of the following is not a characteristic of Oligopoly? **[July 2021]**

(a) Strategic interdependence
(b) A large number of firms selling close substitutes
(c) Importance of selling cost
(d) Group behaviour

164. Pure oligopoly is based on the _____ products. **[Jan. 2021]**

(a) Differentiated (b) Homogeneous
(c) Unrelated (d) None of the above

165. What is/are feature(s) of oligopoly? **[CA CPT May 2018]**

(a) Kinked Demand curve
(b) Cartel
(c) Downward sloping demand curve
(d) Both (a) and (b) are correct

166. Which of these is the best example of oligopoly? **[CA CPT May 2018]**

(a) OPEC (b) SAARC
(c) WTO (d) GATT

167. Which one of the following is not a feature of Oligopoly? **[CA CPT Nov.2018]**

(a) Interdependency
(b) Selling cost
(c) Free entry
(d) One of the above/group behaviour

168. A group of firms that explicitly agree (collude) to coordinate their activities is called a/an: **[July 2021]**

(a) Oligopsony (b) Duopoly
(c) Monopsony (d) Cartel

169. Collusion is impossible if an industry has: **[Nov. 2020]**

(a) Only few number of firms
(b) Only two firms
(c) Limited number of firms
(d) Large number of firms

170. Which of the following concepts is explained by the Kinked demand curve hypothesis? **[June 2023]**

(a) Price leadership
(b) Price rigidity
(c) Group behaviour
(d) Independent pricing

171. The demand curve of oligopoly is: **[CA CPT Dec. 2009]**

(a) Horizontal
(b) Vertical
(c) Kinked
(d) Rising left to right

172. In the kinked demand curve theory, it is assumed that: **[Dec. 2021]**

(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

173. If firms in the automobile industry have the following market shares, which market structure would best describe the industry? **[Dec. 2022]**

Firms in Auto Sector	(%) of Market share
Firm-1	31.6
Firm-2	19.4
Firm-3	5.6
Firm-4	3.4

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

174. In which market is the price elasticity of demand infinite? **[June 2024]**

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

175. In the kinked demand curve theory: **[Dec. 2021]**

(a) There is a kink in the marginal cost curve
(b) Firms try to compete on a non-price basis
(c) Demand is price elastic
(d) Demand is price inelastic

Other Important Market Forms

176. 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

177. Which of the following is a subset of Oligopoly?

(a) Duopoly (b) Monopoly
(c) Single Oligopoly (d) None of these

178. _____is a market situation in which there are two firms in the market.

(a) Oligopoly (b) Duopoly
(c) Bilateral Oligopoly (d) Closed Oligopoly

179. What is the type of market structure which is a combination of a monopoly market and a monopsony market?

(a) Unilateral Monopoly
(b) Bilateral Monopoly
(c) Bi-Monopsony
(d) None of these

180. _____ is a market characterised by a small number of larger buyers and is mostly relevant to factor markets.

(a) Oligopoly (b) Duopoly
(c) Oligopsony (d) Monopsony

PYQs of January, 25 & May, 25

181. The firm will be making maximum profits by expanding output to the level where: **[May 2025]**

(a) Marginal revenue is greater than marginal cost
(b) Marginal revenue is equal to marginal cost
(c) Marginal revenue is less than marginal cost
(d) Marginal revenue is equal to average cost

182. What will happen to the equilibrium price and equilibrium quantity when demand increases and supply decreases? **[May 2025]**

(a) The equilibrium price rises, but the change in equilibrium quantity is uncertain
(b) Both the equilibrium price and the equilibrium quantity fall
(c) Both the equilibrium price and equilibrium quantity go up
(d) The equilibrium quantity increases, but the change in equilibrium price is uncertain

183. A bilateral monopoly is a market situation where: **[May 2025]**

(a) One seller faces many buyers
(b) One buyer faces many sellers
(c) A single seller faces a single buyer
(d) Many buyers and many sellers exist

184. Which type of market allocates productive resources to producers and helps ensure that those resources are used efficiently? **[May 2025]**

(a) Product markets
(b) Factor markets
(c) Local markets
(d) Retail markets

185. Which concept of revenue is called price?

(a) Average Revenue
(b) Marginal Revenue
(c) Total Revenue
(d) None of these

186. If a firm sells 15 units of a product at a price of ₹25 per unit, what is the total revenue?

(a) ₹40 (b) ₹375
(c) ₹400 (d) ₹250

187. Which of the following is not a condition for price discrimination? **[May 2025]**

(a) The seller should have price-setting power
(b) The seller should be able to divide his market into two or more sub-markets
(c) The price elasticity of the product should be different in different sub-markets
(d) It should be possible for buyers of the low-priced market to resell the product to the buyers of the high-priced market

188. Under second degree price discrimination, different prices are charged for _____. **[May 2025]**

(a) Each individual consumer
(b) Location
(c) Customer segment
(d) Different quantities sold

189. Which of the following is not a feature of the monopoly market? **[May 2025]**

(a) Single buyer of the products
(b) Barriers to entry
(c) No close substitutes
(d) Market power

190. Assume that when the price is ₹30, the quantity demanded is 19 units, and when the price is 28, the quantity demanded is 20 units. What is the marginal revenue resulting from an increase in output from 19 units to 20 units? **[May 2025]**

(a) ₹10 (b) – ₹10
(c) ₹20 (d) – ₹20

191. The oligopoly market in which few firms come to a common understanding with each other in fixing price or output or both is called: **[May 2025]**

(a) Pure Oligopoly
(b) Collusive Oligopoly
(c) Partial Oligopoly
(d) Syndicated Oligopoly

192. The kinked demand curve model of oligopoly is also called: **[May 2025]**

(a) Sweezy's Model
(b) McKinsey's Model
(c) Oskar's Model
(d) Neumann's Model

193. Which of the following is not a feature of a perfect competition market? **[May 2025]**

(a) Very large number of sellers
(b) Homogeneous products
(c) Inelastic demand
(d) Firms are price takers

194. A firm should not produce at all if: **[May 2025]**

(a) AR is greater than the minimum AVC
(b) AR is equal to ATC
(c) Its total variable costs are not met
(d) AR is greater than ATC

195. Calculate Marginal Revenue (MR) when Average Revenue (AR) = ₹45 and price elasticity of demand (e) = 3. **[May 2025]**

(a) ₹15 (b) ₹25
(c) ₹30 (d) ₹135

196. Price elasticity of demand of a firm under perfect competition will be: **[Jan. 2025]**

(a) Very Large
(b) Infinite
(c) Large
(d) Small

197. Many sellers offering differentiated products to many buyers is the characteristic of: **[Jan. 2025]**

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

198. Identify the correct relationship among MR, AR and e (price elasticity of demand). **[Jan. 2025]**

(a) $MR = AR \times e(e - 1)$

(b) $AR = \frac{\text{ĐĐ } \aleph}{\quad}$

(c) $MR = \frac{\text{Đ}}{\text{Đ}}$

(d) $MR = \frac{\text{ĐĐ } \aleph}{\quad}$

199. Total revenue will be maximum, where elasticity is equal to: **[Jan. 2025]**

(a) 1 (b) Less than 1

(c) Greater than 1 (d) Zero

200. When both demand and supply increase, the equilibrium quantity _____ but the change in equilibrium price is_____. **[Jan. 2025]**

(a) Decreases, Uncertain

(b) Increases, Constant

(c) Increases, Uncertain

(d) Decreases, Constant

201. Identify the correct below mentioned condition/ conditions for equilibrium of a firm under perfect competition: **[Jan. 2025]**

(I) MR = MC

(II) MR > MC

(III) MR < MC

(IV) MC should have a positive slope.

(V) MC should have a negative slope.

(a) (II) and (V)

(b) (II) and (IV)

(c) (III) and (V)

(d) (I) and (IV)

202. When a perfect competitive firm earns _____, its average revenues are more than its average total cost. **[Jan. 2025]**

(a) Supernormal profits

(b) Normal profits

(c) Normal profits and supernormal profits

(d) Losses

203. Market for soaps and detergents is the appropriate example of: **[Jan. 2025]**

(a) Monopoly

(b) Oligopoly

(c) Monopolistic competition

(d) Perfect competition

204. A downward sloping and highly inelastic demand curve is the feature of: **[Jan. 2025]**

(a) Monopoly

(b) Oligopoly

(c) Monopolistic competition

(d) Perfect competition

205. Market characterised by a single buyer of a product or service, and is mostly applicable to factor markets in which a single firm is the only buyer of a factor, is known as: **[Jan. 2025]**

(a) Oligopsony

(b) Duopoly

(c) Bilateral monopoly

(d) Monopsony

206. Assume that when the price is ₹20, the quantity demanded is 9 units, and when the 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? **[Jan. 2025]**

(a) ₹20 (b) ₹19

(c) ₹10 (d) ₹1

207. Average revenue curve is also known as: **[Jan. 2025]**

(a) Profit Curve

(b) Demand Curve

(c) Average Cost Curve

(d) Indifference Curve

208. With a decrease in demand there is _____. **[Jan. 2025]**

(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) A decrease in the equilibrium price and quantity demanded and supplied

(d) No change in overall price, but a reduction in equilibrium quantity

209. If supply increases in a greater proportion than demand then _____. **[Jan. 2025]**

(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 the equilibrium quantity will be higher

(c) The new equilibrium price and quantity will be less than the original equilibrium price and quantity

(d) The new equilibrium price will be less than the original equilibrium price

210. In oligopoly, when the industry is dominated by one large firm, which is considered as the leader of the group, then it is called: **[Jan. 2025]**

(a) Open oligopoly

(b) Collusive oligopoly

(c) Partial oligopoly (b) and (d)

(d) Syndicated oligopoly

ANSWER KEY

1. (a)	2. (d)	3. (b)	4. (c)	5. (c)	6. (b)	7. (a)	8. (a)	9. (a)	10. (c)
11. (b)	12. (b)	13. (b)	14. (b)	15. (d)	16. (a)	17. (d)	18. (b)	19. (b)	20. (b)
21. (a)	22. (a)	23. (b)	24. (b)	25. (c)	26. (d)	27. (c)	28. (a)	29. (b)	30. (b)
31. (d)	32. (c)	33. (c)	34. (c)	35. (b)	36. (b)	37. (a)	38. (a)	39. (a)	40. (c)
41. (d)	42. (a)	43. (a)	44. (c)	45. (a)	46. (c)	47. (a)	48. (a)	49. (b)	50. (a)
51. (c)	52. (a)	53. (b)	54. (a)	55. (c)	56. (a)	57. (a)	58. (a)	59. (b)	60. (c)
61. (b)	62. (c)	63. (c)	64. (b)	65. (c)	66. (c)	67. (b)	68. (a)	69. (c)	70. (d)
71. (a)	72. (c)	73. (b)	74. (b)	75. (a)	76. (b)	77. (c)	78. (d)	79. (c)	80. (d)
81. (c)	82. (d)	83. (d)	84. (c)	85. (d)	86. (d)	87. (a)	88. (b)	89. (a)	90. (d)
91. (a)	92. (b)	93. (d)	94. (d)	95. (d)	96. (b)	97. (c)	98. (b)	99. (d)	100. (a)
101. (d)	102. (c)	103. (d)	104. (a)	105. (a)	106. (a)	107. (b)	108. (a)	109. (b)	110. (a)
111. (d)	112. (c)	113. (a)	114. (d)	115. (a)	116. (c)	117. (a)	118. (b)	119. (d)	120. (b)
121. (a)	122. (c)	123. (a)	124. (b)	125. (b)	126. (c)	127. (a)	128. (c)	129. (c)	130. (b)
131. (a)	132. (a)	133. (b)	134. (a)	135. (c)	136. (a)	137. (b)	138. (c)	139. (d)	140. (d)
141. (c)	142. (a)	143. (d)	144. (b)	145. (b)	146. (b)	147. (b)	148. (a)	149. (d)	150. (d)
151. (d)	152. (a)	153. (b)	154. (b)	155. (d)	156. (c)	157. (a)	158. (c)	159. (a)	160. (b)
161. (d)	162. (a)	163. (b)	164. (b)	165. (d)	166. (a)	167. (c)	168. (d)	169. (d)	170. (b)
171. (c)	172. (b)	173. (a)	174. (a)	175. (b)	176. (b)	177. (a)	178. (b)	179. (b)	180. (c)
181. (b)	182. (a)	183. (b)	184. (b)	185. (a)	186. (a)	187. (d)	188. (d)	189. (a)	190. (b)
191. (b)	192. (a)	193. (c)	194. (c)	195. (c)	196. (b)	197. (b)	198. (d)	199. (a)	200. (c)
201. (d)	202. (a)	203. (c)	204. (a)	205. (d)	206. (c)	207. (b)	208. (c)	209. (d)	210. (c)

HINTS & SOLUTIONS

1. (a) 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.

5. (c) The elements of a market are:

(i) Buyers and sellers

(ii) A product or service

(iii) Bargaining for a price

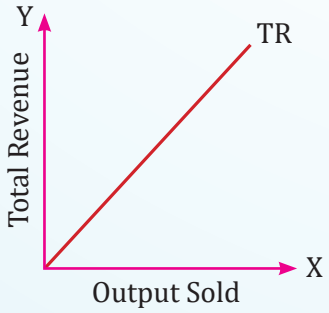
(iv) Knowledge about market conditions and

(v) One price for a product or service at a given time.

8. (a) 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.

19. (b) Monopoly is a situation where a single seller is producing for many buyers, whereas Monopsony is a market condition in which there is only a single buyer.

21. (a) Since the firm can sell any quantity at market-determined prices, the TR curve is linear and starts from the origin.



27. (c) Total Revenue (TR) = Price (P) × Quantity (Q)

TR (Existing) = 20 × 10 = ₹200

TR (New) = 19 × 11 = ₹209

ΔTR = ₹9

Δ Quantity = 1 Unit

$$MR = \frac{Đ}{Đ} \text{ — } = ₹9$$

30. (b)

	Total Revenue (TR)	Quantity Sold (Q)
Original	₹3,000	50 Units
New	₹3,100	52 Units
Change	ΔTR = 100	ΔQ = 2

$$MR = \frac{ĐĐ}{Đ} \text{ —— } = ₹50$$

32. (c) Marginal Revenue = The addition made to the total revenue by selling one more unit. Symbolically, $MR_n = TR_n - TR_{n-1}$

$MR_{11} = TR_{11} - TR_{10} = 120 - 100 = 20$

33. (c) Marginal revenue is the additional made to the total revenue by producing one more unit of a commodity.

35. (b) 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. This is

$$\frac{ĐĐĐĐĐĐĐ}{ĐĐĐ} \text{ ——— } = ₹\,1{,}200.$$

36. (b) 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.

37. (a) Original price is ₹ 200 and if 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.

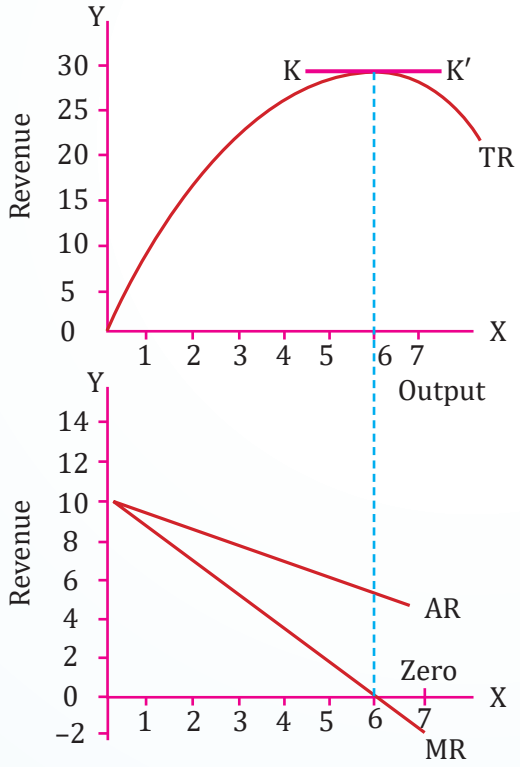
$$\text{So, } MR = \frac{ĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐ}{ĐĐĐ}$$

$$= \frac{ĐĐĐĐĐĐĐ}{Đ} \text{ —— } = ₹164$$

40. (c) $MR_{25} = \frac{ĐĐĐ_{ĐĐ}}{ĐĐĐĐĐĐĐ} \quad \frac{ĐĐĐĐĐĐ}{}$

$$= \frac{ĐĐĐ}{Đ} = 1{,}000.$$

43. (a) 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.



44. (c)

	Price (P)	Quantity Demanded (Q)	Total Revenue (TR)
Original	20	9	180
New	19	10	190
Changes (D)	–1	+1	+10

MR = $\frac{\text{ΔTR}}{\text{ΔQ}}$ = ₹10

45. (a) When Marginal Revenue (MR) is zero, Total Revenue (TR) is at its maximum if the slope of TR is zero.

46. (c) Marginal Revenue (MR) is the change in total revenue resulting from the sale of an additional unit of the commodity.

MR = $\frac{\Delta}{}$

where, MR is marginal revenue

TR is total revenue

Q is quantity of commodity sold

Δ is small change

47. (a) MR = $\frac{\Delta}{\Delta}$

If $e < 1$, fraction $\frac{}{}$ will be negative. Therefore, MR will also be negative or less than 0.

48. (a) MR = –

If e > 1, the fraction $\frac{}{}$ will be loss than 1. In that case, – will.

MR = AR $\frac{}{}$.

For market A : MR = 21 – = 14.

For market B : MR = 21 – = 18.

51. (c)

1. Calculate the initial total revenue (TR_1):

$TR_1 = P_1 \times Q_1 = ₹\ 20 \times 10 = ₹\ 200$

2. Calculate the new price (P_2):

Price decrease = 5% of ₹ 20

$= 0.05 \times ₹\ 20 = ₹\ 1$

New Price (P_2) = ₹ 20 – ₹ 1 = ₹ 19

3. Calculate the new quantity demanded (Q_2):

Increase in demand = 10% of 10 units

$= 0.10 \times 10 = 1$ unit

New Quantity Demanded (Q_2)

= 10 units + 1 unit = 11 units

4. Calculate the new total revenue (TR_2):

$TR_2 = P_2 \times Q_2 = ₹\ 19 \times 11 = ₹\ 209$

5. Calculate the marginal revenue (MR) for the 11th unit:

Marginal Revenue (MR)

$= \frac{\Delta\Delta\Delta\Delta\Delta\Delta\Delta\Delta\Delta\Delta}{\Delta\Delta\Delta\Delta\Delta\Delta\Delta\Delta}$

$\Delta TR = TR_2 - TR_1$

$= ₹\ 209 - ₹\ 200 = ₹\ 9$

Change in Quantity = $Q_2 - Q_1 = 11 - 10 = 1$ unit

MR = —— = ₹ 9

Therefore, the marginal revenue for the 11th unit will be ₹ 9.

52. (a) MR = Đ——— ——

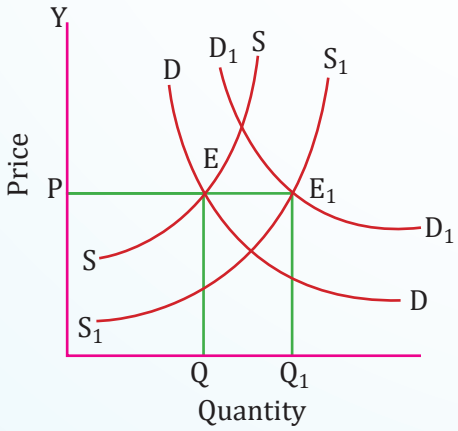
= Đ——— ——

53. (b) MR = Đ——— –

57. (a) MR = AR × ——— ——— = +2.5

62. (c) The very short period, or market period, refers to a period in which supply is fixed and cannot be increased or decreased.

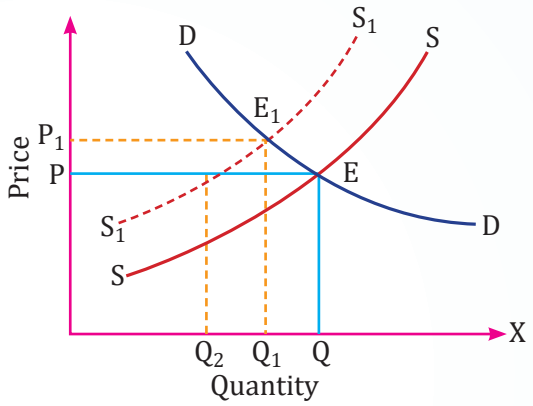
68. (a)



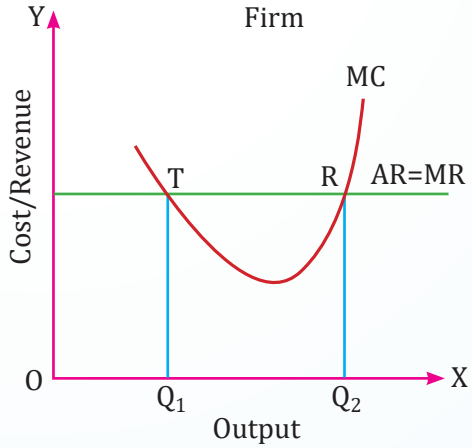
In the above figure, the increase in demand is equal to the increase in supply. The new demand curve D_1D_1 and supply curve. S_1S_1 meet at E_1. The new equilibrium price is equal to the Old equilibrium Price (OP). However, the equilibrium quantity is more.

70. (d) A leftward shift in the supply curve indicates a decrease in supply due to factors other than price.

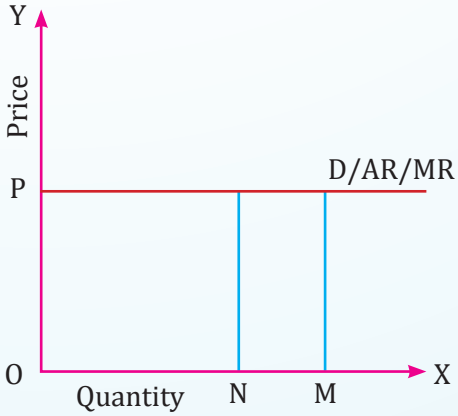
71. (a) It is clear that if there is decrease in supply and demand remains constant, the equilibrium price will go up, but the amount sold and purchased will go down.



85. (d) MC curve should cut MR curve from below.

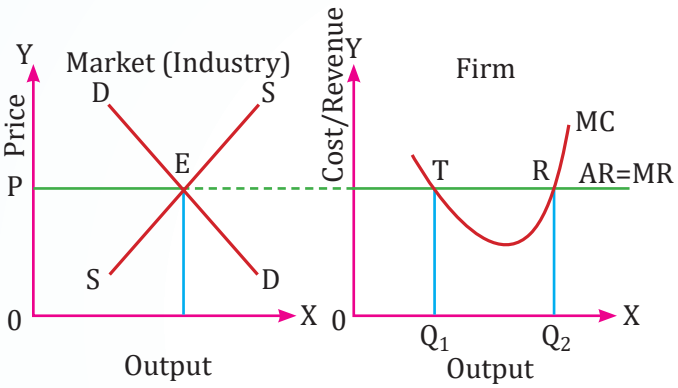


87. (a)



89. (a) 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.

106. (a)



110. (a) 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.

118. (b) A feature not associated with a monopoly market is large sellers of the product. A monopoly is characterised by a single seller or producer in the market, with no close substitutes for its product, giving it significant market power.

119. (d) In a monopoly, the marginal revenue (MR) curve has a slope that is twice that of the average revenue (AR) curve.

121. (a) A market structure in which there is only a single buyer and a single seller is known as a Bilateral monopoly. This is a unique market situation where both the monopoly (single seller) and the monopsony (single buyer) conditions apply.

130. (b) 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 people for the same product, based on their willingness or ability to pay.

134. (a) The relationship between AR (Average Revenue) and MR (Marginal Revenue) in a monopoly firm or imperfect competition is that 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.

150. (d) The Telecom Industry is an example of an Oligopoly. This market structure is characterised by a few large firms dominating the market, often with significant barriers to entry for new competitors.

151. (d) In the type of oligopoly where firms sell their product through a centralised body, it is known as a syndicated oligopoly. In this arrangement, the output is sold through a common selling agency.

157. (a) 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.

Scan the QR code for ICAI Module Q&A

Chapter Wrap-up Test

This is a 20 minutes test. Read each question carefully and attempt all.

1. Time elements was conceived by:
   (a) Paul Sweezy (b) Hicks
   (c) Marshall (d) Simon Kuznets

2. The product of price and output represents:
   (a) Total Revenue (b) Marginal Revenue
   (c) Average Revenue (d) Price

3. 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 of each other
   (c) Firms face downward sloping demand curve
   (d) Resources are very mobile

4. Which market explains that marginal cost is equal to price for attaining equilibrium?
   (a) Perfect Competition
   (b) Monopoly
   (c) Oligopoly
   (d) Monopolistic Competition

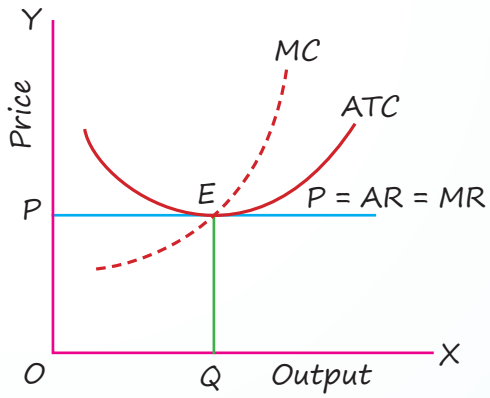
5. Price discrimination is desirable as:
   (a) It promotes equity
   (b) It makes production feasible
   (c) Both (a) and (b)
   (d) None of these

6. A firm making zero economic profit:
   (a) Earns super-normal profits
   (b) Incurs losses
   (c) Earns a normal profits
   (d) Profit or loss is indeterminate

7. In a monopoly, the market demand curve is:
   (a) Upward sloping (b) Downward sloping
   (c) Horizontal (d) Vertical

8. In monopolistic competition, which feature leads to product differentiation?
   (a) Homogeneous products
   (b) Many small firms
   (c) Identical demand curves
   (d) Non-price competition

9. Price elasticity of demand under monopoly is:
   (a) Infinity (b) Equal to one
   (c) Less than one (d) None of these

10. 

Check the diagram and identify what type of profit the firm is earning.
   (a) Normal profit.
   (b) Supernormal profit.
   (c) Both a and b
   (d) Loss

11. Under perfect competition when price line passes through minimum point of curve is called:
   (a) Minimum losses point
   (b) Shut down point
   (c) Break even point
   (d) Profit point

12. In a market for gadgets, the quantity demanded is equal to the quantity supplied at a price of $50. What is this price known as?
   (a) Surplus price (b) Equilibrium price
   (c) Deficit price (d) Support price

13. In a monopolistically competitive market, the demand curve faced by a firm is:
   (a) Perfectly elastic
   (b) Perfectly inelastic
   (c) Downward sloping
   (d) Upward sloping

14. A firm's total revenue is $500,000 when it sells 10,000 units. If the firm increases its price by 20%, the quantity demanded falls by 15%. What will be the new total revenue?
    (a) $510,000 (b) $520,000
    (c) $480,000 (d) $490,000

15. In an oligopoly, firms:
    (a) Have no influence on pricing decisions.
    (b) Face no competition.
    (c) Are interdependent in their decision-making.
    (d) Operate in a perfectly competitive market.

16. Arrange different market forms based on price elasticity going from higher to lower order:
    (a) Monopolistic competition; perfect competition; monopoly
    (b) Monopoly; monopolistic competition; perfect competition
    (c) Perfect competition; monopoly; monopolistic competition
    (d) Perfect competition; monopolistic competition; monopoly

17. The AR curve and industry demand curve are the same in the case of:
    (a) Monopoly
    (b) Oligopoly
    (c) Perfect competition
    (d) None of these

18. When MR is zero the elasticity of demand on AR curve is:
    (a) AR and TR are maximum
    (b) AR and TR is minimum
    (c) AR and TR is rising
    (d) none of these

19. Which of the following is a common outcome when firms in an oligopoly engage in non-cooperative behaviuor?
    (a) Prices are set equal to marginal cost
    (b) Firms achieve the maximum possible joint profits
    (c) Prices and output levels fluctuate unpredictably
    (d) Firms may enter into price wars, reducing overall profits

20. The equilibrium price remains constant only if demand and supply:
    (a) Increase unequally
    (b) Decrease unequally
    (c) Increase equally
    (d) None of the above

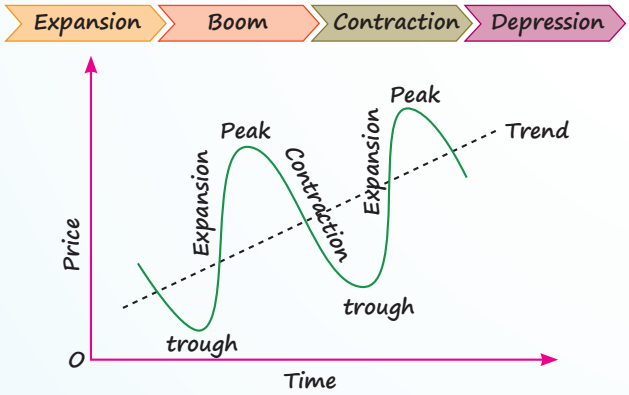
ANSWER KEY

1. (c)	2. (a)	3. (c)	4. (a)	5. (c)	6. (c)	7. (b)	8. (d)	9. (c)	10. (a)
11. (b)	12. (b)	13. (c)	14. (a)	15. (c)	16. (d)	17. (c)	18. (a)	19. (d)	20. (c)

5 Business Cycles

QUICK HIGHLIGHTS

1. Four Phases of Business Cycles:



2. Economic Indicators:

Leading: A Variable that changes before the real output changes.

Examples:

- Changes in stock price
- New orders for capital and consumer goods

Lagging: A Variable that changes after the real output changes.

Examples:

- Unemployment
- Labour cost per unit
- Corporate profit

Coincident: Variable that occurs simultaneously with business cycle movements.

Examples:

- GDP
- Industrial production
- Inflation

3. Features of Business Cycles

1. Occurs periodically, does not exhibit the same regularity, duration varies, and intensity of fluctuation also varies.
2. Indefinite length of phases (Expansion Boom, Contraction, Depression).
3. Disturbances in one/more sectors get easily transmitted to all the other sectors.
4. Originates in the free market.
5. Business cycles are a complex phenomenon, affected by varying factors.
6. Affects output, employment, investment, trade, prices, etc.
7. Contagious and spreads via trade (e.g., Great Depression).
8. Significant consequences on well-being.

4. Name of the Economists & their Quotations

- **J. M. Keynes:** Lower aggregate expenditure is the reason for the massive decline in Income and employment.
- **Hawtrey:** Trade cycle is a purely Monetary phenomenon.
- **Schumpeter:** Trade cycle is the result of innovation.
- **A. C. Pigou:** Business activities are affected by a wave of optimism & pessimism.

QUESTIONS

Introduction

1. The term business cycle refers to: **[Jan. 2021]**
(a) The ups and downs in the production of commodities
(b) The fluctuating levels of economic activity over a period of time
(c) Decline in economic activities over a prolonged period of time
(d) Increasing unemployment rate and diminishing rate of savings

2. Which of the following statements is correct for a business cycle? **[June 2022]**
(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 a severe form of depression
(d) Depression is a severe form of recession

3. In which year did the economy suffer the Great Depression? **[CA CPT May 2018]**
(a) 1924 (b) 1930
(c) 2008 (d) 2009

4. According to _____, trade cycle is a purely monetary phenomenon. **[Dec. 2021]**
(a) Schumpeter (b) Nicholas Kaldor
(c) Keynes (d) Hawtrey

5. Which of the following is not related to the Great Depression of 1930? **[CA CPT May 2019]**
(a) It started in the USA
(b) John Maynard Keynes regarded lower aggregate expenditure as the cause
(c) Excess Money Supply
(d) Both (a) and (b)

6. Which of the following is not correct about the business cycles? **[June 2022]**
(a) Business cycles have distinct phases 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

7. The world economy suffered the longest, deepest and most widespread depression of the 20th century during _____. **[Jan. 2021]**
(a) 1934 (b) 1928
(c) 1930 (d) 1932

8. Which among the following is not a feature of Business cycles? **[Dec. 2021]**
(a) Business cycles are sporadic in nature
(b) Business cycles have serious consequences on the well-being of society
(c) Business cycles are exceedingly complex phenomena
(d) Business cycles are contagious

9. The rhythmic fluctuations in aggregate economic activity that an economy experiences over a period of time are called: **[July 2021]**
(a) Business cycle
(b) Recession
(c) Contraction phase
(d) Recovery

Phases of Business Cycle

10. Which statement is correct? **[Nov. 2019]**
(a) Depression is the severe form of the trough
(b) Depression causes a fall in interest rate
(c) Peak is the highest point
(d) All of the above

11. When aggregate economic activity is increasing in an economy, the economy is said to be in _____. **[Dec. 2021]**
(a) Peak (b) Contraction
(c) Expansion (d) Trough

12. During the phase of trough of the business cycle, the growth rate becomes _____.**[Nov. 2020]**
(a) Negative (b) Zero
(c) High (d) Low

13. When aggregate economic activity is expanding, it is said to be in: **[Dec. 2021]**
(a) Contraction
(b) Expansion
(c) At the turning point
(d) A peak

14. During _____, there is a fall in the level of investment and employment. **[Nov. 2020]**

(a) Boom (b) Recovery
(c) Contraction (d) Depression

15. The term "_____" refers to the top or the highest point of the business cycle. **[Dec. 2021]**

(a) Top (b) Expansion
(c) Peak (d) Equilibrium

16. Select the odd one out:

(a) Expansion (b) Boom
(c) Upswing (d) Trough

17. In which phase of Business Cycles, levels of investment & employment fall: **[June 2023]**

(a) Peak (b) Recession
(c) Expansion (d) Contraction

18. Which one of the following is not a phase of the business cycle? **[June 2023]**

(a) Peak (b) Trough
(c) Expansion (d) Reconstruction

19. Actual demand stagnates in which of the following stages of a business cycle? **[June 2022]**

(a) Expansion (b) Peak
(c) Contraction (d) Recovery

20. Which one of the following is not for the expansion phase of the business cycle? **[Dec. 2023]**

(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

21. Which indicators coincide or occur simultaneously with the business cycle movements? **[Nov.2020]**

(a) Legal (b) Lagging
(c) Leading (d) Concurrent

22. The expansion phase is characterised by increases in _____. **[Dec. 2021]**

(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

23. Which business cycle phases are collectively known as "Turning Points"? **[July 2021, Dec. 2023]**

(a) Trough and Depression
(b) Peak and Trough
(c) Expansion and Contraction
(d) Peak and Boom

24. _____ sector cannot be included as 'cyclical' businesses. **[June 2022]**

(a) Electric goods (b) House builder
(c) Agriculture (d) Restaurants

25. The four phases of the business cycle are: **[Nov., 2019, 2020]**

(a) Peak, recession, trough and boom
(b) Peak, depression, trough and boom
(c) Peak, recession, trough and recovery
(d) Peak, depression, bust and boom

26. The expansion phase of the business cycle depicts characteristics except _____. **[June 2022]**

(a) Consumer spending on goods and services tends to rise
(b) Business confidence tends to rise
(c) Interest rates and profits tend to rise
(d) Unemployment tends to rise

27. At 'trough', the production in the economy reaches which of the following: **[Nov. 2019]**

(a) High (b) Low
(c) Constant (d) Negative

28. The lowest level of economic activity is called: **[Dec. 2021]**

(a) Depression (b) Boom
(c) Expansion (d) Contraction

29. The production of new and better goods and services using new technology leads to: **[Dec. 2023]**

(a) Troughs in the business cycle
(b) Loss of employment
(c) Expansion of employment
(d) Reduced need for investment

30. Which phase of the business cycle is characterised by an increase in national output, employment, aggregate demand, capital and consumer expenditure, sales, profits, etc.? **[July 2021]**

(a) Depression (b) Contraction
(c) Trough (d) Expansion

31. A typical feature of depression is _____ in the interest rate. **[June 2022]**

(a) Rise (b) Constant
(c) Fall (d) Infinity

32. An increase in national output and other economic variables is a characteristic of _____ in Business Cycles. **[June 2023]**

(a) Trough (b) Depression
(c) Contraction (d) Expansion

33. Actual demand stagnates in which stage? **[Nov. 2019]**

(a) Peak (b) Trough
(c) Recovery (d) Contraction

34. In which stage of the business cycle is involuntary unemployment almost zero? **[June 2022]**

(a) Expansion (b) Peak
(c) Contraction (d) Recovery

35. In which of the following phase of a business cycle, actual demand stagnates? **[July 2021]**

(a) Expansion (b) Peak
(c) Contraction (d) Recovery

36. Which is not an example of a coincident indicator? **[Nov. 2020]**

(a) Inflation
(b) GDP
(c) Financial market trend
(d) Interest rate

37. Variables that change before the real output changes are called as: **[July 2021]**

(a) Trade cycle (b) Business cycle
(c) Leading indicators (d) Lagging indicators

38. According to Hawtrey, which of the following is correct? **[Jan. 2021]**

(a) The "Trade Cycle" occurs as a result of innovation
(b) The "Trade Cycle" is a purely monetary phenomenon
(c) Fluctuation in economic activity is due to fluctuation in demand
(d) Fluctuation in government expenditure

39. During a recession, the unemployment rate _____ and output _____. **[Nov. 2019/Jan. 2021]**

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

40. Excess capacity in capital industries is characteristic of which of the following stages? **[Nov. 2019, June 2024]**

(a) Trough (b) Recovery
(c) Depression (d) Peak

41. Which type of unemployment is caused by structural changes in the economy? **[Nov. 2019]**

(a) Involuntary (b) Ethical friction
(c) Full employment (d) Structural

42. China's recent slowdown causes: **[Nov. 2019]**

(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 economies largely remained unaffected
(d) Old technology fuelled the economic decline

43. What is the most visible sign of recession in an economy? **[Nov. 2020]**

(a) Fall in the level of employment
(b) Fall in price level
(c) Rise in the inventory cost
(d) Weakening stock market

44. The most significant feature of business cycles: **[Nov., 2020]**

(a) Pervasive nature (b) Regular length
(c) Periodic intensity (d) None of these

45. A feature of _____ is a fall in interest rates and people's demand for holding liquid money. **[Jan. 2021]**

(a) Contraction
(b) Peak
(c) Trough & Depression
(d) Recovery

46. Boom and depreciation in business cycles are: **[CA CPT May 2019]**

(a) Turning points (b) Equilibrium points
(c) Both (a) and (b) (d) None of the above

47. Which of the following is not a phase of business cycles? **[CA CPT May 2019]**

(a) Prosperity (b) Upswing
(c) Reconstruction (d) Depression

48. Which of the following is not a variable in the index of leading indicators? **[Dec. 2021]**

(a) Prime rate
(b) Delayed deliveries
(c) Construction permits
(d) New consumer goods orders

49. Which of the following is not an example of a coincident indicator? **[Nov. 2019]**
(a) Industrial production
(b) Inflation
(c) Retail sales
(d) New orders for plant and equipment

50. Those variables that change before the real output changes are called: **[Nov. 2021]**
(a) Leading indicators
(b) Lagging indicators
(c) Concurrent indicators
(d) Business indicators

51. Friction unemployment is the characteristic of which of the following stages: **[Nov. 2019]**
(a) Expansion (b) Peak
(c) Construction (d) Recovery

52. Identify which among the following is an example of a lagging indicator: **[Dec. 2021]**
(a) Stock market prices
(b) Gross domestic product
(c) Unemployment
(d) Industrial production

53. 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

54. 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: **[Dec. 2021]**
(a) Lagging indicators
(b) Coincident indicators
(c) Leading indicators
(d) Economic indicators

55. A measurable economic factor that changes before the economy starts to choose a particular pattern is _____. **[Dec. 2023]**
(a) Coincident indicator
(b) Leading indicator
(c) Cyclical indicator
(d) Lagging indicator

56. 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 have a consequence on the level of aggregate economic activity
(d) None of the above

57. Coincident indicators are also known as: **[Jan. 2021]**
(a) Lagging indicators
(b) Concurrent indicators
(c) Effective indicators
(d) Leading indicators

58. The consumer price index number belongs to which of the following indicators? **[Dec. 2023]**
(a) Leading indicator
(b) Lagging indicator
(c) Coincident indicator
(d) Stock market indicator

59. Which of the following is a coincident indicator? **[Dec. 2023]**
(a) New order of plant and equipment
(b) Corporate profits
(c) GDP
(d) Labour cost per unit

60. Those variables that change after the real output changes are called as: **[June 2022]**
(a) Lagging indicators
(b) Leading indicators
(c) Concurrent indicators
(d) Coincident indicators

61. The variable that changes after the real income changes is known as the _____ indicator. **[June 2024]**
(a) Leading
(b) Lagging
(c) Coincident
(d) They do not indicate anything

62. From the following variance, the change after real output changes areas _____. **[June 2024]**
(a) Coincide indicator
(b) Coincident economic indicator
(c) Lagging indicator
(d) Concurrent indicator

63. Which of the following is not an example of a lagging indicator? **[June 2023]**

(a) Consumer price index
(b) Labour cost price per unit
(c) Commercial lending
(d) Personal income

64. _____ is a measurable economic factor that changes before the economy starts to follow a particular pattern of trend. **[Nov. 2020]**

(a) Lagging indicators
(b) Leading indicators
(c) Coincident indicators
(d) Concurrent indicator

65. A measurable economic factor that changes before the economy starts follows a particular pattern/trend is: **[Jan. 2021]**

(a) Leading factor (b) Lagging factor
(c) Coincident factor (d) Concurrent factor

66. Coincident economic indicators are also called as which of the following? **[June 2022]**

(a) Leading indicators
(b) Concurrent indicators
(c) Headed indicators
(d) Capacity indicators

67. Those variables that change before the real output changes prior to large economic adjustments are called as _____. **[June 2023]**

(a) Coincident indicator
(b) Leading indicator
(c) Concurrent indicator
(d) Lagging indicator

68. Coincident indicators are also called as: **[June 2023]**

(a) Lagging indicator
(b) Leading indicator
(c) Concurrent indicators
(d) None

Features of Business Cycles

69. Businesses that are more vulnerable to changes in the business cycle and whose fortunes are closely linked to the rate of economic growth are called as: **[Jan. 2021]**

(a) Vulnerable Business
(b) Cyclical Business
(c) Leading Business
(d) Lagging Business

70. Industries that are extremely sensitive to the business cycle are the: **[CA CPT May 2018]**

(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

71. Business Cycle occurs: **[CA CPT May 2019]**

(a) Periodically
(b) In different phases
(c) Both (a) and (b)
(d) None of the above

72. Features of business cycles include: **[CA CPT Nov. 2018]**

(a) Discuss periodically
(b) Have four different phases
(c) Originate in a free market economy
(d) All of the above

73. Which of the following is not a feature of business cycles? **[Dec. 2023]**

(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

74. Which of the following is not a characteristic of business cycles? **[Jan. 2021, July 2021]**

(a) Business cycles have serious consequences on the well-being of 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

75. Which of the following statements is correct? **[June 2022, June 2024]**

(a) No economy follows a perfectly timed cycle
(b) The economy follows a perfectly timed cycle
(c) Most of the economy follows a perfectly timed cycle
(d) A capitalist economy follows a perfectly timed cycle

76. Which is not the characteristic feature of the expansion phase in the business cycle? **[CA CPT May 2019]**

(a) Increase in national output
(b) Unemployment
(c) Rise in price and costs
(d) Boost in business confidence

77. Business cycle is contagious and _____ in character? **[Jan. 2021]**

(a) Local (b) Regional
(c) National (d) International

Causes of Business Cycles

78. Which of the following is an internal cause of business cycles? **[Nov. 2020]**

(a) Population growth
(b) Wars
(c) Natural factors
(d) Fluctuations in the effective demand

79. Which of the following is an external cause of the business cycle? **[Dec. 2023]**

(a) Fluctuations of effective demand
(b) Microeconomic policy
(c) Changes in government spending
(d) Technological shocks

80. According to some economists, these are the prime causes of business cycles. **[CA CPT May 2019]**

(a) Fluctuations in effective demand
(b) Fluctuations in investments
(c) Macroeconomic policies
(d) All of the above

81. Which of the following is an extreme or exogenous factors that lead to a boom or bust? **[June 2023]**

(a) Economic factor (b) Social factor
(c) Natural factor (d) Industrial factor

82. Which of the following is not an internal factor? **[June 2023]**

(a) Fluctuations in effective
(b) Fluctuations in investment
(c) Macroeconomic policies
(d) Post-war reconstruction

83. Which internal factor affects the Business cycle? **[CA CPT Nov. 2018, July 2021]**

(a) Fluctuations in investment
(b) Natural factors
(c) Technology shocks
(d) Population growth

84. The internal causes of the business cycle are: **[CA CPT May 2019]**

(a) Fluctuation in effective demand
(b) Technology shocks
(c) Both (a) and (b)
(d) None

85. The internal cause of the business cycle is: **[Nov.2019]**

(a) Technology shocks
(b) Fluctuation in effective demand
(c) Post-war reconstruction
(d) Population Growth

86. According to _____, trade cycles occur due to the onset of innovations. **[Jan. 2021]**

(a) Hawtrey (b) Adam Smith
(c) JM Keynes (d) Schumpeter

87. Find the correct option **[June 2024]**

(1)	Hawtrey	(a)	Innovation
(2)	Pigou	(b)	Money supply
(3)	Schumpeter	(c)	Psychological factors
(4)	Keynes	(d)	Effective aggregate demand

(a) 1-a, 2-b, 3-c, 4-d (b) 1-b, 2-c, 3-a, 4-d
(c) 1-a, 2-b, 3-d, 4-c (d) 1-c, 2-b, 3-c, 4-d

88. Optimistic and Pessimistic mood of the business community also affects the economic activities in view of _____. **[Jan. 2021]**

(a) Hawtrey (b) Schumpeter
(c) Pigou (d) Marshall

89. According to whom, "Business fluctuations are the outcome of some psychological states of mind of the business community"? **[July 2021]**

(a) Marshall
(b) A.C. Pigou
(c) J.K. Hicks
(d) Schumpeter

Relevance of Business Cycles in Business Decision Making

90. How many phases are there in the business cycle? **[CA CPT Nov. 2018]**

(a) Four (b) Five
(c) One (d) Many

91. Which of the following industries is less sensitive to the business cycle? **[June 2023]**

(a) Consume goods industry
(b) Durable consumer goods industry
(c) Travel and Tourism Industries
(d) Food Grain Processing Industries

92. XYZ is an Advertisement Agency. Its future projects are closely related to the rate of economic growth. Then XYZ business is referred to as _____. **[Dec. 2023]**

(a) Durable business
(b) Non-Durable business
(c) Cyclical business
(d) Non-Cyclical business

PYQs of January, 25 & May, 25

93. During the upswing phase of the business cycle, the involuntary unemployment is _____. **[May 2025]**

(a) Highest (b) Almost zero
(c) Lowest (d) Not affected

94. The level of national income and expenditure declines rapidly during which phase of the business cycle? **[May 2025]**

(a) Upswing
(b) Downswing
(c) Recovery
(d) Through and Depression

95. In all kinds of businesses, the different phases of the business cycle generally occur as: **[May 2025]**

(a) Having perfectly timed cycles
(b) No fixed time cycles, but are regular
(c) Boom has a longer period than the Depression
(d) Depression has a longer period than the Boom

96. There has been a war going on between Country A and Country B for the last two years. Now, in the current year, both countries have signed a peace agreement, and the war has come to an end. Now both countries have started to rebuild the losses caused by to war out of their own funds. Which type of cause of change in the business cycle is this for Country A? **[May 2025]**

(a) Internal cause
(b) External cause
(c) Both internal and external causes
(d) This is not a cause of change in the business cycle

97. An indicator which gives information about the rate of change of the expansion or contraction of an economy is called _____. **[May 2025]**

(a) Leading Indicator
(b) Lagging Indicator
(c) Both Leading and Lagging Indicators
(d) Coincident Indicator

98. Which of the following is not a characteristic of the business cycle? **[Jan. 2025]**

(a) They occur periodically
(b) They are recurrent
(c) They occur at regular intervals
(d) They have distinct phases of expansion, peak, contraction and trough

99. Which of the following is not an internal cause of business cycles? **[Jan. 2025]**

(a) Fluctuations in effective demand
(b) Fluctuation in investment
(c) Variations in government spending
(d) Technology shock

100. Changes in stock price, new orders for capital and consumer goods are examples of: **[Jan. 2025]**

(a) Leading indicators
(b) Lagging indicators
(c) Coincident indicators
(d) Non-economic indicators

101. Variables that change after the real output changes are called: **[Jan. 2025]**

(a) Leading indicators
(b) Lagging indicators
(c) Coincident indicators
(d) Non-economic indicators

ANSWER KEY

1. (b)	**2.** (d)	**3.** (b)	**4.** (d)	**5.** (c)	**6.** (d)	**7.** (c)	**8.** (a)	**9.** (a)	**10.** (d)
11. (c)	**12.** (a)	**13.** (b)	**14.** (c)	**15.** (c)	**16.** (d)	**17.** (d)	**18.** (d)	**19.** (b)	**20.** (d)
21. (d)	**22.** (a)	**23.** (b)	**24.** (c)	**25.** (c)	**26.** (d)	**27.** (b)	**28.** (a)	**29.** (c)	**30.** (d)
31. (c)	**32.** (d)	**33.** (a)	**34.** (a)	**35.** (b)	**36.** (d)	**37.** (c)	**38.** (b)	**39.** (a)	**40.** (a,c)
41. (d)	**42.** (a)	**43.** (a)	**44.** (a)	**45.** (c)	**46.** (a)	**47.** (c)	**48.** (a)	**49.** (d)	**50.** (a)
51. (a)	**52.** (c)	**53.** (b)	**54.** (b)	**55.** (b)	**56.** (b)	**57.** (b)	**58.** (c)	**59.** (c)	**60.** (a)
61. (b)	**62.** (c)	**63.** (d)	**64.** (b)	**65.** (a)	**66.** (b)	**67.** (b)	**68.** (c)	**69.** (b)	**70.** (d)
71. (c)	**72.** (d)	**73.** (d)	**74.** (c)	**75.** (a)	**76.** (b)	**77.** (d)	**78.** (d)	**79.** (d)	**80.** (d)
81. (c)	**82.** (d)	**83.** (a)	**84.** (a)	**85.** (b)	**86.** (d)	**87.** (b)	**88.** (c)	**89.** (b)	**90.** (a)
91. (d)	**92.** (c)	**93.** (b)	**94.** (d)	**95.** (b)	**96.** (b)	**97.** (d)	**98.** (c)	**99.** (d)	**100.** (a)
101. (b)									

HINTS & SOLUTIONS

20. (d) Supply exceeding demand is not a characteristic of the expansion phase of the business cycle. 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 recession or slowdown.

23. (b) 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.

29. (c) 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.

57. (b) 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 changes.

60. (c) 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.

61. (c) 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.

73. (d) The length of each phase is definite and is not a feature of business cycles. Business cycles are characterised 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.

79. (d) An external cause of business cycles is Technological shocks. Technological changes can have significant impacts on the economy, causing fluctuations in economic activity.

92. (c) XYZ, an advertising 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.

Scan the QR code for ICAI Module Q&A

Chapter Wrap-Up Test

This is a 20-minutes test. Read each question carefully and attempt all.

1. Which of the following best explains how supply-side shocks can initiate business cycles?
   (a) They have no lasting impact on economic activity
   (b) Supply-side shocks always result in increased government intervention
   (c) Supply-side shocks, like a sudden shortage of raw materials, can disrupt production and lead to economic fluctuations
   (d) Supply-side shocks only affect small businesses

2. Which economic theory emphasizes the role of aggregate demand in causing business cycles?
   (a) Classical economics
   (b) Keynesian economics
   (c) Supply-side economics
   (d) Monetarism

3. Fall in the interest rates is a typical feature of:
   (a) Recovery
   (b) Boom
   (c) Depression
   (d) Contraction

4. What is a leading indicator of a potential economic downturn?
   (a) Rising consumer spending
   (b) Decreasing stock market prices
   (c) Stable interest rates
   (d) Increasing industrial production

5. Which phase of the business cycle is often associated with the term "recession"?
   (a) Expansion (b) Peak
   (c) Contraction (d) Recovery

6. Why should companies monitor leading economic indicators in relation to business cycles?
   (a) To set employee benefits
   (b) To predict future economic conditions and make proactive decisions
   (c) To plan office decor
   (d) To manage daily cash flow

7. Economic recession is characterised by all of the following except:
   (a) Decline in investments, employment
   (b) Increase in the price of inputs due to increased demand for inputs
   (c) Investors confidence is shaken
   (d) Demand for goods, services decline

8. Which of the following is not a feature of the business cycle?
   (a) The business cycle follows the perfectly timed cycle
   (b) The business cycle varies in intensity
   (c) The business cycle varies in length
   (d) The business cycle has no set pattern

9. Understanding the business cycle is important for business managers because:
   (a) They affect the demand for their products
   (b) They affect their profits
   (c) To frame appropriate policies and forward planning
   (d) All the above

10. Peaks and troughs of the business cycle are known collectively as:
    (a) Volatility
    (b) Turning points
    (c) Equilibrium points
    (d) Real business cycle events

11. What typically happens to consumer spending during the expansion phase of the business cycle?
    (a) It decreases
    (b) It remains constant
    (c) It increases
    (d) It fluctuates randomly

12. According to whom fluctuations in economic activities arc due to fluctuations in aggregate effective demand?
(a) Schumpeter
(b) Pigou
(c) Keynes
(d) Hawtrey

13. Which of the following is a cause of business cycles?
(a) Stable fiscal policies
(b) Predictable consumer behavior
(c) Steady international trade relations
(d) Sudden changes in technological advancements

14. During the depression industry suffer from excess production capacity:
(a) Capital goods
(b) Consumer durable goods
(c) Non-durable goods
(d) Both (a) and (b)

15. Which of the following phases of the business cycle is characterized by high unemployment rates and declining economic activity?
(a) Expansion (b) Peak
(c) Recession (d) Trough

16. What arc the two main components of business cycle theories?
(a) A description of shocks and a model of how the economy responds to them
(b) A model of how people decide to spend and a description of the government's role in the economy
(c) A model of how equilibrium is reached and a description of the government's role in the economy
(d) A description of shocks and a description of the government's role in the economy

17. According to_____, trade cycles occur due to the onset of innovations:
(a) Hawtrey (b) Adam Smith
(c) JM Keynes (d) Schumpeter

18. Which of the following activities would not prompt entrepreneurs to make investments?
(a) Higher profitability
(b) Low labour cost
(c) Low rate of interest
(d) Low demand levels

19. How are business cycles relevant to business decision making?
(a) They provide predictable patterns for long-term strategic planning
(b) They have impact on day-to-day operational decisions
(c) They are only relevant for macroeconomic policy makers
(d) They determine short-term profitability but not long-term growth

20. Which government policy is often used to counteract the effects of a recession?
(a) Increasing taxes
(b) Decreasing government spending
(c) Tightening monetary policy
(d) Implementing fiscal stimulus

ANSWER KEY

1. (c)	2. (b)	3. (c)	4. (b)	5. (c)	6. (b)	7. (b)	8. (a)	9. (d)	10. (b)
11. (c)	12. (c)	13. (d)	14. (d)	15. (c)	16. (a)	17. (d)	18. (d)	19. (a)	20. (d)

6 Determination of National Income

QUICK HIGHLIGHTS

1. Different concepts of National income: Formulas:
   - GDP Deflator:

     GDP Deflator ≈ $\frac{\text{üüü=ü}}{\text{üüüü}}$ ü
   - Gross National Product (GNP):

     GNP_{MP} = GDP_{MP} + Net Factor Income from Abroad
   - Net National Product at Market Prices (NNP_{MP}):

     NNP_{MP} = GNP_{MP} – Depreciation
   - Net Domestic Product at Factor Cost (NDP_{FC}):

     NDP_{FC} = NDP_{MP} – Net Indirect Taxes
   - Per Capita Income:

     PCI = $\frac{\text{ü}}{\text{üüüüü}}$
   - Disposable Income (DI):

     DI = PI – Personal Income Taxes – Non tax payments
2. Basic Concepts and Functions:
   - The consumption function, proposed by Keynes:

     C = a + bY
   - Average propensity to consume (APC):

     APC = —
   - Marginal propensity to consume (MPC):

     MCP = ——
   - Average propensity to save (APS):

     APS = —
   - Marginal propensity to save (MPS):

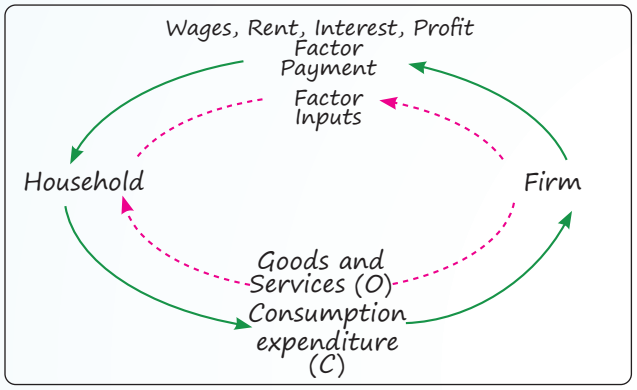
     MPS = ——

     1. APC + APS = 1
     2. MPC + MPS = 1
   - Investment multiplier:

     k = —— or ≈ $\frac{\text{ü}}{\text{üüü}}$ ——
3. Personal Income:
   - PI = NI – Undistributed profits – Net interest payments made by households – Corporate Tax + Transfer Payments to households from firms and the government.
4. Components of Aggregate Demand or Equilibrium Level of Income:
   - In two sector economy: Y = C + I
   - In three sector economy: Y = C + I + G
   - In four sector economy: Y = C + I + G + (X – M)
5. Private Income:

   Private Income = Factor income from net domestic product accruing to the private sector + Net factor income from abroad + National debt interest + Current transfers from government + Other net transfers from the rest of the world.
6. The Circular Flow of Income: Two-Sector Economy:

   A firm produces goods/services with the help of factor services. The flow of factor income, such as rent, flows from firms to households.



Factor Payments = Household Income = Household Expenditure = Total Receipts of Firms = Value of Output

7. Deflationary Gap Vs. Inflationary Gap:

- **Deflationary Gap:** AD < Full Employment Output, or called Deficient Demand.
- **Inflationary Gap:** AD > Full Employment Output, or called Excess Demand.

8. Measurement of National Income in India:

- **Value Added Method/Product Method/ Industrial Origin Method:**

  $NVA \text{ at } FC = GVA_{MP} - Dep - NIT$

- **Income Method/Factor Payment Method/Distributed Share Method:**

  NNP_{FC} = Compensation of employees + Operating surplus (rent + interest + profit + royalty) + Mixed income of self-employed + Net factor income from abroad (NFIA).

- **Expenditure Method/Income Disposable Method:**

  $GDP_{MP} = C + I + G + NX$

9. LEAKAGE and INJECTIONS in different sectors:

Model	Leakage	Injections
Two Sector	Savings	Investment
Three Sector	Savings + Taxes	Investment + Govt. Exp.
Four Sector Model	Savings + Taxes + Imports	Investment + Govt. Exp. + Exports

QUESTIONS

UNIT-I: NATIONAL INCOME ACCOUNTING

Introduction

1. Which of the following Ministries is responsible in India for the compilation of National Accounts Statistics?

(a) Ministry of Commerce and Industry
(b) Ministry of Social Affairs
(c) Ministry of Finance
(d) Ministry of Central Statistical and Program Implementation

2. 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

3. National Income accounts are extremely useful:

(a) For analysing 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

Different Concepts of National Income

4. Joseph had a shoe company in the US. The profits earned from its manufacturing unit operating in India will come under _____. **[June 2024]**

(a) GDP of India and GNP of the US
(b) GDP of the US and GNP of India
(c) GNP of the US and GNP of India
(d) GDP of the US and GDP of India

5. _____ 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

6. 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) ĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐ / ĐĐĐĐĐĐĐĐĐ × Đ
   (d) ĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐ / ĐĐĐĐĐĐĐ × ĐĐ

7. GDP at Current Prices means _____.
   (a) Nominal GDP
   (b) Real GDP
   (c) GDP at constant prices
   (d) None of these

8. If nominal GDP and real GDP for the year 2015 are ₹ 5000 crores and ₹ 6700 crores, respectively, then what will be the impact of the change in prices with respect to the base year? **[June 2024]**
   (a) Prices will fall
   (b) Prices will rise
   (c) Not defined as base year is not given
   (d) No effect on prices

9. Which one of the following is the correct formula for computation of GDP Deflator?
   (a) ĐĐĐÂĐ / ĐĐĐĐ × Đ
   (b) ĐĐĐĐ / ĐĐĐÂĐ × Đ
   (c) ĐĐĐÂĐĐĐĐĐĐĐ / Đ
   (d) Nominal GDP – Real GDP × 100

10. GDP Deflator is a price index used to convert _____.
   (a) Nominal GDP to Real GDP
   (b) Nominal GDP to National GDP
   (c) Real GDP as National GDP
   (d) Nominal GDP as a percentage

11. Using the following information:

Year	Nominal GDP in Crores (₹)	Real GDP in Crores (₹)
2020	600	600
2021	1050	650
2022	1250	850
2023	1500	940

Calculate the GDP Deflator for the year 2022 and 2023. **[June, 2024]**
   (a) 147.06 and 159.57
   (b) 100 and 161.54
   (c) 68 and 62.67
   (d) 400 and 560

12. Using the following information:

Year	Nominal GDP in Crores (₹)	Real GDP in Crores (₹)
2020	600	600
2021	1050	650
2022	1250	850
2023	1500	940

The inflation rate between the years 2022 and 2023 is _____. **[June, 2024]**
   (a) –7.84 (b) –8.51
   (c) 8.51 (d) 7.84

13. Consider the following data and answer the questions.

Year	2020	2021	2022	2023	2024
Deflator	95.5	100	108.2	113.8	120.4

Which year is the base year?
   (a) 2020 (b) 2021
   (c) 2022 (d) 2023

14. Consider the following data and answer the questions.

Year	2020	2021	2022	2023	2024
Deflator	95.5	100	108.2	113.8	120.4

In which year(s) is the Nominal GDP greater than the Real GDP?
   (a) 2020-24 (b) 2022-23
   (c) 2022-24 (d) 2023

15. Consider the following data and answer the questions.

Year	2020	2021	2022	2023	2024
Deflator	95.5	100	108.2	113.8	120.4

In which year were the Nominal GDP and Real GDP the same?

(a) 2021 (b) 2022
(c) 2023 (d) 2024

16. Consider the following data and answer the questions.

Year	2020	2021	2022	2023	2024
Deflator	95.5	100	108.2	113.8	120.4

From 2022 to 2024, the price levels are higher than those of the base year 2021. In which year is it highest?

(a) 2021 (b) 2022
(c) 2023 (d) 2024

17. Consider the following data and answer the questions.

Year	2020	2021	2022	2023	2024
Deflator	95.5	100	108.2	113.8	120.4

In which year has the price level fallen?

(a) 2020 (b) 2022
(c) 2021 (d) 2024

18. While computing various basic aggregates of national income, the basis of the distinction between "Gross" and "Net" is:

(a) Depreciation
(b) Consumption of fixed capital
(c) Both (a) and (b)
(d) None of the above

19. When NFIA is positive, then **[June 2024]**

(a) $GNP_{MP} > GDP_{MP}$ (b) $GNP_{MP} < GDP_{MP}$
(c) $GDP_{MP} > GNP_{MP}$ (d) $GDP_{MP} < GNP_{MP}$

20. 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

21.

Private Income	= ₹ 12,000
Undistributed Corporate Profits	= ₹ 1,500
Profit Taxes	= ₹ 1,000

What is Personal Income?

(a) ₹ 9,500 (b) ₹ 10,000
(c) ₹ 10,500 (d) ₹ 12,000

22. Which of the following is an example of a 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

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

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

24. What is the relationship between Disposable 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

25. Disposable Personal Income: **[June 2024]**

(a) Total personal income left after tax deduction at source
(b) Personal Income – Direct Taxes paid by individual – Indirect taxes paid by individual
(c) Personal income – Personal income taxes – Non – Tax payments
(d) Personal income – Indirect taxes paid by an individual

26.

Particulars	₹ in Crores
GNP at Market Price (GNP at MP)	10,200
Depreciation	600
Net Factor Income from Abroad	300
Net Indirect Taxes	700

Calculate NDP at FC.

(a) ₹ 8,300 (b) ₹ 8,500
(c) ₹ 8,600 (d) ₹ 8,900

27. 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, and to rest of the world is ₹650 Crores. What will be GNP_{FC}? **[June 2024]**

(a) ₹ 7,190 Crores (b) ₹ 6,590 Crores
(c) ₹ 6,330 Crores (d) ₹ 6,180 Crores

28.

Particulars	₹ in Crores
GNP at Factor Cost (GNP_{FC})	30,000
Consumption of Fixed Capital	4,000
Indirect Taxes	300
Factor Income from Abroad	800
NDP at Market Price (NDP_{MP})	34,500
Factor Income to Abroad	900

Calculate the amount of subsidies.

(a) ₹ 40 crores (b) ₹ 50 crores
(c) ₹ 100 crores (d) ₹ 90 crores

29. Calculate consumption of Fixed Capital from the following data:

Particulars	₹ in Crores
NNP at Factor Cost (NNP_{FC})	7,300
GDP at Market Price (GDP_{MP})	8,200
Net Indirect Taxes (NIT)	300
Net Factor Income from Abroad (NFIA)	200

(a) ₹ 450 crores (b) ₹ 500 crores
(c) ₹ 550 crores (d) ₹ 800 crores

30. Consider the following data:

Particulars	₹ in Crores
Compensation of Employees	1,500
Operating Surplus	2,700
Mixed Income of Self-employed	1,500
Consumption of Fixed Capital (CFC)	500
Net Indirect Tax (NIT)	600
Rent (Included in OS)	750
Profit (Included in OS)	1,050
Net Factor Income from Abroad	–100

Which of the following is incorrect?

(a) GDP at MP = ₹6,300 crores
(b) GNP at MP = ₹6,200 crores
(c) NNP at MP = ₹5,700 crores
(d) NNP at FC = ₹6,300 crores

Methods of Measurement of National Income in India

31. 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

32. If the purchase of raw material from a domestic firm is ₹142 crore and imports are ₹14 crore, what will be the amount of intermediate consumption under value added method?

(a) ₹14 crore (b) ₹142 crore
(c) ₹150 crore (d) ₹156 crore

33. What is the value of output based on the following information?

Sales	₹35,000 Lakhs
Closing Stock	₹1,800 Lakhs
Opening Stock	₹1,300 Lakhs

(a) ₹35,000 Lakhs
(b) ₹36,300 Lakhs
(c) ₹35,500 Lakhs
(d) ₹33,700 Lakhs

34. Consider the following data:

Sales	₹18,00,000
Closing Stock	₹50,000
Opening Stock	₹20,000
Indirect Taxes	₹90,000
Depreciation	₹70,000
Intermediate Consumption	₹3,10,000
Purchase of Raw Material	₹1,40,000
Rent	₹30,000

The amount of Net Value Added at market price is_____.

(a) ₹15,30,000
(b) ₹15,50,000
(c) ₹15,60,000
(d) ₹15,70,000

35. Which one of the following is a component of the Income Method?

(a) Compensation of Employees
(b) Rent and Royalty
(c) Profit and Interest
(d) All of the above

36. Which of the following is included white estimating National Income under the Income Method?

(a) Income from the sale of second-hand goods
(b) Income from the sale of shares, bonds and debentures
(c) Windfall gains like income from lotteries, horse races, etc.
(d) Imputed value of services provided by owners of production units

37. While estimating national income by the income method, transfer incomes are not included as they 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 and charity
(c) Old age pensions
(d) All of the above

38. Which of the following is not covered under the Income Method of computing Gross National Product?

(a) Rents
(b) Private consumption expenditure
(c) Wages and salaries
(d) Interest

39. What is the value of NDP at factor Cost?

Particulars	₹ in Crores
Rent	10,000
Royalty	5,000
Mixed Income	4,000
Interest	12,000
Profit	9,000
Compensation of Employees	22,000

(a) ₹61,000 (b) ₹62,000
(c) ₹63,000 (d) ₹64,000

40. Consider the following data:

Value of Output	₹2,90,000
Purchase of Raw Material	₹65,000
Wages and Salaries	₹80,000
Net Indirect Tax	₹20,000

What is the value of Operating Surplus?

(a) ₹1,25,000 (b) ₹1,30,000
(c) ₹1,35,000 (d) ₹1,15,000

41. Which of the following methods 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

42. From the following information, compute Gross National Product (GNP) according to the Expenditure Method.

Private Consumption Expenditure	₹ 280 Crores
Gross Domestic Private Investment	₹ 180 Crores
Net Foreign Investment	₹ 50 Crores
Rent	₹ 50 Crores
Wages	₹ 85 Crores
Mixed Income	₹ 29 Crores
Government Expenditure on Goods and Services	₹ 45 Crores

(a) INR 555 Crores
(b) INR 209 Crores
(c) INR 385 Crores
(d) INR 444 Crores

43. 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

44. 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

45. With respect to the following data given in ₹, what will be the national income using the Expenditure Method?

Private Final Consumption	28,000
Government Final Consumption	13,000
Net Domestic Capital Formation	7,500
Net Exports	4,000
Net Factor Income from Abroad	1,200
Net Indirect Taxes	1,700

(a) ₹ 53,200 (b) ₹ 52,000

(c) ₹ 51,000 (d) ₹ 49,800

46. Consider the following data:

Particulars	₹ in Crores
Sales	1,300
Opening Stock	600
Intermediate Consumption	700
Closing Stock	500
Net Factor Income from Abroad	50
Depreciation	150
Excise Tax	190
Subsidies	90

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

(a) ₹ 280 Crores

(b) ₹ 240 Crores

(c) ₹ 260 Crores

(d) ₹ 290 Crores

47. The following data is available (In ₹ Crores):

Purchase of Materials	₹ 200
Subsidies	₹ 40
Intermediate Consumption	₹ 420
Sales	₹ 950
Depreciation	₹ 70
Excise Tax	₹ 100
Opening Stock	₹ 100
Closing Stock	₹ 80

Calculate Net Value Added by the factor cost.

(a) ₹ 460 Crores (b) ₹ 400 Crores

(c) ₹ 370 Crores (d) ₹ 460 Crores

48. Which of the following is not used when National Income is calculated using the expenditure method?

(a) Operating Surplus

(b) Private Final Consumption Expenditure

(c) Net Export

(d) Net Domestic Capital Formation

49. Calculate National Income with the help of the Expenditure Method with the help of the following data.

Particulars	₹ in Crores
Net factor Income from Abroad	25
Net Indirect Taxes	65
Private Final Consumption Expenditure	2,500
Net Domestic Capital Formation	427
Consumption of Fixed Capital	108
Net Export	38
Govt. Final Consumption Expenditure	625

(a) ₹ 3,339 Crores (b) ₹ 1,207 Crores

(c) ₹ 2,033 Crores (d) ₹ 3,550 Crores

50. Consider the following information:

Private Final Consumption Expenditure	35
Gross Domestic Fixed Capital Formation	575
Subsidy	45
Net Import	65
Change in Stock	230
Net acquisition of Valuables	71
Public Final Consumption Expenditure	52
Income Paid Abroad	112
Depreciation	105

What is the value of NNP_{FC} (by Expenditure Method)?

(a) ₹ 726 Crores (b) ₹ 717 Crores

(c) ₹ 1,46 Crores (d) ₹ 517 Crores

51. The following data is available:

Particulars	Amount (₹)
Compensation of Employees	2,400
Interest	720
GNP at Factor Cost	46,500
Profit	1,000
Net Domestic Capital Formation	625
Gross Domestic Capital Formation	700
Net Exports	(–)50
Rent	625
Factor Income to Abroad	800
Net Indirect Taxes	225

What are GDP_{FC} and GDP_{MP}?

(a) ₹ 4,970 crores and ₹ 4,745 crores

(b) ₹ 4,745 crores and ₹ 4,970 crores

(c) ₹ 4,970 crores and ₹ 5,200 crores

(d) ₹ 4,800 crores and ₹ 4,925 crores

The System of Regional Accounts in India

52. 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

53. _____ 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

54. What is the formula to calculate Per Capita State Income?

(a) State Income × Money Multiplier

(b) ÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐ / ÐÐÐÐÐÐÐÐÐÐÐÐ

(c) ÐÐÐÐÐÐ / ÐÐÐÐÐÐÐÐÐÐÐÐ

(d) ÐÐÐÐÐÐ / ÐÂÐÐÐÐÐÐÐÐÐÐÐÂÐÐÐÐÐ Ð

55. 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

56. In the preparation of state level estimates, the advice and conceptual and methodological problems are rendered by_____.

(a) State Statistical Organization

(b) State Directorates of Economics and Statistics.

(c) State Economic Affairs Organization

(d) Central Statistical Organization

57. Which of the following activities is not assigned to a particular state?

(a) Railways

(b) Communication

(c) Banking and Insurance

(d) All of these

58. Which of the following is part of the "Supra-Regional Sectors" of the Economy?

(a) Railways

(b) Communication

(c) Central Government Administration

(d) All of the above

59. 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

60. 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

61. Which of the following aspects are excluded from 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

62. Which of the following is an example of conceptual difficulties related to the measurement of National Income?

(a) Issue of Transfer Payments

(b) Valuation of Government Services

(c) Lack of an agreed-upon definition of National Income

(d) All of the above

UNIT-II: KEYNESIAN THEORY OF DETERMINATION OF NATIONAL INCOME

Introduction

63. 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

64. 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

65. Which of the following is not a reason for leakages? **[June 2024]**

(a) Part of an increment in income used for the payment of debts

(b) Distributed profits of the corporation

(c) High liquidity preference

(d) Progressive rate of taxation

Circular flow in a simple Two-Sector Model

66. Which of the following statements about the 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

67. In the two-sector model, what is the relationship between the total income produced (y) that accrues to 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)

68. Which of the following is true in "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

69. As regards "Circular Flow in a Two Sector Economy", _____refer to the flow of 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

70. 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 the same point as the origin

71. Keynes believed that an economy may attain an 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

72. As per the 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

73. 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

74. If 40% of income is not spent on consumption, then what will be the Average Propensity to Consume?
(a) 40% (b) 60%
(c) 140% (d) 20%

75. Which of the following is true for MPC?
[June 2024]
(a) It is always greater than one
(b) It is always less than unity but greater than zero
(c) It can be even less than zero
(d) It can attain any value depending on the disposable income

76. What will be the value of Average Propensity to Save (APS) when C = 800 at Y = 1,000?
(a) 0.2 (b) 0.8
(c) 1.2 (d) 2.0

77. _____ 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)

78. When income rises from ₹2,000 to ₹2,200, saving rises by ₹60. What are MPS and MPC?
(a) 0.30 and 0.70 (b) 0.60 and 0.40
(c) 0.70 and 0.30 (d) 0.40 and 0.60

79. The consumption expenditure and investment demand are ₹900 Crores and ₹400 Crores, respectively, when income is ₹1,400 Crores. What will be the value of AD, AS and Saving?
(a) ₹1,300, ₹1,400 and ₹500
(b) ₹1,400, ₹1,300 and ₹400
(c) ₹1,200, ₹1,400 and ₹600
(d) None of these

Two-Sector Model of National Income Determination

80. If the autonomous consumption equals ₹1,500, the marginal propensity to consume equals 0.6 and disposable income equals ₹8,000, then total consumption will be:
(a) ₹6,300 (b) ₹6,500
(c) ₹7,300 (d) None of the above

81. Under the equation C = a + b y, if b = 0.75, what is the value of the two-sector expenditure multiplier?
(a) 2 (b) 3
(c) 4 (d) 5

82. As per the Keynesian model of macroeconomy, 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

83. If aggregate demand for an amount of output is less than the full employment level of output in the economy, then it gives rise to _____.
[June 2024]
(a) Inflationary Gap
(b) Deflationary Gap
(c) Potential Gap
(d) Excess Demand

84. 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

85. Consider the following data relating to an economy in equilibrium:

Autonomous Consumption	= ₹ 600
MPS	= 0.2
Investment Expenditure	= ₹ 9000

What is the national income?

(a) ₹3,000 (b) ₹2,100
(c) ₹7,500 (d) ₹1,800

86. Given the empirical consumption function C=200+0.8Y and I=800, what will be the equilibrium level of national income and the consumption expenditure at this equilibrium level?

(a) ₹5,000; ₹4,200 (b) ₹4,000; ₹3,000
(c) ₹3,200; ₹2,200 (d) None of these

The Investment Multiplier

87. Investment multiplier is the _____. **[June 2024]**

(a) Rate of change in investment due to an increase in income
(b) Rate of increase in the national income due to an increase in investment
(c) Rate of change in the investment due to an increase in the savings
(d) Rate of change in savings due to an increase in the investment

88. The higher the _____ more will be the value of the multiplier, whereas, higher the _____, the lower will be the value of the multiplier.

(a) MPS, MPC (b) MPC, MPS
(c) APS, APC (d) APC, APS

89. The value of the investment multiplier is the reciprocal of _____.

(a) APC (b) APS
(c) MPS (d) MPC

90. In an economy, investment expenditure is increased by ₹500 crores, and the Marginal Propensity to Consume (MPC) is 0.75. What will be the total increase in savings?

(a) ₹125 (b) ₹625
(c) ₹250 (d) ₹500

91. Suppose in a country, investment increases by ₹300 crores, and the consumption function is C=60+0.5Y, where C is consumption and Y is income. What will be the increase in income?

(a) ₹600 (b) ₹700
(c) ₹800 (d) ₹900

92. An increase in investment by ₹800 crores leads to an increase in national income by ₹2,000 crores. What will be the Marginal Propensity to Consume (MPC)?

(a) 0.8 (b) 0.6
(c) 0.7 (d) 0.4

93. Which of the following formula can be used to find the value of Multiplier (K)?

(a) $\frac{}{}$ (b) $\frac{\quad}{ĐĐĐ}$

(c) $\frac{\quad}{ĐĐĐ}$ (d) Any of the above

94. Consider the following data relating to an economy:

Increase in Investment = ₹ 2,500 Crores
50% of the Increase in Income is Spent on Consumption.

What will be the total increase in income?

(a) ₹ 2,000
(b) ₹ 5,000
(c) ₹ 12,500
(d) None of these

Determination of equilibrium Income: Three Sector Model

95. Which of the following is not considered in the three-sector model of a closed economy?

(a) Household Consumption
(b) Desired Business Investment Demand
(c) Government Sector's Demand for Goods and Services
(d) Foreign Trade

96. Find the aggregate demand when consumption is ₹ 2000 crores, investment is ₹ 700 crores, Government Spending is ₹ 750 crores, total exports are ₹ 150 crores, and total expenditure on imports is 50 crores. **[June 2024]**

(a) 3550 Cr (b) 3300 Cr
(c) 3600 Cr (d) 3350 Cr

97. $C = 200 + 0.8Y_d$; G = T = 150 I = 200; TR = 75. Find the equilibrium income. **[June 2024]**

(a) 625 (b) 2450
(c) 2250 (d) 800

98. The following information is available regarding the structure model of an economy:

$C = 100 + 0.6Y_d$

$I = 70$

$G = T = 30$

$TR = 50$

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) 710 (b) 470

(c) 185 (d) 238

99. 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)	= 200+ 0.25 (Y – T + TR)
Investment (I)	= 550
Government Expenditure (G)	= 300
Tax (T)	= 62 + 0.4Y
Autonomous Transfer Payment (TR)	= 120

What is the equilibrium level of income?

(a) 1002.35 (b) 1252.35

(c) 1152.35 (d) 4582.35

Determination of National Income: Four Sector Model

100. In the four-sector model, which of the following additional flows are considered as compared to the three-sector model?

(a) Exports

(b) Imports

(c) Net Capital Inflow

(d) All of the above

101. 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

102. 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 = $\overline{\ }$ + mY

(d) All of the above

103. 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 (MPI)?

(a) $\frac{\qquad}{ÐÑ}$ (b) $\frac{\qquad}{ÐÑ}$

(c) $\frac{\qquad}{ÐÑ}$ (d) $\frac{\qquad}{ÐÑ}$

104. Consider the following:

Consumption function (C) = $20 + 0.6Y_d$

T = 0.2Y

I = 40 crores

G = 25 Crores

X = 55

M = 0.3Y

What will be the equilibrium level of income?

(a) 177.73 crores (b) 170.73 crores

(c) 160.71 crores (d) 120.23 crores

105. C = 50 + 0.2Yd

I = 80

M = 20 + 0.03Y

What is the Foreign Trade Multiplier?

(a) 0.98 (b) 0.91

(c) 0.54 (d) 0.89

106.

Equilibrium income (Y)	= ₹800 crores
Exports (X)	= ₹50 crores
Imports (M)	= ₹20 + 0.03Y

What is the Trade Balance?

(a) Surplus (3) (b) Surplus (6)

(c) Deficit (10) (d) Deficit (9)

PYQs of May, 25

107. Which of the following organisation is responsible for the compilation of National accounts statistics? **[May 2025]**

(a) Central Statistical Organisation (CSO)

(b) Directorate of Economic and Statistics (DES)

(c) Ministry of Finance of the Central Government

(d) Reserve Bank of India (RBI)

108. Which of the following defines the Gross National Product (GNP) of a country under the concept of National Income? **[May 2025]**

(a) It is the market value of all final economic goods and services produced within the domestic territory of a country, including Net Factor Income from abroad

(b) It is the market value of all final economic goods and services produced within the domestic territory of a country, excluding Net Factor Income from abroad

(c) It is the production cost of all final economic goods and services produced within the domestic territory, including depreciation

(d) It is the production cost of all final economic goods and services produced within the domestic territory, excluding depreciation

109. The Gross Domestic Product at Factor Cost (GDP_{FC}) is calculated by which of the following formula (Here GDP_{MP} is Gross Domestic Product at market prices): **[May 2025]**

(a) $GDP_{FC} = GDP_{MP}$ + Net Factor Income from Abroad

(b) $GDP_{FC} = GDP_{MP}$ + Net Factor Income from Abroad – Depreciation

(c) $GDP_{FC} = GDP_{MP}$ – Indirect Taxes + Subsidies

(d) $GDP_{FC} = GDP_{MP}$ + Indirect Taxes – Subsidies

110. Considering the data given in the table below calculate the Inflation rate of year 3: **[May 2025]**

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

(a) 13.19% (b) 15.20%

(c) 19% (d) –19%

111. Which of the following is an indicator of the standard of living of a country under the concept of National Income? **[May 2025]**

(a) Personal Income

(b) Disposable Personal Income

(c) Per Capita Income

(d) GDP at Factor Cost

112. The amount of money in the hands of the individual that is available for their consumption or savings is known as _____. **[May 2025]**

(a) Private Income

(b) Per Capita Income

(c) Disposable Personal Income

(d) Personal Income

113. Which of the following is included in the calculation of Personal Income under the concept of National Income? **[May 2025]**

(a) Unemployment Compensation

(b) Retained Earnings

(c) Indirect Business Taxes

(d) Contribution towards Social Security

114. Which of the following is true in relation to Private Income under the concept of National Income? **[May 2025]**

(a) It is personal income adjusted by the inflation rate

(b) It is personal income less personal income tax

(c) It is the income (both factor & transfer income) accrued to the private sector from all sources within the country only

(d) It is income (both factor and transfer income) accrued to the private sector from all sources within and outside the country

115. Which of the following is true about the basic price in the determination of National Income? **[May 2025]**

(a) Basic Price = Factor Cost – Manufacturing Taxes + Manufacturing Subsidy

(b) Basic Price = Factor Cost – Depreciation

(c) Basic Price = Factor Cost + Net Factor Income from Abroad

(d) Basic Price = Factor Cost + Production Tax - Production Subsidy

116. Which of the following is not a sector to be included in the three-sector model of Keynesian theory of income determination? **[May 2025]**

(a) Household Sector

(b) Business Sector

(c) Foreign Sector

(d) Government Sector

117. Under the Keynesian Theory of National Income determination, which of the following terms is given to the demand for money? **[May 2025]**

(a) Investment multiplier

(b) Liquidity preference

(c) Aggregate demand

(d) Marginal propensity

118. Under the Keynesian Theory of Determination of National Income, the assumption is that consumption increases with an increase in disposable income, but the increase in consumption will be _____ the increase in disposable income. **[May 2025]**

(a) Equal to

(b) Opposite to

(c) Greater than

(d) Less than

119. Which of the following is true with respect to the relation of Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) as per the Keynesian theory of the determination of National Income? **[May 2025]**

(a) MPC + MPS

(b) MPC + MPS = 1

(c) MPC + MPS = 0

(d) No relation exists between MPC and MPS

120. In the preparation of state income estimates, certain activities like railways, banking, insurance, etc., that cut across state boundaries, and thus their economic contribution is assigned to more than one state, are known as _____. **[May 2025]**

(a) Central sectors of the economy

(b) Supra-regional sectors of the economy

(c) Tertiary sectors of the economy

(d) Secondary sectors of the economy

ANSWER KEY

1. (d)	**2.** (b)	**3.** (d)	**4.** (a)	**5.** (a)	**6.** (c)	**7.** (a)	**8.** (a)	**9.** (a)	**10.** (a)
11. (a)	**12.** (c)	**13.** (b)	**14.** (b)	**15.** (a)	**16.** (c)	**17.** (a)	**18.** (c)	**19.** (a)	**20.** (b)
21. (a)	**22.** (d)	**23.** (a)	**24.** (c)	**25.** (c)	**26.** (c)	**27.** (b)	**28.** (c)	**29.** (d)	**30.** (d)
31. (d)	**32.** (d)	**33.** (c)	**34.** (b)	**35.** (d)	**36.** (d)	**37.** (d)	**38.** (b)	**39.** (b)	**40.** (a)
41. (c)	**42.** (a)	**43.** (a)	**44.** (c)	**45.** (b)	**46.** (c)	**47.** (c)	**48.** (a)	**49.** (d)	**50.** (a)
51. (b)	**52.** (c)	**53.** (a)	**54.** (d)	**55.** (c)	**56.** (d)	**57.** (d)	**58.** (d)	**59.** (b)	**60.** (b)
61. (d)	**62.** (d)	**63.** (a)	**64.** (d)	**65.** (b)	**66.** (d)	**67.** (c)	**68.** (d)	**69.** (a)	**70.** (a)
71. (b)	**72.** (a)	**73.** (d)	**74.** (b)	**75.** (b)	**76.** (a)	**77.** (d)	**78.** (a)	**79.** (a)	**80.** (c)
81. (c)	**82.** (d)	**83.** (b)	**84.** (a)	**85.** (c)	**86.** (a)	**87.** (b)	**88.** (b)	**89.** (c)	**90.** (d)
91. (a)	**92.** (b)	**93.** (d)	**94.** (b)	**95.** (d)	**96.** (a)	**97.** (b)	**98.** (b)	**99.** (b)	**100.** (d)
101. (c)	**102.** (d)	**103.** (c)	**104.** (b)	**105.** (c)	**106.** (b)	**107.** (a)	**108.** (a)	**109.** (c)	**110.** (b)
111. (c)	**112.** (c)	**113.** (a)	**114.** (d)	**115.** (d)	**116.** (c)	**117.** (b)	**118.** (d)	**119.** (b)	**120.** (b)

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8. (a) GDP Deflator = $\frac{\text{ĐĐĐÂĐ}}{\text{ĐĐĐĐ}}$ Đ

$\frac{\text{ĐĐ}}{\text{ĐĐ}}$ ĐĐĐĐ

Since the GDP Deflator < 100, it means prices have fallen compared to the base year.

13. (b) The formula for GDP Deflator is:

GDP Deflator $\frac{\text{ĐĐĐÂĐ}}{\text{ĐĐĐĐ}}$ Đ

By definition, in the base year, the Nominal GDP = Real GDP, so;

GDP Deflator $\frac{\text{ĐĐĐĐ}}{\text{ĐĐĐĐ}}$ ĐĐĐ

Hence, the year in which the GDP Deflator is exactly 100 is the base year.

14. (b) Based on the given data, the GDP deflator is greater than 100 in the years 2022 (108.2), 2023 (113.8), and 2024 (120.4).

21. (a) Personal Income = Private Income – Undistributed Corporate Profits – Profit Taxes
= 12,000 – 1,500 – 1,00
= ₹9,500

26. (c) NDP at FC = GNP at MP–Depreciation–Net Factor Income from Abroad–Net Indirect Taxes
NDP at FC = 10,200 – 600–300–700 = ₹8,600

29. (d) Step 1: GNP at MP = 8,200 + 200 = 8,400
Step 2: GNP at FC = 8,400 – 300 = 8,100
Step 3: Consumption of Fixed Capital (CFC)
= 8,100 – 7,300 = ₹800 crores

30. (d) Option (a) is correct.
GDP at MP = 1500 + 2700 + 1500 + 600 = ₹6300
Option (b) is correct.
GNP at MP = 6300 – 100 = ₹6200
Option (c) is correct.
NNP at MP = 6200 – 500 = ₹5700
Option (d) is INCORRECT.
NNP at FC = 5700 – 600 = ₹5100 (Not ₹6300)

32. (d) Intermediate Consumption
= 142 + 14 = ₹156 crore

33. (c) Value of Output = Sales + Closing Stock – Opening Stock = 35,000 + 1,800 – 1,300
= ₹35,500 Lakhs

34. (b) Value of Output = Sales + Closing Stock– Opening Stock
= 18,00,000 + 50,000 – 20,000
= ₹18,30,000
NVA at MP = Value of Output – Intermediate Consumption – Depreciation
= 18,30,000 – 3,10,000 – 70,000
= ₹15,50,000

39. (b) NDP at factor Cost = 10,000 + 5,000 + 4,000 + 12,000 + 9,000 + 22,000 = ₹62,000

40. (a) Operating Surplus = Value of Output – Raw Material – Wages and Salaries – Net Indirect Tax
= 2,90,000 – 65,000 – 80,000 – 20,000
= ₹1,25,000

42. (a) Formula (Expenditure Method):
GNP at MP = C + I + G + (X – M)
So, GNP at MP = 280 + 180 + 45 + 50
= ₹555 Crores

45. (b) GNP at MP
= 28,000 + 13,000 + 7,500 + 4,000 + 1,200
= ₹53,700
National Income (NNP at FC)
= 53,700 – 1,700 = ₹52,000

46. (c)

- Value of Output (VO)
  = Sales + Closing Stock – Opening Stock
  = 1,300 + 500 – 600 = ₹1,200
- Gross Value Added at MP (GVA_{MP})
  = 1,200 – 700 = ₹500
- Net Indirect Taxes (NIT)
  = 500 – 150 = = ₹350
- National Income (NNP at FC)
  = 350 – 100 + 50 = ₹260

47. (c) Value of Output (VO) =Sales+Closing Stock–Opening Stock = 950 + 80 – 100 = ₹930

Gross Value Added at Market Price (GVA_{MP}) = VO – Intermediate Consumption

= 930 – 420 = ₹510

Net Value Added at MP (NVA_{MP})

= 510 – 70 = ₹440

Net Indirect Taxes (NIT) = Excise Tax – Subsidies

= 100 – 40 = ₹60

Net Value Added at Factor Cost (NVA_{FC})

= 440 – 60 = ₹370

49. (d) Gross Domestic Capital Formation (GDCF) = Net Domestic Capital Formation+Consumption of Fixed Capital = 427 + 108 = 535

GDP at Market Price (GDP_{MP})

= 2,500 + 625 + 535 + 38 = ₹3,698

NDP at Factor Cost (NDP_{FC})

= 3,698 – 65 – 108 = ₹3,525

National Income (NNP at FC) = NDP_{FC} + NFIA

= 3,525 + 25 = ₹3,550 crores

50. (a) Gross Domestic Capital Formation (GDCF)

= 575 + 230 + 71 = 876

GDP at Market Price (GDP_{MP})

= 35 + 52 + 876 – 65 = 898

GNP at Market Price (GNP_{MP})

= 898–112 = 786

NNP at Market Price

= 786 – 105 = 681

NNP at Factor Cost (National Income)

= 681 + 45 = ₹726

51. (b) GDP at FC = COE + Interest + Profit + Rent

= 2,400 + 720 + 1,000 + 625

= ₹ 4,745 crores

GDP at MP = GDP_{FC} + Net Indirect Taxes

= 4,745 + 225

= ₹ 4,970 crores

74. (b) If 40% of income is not spent on consumption, it means 60% is spent on consumption.

So, APC = $\frac{\text{ÐÐÐÐÐ}}{\text{ÐÐÐÐ}} \aleph \text{——}$ ÐÐÐ

76. (a) S = Y – C = 1000 – 800 = 20

APS = $\frac{\text{ÐÐ}}{\text{ÐÐ}} \aleph \text{——}$ Ð

78. (a)

ΔY = ₹2,200 – ₹2,000 = ₹200

ΔS = ₹60

ÐÐÐ $\aleph \frac{\text{Ð}}{\text{ÐÐ}}$ ——

MPC = 1 – MPS = 1 – 0.30 = 0.70

79. (a) AD = C + I = ₹900 + ₹400 = ₹1,300 crores

AS = Y = ₹1,400 crores

Saving = Y – C = ₹1,400 – ₹900 = ₹500 crores

80. (c) Total Consumption (C) = Autonomous Consumption (C_0) + MPC × Disposable Income (Y_d)

Substituting the values:

C = 1,500 + (0.6×8,000)

= 1,500 + 4,800 = ₹7,300

81. (c) Multiplier (k) = $\frac{\text{ÐÐ}}{\frac{\text{Ð}}{\text{ÐÐÐÐ}} \aleph \text{——}}$

85. (c) C = $\bar{\ }$ + MPC (y)

= $\bar{\ }$ + (1 – MPS) (y)

= 600 + (1 – 0.2)y

y = C + I

y = 600 + (0.8)(y) + 900

y = 1500 + 0.8y

0.2 y = 1500

y = 7500

86. (a) C = 200 + 0.8y

I = 800

In Equilibrium, Y = C + I

Y = 200 + 0.8Y + 800

Y = 1000 + 0.8Y

Y – 0.8Y = 1000

0.2Y = 1000

Y = 5000

Y = C + I

C = Y – I

= 5000 – 800 = 4200

90. (d) MPC= 0.5 ⇒ MPS = 1 – 0.75 = 0.25

Multiplier (k) = $\frac{\text{Ð}}{\text{ÐÐÐÐ}} \aleph \text{——}$

Increase in National Income (ΔY)

ΔY = k × ΔI = 4 × 500 = ₹2,000 crores

Increase in Saving (ΔS)

ΔS = MPS × ΔY

= 0.25 × 2000 = ₹500 crores

91. (a) Consumption function: C = 60 + 0.5Y, so MPC = 0.5

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ΔY = k × ΔI = 2 × 300 = ₹600 crores

Thus, an increase in investment by ₹ 300 crores will cause equilibrium income to rise by ₹ 600 Crores.

92. (b)

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⇒ MPC = 1 – 0.4 = 0.6

94. (b) MPC = 50% = 0.5

So, Multiplier (k) Đ

ΔY = k × ΔI = 2 × 2,500 = ₹5,000 crores

96. (a) Formula: AD = C + I + G + (X – M)

AD = 2000 + 700 + 750 + (150 – 50)

AD = 2000 + 700 + 750 + 100

AD = 3550 crores

97. (b) Equilibrium condition:

Y = C + I + G .....(1)

$C = 200 + 0.8\ Y_d$ .....(2)

Yd = Y – T + TR .....(3)

Substituting the value of Y_d from eq. (3) in eq.(2)

C = 200 + 0.8 (Y – T + TR)

= 200 + 0.8 (Y – 150 + 75) = 140 + 0.8Y

Putting this value of C in eq (1)

Y = 140 + 0.8Y + I + G

= 140 + 0.8Y + 200+ 150

0.2Y = 490

Y = 490/0.2 = 2450

98. (b) C + I + G

= 100 + 0.6 Yd + 70 + 30

= 200 + 0.6 Yd

= 200 + 0.6 [Y – T + TR]

= 200 + 0.6 [Y – 30 + 50]

= 200 + 0.6 [Y – 20]

= 200 – 12 + 0.6Y

= 188 + 0.6Y

0.4Y = 188

Y = 470

99. (b) C = a + b (Y – $\bar{T}$ – tY + TR)

= 200 + 0.25 [Y – (62 + 0.4Y) +1 20]

= 200 + 0.25 [Y – 62 – 0.4Y + 120]

= 200 + 0.25 [0.6Y + 58]

= 200 + 0.15Y + 14.5

= 214.5 + 0.15Y

Y = C + I + G

Y = 214.5 + 0.15 Y + 550 + 300

Y = 1064.5 + 0.15Y

0.85Y = 1064.5

Y = 1252.35

104. (b) = 20 + 0.6Yd

= 20 + 0.6 (Y – 0.2Y)

= 20 + 0.6 (0.8Y)

I = 40

G = 25

X = 55

M = 0.3Y

(X – M)= 58 – 0.05Y

The equilibrium level of Income (Y) will be:

Y = C + I + G + (X – M) Y

= 20 + 0.6 (0.8Y) + 40 + 25 + (55 – 0.3Y)

= 140 + 0.48Y – 0.3Y

= 140 + 0.18 Y

Y – 0.18Y = 140

0.82Y = 140

Y = 170.73

105. (c) Foreign Trade Multiplier

= – Đ = Đ

106. (b) Trade Balance = X – M

= 50 – 20 – 0.03 (800) = 30 – 24 = 6

Thus, the trade balance is in surplus (6).

110. (b) Inflation Rate Formula (Using GDP Deflator)

Inflation Rate

= Đ Đ

From the table

GDP Deflator (Year 3) = 144

GDP Deflator (Year 2) = 125

Inflation Rate = Đ

Đ

Chapter Wrap-Up Test

This is a 20-minutes test. Read each question carefully and attempt all.

1. Refers to the money value of all the final goods and services produced by a country during a year.
   (a) National Income
   (b) Personal Income
   (c) Personal Disposable Income
   (d) Government Income

2. Which of the following is an example of factor payments?
   (a) Rent paid by a tenant to a landlord for an apartment
   (b) Interest earned by a bank on loans provided to businesses
   (c) Dividends received by shareholders from a company
   (d) Salary received by an employee from an employer

3. Which of the following is the correct formula for calculating the GDP deflator?
   (a) GDP Deflator $\approx \frac{\text{üüüü}}{\text{üüü=ü}}$ ü
   (b) GDP Deflator $\approx \frac{\text{üüü=ü}}{\text{üüüü}}$ ü
   (c) GDP Deflator = Nominal GDP – Real GDP
   (d) GDP Deflator $\approx \frac{\text{üüü=ü}}{\text{üüüü}}$ ü

4. Which of the following best distinguishes nominal GDP from real GDP?
   (a) Nominal GDP is adjusted for inflation, while real GDP is not
   (b) Nominal GDP measures current year prices, while real GDP measures constant prices
   (c) Nominal GDP includes only goods, while real GDP includes both goods and services
   (d) Nominal GDP is used for international comparisons, while real GDP is not

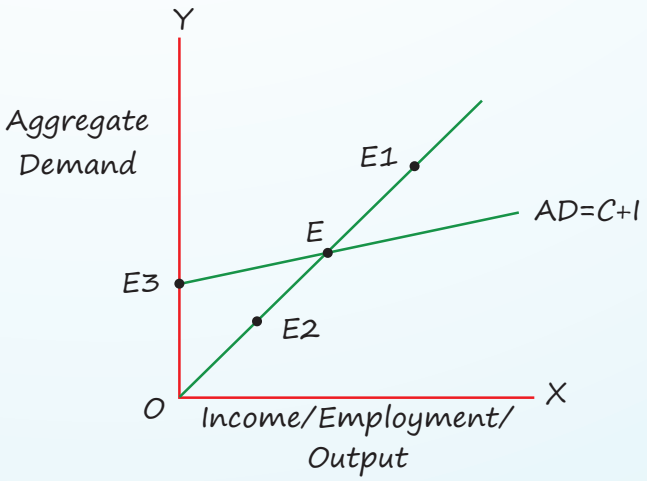
5. Income from property and entrepreneurship in national income accounting is known as:
   (a) Wages and salaries
   (b) Operating surplus
   (c) Rent
   (d) Mixed income

6. If the personal income of a country is $1 trillion and personal taxes amount to $200 billion, what is the disposable income?
   (a) $800 billion (b) $1.2 trillion
   (c) $200 billion (d) $1.5 trillion

7. Which sector of the economy is responsible for producing goods and services for consumption?
   (a) Household sector
   (b) Business sector
   (c) Government sector
   (d) Foreign sector

8. Net Domestic Product (NDP) equals:
   (a) GDP + Depreciation
   (b) GDP - Depreciation
   (c) GNP + Depreciation
   (d) GNP - Depreciation

9.



Find the equilibrium income/output determination point in the two-sector model.
   (a) E (b) E1
   (c) E2 (d) E3

10. In a four-sector model, which of the following formulas is used to calculate the Foreign Trade Multiplier, if b and m refer to the marginal propensity to consume and the marginal propensity to import, respectively?

(a) _____ (b) _____
ü ℵ ü ℵ

(c) _____ (d) _____
ü ℵ ü ℵ

11. If the population of a country is 1.4 billion and its national income is $4.2 trillion, what is its per capita income?

(a) $3,000 (b) $300
(c) $30,000 (d) $30

12. If Net factor income from abroad is negative, then:

(a) $GNP_{MP} > GDP_{MP}$
(b) $GNP_{MP} = GDP_{MP}$
(c) $GNP_{MP} < GDP_{MP}$
(d) None of the above

13. What is the formula to calculate Per Capita State Income?

(a) State Income x Money Multiplier

(b) üüüüüüüüüüüüüüüü / üüüüüüüüüüüüüü

(c) üüüüüüü / üüüüüüüüüüüüüü

(d) üüüüüüü / ü=üüüüüüüüüüüüüü=üüüüüü ü

14. Which of the following is an example of transfer income?

(a) Bonus
(b) Unemployment Allowance
(c) Compensation from the employer
(d) All of the above

15. Which of the following is a limitation or challenge in the computation of national income?

(a) National income calculations include all informal economic activities.
(b) National income statistics may not accurately reflect changes in income distribution.
(c) National income figures are adjusted for changes in the quality of goods and services.
(d) National income measurements are unaffected by changes in population size.

16. If nominal GDP and real GDP for the year 2024 are 8200 crores and 7000 crores respectively, then what will be the impact on the change in prices with respect to the base year?

(a) Prices will fall
(b) Prices will rise
(c) Not defined as base is year not given
(d) No effect on prices

17. Given the following data (Figures in Crores), calculate the National Income (NI) using the expenditure method:

Private final consumption expenditure	3,000
Government final consumption expenditure	1,200
Gross domestic capital formation	1,000
Net exports (Exports-Imports)	200
Net factor income from abroad	50
Consumption of fixed capital (Depreciation)	150

Calculate the National Income (NI) using the expenditure method:

(a) 5,300 Crores (b) 5,250 Crores
(c) 5,450 Crores (d) 5,750 Crores

18. According to Keynesian theory, what does "deficient demand" refer to?

(a) A situation where aggregate demand (AD) exceeds aggregate supply (AS), leading to inflation
(b) A situation where aggregate demand (AD) equals aggregate supply (AS), indicating economic equilibrium
(c) A situation where aggregate demand (AD) is less than aggregate supply (AS) at full employment level, resulting in unused capacity and potential unemployment
(d) A situation where aggregate demand (AD) precisely meets government spending forecasts

19. Which of the following correctly explains how net exports are calculated?

(a) Net Exports = Exports – Imports

(b) Net Exports = Imports – Exports

(c) Net Exports = Exports + Imports

(d) Net Exports = Exports x Imports

20. Consider the following information, and calculate the amount of subsidies:

Particulars	₹ in Crores
GNP_{FC}	39,000
Consumption of fixed capital	4,000
Indirect Taxes	300
Factor Income from Abroad	800
NDP_{MP}	35,000
Factor Income to Abroad	900

(a) ₹ 100 Crores (b) ₹ 200 Crores

(c) ₹ 300 Crores (d) ₹ 400 Crores

ANSWER KEY

1. (a)	2. (d)	3. (b)	4. (b)	5. (b)	6. (a)	7. (b)	8. (b)	9. (a)	10. (c)
11. (a)	12. (c)	13. (d)	14. (b)	15. (b)	16. (b)	17. (a)	18. (c)	19. (a)	20. (d)

7 Public Finance

QUICK HIGHLIGHTS

1. Three Fiscal Functions mentioned in the book "Theory of Public Finance" written by Richard Musgrave in 1959-Examples:

Allocation Function (Efficient resource allocation)	Redistribution Function (Reducing income inequality)	Stabilisation Function (Maintaining Economic Stability)
1. Government investing in public goods like roads, bridges and defence.	1. Progressive taxation and social welfare programs like unemployment benefits.	1. Central bank adjusting interest rates to control inflation.
2. Providing subsidies for renewable energy development.	2. Free healthcare and education for low-income groups.	2. Government increasing spending during a recession to boost demand.
3. Setting up industrial zones to promote balanced regional growth.	3. Food distribution programs for the poor.	3. Implementing fiscal policies to reduce budget deficits.

2. Market Failure-Meaning:
   - Inefficient allocation of resources.
   - Either wrong quantity is produced or wrong price is charged.
3. Causes of Market Failure:
   - Market Power
   - Externalities
   - Public Goods
   - Incomplete Information
4. Positive vs. Negative Externalities-Examples:

Positive Externalities (Beneficial effects on third parties)	Negative Externalities (Harmful effects on third parties)
1. Vaccination programs reducing disease spread.	1. Air pollution from factories affecting public health.

2. Education leading to a more skilled and productive workforce.	2. Traffic congestion increasing travel time and fuel consumption.
3. Public parks improving community well-being.	3. Industrial waste polluting rivers and harming aquatic life.
4. Research and development benefiting society beyond the firm.	4. Loud music in residential areas disturbing neighbours.

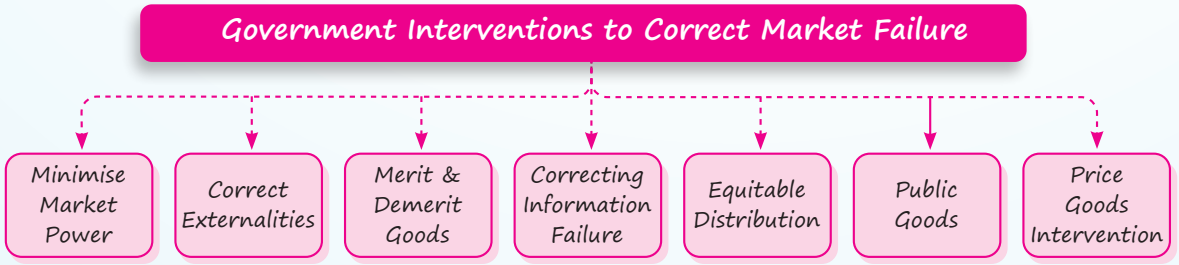
5. Merit vs Demerits Goods-Examples:

Merit Goods (Socially desirable but under-produced)	Demerit Goods (Socially undesirable but over-produced)
1. Education	1. Tobacco
2. Healthcare	2. Alcohol
3. Public transport	3. Junk food
4. Vaccinations	4. Gambling
5. Libraries	5. Drugs

6. Public Goods-Examples:

Public Goods (Non-Excludable and Non-Rivalrous) - suffering from free rider problem
1. National Defence
2. Street Lighting
3. Public Parks
4. Law enforcement (Police Services)
5. Flood Control System
6. Lighthouse Services

7. Government Interventions to Correct Market Failure:



8. The Process of Budget Making:

◈ Budget Preparation Process

1. Ministry of Finance + NITI Aayog + Other relevant ministries work together to prepare the budget.
2. Budget Division sends out the budget circular.
3. Ministries, States, and UTs are asked for detailed expenditure estimates.
4. Suggestions on the budget are compiled.
5. The Ministry of Finance presents the budget in the Lok Sabha.

◈ Budget Speech (2 parts)

- **Part A:** Present macroeconomic situation, estimates for the next fiscal year, expenditure allocations, and new schemes.
- **Part B:** Details of government progress on developmental measures, future policy directions, and tax proposals.

Key Documents

(i) Annual Financial Statements (AFS)

(ii) Demand for Grants (DG)

(iii) Finance Bill

(iv) Statements as per FRBM Act 2003:

Macroeconomic Framework Statement

Medium Term Fiscal Policy Cum Fiscal Policy Strategy Statements

(v) Nine additional explanatory documents supporting the mandated ones.

Budget Discussions

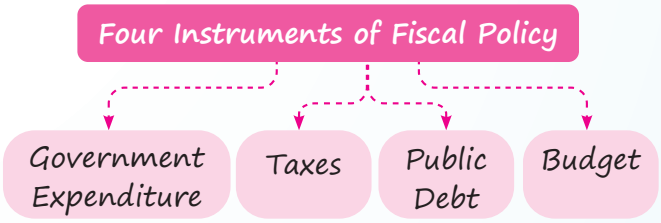
1. **General Budget:** First, the budget is discussed in Parliament and then adjourned for review by the Standing Committee of the Demands for Grants (DG).
2. **Demand for Grants (DG):** DG voting takes place in the Lok Sabha, where grants can be reduced or cut. After this, the budget is presented in the Rajya Sabha, where there is no DG voting.
3. **Appropriation Bill:** Introduced to authorise govt. spending from Consolidated Fund of India. It is introduced just after the general discussion on the budget proposals and voting on demands for grants have been completed.
4. **Cut Motions:** Reduction motions in DG form.
5. **Finance Bill:** It is the bill related to the imposition, abolition, alteration or regulation of taxes proposed in the budget. After the general discussion on the budget proposals and voting on demands for grants have been completed. It must be passed within 75 days.
6. **Guillotine:** It is a procedure of imposing time limit on DG discussions.
7. **Rajya Sabha:** It has 14 days to return the Finance Bill with or without recommendations.
8. **Changes Since 2017-18:** Budget introduction date moved to 1st February. Railway Budget merged with the General Budget.

9. Deficits:

1. Deficit = Expenditure – Income
2. Revenue Deficit = Revenue Expenditure – Revenue Income
3. Fiscal Deficit = Total Expenditure – Total Receipts (excluding borrowings)

   Also: Fiscal Deficit = Revenue Expenditure + Capital Expenditure – [Revenue Receipts + Capital Receipts] (excluding borrowings)
4. Primary Deficit = Fiscal Deficit – Net interest liabilities

10. Fiscal Policy:



- **Types**
  1. **Expansionary Fiscal Policy:** Stimulates the economy during a recession or contractionary phase of the business cycle.
  2. **Contractionary Fiscal Policy:** Applied during inflationary phases or when an expansion could trigger inflation.

11. Different Concepts:

- **Merit goods** such as education, health care, etc, are socially desirable and have substantial positive externalities.
- **Demerit goods** are goods which impose significant negative externalities on society as a whole and are believed to be socially undesirable.
- **Private goods** are 'rivalrous', ' excludable' and less likely to have the free rider problem.
- **Public goods** are 'non-rivalrous' and 'non-excludable' and highly likely to have the free rider problem.
- **Free rider problem:** When people enjoy a good without paying for it, leading to underproduction.

QUESTIONS

UNIT-I: FISCAL FUNCTIONS: AN OVERVIEW, CENTRE AND STATE

Introduction

1. Who is responsible for the economic stabilisation and the income redistribution in an economy? **[June 2024]**

(a) State Government
(b) Central Government
(c) Central and State
(d) Central, State, and local bodies

2. Which one of the following is the main macroeconomic goal of any nation?

(a) Economic growth
(b) High levels of employment
(c) Stable price levels
(d) All of the above

3. 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

4. Which of the following is primarily a macro-economic function?

(a) Allocation Function
(b) Income Redistribution
(c) Stabilisation Function
(d) All of the above

The Allocation Function

5. The Government of Emeline Land decides to provide the most modern road infrastructure throughout the nation. This can be classified as:

(a) Distribution function
(b) Allocation function
(c) Stabilisation function
(d) None of the above

6. 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

The Redistribution Function

7. 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

8. When the redistribution function is done by the Government through the revenue side, then which of the following methods is adopted?

(a) Free or subsidised education
(b) Healthcare
(c) Progressive taxation
(d) Flat rate of taxation

9. Allocative and Distributive functions of a government is a _____economic function. **[June 2024]**

(a) Micro (b) Macro
(c) Both (d) None

Stabilisation Function

10. The stabilisation issue also becomes more complex due to _____.

(a) Contagion effect (b) Contraction effect
(c) Expansion effect (d) Recession effect

11. The government Stabilisation intervention may be carried out through which of the following?

(a) Monetary policy
(b) Fiscal policy
(c) Monetary policy as well as fiscal policy
(d) None of these

12. Which of the following fiscal policies is adopted to alleviate a recession?

(a) Expansionary
(b) Contractionary
(c) Both (a) and (b)
(d) Neither (a) nor (b)

13. The policy designed to restrain the level of economic activities of the economy during the inflationary phase is known as _____.

[June 2024]

(a) Expansionary fiscal policy
(b) Contractionary fiscal policy
(c) Taxation policy
(d) Budgetary policy

Centre and State Finance

14. Fiscal federalism in India is maintained by?

[June 2024]

(a) Central Government
(b) State Government
(c) RBI
(d) Finance Commission

15. Which of the following articles of the Constitution demarcates the powers of the Union and the States by classifying their powers into three lists?

(a) Article 244
(b) Article 245
(c) Article 246
(d) Article 247

16. On which of the following items can the State Government not levy taxes?

(a) Lands and Buildings
(b) Electricity
(c) Vehicles
(d) Capital Value of assets

17. 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

18. On which date, the GST roll out across the country?

(a) 1st April, 2017 (b) 1st July, 2017
(c) 1st January, 2018 (d) 1st July, 2018

19. 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

20. 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 the union and the states
(d) The state legislatures can make rules only with the permission of the central government

UNIT-II: MARKET FAILURE/GOVERNMENT INTERVENTION TO CORRECT MARKET FAILURE

Why do Markets Fail?

21. 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

22. Externalities lead to market failure because:

[June 2024]

(a) They always result in negative outcomes for markets, causing market failure
(b) They represent costs or benefits which are not reflected in the market price
(c) They are always associated with public goods and services
(d) They prevent the production of private goods, harming mankind

23. 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

24. 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

25. 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) Social Cost = Private Cost only
(d) Social Cost = External Cost – Private Cost

Public Goods

26. Which economist developed the theory of public goods?

(a) Paul A. Samuelson
(b) Jean Baptiste Say
(c) J.R. Hicks
(d) None of these

27. A public good is also called _____.

(a) Collective consumption goods
(b) Social goods
(c) Both (a) and (b)
(d) None of the above

28. 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 among people

Government Inventions to Minimise Market Failure

29. When smoking is completely banned by the government in public places like bus stand, schools, parks, etc., then it is an example of _____. **[June 2024]**

(a) Direct control over negative production externality
(b) Direct control over positive production externality
(c) Command solution
(d) Direct control over positive consumption externality

30. What are Pigouvian taxes?

(a) Taxes on pollution
(b) Taxes on corruption
(c) Penalties for overproduction or underproduction
(d) Anti-profiteering taxes

31. Which of the following is not an example of demerit good?

(a) Cigarettes
(b) Alcohol
(c) Medical use of alcohol
(d) Intoxicating drugs

32. Demerit goods are goods which are believed to be:

(a) Socially desirable
(b) Socially undesirable
(c) Having positive externalities
(d) None of the above

33. Direct provision of a _____ by the government can help overcome the free rider problem, which leads to market failure.

(a) Public goods
(b) Private goods
(c) Demerit goods
(d) Goods with negative externalities

34. 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

35. 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

36. In order to bring equity and fairness in society, the government intervenes to redistribute incomes. Which one of the following is NOT an example of such a policy?
(a) Social Security Schemes
(b) Job reservations
(c) Unemployment compensation
(d) Setting advertising standards to make advertising more responsible, informative and less persuasive

UNIT-III: THE PROCESS OF BUDGET MAKING: SOURCES OF REVENUE, EXPENDITURE MANAGEMENT AND MANAGEMENT OF PUBLIC DEBT

Introduction to the Indian Union Budget

37. Which Article of the Constitution of India requires the government to present the union budget?
(a) Article 111 (b) Article 112
(c) Article 113 (d) Article 114

The Process of Budget Making

38. The budget is prepared by the Ministry of Finance in consultation with _____.
(a) Finance commission
(b) Niti Aayog
(c) Relevant Ministry
(d) Both (b) and (c)

39. Which of the following is a part of the Annual Financial Statement?
(a) Consolidated fund
(b) Contingency fund
(c) Public Account
(d) All of the above

40. 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 the Supreme Court
(c) Emoluments of High-Ranking personnel of Constitutional bodies across India
(d) All of the above

41. Which of the following is a statement submitted along with the budget as a requirement of the FRBM Act?
(a) Annual Financial Statement
(b) Macro-Economic Framework Statement
(c) Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement
(d) Both (b) and (c) above

42. In how many days of its introduction, does the parliament have to pass the Finance Bill?
(a) Within 50 days
(b) Within 60 days
(c) Within 75 days
(d) Within 80 days

43. On the last day of the days allotted for discussion on the Demands for Grants, the Speaker puts all the outstanding demands to the vote of the House. What is this process called?
(a) Budgeting (b) Appropriation
(c) Guillotine (d) None of these

Sources of Revenue

44. What is the statutory board through which the Department of Revenue exercises control over matters relating to all direct and indirect Union taxes?
(a) CBDT (b) CBEC
(c) CBDT and CBEC (d) CBDT and CBIC

45. As regards levy and collection, which of the following taxes fall within the purview of CBIC?
(a) GST
(b) GST and Customs
(c) GST, Customs and Central Excise Duties
(d) All direct taxes

46. Which of the following is NOT a part of revenue receipts of the Government? **[June 2024]**

(a) Tax Revenue (b) Non-Tax Revenue
(c) Debt receipts (d) All of the above

47. Non-debt capital receipts:

(a) Do not add to the assets of the government and therefore are 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

48. Government borrowings from foreign governments and institutions are classified as:

(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 question 49 to 51.

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

In ₹ lakh Crores

(c)	Recovery of loans	5.1
(b)	Salaries of govt. servants	41.1
(c)	Capital Expenditure	45.0
(d)	Interest payments	1.3
(e)	Payment towards subsidies	3.2
(f)	Other receipts (mainly from disinvestment)	11.6
(g)	Tax revenue (net of state's share)	26.3
(h)	Non-tax revenue	12.3
(i)	Borrowings and other liabilities	6.8
(j)	State's share in tax revenue	11.9

49. The capital receipts are:

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

50. Revenue deficit is:

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

51. The non-debt capital receipts of this country is:

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

Public Expenditure Management

52. 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

53. Which of the following comes under the responsibility of the Department of Expenditure?

(a) Implementation of recommendations 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

54. Which of the following institutions is responsible for public debt management?

(a) Reserve Bank of India
(b) Ministry of Finance
(c) Both (a) and (b)
(d) None of the above

55. Short-term credit from the Reserve Bank of India 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

56. The '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

57. In which year was the Public Debt Management Cell (PDMC) created under the Department of Economic Affairs?

(a) 2003 (b) 2015
(c) 2016 (d) None of these

Types of Budgets

58. The revenue deficit for country A is:

Particulars	₹ Crores
Revenue Receipts	20,000
Recovery of Loans	1,500
Borrowing	15,000
Other Receipts	5,000
Expenditure of revenue account	24,500
Expenditure on Capital	26,000
Interest Payments	2,000

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

59. Fiscal deficit of country A is:

Particulars	₹ Crores
Revenue Receipts	20,000
Recovery of Loans	1,500
Borrowing	15,000
Other Receipts	5,000
Expenditure of revenue account	24,500
Expenditure on Capital	26,000
Interest Payments	2,000

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

60. The primary deficit of Country A is:

Particulars	₹ Crores
Revenue Receipts	20,000
Recovery of Loans	1,500
Borrowing	15,000
Other Receipts	5,000
Expenditure of revenue account	24,500
Expenditure on Capital	26,000
Interest Payments	2,000

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

61. How is the primary deficit determined?

(a) Fiscal Deficit – Net Interest Liabilities
(b) Fiscal Deficit – Interest Payments
(c) Fiscal Deficit – Interest Receipts
(d) None of these

UNIT-IV: FISCAL POLICY

Concept and Objectives of Fiscal Policy

62. 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

63. What may be the priorities of developing nations as regards the objectives of fiscal policy?

(a) Stability
(b) Stability and Growth
(c) Equity
(d) Employment and Equity

Types of Fiscal Policy

64. 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

65. Contractionary fiscal policy:

(a) Is resorted to when government expenditure is greater than the 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

66. Contractionary Fiscal Policy works through:

(a) Decrease in Government Spending

(b) Increase in personal income tax / Business taxes

(c) Combination of (a) and (b)

(d) Increase in Government Spending and decrease in personal income tax

The Instruments of Fiscal Policy

67. 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 expenditures

(d) All of the above

68. An increase in personal income taxes:

(a) Reduces disposable incomes, leading to a fall in consumption spending and aggregate demand

(b) Is desirable during inflation or when there are excessive levels of aggregate demand

(c) Is to compensate for the deficiency in effective demand by boosting aggregate spending

(d) Both (a) and (b) are correct

Fiscal Policy for Long-run Economic Growth and for the Education of Inequalities of Income and Wealth

69. 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 the above are correct

Limitations of Fiscal Policy

70. 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 legislation

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

(d) The time required to establish the outcomes of fiscal policy

71. Which of the following is NOT a type of lag involved in fiscal policy action? **[June 2024]**

(a) Recognition Lag

(b) Decision Lag

(c) Implementation Lag

(d) Progressive Lag

72. Which of the following lag occurs when the outcomes of a policy are not visible for some time?

(a) Impact Lag

(b) Decision Lag

(c) Recognition Lag

(d) Artificial Lag

73. Which one of the following lag is involved in fiscal policy action under a democratic setup?

(a) Recognition Lag

(b) Implementation Lag

(c) Decision Lag

(d) Impact Lag

74. 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

PYQs of May, 25

75. Which of the following statements is true with respect to Social Cost? **[May, 2025]**

(a) Social Cost = Private Cost + External Cost

(b) Social Cost = Private Cost + External Cost – Total Negative Externalities

(c) Social Cost = Private Cost + External Cost – Government Taxes

(d) Social Cost = Private Cost + Total Negative Externalities – Government Taxes

76. Which of the following is not a characteristic of Public Goods? **[May, 2025]**

(a) Non-rival in consumption

(b) Indivisibility

(c) More vulnerable to externalities

(d) Excludable

77. What does the term "Lemon" mean in the model of "Lemons problem" developed by "George Akerlof" in relation to the used car market: **[May, 2025]**

(a) Only good-quality used cars

(b) Both poor and good quality used cars

(c) Average quality used cars

(d) New cars

78. Which of the following is one of the key functions of fiscal policy and aims at eliminating the macroeconomic fluctuations arising from sub-optimal allocation of resources? **[May, 2025]**

(a) The Allocation Function

(b) The Redistribution Function

(c) The Stabilisation Function

(d) The Utilisation Function

79. Article 112 of the Indian Constitution provides that in respect of every financial year, the President shall cause to be laid before both houses of the Parliament a statement of estimated receipts and expenditure of the Government of India for that year. This statement is referred to as: **[May, 2025]**

(a) Budget

(b) Annual Financial Statement

(c) Statement of Income and Expenditure

(d) Interim Budget

80. Which of the following information regarding the receipts and expenditure of the Government is not presented in the budget documents? **[May, 2025]**

(a) Budget estimates of the current financial year

(b) Budget estimates of the ensuing financial year

(c) Revised estimates of the ensuing financial year

(d) Actual expenditure and income of current financial year

81. Which of the following is the nodal department for overseeing the public financial management system in the Central Government? **[May, 2025]**

(a) NITI Aayog

(b) Department of Revenue under the Finance Ministry

(c) Department of Expenditure under the Finance Ministry

(d) Reserve Bank of India

82. The statutory disclaimer that "Mutual Fund investments are subject to market risk. Please read the offer documents carefully before investing" is an example of which type of government intervention? **[May, 2025]**

(a) Government intervention to correct externalities

(b) Government intervention for equitable distribution

(c) Government intervention to correct information failure

(d) Government intervention in the case of public goods

83. Which of the following is not true regarding the fiscal policy of the Government? **[May, 2025]**

(a) It is the deliberate policy of the Government

(b) An economy producing full employment does not require Government action in the form of fiscal policy

(c) Taxation policy is part of Fiscal policy

(d) Fiscal policy is supply-side policy

84. During the Budget proceedings, the Speaker of the Lok Sabha, once the prescribed time is over, puts all the outstanding Demands for Grants, whether discussed or not, to the vote of the House. This process is known as: **[May, 2025]**

(a) Cut motion

(b) Presenting the appropriation bill

(c) Outcome budget

(d) Guillotine

ANSWER KEY

1. (b)	**2.** (d)	**3.** (d)	**4.** (c)	**5.** (b)	**6.** (d)	**7.** (c)	**8.** (c)	**9.** (a)	**10.** (a)
11. (c)	**12.** (a)	**13.** (b)	**14.** (d)	**15.** (c)	**16.** (d)	**17.** (d)	**18.** (b)	**19.** (c)	**20.** (b)
21. (a)	**22.** (b)	**23.** (c)	**24.** (d)	**25.** (b)	**26.** (a)	**27.** (c)	**28.** (c)	**29.** (c)	**30.** (a)
31. (c)	**32.** (b)	**33.** (a)	**34.** (d)	**35.** (a)	**36.** (d)	**37.** (b)	**38.** (d)	**39.** (d)	**40.** (d)
41. (d)	**42.** (c)	**43.** (c)	**44.** (d)	**45.** (c)	**46.** (c)	**47.** (b)	**48.** (a)	**49.** (a)	**50.** (c)
51. (b)	**52.** (c)	**53.** (d)	**54.** (c)	**55.** (c)	**56.** (a)	**57.** (c)	**58.** (c)	**59.** (b)	**60.** (c)
61. (a)	**62.** (d)	**63.** (b)	**64.** (b)	**65.** (d)	**66.** (c)	**67.** (d)	**68.** (d)	**69.** (d)	**70.** (c)
71. (d)	**72.** (a)	**73.** (b)	**74.** (a)	**75.** (a)	**76.** (d)	**77.** (c)	**78.** (c)	**79.** (b)	**80.** (c)
81. (c)	**82.** (c)	**83.** (b)	**84.** (d)						

HINTS & SOLUTIONS

4. (c) The allocation and distribution functions are primarily macroeconomic functions, while stabilisation is a macroeconomic function.

36. (d) Option (d) is not the government intervention for equitable distribution; such advertising standards are in fact for correcting information failure.

49. (a) Capital Receipts = Recovery of loans + Other capital receipts (like disinvestment) + Borrowings = 5.1 (a) + 11.6 (f) + 6.8 (i) = 23.5

50. (c) Revenue Deficit = Revenue Expenditure – Revenue Receipts

Revenue Expenditure = Salaries (b) + Interest (d) + Subsidies (e) = 41.1 + 1.3 + 3.2 = 45.6

Revenue Receipts = Tax revenue (g) + Non-tax revenue (h) = 26.3 + 12.3 = 38.6

Revenue Deficit = 45.6 – 38.6 = 7.0

51. (b) Non-debt Capital Receipts = Recovery of loans (a) + Disinvestment (f)

= 5.1 + 11.6 = 16.7

58. (c) Revenue Deficit = Revenue Expenditure – Revenue Receipts

Revenue Deficit = ₹ 24,500 – ₹ 20,000

= ₹ 4,500 crore

59. (b) Fiscal Deficit = Total Expenditure – (Revenue Receipts + Recovery of Loans + Other Receipts)

Fiscal Deficit

= ₹ 50,500 – (₹ 20,000 + ₹ 1,500 + ₹ 5,000)

= ₹ 50,500 – ₹ 26,500 = ₹ 24,000 crore

60. (c) Primary Deficit = Fiscal Deficit – Interest Payments

Primary Deficit = ₹ 24,000 – ₹ 2,000

= ₹ 22,000 crore

73. (b) Implementation lag occurs when appropriate policy measures are decided upon, but there is a delay in bringing in legislation and implementing them due to bureaucratic processes. This delay is especially common in a democratic setup.

Scan the QR code for ICAI Module Q&A

Chapter Wrap-Up Test

This is a 20-minutes test. Read each question carefully and attempt all.

1. What is the main goal of the allocation function in fiscal policy?
   (a) To reduce inflation
   (b) To ensure efficient provision of public goods
   (c) To redistribute income
   (d) To stabilise the economy
2. Which of the following best describes the stabilisation function of fiscal policy?
   (a) Ensuring the provision of public goods
   (b) Managing the distribution of wealth
   (c) Regulating financial institutions
   (d) Maintaining economic stability through counter-cyclical measures
3. An example of a positive externality is:
   (a) Second hand smoke exposure
   (b) Higher education and its impact on society
   (c) Noise pollution from construction activities
   (d) Congestion in traffic
4. In other words, fiscal policy can be said as:
   (a) Use of government spending, taxation and borrowing to influence the level of economic activity
   (b) Government spending for supply of essential goods
   (c) Use of government spending, taxation and borrowing for reducing the fiscal deficits
   (d) (b) and (c) above
5. Externalities occur when:
   (a) Consumers spend too much on certain goods and services
   (b) Producers earn excessive profits in the market
   (c) The market price exceeds the equilibrium price
   (d) The actions of one party affect the well-being of others who are not involved in the transaction
6. Which of the following policies of the fulfils the government 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
7. The justification for government intervention is best described by:
   (a) The need to prevent recession and inflation in the economy
   (b) The need to modify the outcomes of private market actions
   (c) The need to bring in justice in distribution of income and wealth
   (d) All the above
8. Which of the following scenarios is an example of asymmetric information?
   (a) A homeowner knows more about the condition of their house than a potential buyer
   (b) A buyer and seller both know the exact value of a used car
   (c) An employee and employer have the same knowledge about the job's requirements
   (d) Two stock traders have identical access to market data
9. Which type of good is both non-excludable and non-rivalrous?
   (a) Private good
   (b) Common resource
   (c) Club good
   (d) Public good
10. How can the government address the problem of imperfect information in markets?
    (a) By eliminating taxes
    (b) By providing public information
    (c) By reducing subsidies
    (d) By enforcing price floors

11. What is the role of the Finance Commission in India?
    (a) To regulate the stock market
    (b) To determine the distribution of tax revenues between the Centre and the States
    (c) To oversee the implementation of monetary policy
    (d) To manage public sector enterprises

12. What is the likely outcome if the government provides merit goods for free?
    (a) Efficient allocation of resources
    (b) Underconsumption of the goods
    (c) Overconsumption of the goods
    (d) Increase in negative externalities

13. Which government policy is aimed at promoting equitable income distribution?
    (a) Regressive taxation
    (b) Progressive taxation
    (c) Proportional taxation
    (d) Flat taxation

14. What is the crowding out ?
    (a) Increase in private sector investment
    (b) Increase in consumer spending
    (c) Increase in govt spending
    (d) None of the above

15. Which scenario best illustrates the free rider problem?
    (a) A person paying for a concert ticket
    (b) People using a public park without contributing to its maintenance
    (c) A company selling a private good
    (d) An individual purchasing insurance

16. Which of the following best describes a merit good?
    (a) A good that is under-consumed if left to the market
    (b) A good that is over-consumed if left to the market
    (c) A good that is rivalrous and excludable
    (d) A good that is produced by the private sector

17. What is a common form of non-market pricing intervention by the government?
    (a) Price floors (b) Price ceilings
    (c) Rent controls (d) All of the above

18. What is the crowding out?
    (a) Increase in private sector investment
    (b) Increase in consumer spending
    (c) Increase in govt spending
    (d) None of the above

19. The Public Account of India is administered by:
    (a) The President of India
    (b) The Reserve Bank of India
    (c) The Finance Minister of India
    (d) The Comptroller and Auditor General (CAG) of India

20. 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

ANSWER KEY

1. (b)	2. (d)	3. (b)	4. (a)	5. (d)	6. (b)	7. (d)	8. (a)	9. (d)	10. (b)
11. (b)	12. (c)	13. (b)	14. (c)	15. (b)	16. (a)	17. (d)	18. (c)	19. (c)	20. (b)

8 Money Market

QUICK HIGHLIGHTS

1. Theories of Demand for Money – Classical Approach–Highlights:

The Quantity Theory of Money (QTM):

- Theorist– Irving Fisher
- 'Equation of Exchange' or 'Transaction Approach':

$$MV = PT$$

- Extended Equation of Exchange:

$$MV + M'V' = PT$$

The Cambridge Approach/Cash Balance Approach or Neo–Classical Theory:

- Theorist– Alfred Marshall, Pigou, Robertson & Keynes
- Money Demand Function:

$$M_d = k\,PY$$

The Keynesian Theory of Demand for Money:

- Theorist: John Maynard Keynes
- People hold money (M) in cash for three motives:

(i) Transactions Motive: The transactions demand for money is a direct proportional and positive function of the level of income.

(ii) Precautionary Motive: Keynes regards the precautionary balances just as balances under transactions motive, meaning they increase with income but are not highly affected by interest rates.

(iii) Speculative motive: The speculative demand for money and interest are inversely related.

2. Theories of demand for money – Post–Keynesian theories–Highlights:

Inventory Approach to Transaction Balances/ Real Cash Balance:

- By Baumol and Tobin
- Cash withdrawal function (C) :

$$C = \sqrt{\ddot{u}}$$

(2b = Two times broker's fee,
Y = Individual's income, and
r = Interest rate)

Friedman's Restatement of the Quantity Theory:

- Demand for money is affected:
  1. Permanent income.
  2. Relative returns on assets. (which incorporates risk)
- Four Key Determinants:
  1. Total wealth = permanent income divided by discount rate (includes money, bonds, equity, physical & human capital).
  2. Positively related to price level.
  3. Inversely related to the opportunity cost of holding money.
  4. Influenced by inflation.

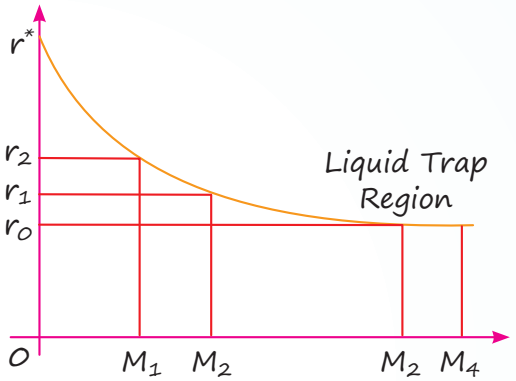
- **The Demand for Money as Behaviour toward Risk:**
  - By James Tobin.
  - An individual's behaviour shows risk aversion, which means they prefer less risk to more risk at a given rate of return.
  - Tobin's liquidity preference function curve is downward sloping.

3. Measurement of Money Supply:

M_1 – Narrow Money	Currency notes and coins with the people + Demand deposits with the banking system (Current and Savings deposit accounts) + Other deposits with the RBI.
M_2	M_1 + Savings deposits with post office savings banks.
M_3 – Broad Money	M_1 + Time deposits with the banking system.
M_4	M_3 + Total deposits with the Post Office Savings Organisation (excluding National Savings Certificates).

4. Different Concepts:

- **Liquidity Trap:**
  - The interest rate is very low; it cannot go further lower.
  - Public holds cash instead of bonds, unaffected by interest rates (e.g., war, deflation).
  - Investors choose cash over bonds, fearing losses.
  - The speculative demand curve becomes perfectly elastic parallel to the X-axis.
  - Monetary policy is ineffective/ powerless—cannot stimulate growth.



Speculative Demand for Money

- **High-Powered Money:** It is the source of all other forms of money. The second major source of money supply is the banking system of the country. Money created by the commercial banks is called 'credit money'.
- **Reserve Ratio:** Banks must keep a part of their deposits as reserves.
- **CRR:** Banks must keep this portion as cash with the RBI. They cannot lend it or earn interest on it.
- **SLR:** Banks must invest this portion in liquid assets like gold or government-approved securities. They can earn a small amount of interest.
- **Money Multiplier:** Banks receive high-powered money from the central bank and create more money through loans, increasing the money supply. This increase in money supply is the money multiplier.
  - Formulas:

1. $m = \frac{\text{üüüüüüüü}}{\text{üüüüüüüüü}}$

2. $\frac{\qquad\qquad}{\text{üüüüüüüüüüüüüü}}$

3. $\frac{\text{ü}}{\text{ü ℵ}}$

QUESTIONS

UNIT-I: THE CONCEPT OF MONEY DEMAND: IMPORTANT THEORIES

Introduction

1. Fiat money is materially _____ but has _____ simply because a nation collectively agreed to assign a value to it.

(a) Worthless, value
(b) Valuable, worthless
(c) Transparent, liquid
(d) Liquid, exchangeability

2. Which of the following is not a part of the general characteristics that money should possess in order to make it serve its function as money?

(a) Generally acceptable and possessing uniformity
(b) Durable or long-lasting
(c) Portable and effortlessly recognisable
(d) Easily counterfeitable

3. Choose the incorrect statement.

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

The Demand for Money

4. Demand for money is:

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

5. 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

6. The transitional demand for money is directly proportional to and is a positive function of: **[June 2024]**

(a) Level of price
(b) Level of income
(c) Level of demand
(d) Level of interest rate

7. The quantity of money which people desire to hold is _____ proportional to income.

(a) Directly (b) Inversely
(c) Regressive (d) None of these

8. The demand for money depends upon the prevailing price level. _____ the prices, _____ should be the holding of money.

(a) Lower, Higher (b) Higher, Lower
(c) Higher, Higher (d) Lower, Lower

9. Which of the following innovations has reduced the need for holding liquid money?

(a) Internet Banking
(b) Application-based transfer
(c) Automated Teller Machines
(d) All of the above

10. The rate of interest is a crucial factor on which demand for money depends. 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

11. 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

12. Which 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'

13. If Velocity = 20, Average Price = 120 and volume of transactions T = 150 Cr, then money supply will be: **[June 2024]**

(a) 2500 Cr (b) 25 Cr

(c) 900 Cr (d) 1000 Cr

14. 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

15. The Cambridge Equation is: M^d = KPY.

In above equation, _____ is exogenous.

(a) M^d (b) K

(c) P (d) Y

16. 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

17. In the Cambridge money demand function, _____is a parameter reflecting the proportion of national income (PY) that people want to hold as a cash balance.

(a) M^d (b) K

(c) P (d) Y

18. Real money is:

(a) Nominal money adjusted to the price level

(b) Real national income

(c) Money demanded at a given rate of interest

(d) Nominal GNP divided by price level

19. The Keynesian Theory of Demand for Money is also called:

(a) Demand Preference Theory

(b) Liquidity Preference Theory

(c) Preference Demand Theory

(d) Preference Liquidity Theory

20. People's desire to hold cash in order to be equipped to exploit any attractive investments opportunity requiring cash expenditure reflects _____. **[June 2024]**

(a) Transaction Motive

(b) Speculative motive

(c) Precautionary motive

(d) Personal and business exchange

21. 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 the individual, Real Income

(d) Psychology of the individual, Rate of Interest

22. The precautionary money balances people want to hold _____.

(a) Are income-elastic and not very sensitive to the rate of interest

(b) Are income-inelastic and very sensitive to the 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

23. 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

24. 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 the general price level

25. 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

26. 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 the return on money

(b) People will expect the interest rate to rise and bond prices to fall in the future

(c) People will expect the interest rate to fall and bond prices to rise in the future

(d) Either (a) or (b) will happen

27. Under Liquidity Preference Theory, if the current rate of interest is lower than the critical rate of interest, the asset portfolio would consist of _____.

(a) Only government bonds

(b) Wholly of cash

(c) Both cash and bonds equally

(d) Either cash or bonds

28. _____ 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

29. What does the concept of "Liquidity Trap" mean? **[June 2024]**

(a) A liquidity trap is a situation where the desire to hold bonds is very low and approaches zero, and the demand to hold money in liquid form as an alternative approaches infinity

(b) Even if the public fears adverse events (deflation, war), they prepare to hold only bonds at a given rate of interest

(c) The speculative money demand curve becomes parallel to the Y-axis

(d) None

30. In the situation of a 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

31. 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 the general price level

(d) Explains the nature of expectations of people with respect to interest rates and bond prices

32. According to Baumol, which of the following formulas can be used to calculate the average amount of cash withdrawal which minimises cost?

(a) ĐĐ$\sqrt{}$ (b) $\sqrt{\text{Đ}}$

(c) $\sqrt{\text{Đ}}$ (d) $\sqrt{\text{Đ}}$

33. The nominal demand for money rises if:

(a) The opportunity costs of money holdings-i.e. bonds and stock returns, rB and rE, respectively, decline and vice versa

(b) The opportunity costs of money holdings-i.e. bonds and stock returns, rB and rE, respectively, rise and vice versa

(c) The opportunity costs of money holdings-i.e. bonds and stock returns, rB and rE respectively, remain constant

(d) (b) and (c) above

34. 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

35. Under Friedman's Quantity Theory, the nominal demand for money is _____ related to the price level.

(a) Negatively (b) Positively
(c) Regressively (d) Not

36. 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

37. The demand for money as behaviour towards "aversion to risk" was propounded by:

(a) Fisher (b) Marshall
(c) Friedman (d) Tobin

UNIT-II: THE CONCEPT OF MONEY SUPPLY

Money Supply: Rationale and Sources

38. Money Supply is a _____ variable.

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

39. 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

40. Which one of the following is a feature of money supply?

(a) Money includes money held by the public only
(b) Money does not include the money-creating sector (suppliers of money)
(c) Money is a stock concept, as it is concerned with a particular point in time
(d) All of the above

41. 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 the money supply
(b) Money is deemed as something held by the public, and therefore, inter-bank deposits are included in the money supply
(c) Since inter-bank deposits are not held by the public, and so inter-bank deposits are excluded from the measure of money supply
(d) Both (a) and (c) above

42. 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

43. 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

44. Which of the following is fiat money?

[June 2024]

(a) Gold Coins
(b) Silver Coins
(c) Currency Notes
(d) Gold coins, Silver Coins, as well as Currency notes

45. 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

46. "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

47. How to calculate broad money M_3? **[June 2024]**

(a) Currency with public + Demand deposits with banks

(b) Currency with public + Demand deposits with banks + Net time deposit with the banking system

(c) Currency with public + Savings with government banks

(d) Currency with public + Demand deposits with banks + Other deposits with RBI

48. Reserve money is also known as:

(a) Central bank money

(b) Base money

(c) High-powered money

(d) All of the above

49. 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

50. 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 deposits) + Other deposits of the RBI

(c) Currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI

(d) None of the above

51. Consider the following data and answer.

Currency with Public	₹ 60,000 Cr
Demand Deposits with Banking System	₹ 1,20,000 Cr
Time Deposits with Banking System	₹ 1,50,000 Cr
Other Deposits with RBI	₹ 20,000 Cr
Saving Deposits of Post Office Saving Banks	₹ 50,000 Cr

What is the amount of Narrow Money (M_1)?

(a) ₹ 2,50,000 crores

(b) ₹ 2,00,000 crores

(c) ₹ 3,00,000 crores

(d) None of the above

52. Consider the following data and answer:

Currency with Public	₹ 60,000 Cr
Demand Deposits with Banking System	₹ 1,20,000 Cr
Time Deposits with Banking System	₹ 1,50,000 Cr
Other Deposits with RBI	₹ 20,000 Cr
Saving Deposits of Post Office Saving Banks	₹ 50,000 Cr

The calculated value of M_2 is _____.

(a) ₹ 2,50,000 crores

(b) ₹ 3,00,000 crores

(c) ₹ 3,50,000 crores

(d) ₹ 2,00,000 crores

53. Consider the following data and answer:

Currency with Public	₹ 60,000 Cr
Demand Deposits with Banking System	₹ 1,20,000 Cr
Time Deposits with Banking System	₹ 1,50,000 Cr
Other Deposits with RBI	₹ 20,000 Cr
Saving Deposits of Post Office Saving Banks	₹ 50,000 Cr

The calculated value of M_3 is _____.

(a) ₹ 2,50,000 crores (b) ₹ 3,00,000 crores

(c) ₹ 3,50,000 crores (d) ₹ 2,00,000 crores

54. Consider the following data (crore):

Notes in Circulation	₹ 24,50,000 Cr
Circulation of Rupee Coins	₹ 35,000 Cr
Circulation of Small Coins	₹ 1,200 Cr
Cash on hand with Banks	₹ 85,000 Cr

What is the currency with the Public?

(a) ₹ 24,01,200 crores (b) ₹ 25,01,200 crores

(c) ₹ 25,12,000 crores (d) ₹ 24,95,200 crores

55. Calculate currency with public : **[June 2024]**

Particulars	₹ in Crores
Notes with public in circulation	₹ 23,26,500
Currency of small coins in circulation	₹ 500
Currency of rupee coins in circulation	₹ 34,500
Cash in hand with banks	₹ 80,615

(a) 22,80,885 crores

(b) 24,42,115 crores

(c) 22,45,885 crores

(d) 23,62,000 crores

56. Consider the following data:

M_1	₹ 40,00,000 crores
M_2	₹ 41,50,000 crores

Calculate the value of Post Office Savings Bank Deposits.

(a) ₹ 1,00,000 (b) ₹ 1,50,000

(c) ₹ 2,50,000 (d) ₹ 3,50,000

Money Multiplier Approach

57. Money Multiplier means: **[June 2024]**

(a) It decreases the total money supply for a given monetary base

(b) It dictates the interest rates set by the RBI

(c) The ratio of money supply to monetary base

(d) It controls the amount of gold reserves held by the bank

58. The money multiplier will be large:

(a) For a higher currency ratio (c), a lower required reserve ratio (r) and a lower excess reserve ratio (e)

(b) For constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)

(c) For a lower currency ratio (c), a lower required reserve ratio (r) and a lower excess reserve ratio (e)

(d) None of the above

59. The required reserve ratio is 20% for every ₹ 3,00,000 deposited in the banking system. What will be the Credit Multiplier and Credit Creation?

(a) 4, ₹ 12,00,000 (b) 5, ₹ 15,00,000

(c) 3, ₹ 9,00,000 (d) None of these

60. For an initial deposit of ₹ 4,00,000, the credit creation is calculated at ₹ 32,00,000. What is the Required Reserve Ratio (RRR)?

(a) 10%

(b) 8%

(c) 12.5%

(d) Cannot be calculated

63. 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 equations is correct?

(a) MB = M × m (b) m = MB × M

(c) M = MB × m (d) $\frac{Đ}{___}$

64. 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

65. 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

66. _____ 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)

67. Consider the following data:

Particulars	₹ in Billion
Required Reserve Ratio	20%
Currency in Circulation	₹ 250 Billion
Demand Deposits	₹ 400 Billion
Excess Reserves	₹ 5 Billion

The value of the Money Multiplier will be _____.

(a) 1.60 (b) 2.60
(c) 1.66 (d) 1.93

68. The _____ the reserve of 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

69. 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 a decreasing function of reserve money (or high-powered money) and the money multiplier
(c) The money supply as an increasing function of reserve money (or high-powered money) and a decreasing function of money multiplier
(d) None of the above is the determinant of money supply are different

70. 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

71. 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

72. Excess reserves ratio (e) is _____ related to the market interest rate (i).

(a) Positively (b) Negatively
(c) Uniformly (d) Not

The Money Multiplier Approach to Supply of Money

73. 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

74. 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

75. Considering all other variables remain the same, if the ratio of cash reserves to deposits (reserve ratio) increases, then _____will decrease.

(a) Deposits
(b) Money supply
(c) Reserves
(d) High-powered money

76. When the reserve ratio (r) is 5%, the money multiplier is calculated at 20. If the reserve ratio is increased to 40%, the value of the money multiplier will be_____.

(a) Less than 2.58 (b) More than 2.58
(c) 2.58 (d) Cannot be decided

Monetary Policy and the Effect of Government Expenditure on Money Supply

77. Open market purchases of government securities by RBI will: **[June 2024]**

(a) Reduce the money supply
(b) Reduce the reserves
(c) Increase reserves
(d) Reduce the reserves and thereby reduce the money supply

78. The credit creation process by the banking system in the country will create money to the tune of money supply = 1R × 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

79. Whenever the Central and the State Governments' 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 and Means Advances (WMA)
(b) Overdraft facility (OD)
(c) Both (a) and (b)
(d) None of the above

80. If the required reserve ratio is 15%, then what will be the credit multiplier?

(a) 6.67 (b) 5.50
(c) 7.50 (d) 8.25

81. What is the formula used to calculate the credit multiplier?

(a) 100 – Required Reserve Ratio
(b) 100 + Required Reserve Ratio
(c) 100 × Required Reserve Ratio
(d) $\frac{\text{_____}}{\text{ĐĐĐĐĐĐĐĐĐ}}$

82. The credit multiplier is also referred to as the _____.

(a) Deposit multiplier
(b) Deposit expansion multiplier
(c) Both (a) and (b)
(d) None of the above

83. Which of the following terms describes the amount of additional money created by a commercial bank through the process of lending the available money it has in excess of the Central Bank's reserve requirement?

(a) Credit multiplier (b) Deposit multiplier
(c) Deposit expansion (d) All of the above

84. What will be the total deposit created if the initial deposit is of ₹ 700 crores and the required reserve ratio is 15%?

(a) ₹ 4,200 crores (b) ₹ 4,669 crores
(c) ₹ 5,250 crores (d) ₹ 6,000 crores

85. 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

86. Initial deposit of ₹ 1,337 crores led to the creation of total deposits of ₹20,068 crores by the commercial banks. What is the required reserve ratio?

(a) 7.76% (b) 6.67%
(c) 6.76% (d) 7.67%

UNIT-III: MONETARY POLICY

The Monetary Policy Framework

87. Expansionary monetary policy of the government is directed towards _____. **[Dec. 2023]**

(a) Reduction in inflation
(b) Rise in aggregate demand
(c) Decline in employment rate
(d) Increase in interest rates

88. Which of the following is not a channel of the monetary transmission mechanism? **[June 2024]**

(a) Savings and Investments Channel
(b) Cash Flow Channel
(c) Exchange Rate Channel
(d) International Trade Channel

89. 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

90. 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 increases SLR in order to enable the banks to contract credit and increase the supply of money available in the economy

91. The analysis of monetary policy focuses on transmission mechanisms. Which of the following is included in such mechanisms?

(a) The interest rate channel

(b) The exchange rate channel

(c) The quantum channel and the asset price channel

(d) All of the above

92. Which of the following statements is correct?

(a) The governor of the RBI, in consultation with the Ministry of Finance, decides the policy rate and implements the same

(b) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself

(c) When repo rates increase, it means that banks can now borrow money through Open Market Operations (OMO)

(d) None of the above

93. Which of the following statements is incorrect?

(a) Quantitative instruments are general in nature

(b) Quantitative instruments affect 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

(d) Selective credit control

94. _____ 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

95. 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)

96. 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 the RBI in its monetary policy statement

(c) The fixed repo rate quoted for sovereign securities in the overnight segment of the Liquidity Adjustment Facility (LAF)

(d) The fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)

97. _____ 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

98. Reverse repo operation takes place when:

(a) RBI borrows money from banks by giving them securities

(b) Banks borrow money from the 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

99. The Monetary Policy Framework Agreement is on _____.

(a) The maximum repo rate that the RBI can charge from the government

(b) The maximum tolerable inflation rate that the RBI should target to achieve price stability

(c) The maximum repo rate that the RBI can charge from the commercial banks

(d) The maximum reverse repo rate that the RBI can charge from the commercial banks

100. An open market operation is an instrument of monetary policy which involves the 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

101. The 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 consist of?

(a) Three members (b) Four members

(c) Five members (d) Six members

102. 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 Stabilization Scheme (MSS)

(b) Minimum Statutory Scheme (MSS)

(c) Marginal Standing Facility (MSF)

(d) Minimum Statutory Facility (MSF)

103. _____ 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

104. 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

105. What is the function of the RBI's Monetary Policy Committee?

(a) To regulate the stock market

(b) To set guidelines for lending by banks

(c) To control the supply of money in the economy

(d) To promote the use of digital payments

PYQs of January, 25 & May, 25

106. The currency issued by the Central Bank is known as _____ and is backed by supporting reserves and its value is a sovereign guarantee. **[Jan., 2025]**

(a) Real money

(b) Credit money

(c) Fiat money

(d) Sovereign bonds

107. Considering that with a money multiplier of 1.5, there has been an increment of ₹ 600 cr of the money supply. Find out the monetary base. **[Jan., 2025]**

(a) ₹ 800 cr. (b) ₹ 200 cr.

(c) ₹ 400 cr. (d) ₹ 900 cr.

108. Calculate Narrow Money M_1 from the following data : **[Jan., 2025]**

Particulars	₹ in Crores
Currency with public	₹ 88,000 Cr.
Demand deposit with the banking system	₹ 2,20,000 Cr.
Time deposit with the banking system	₹ 2,60,000 Cr.
Saving deposits with Post Office Saving Bank	₹ 50,000 Cr.

(a) ₹ 5,68,000 cr.

(b) ₹ 6,18,000 cr.

(c) ₹ 5,98,000 cr.

(d) ₹ 6,38,000 cr.

109. Liquidity Adjustment Facility (LAF) was introduced by RBI on the basis of the recommendation of the _____ Committee on the reforms in banking sector. **[Jan., 2025]**

(a) Tandon (b) Narsimham

(c) Chore (d) Basel

110. Money created by the commercial banks is called _____. **[Jan., 2025]**

(a) Real money
(b) High-powered money
(c) Fiat money
(d) Credit money

111. Under the concept of money supply, the term 'Public' do not include _____. **[Jan., 2025]**

(a) Households
(b) Institutions
(c) Government and Banking system
(d) Firms

112. Compute the total credit money created by the banking system if the required reserve ratio is 15% for every ₹ 12,00,000 deposited in the banking system? **[Jan., 2025]**

(a) ₹ 1,00,00,000
(b) ₹ 80,00,000
(c) ₹ 1,25,00,000
(d) ₹ 1,50,00,000

113. Calculate currency with the public from the following data : **[Jan., 2025]**

Particulars	₹ in Crores
Notes in circulation	₹ 45,000 Cr.
Circulation of rupee coins	₹ 1,500 Cr.
Circulation of small coins	₹ 750 Cr.
Cash on hand with banks	₹ 27,500 Cr.

(a) ₹ 74,750 cr. (b) ₹ 19,750 cr.
(c) ₹ 73,250 cr. (d) ₹ 29,750 cr.

114. _____ is a penal rate at which RBI lends money to banks, above the rate available under the Repo policy. **[Jan., 2025]**

(a) Marginal standing facility rate
(b) Bank rate
(c) Repo rate
(d) Reverse repo rate

115. What does the term Y represent in the expression $M^d = kPY$? **[May, 2025]**

(a) Real National Income
(b) Price Level
(c) Money Supply
(d) Interest Rate

116. Banks availing the Marginal Standing Facility Rate can use a maximum of much percentage of Statutory Liquidity Ratio Securities? **[May, 2025]**

(a) 1% (b) 2%
(c) 3% (d) 4%

117. Calculate currency with the public from the following data : **[May, 2025]**

Particulars	₹ in Crores
Notes in Circulation	₹ 2,59,121 Cr.
Coins in Circulation	₹ 23,345 Cr.
Cash on hands with Banks	₹ 19,009 Cr.
Coins on hands with Banks	₹ 909 Cr.

(a) ₹ 3,02,384 cr.
(b) ₹ 2,62,548 cr.
(c) ₹ 2,53,876 cr.
(d) ₹ 2,15,858 cr.

118. What is the likely impact of an increase in the Time Deposit to Demand Deposit (TD/DD) ratio on the banking system and monetary expansion? **[May-2025]**

(a) It leads to higher availability of free reserves and consequent enlargement of volume of multiple deposit expansion and monetary expansion
(b) It reduces the availability of free reserves, thereby restricting the process of monetary expansion
(c) It has no impact on the banking system, as time deposits and demand deposits are interchangeable
(d) It directly reduces the money supply, as time deposits are not considered part of the money supply

119. Broad money includes currency deposits with an agreed maturity of up to 24 years, deposits redeemable at notice up to 3 months and repurchase agreements, money market fund shares/units and debt securities up to 2 years. **[May, 2025]**

(a) 3 years, 6 months, 3 years
(b) 2 years, 6 months, 2 years
(c) 3 years, 3 months, 3 years
(d) 2 years, 3 months, 2 years

120. Which of the following is NOT included in M_1? **[May, 2025]**

(a) Currency with the public
(b) Demand deposits with banks
(c) Time (term) deposits with banks
(d) Other deposits with RBI

121. Liquidity trap occurs when : **[May, 2025]**

(a) Interest rates are high, and people prefer bonds over cash balances
(b) Interest rates are near zero, and people prefer holding cash over bonds
(c) Inflation rates are high, reducing the purchasing power of money balances
(d) Central banks increase CRR drastically

122. Which of the following is NOT a quantitative tool of monetary policy? **[May, 2025]**

(a) Cash Reserve Ratio (CRR)
(b) Statutory Liquidity Ratio (SLR)
(c) Open Market Operations OMO)
(d) Liquidity Adjustment Facility (LAF)

123. Which of the following expressions is true? **[May, 2025]**

(a) Reverse Repo Rate = Repo Rate – 1
(b) Reverse Repo Rate = Repo Rate + 1
(c) Repo Rate = Reverse Repo Rate – 1
(d) Repo Rate = 1 – Reverse Repo Rate

124. Which of the following is NOT one of the four determinants of Friedman's demand for money? **[May, 2025]**

(a) Nominal demand for money is a function of total wealth
(b) It is positively related to price level P; if price level rises the demand for money increases
(c) Nominal demand for money falls if the opportunity costs of money holding decline
(d) Nominal demand for money is influenced by inflation

ANSWER KEY

1. (a)	2. (d)	3. (a)	4. (a)	5. (d)	6. (b)	7. (a)	8. (c)	9. (d)	10. (b)
11. (a)	12. (b)	13. (c)	14. (c)	15. (d)	16. (c)	17. (b)	18. (a)	19. (b)	20. (b)
21. (b)	22. (a)	23. (a)	24. (c)	25. (a)	26. (c)	27. (b)	28. (a)	29. (a)	30. (a)
31. (a)	32. (b)	33. (a)	34. (a)	35. (b)	36. (a)	37. (d)	38. (b)	39. (c)	40. (d)
41. (c)	42. (b)	43. (b)	44. (c)	45. (c)	46. (a)	47. (b)	48. (d)	49. (b)	50. (a)
51. (b)	52. (a)	53. (c)	54. (a)	55. (a)	56. (b)	57. (c)	58. (c)	59. (b)	60. (c)
61. (a)	62. (b)	63. (c)	64. (a)	65. (c)	66. (c)	67. (d)	68. (a)	69. (a)	70. (c)
71. (d)	72. (b)	73. (b)	74. (a)	75. (b)	76. (a)	77. (c)	78. (d)	79. (c)	80. (a)
81. (d)	82. (c)	83. (d)	84. (b)	85. (b)	86. (b)	87. (b)	88. (d)	89. (b)	90. (a)
91. (d)	92. (b)	93. (c)	94. (b)	95. (c)	96. (c)	97. (d)	98. (a)	99. (b)	100. (c)
101. (d)	102. (a)	103. (b)	104. (b)	105. (c)	106. (c)	107. (c)	108. (a)	109. (b)	110. (d)
111. (c)	112. (b)	113. (b)	114. (a)	115. (a)	116. (a)	117. (b)	118. (a)	119. (d)	120. (c)
121. (b)	122. (d)	123. (a)	124. (c)						

7. (a) It is directly proportional because the higher the income of individuals, the higher the expenditure; richer people have more money to finance their expenditure.

10. (b) The opportunity cost of holding money is the interest rate a person could earn on other assets. Therefore, the higher the interest rate, the higher the opportunity cost of holding cash and the lower the demand for money would be. Thus, there is an inverse relationship between the two.

13. (c) Velocity of Money (V) = 20
Average Price Level (P) = 120
Volume of Transactions (T) = 150 Cr
We use Fisher's Equation of Exchange:

$MV = PT \Rightarrow M = \frac{Đ}{\text{——}}$

$M = \frac{ĐĐĐĐĐĐ}{ĐĐ}$ ——— = 900

30. (a) In the situation of a liquidity trap, the opportunity cost of holding money is zero. Therefore, even if the monetary authority increases the money supply to stimulate the economy, people would prefer to hoard money. Consequently, excess funds may not be converted into a new investment. Thus, a liquidity trap is synonymous with ineffective monetary policy.

39. (c) Money supply does not include stock of money held by the Government as well as the banking system of the country because they are suppliers of money & money held by them is not treated as part of the money supply.

51. (b) M_1 = Currency with Public + Demand Deposits with Banks + Other Deposits with RBI

M_1 = 60,000 + 1,20,000 + 20,000

= ₹2,00,000Cr

52. (a) **First, calculate M_1:**

M_1 = Currency with Public + Demand Deposits + Other Deposits with RBI

M_1 = ₹60,000 + ₹1,20,000 + ₹20,000

= ₹2,00,000 Cr

Now calculate M_2:

$M_2 = M_1$ + Post Office Saving Deposits

M_2 = ₹2,00,000 + ₹50,000 = ₹2,50,000 Cr

53. (c) $M_3 = M_1$ + Time Deposit with the Banking System

M_3 = ₹2,00,000 + ₹1,50,000 = ₹3,50,000 Cr

54. (a) Currency with Public = (Notes in Circulation + Rupee Coins + Small Coins) – Cash with Banks

= (24,50,000 + 35,000 + 1,200) – 85,000

= 24,86,200 – 85,000

= ₹24,01,200 Cr

55. (a) Currency with the public = Notes with public + Currency of small coins – Currency of rupee coins – Cash in hand with banks

= 23,26,500 + 500 + 34,500 – 80,615

= 22,80,885 Crores

56. (b) $M_2 = M_1$ + Post Office Saving Deposits

Post Office Savings Deposits

= ₹41,50,000 – ₹40,00,000 = ₹1,50,000

57. (c) The money multiplier is the ratio of the total money supply to the monetary base, indicating how much the money supply increases with an increase in the monetary base.

59. (b) Credit Multiplier = $\frac{\text{ĐĐĐĐĐĐĐĐĐĐ}}{\overline{ĐĐ}}$

Credit Creation = Credit Multiplier × Initial Deposit

= 3,00,000 × 5 = ₹15,00,000

60. (c) Credit Multiplier

$= \frac{ĐĐĐĐĐĐĐĐĐĐ}{ĐĐĐĐĐĐĐĐĐĐ}$ ———

RRR = $\frac{Đ}{ĐĐĐĐĐĐĐĐ}$ — = 0.125 = **12.5**

67. (d) Money Supply (M) = Currency + Deposits

= ₹ 250 + ₹ 400 = ₹ 650 Billion

Currency – Deposit Ratio = $\frac{ĐĐĐĐ}{ĐĐĐ}$

$= \frac{Đ}{Đ}$ = 0.63

$$e = \frac{ĐĐĐĐĐĐĐ}{ĐĐĐĐ} = \frac{\quad}{Đ} = 0.013$$

$$\text{Multiplier} = \frac{\quad}{ĐЖ}$$

$$M = 1 + \frac{ĐĐ}{Đ} + 0.013 + 0.63$$

$$M = \frac{ĐĐ}{ĐĐ} = 1.93$$

Therefore, a 1 unit increase in MB leads to a 1.93 unit increase in M.

72. (b) If the interest rate increases, the opportunity cost of holding excess reserves rises, and the desired ratio of excess reserves to deposits falls.

74. (a) When bank deposits are being converted into currency, banks can create only less credit money. The overall level of multiple expansion declines, and therefore, the money multiplier also falls. Hence, the money multiplier and the money supply are negatively related to the currency ratio (c).

75. (b) 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.

76. (a) The formula for money multiplier (MM) is :

$$MM = -$$

$$\text{When } r = 5\%, \text{ MM} = \frac{\quad}{ĐĐ} = 20$$

$$\text{When } r = 40\%, \text{ MM} = \frac{\quad}{ĐĐ} = 2.5$$

80. (a)

$$\text{Credit Multiplier} = \frac{Đ}{ĐĐĐĐĐĐĐĐ} \quad \frac{\quad}{\quad} = 6.67$$

84. (b) Required Reserve Ratio = 15% or 0.15

$$\text{Money Multiplier} = \frac{\quad}{ĐĐĐĐĐĐĐĐĐĐ}$$

$$MM = \frac{\quad}{ĐĐ} = 6.67$$

Total Deposit = Initial Deposit × Money Multiplier

= 700 × 6.67 = ₹4,669 crores

86. (b)

$$\text{Money Multiplier} = \frac{ĐĐĐĐĐĐ}{ĐĐĐĐĐĐĐ}$$

$$\text{Money Multiplier} = \frac{ĐĐ}{ĐĐ} = 15.01$$

$$\text{Money Multiplier} = \frac{\quad}{ĐĐĐĐĐĐĐĐĐĐ}$$

$$\text{Required Reserve Ratio} = \frac{\quad}{ĐĐĐĐĐĐĐ}$$

$$RRR = \frac{\quad}{ĐĐĐ} = 0.067 = 0.067 \times 100 = 6.67\%$$

87. (b) An expansionary monetary policy of the government is directed towards the rise of aggregate demand. This type of policy typically involves lowering interest rates to stimulate economic growth.

93. (c) Incorrect because Quantitative controls are designed to regulate the total volume of credit, whereas qualitative controls are designed to regulate the direction of credit.

Scan the QR code for ICAI Module Q&A

Chapter Wrap-up Test

This is a 20 minutes test. Read each question carefully and attempt all.

1. Money performs all of the three functions mentioned below, namely:
   (a) Unit of account, store of value, provide yields
   (b) Medium of exchange, unit of account, store of value
   (c) Medium of exchange, price control, store of value
   (d) Medium of exchange, unit of account, income distribution

2. Which of the following factors does NOT influence the demand for money in an economy?
   (a) Interest rates
   (b) Inflation expectations
   (c) Exchange rates
   (d) Government fiscal policy

3. Higher the _____ higher would be _____ of holding cash and lower will be the _____.
   (a) Price level, opportunity cost, interest rate
   (b) Real income, opportunity cost, demand for money
   (c) Interest rate, opportunity cost, demand for money
   (d) Demand for money, opportunity cost, interest rate

4. Fiat money is best described as:
   (a) Money backed by gold or other precious metals
   (b) Money that has intrinsic value
   (c) Money that is accepted by law regardless of its intrinsic value
   (d) Commodity used as money due to its usefulness

5. In Fisher's expanded equation of exchange, $MV + M'V' = PT$, what does $M'V'$ represent?
   (a) The total value of barter transactions
   (b) The value of credit money multiplied by its velocity
   (c) The value of credit money multiplied by the total income of the government
   (d) The value of credit money multiplied by the money supply backed by gold reserves

6. According to Milton Friedman, the demand for money is primarily determined by:
   (a) Current income
   (b) Interest rates only
   (c) Permanent income
   (d) Temporary changes in wealth

7. In which approach, the money or real cash balance was essentially viewed as an inventory held tor transaction purposes?
   (a) Inventory Explicit Approach
   (b) Inventory Implicit Approach
   (c) Inventory Theoretic Approach
   (d) Inventory Regressive Approach

8. The money multiplier will be large:
   (a) For higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (c)
   (b) For constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)
   (c) For lower curency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
   (d) None of the above

9. 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

10. When the Reserve Bank lends to the government under Ways and Means Advances (WMA) or Overdraft (OD), it leads to:
   (a) Generation of excess reserves
   (b) Decrease in bank credit
   (c) Increase in income tax collection
   (d) Reduction in government spending

11. If the central bank conducts an open market purchase of government securities, the money supply will:
   (a) Decrease
   (b) Increase
   (c) Remain unchanged
   (d) Double

12. During periods of economic expansion, a central bank may pursue a policy of:
   (a) Tightening money supply and raising interest rates
   (b) Expanding money supply and lowering interest rates
   (c) Reducing government spending and increasing taxes
   (d) Decreasing money supply and increasing government spending

13. The "liquidity trap" is a situation where:
   (a) Interest rates are extremely high, leading to a reduced investment
   (b) Interest rates are extremely low, leading to ineffective monetary policy
   (c) Inflation is very low deflationary pressures
   (d) The money supply is unable to keep up with demand rising in the economy

14. What is the money multiplier?
   (a) The ratio of the money supply to the gross domestic product (GDP)
   (b) The ratio of the money supply to the total population
   (c) The ratio of the money supply to the monetary base
   (d) The ratio of the money supply to the government

15. If the reserve requirement is 20%, what is the potential maximum expansion of the money supply when a new deposit of $1,000 is made?
   (a) $5,000
   (b) $2,000
   (c) $1,000
   (d) $500

16. If all other factors remain unchanged, when the public reduces its spending by Rs. 60,000 and the government increases its spending by Rs. 60,000.
   (a) Savings increased
   (b) Savings decreased
   (c) Savings unchanged
   (d) Savings finished

17. Which of the following best defines high-powered money (H)?
   (a) Currency held by the public and reserves of commercial banks with the central bank
   (b) Total value of financial assets in the economy
   (c) Money created by commercial banks through lending
   (d) Money held by the public in foreign currency

18. What does the credit multiplier describe?
    (a) The increase in government spending
    (b) The amount of additional money created by commercial banks through lending beyond reserve requirements
    (c) The total deposits held by the public in banks
    (d) The rate at which the central bank prints currency

19. Till 1967-68, the RBI used to publish _____ measure of money supply.
    (a) M_1
    (b) M_1 & M_2
    (c) M_1, M_2 & M_3
    (d) M_1, M_2, M_3 & M_4

20. Who was the regulatory body for controlling financial affairs in India before SEBI?
    (a) Controller of Capital Issues
    (b) Reserve Bank of India
    (c) Insurance Regulatory and Development Authority of India
    (d) Government of India

ANSWER KEY

1. (b)	2. (d)	3. (c)	4. (c)	5. (b)	6. (c)	7. (c)	8. (c)	9. (b)	10. (a)
11. (b)	12. (a)	13. (b)	14. (c)	15. (a)	16. (c)	17. (a)	18. (b)	19. (a)	20. (a)

9 International Trade

QUICK HIGHLIGHTS

1. Important Theories of International Trade:
   - The Mercantilists' View of International Trade
     - Higher exports than imports is the motive
     - Zero-sum game
     - Unequal global distribution of labour, raw materials, and capital led to cross-border trade.
   - The Theory of Absolute Advantage
     - International trade is mutually beneficial when countries specialise in producing commodities where they have an absolute advantage, allowing for efficient production and trade.
   - The Theory of Comparative Advantage by David Ricardo
     - Trade is based on comparative rather than absolute cost advantages.
     - Countries export goods when they have a greater advantage and import goods when they have a lesser absolute advantage.
   - Heckscher-Ohlin Theory of Trade or Modern Theory
     - Countries export goods based on factor endowments/availability
   - New Trade Theory by Paul Krugman
     - This theory (1980s) explains international trade can occur even between countries with similar capital–labour ratios.
     - Two key concepts explain this: (1) Economies of Scale: Larger production lowers average cost, raises profit and global competitiveness; (2) Network Effects: More users increase product value & consumer choice

2. Basic Definitions:
   - Trade Policy: **It is formulated by the government to either promote or restrict trade, export or import.**
   - Free Trade: Buyers and sellers from separate economies voluntarily trade with a minimum of state interference.
   - Protectionism: It is a state policy aimed to protect domestic producers against foreign competition through the use of tariffs, quotas and non-tariff trade policy instruments.
   - Trade Liberalisation: It refers to the opening up of domestic markets to the rest of the world by lowering trade barriers.
   - Tariff = Custom Duties: Taxes on imported/exported goods & services.
   - Specific Tariff: A fixed charge applied to each unit or weight of a product, such as 100 per kg.
   - Ad Valorem Tariff: A tariff calculated as a percentage of the product's total value. i.e. a 30% ad valorem tariff on any American cycle.
   - Mixed Tariff: A tariff that combines both ad valorem (percentage of value) and specific (fixed per unit) duties on an imported good.

- **Compound Tariff:** A tariff that applies either an ad valorem duty or a specific duty, whichever is higher, on an imported good
- **Preferential Tariff:** Lower tariffs applied under trade agreements, such as the reduced rates available within the EU or NAFTA agreements.
- **Escalated Tariff:** A higher tariff is imposed on processed or manufactured goods compared to raw materials, intended to protect domestic industries.
- **Prohibitive Tariff:** It is set so high that no imports can enter.
- **Bound Tariff:** The tariff rate that a WTO member has legally committed to not exceeding, providing transparency and predictability in trade relations.
- **Dumping:** When manufacturers sell goods in another country at a price lower than in their own country or below production cost, that policy is dumping.
- **Anti-Dumping Measures:** Extra import duties to neutralize unfairly low prices.
- **Countervailing Duties:** Tariffs to offset exporters' benefits like subsidies or tax concessions.

3. World Trade Organisation (WTO)

- The sole global institutional organisation regulating trade rules among nations, the foundation of which have been negotiated & ratified by the majority of world trading countries.
- Resolve trade disputes.
- Secretariat in Geneva, headed by a Director General.

4. The Doha Round

- It occurred in November 2001 in Doha.
- Agriculture trade emerged as the most controversial issue in this Agenda.

5. The Uruguay Round and Establishment of WTO

- **Started:** 1986, with 123 countries
- **Focus:** Trade barriers (tariff & non-tariff), especially agriculture
- **Duration:** 7 years, ended in 1993
- **Result:** Agreements signed in 1994
- **Outcome:** WTO established in 1995, replacing GATT

6. Direct quote (European Currency Quotation):

- The number of units of a local currency exchangeable for one unit of a foreign currency. For example, Rs.65/US$.

7. Indirect quote (American Currency Quotation):

- The number of units of a foreign currency exchangeable for one unit of local currency; for example: $ 0.0151 per rupee.

8. Overseas Direct Investments by Indian Companies (Outbound FDI):

- When Indian companies invest directly in businesses or set up operations in foreign countries, like buying a company, opening a branch, or starting a new project abroad.
- **Example:** Tata Motors buying Jaguar Land Rover in the UK.

9. Brownfield Investment vs Greenfield Investment

- **Greenfield Investment:** When a company builds a new facility from scratch in a foreign country. Example: An Indian company setting up a new factory in the USA.
- **Brownfield Investment:** When a company buys or leases an existing facility in a foreign country. Example: An Indian company buying an existing factory in Germany.

10. Foreign Direct Investment (FDI) VS Foreign Portfolio Investment (FPI)

- FDI involves long-term interest and control of a resident entity in one economy by an enterprise from another economy
- FPI involves the flow of financial capital rather than real capital & does not entail ownership or control by the investor.

QUESTIONS

UNIT-I: THEORIES OF INTERNATIONAL TRADE

Introduction

1. Which of the following does not represent a difference between internal trade and international trade?

(a) Transactions in multiple currencies
(b) Homogeneity of customers and currencies
(c) Differences in legal systems
(d) None of the above

Theories of International Trade

2. 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

3. Theory of Comparative Cost Advantage is _____ in nature and it _____ take into account factor price differences: **[June 2024]**

(a) Positive, does
(b) Normative, does not
(c) Positive, does not
(d) Normative, does

4. Mercantilism advocates: **[June 2024]**

(a) Aggressive exports over imports to accumulate wealth
(b) Comparative advantage
(c) Absolute cost advantage
(d) Factor endowment

5. 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 the labour cost of production

6. 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 specialising 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 explain differences in factor endowments in different countries

7. 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

8. 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

9. According to the theory of comparative advantage:

(a) Trade is a zero-sum game, so that the net change in wealth or benefits among the participants is zero
(b) Trade is not a zero-sum game, so that the net change in wealth or benefits among the participants is positive
(c) Nothing definite can be said about the gains from trade
(d) Gains from trade depend upon factor endowment and utilisation

10. 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

11. 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

12. Comparative advantage refers to:
(a) A country's ability to produce a 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 a minimum of the abundant factor
(d) (a) and (b) above

13. 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

14. 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

UNIT-II: THE INSTRUMENTS OF TRADE POLICY

Tariff: Forms and Effects

15. A specific tariff is:
(a) A tax on a set of specified imported goods
(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 is defined as an amount of currency per unit of the good

16. Tariff can be based on _____.
(a) Quantity only
(b) Value of Import
(c) Quantity and/or value
(d) None of these

17. 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

18. 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

19. 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

20. The Government has imposed a 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

21. _____ 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

22. 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 tax 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

23. 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

24. 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

25. 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)

26. Anti-dumping duties are:

(a) Additional import duties so as to offset the effects of the 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 the exporting firm's increased competitiveness due to subsidies by the government
(c) Additional import duties so as to offset the effects of the exporting firm's unfair charging of lower prices in the foreign market
(d) Both (a) and (b) above

27. A countervailing duty is:

(a) A Tariff that aims 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

28. Which of the following is an outcome of a 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 the value of the total tariff it charges

29. Which of the following is not a negative outcome of a tariff? **[June 2024]**
(a) Decrease in government revenue
(b) Producers of the importing country increase the well-being
(c) Domestic consumers suffer a loss in consumer surplus
(d) By ignoring comparative advantage, tariffs discourage efficient production in the rest of the world

30. 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 at which they can sell their product in the domestic market
(c) It determines the quantity that can be imported into the country
(d) It reduces their producer surplus, making them more efficient

Non-Tariff Measures (NTMs)

31. 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 the importing country
(d) Preshipment product inspection and certification requirements

32. Non-Tariff Barriers (NTBs) include all of the following except:
(a) Import quotas
(b) Tariffs
(c) Export subsidies
(d) Technical standards of products

33. SPS measures and TBTs are:
(a) Permissible under the WTO to protect the interests of countries
(b) May result in the loss of the competitive advantage of developing countries
(c) Increases the costs of compliance for the exporting countries
(d) All of the above

34. _____ 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

35. 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

36. Which of the following best distinguishes NTMs from tariffs?
(a) NTMs always generate revenue, tariffs do not
(b) NTMs restrict trade through regulations, tariffs restrict trade through prices
(c) NTMs are applied only on exports, tariffs only on imports
(d) NTMs are voluntary, tariffs are compulsory

37. A total ban imposed by the government on imports or exports of some or all commodities to a particular country or region for a specified or indefinite period is termed as: **[June 2024]**
(a) Embargos
(b) Safeguard measure
(c) Distribution restrictions
(d) Restrictive measures

Export Related Measures

38. 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 of 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

39. Due to a shortage in the domestic market, the government has prohibited the export of onions. This export-related measure can be categorised as:
(a) Ban on Exports
(b) Export Taxes
(c) Export Subsidies
(d) Voluntary Export Restraints

UNIT-III: TRADE NEGOTIATIONS

Taxonomy of Regional Trade Agreements (RTAs)

40. Group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries is referred to as _____. **[June 2024]**

(a) Trading Block
(b) Free-Trade Area
(c) Customs Union
(d) Economic and Monetary Union

41. _____is a group of countries that eliminates all tariff and quota barriers on trade to increase the exchange of goods with each other.

(a) Customs Union
(b) Free-Trade Area
(c) Common Trade Area
(d) Unilateral Trade Agreements

The General Agreement on Tariffs and Trade (GATT)

42. The General Agreement on Tariffs and Trade Covers _____ trade in _____.

(a) National, goods
(b) International, goods
(c) National, Services
(d) International, Services

43. GATT was established in the year: **[June 2024]**

(a) 1945 (b) 1948
(c) 1995 (d) 2014

44. The GATT lost its relevance by the_____.

(a) 1975 (b) 1980
(c) 1982 (d) 1985

45. What is the reason behind the loss of relevance of GATT by the 1980s?

(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

The Uruguay Round and the Establishment of the WTO

46. Which of the following culminated in the establishment of the World Trade Organisation?

(a) The Doha Round
(b) The Tokyo Round
(c) The Uruguay Round
(d) The Kennedy Round

47. The World Trade Organisation (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

48. The Headquarters of WTO is in _____.

(a) USA (b) Switzerland
(c) Australia (d) Germany

49. What was the primary goal of the General Agreement on Tariffs and Trade (GATT)?

(a) To promote protectionism
(b) To liberalize international trade
(c) To establish a common currency
(d) To regulate foreign direct investment

50. Which of the following is covered under the 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

51. The WTO accounts for about _____ of world trade.

(a) 50% (b) 70%
(c) 85% (d) 95%

52. 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

53. 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

54. 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

55. 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

56. 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)

57. The essence of 'MFN Principle' is:

(a) Equality of treatment of all member countries of the 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 or discrimination
(d) All the above

58. Under WTO agreements, countries cannot normally discriminate between their trading partners. This is referred to as_____. **[June 2024]**

(a) National Treatment (NT)
(b) Most Favoured Nation (MFN)
(c) Promoting Fair Competition (PFC)
(d) Free Trade through Negotiation (FTN)

59. 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

60. _____ tariffs refer to import tariffs. These are tariffs which countries promise to impose on imports from other members of the WTO unless the country is part of a preferential trade agreement.

(a) MFN (b) MTN
(c) CFN (d) CTN

61. Which of the following is True for the "Free-Trade" principle of the 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

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

(a) 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

63. The Agreement on Textiles and Clothing:

(a) Provides that the textile trade should be deregulated gradually
(b) Replaced the Multi-Fibre Arrangement (MFA), which was prevalent since 1974
(c) Granted the 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

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

(a) Stipulates to administration of 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

65. TPRM Stands for _____.

(a) Trade Policy Review Mechanism

(b) Trade Practices Regulatory Measures

(c) Transparent Practices Regulatory Mechanism

(d) None of these

66. TRIM stands for _____.

(a) Trade Policy International Mechanism

(b) Trade Related Investment Measures

(c) Transparent Reforms Inherent Mechanism

(d) None of these

G20 Economies: Facilitating Trade

67. Which of the following is NOT a member of G20?

(a) Mexico (b) India

(c) Singapore (d) Indonesia

68. Where was the first summit of G20 summit held?

(a) USA (b) Britain

(c) France (d) Canada

UNIT-IV: EXCHANGE RATE AND ITS ECONOMIC EFFECTS

The Exchange Rate Regimes

69. 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

70. The number of units of a foreign currency that can be exchanged for one unit of local currency is referred to as_____. **[June 2024]**

(a) Direct Quote (b) Indirect Quote

(c) European Currency (d) Cross Quotes

71. Which of the following is NOT a merit of the fixed exchange rate system?

(a) Stability in the exchange rate

(b) Prevent speculative activities

(c) Huge foreign exchange reserve required

(d) Promotes international investment

72. _____ 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

73. Which of the following statements is true?

(a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency

(b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency

(c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable

(d) All of the above

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

Column-I	Column-II
(i) Floating exchange rate	(a) Fixed exchange rate
(ii) Pegged exchange rate	(b) Depreciation
(iii) Devaluation	(c) Revaluation
(iv) Appreciation	(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

75. On which of the following factors, the real exchange rate depend?

(a) Nominal Exchange Rate
(b) Domestic Price
(c) Foreign Price
(d) All of the above

76. The _____ exchange rate is the price of one unit of foreign currency in terms of domestic currency.

(a) Artificial (b) Nominal
(c) Fixed (d) Real

77. 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)

78. Which formula correctly represents the real exchange rate?

(a) RER = $\frac{ÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐ}{ÐÐÐÐÐÐÐ}$

(b) RER= $\frac{ÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐ}{ÐÐÐÐÐÐÐÐÐ}$

(c) Real Exchange Rate = Nominal Exchange Rate × Inflation Rate

(d) Real Exchange Rate = Nominal Exchange Rate + Purchasing Power Parity

The Foreign Exchange Market

79. In case of spot trading, the settlement is done by and large in _____ days.

(a) Same (b) One
(c) Two (d) Three

80. The forward exchange rate is always _____ the spot exchange rate.

(a) Equal to (b) More than
(c) Less than (d) Any of the above

81. If the forward exchange rate is quoted higher than the spot exchange rate, then there is a _____.

(a) Forward premium
(b) Forward discount
(c) Spot premium
(d) Spot discount

82. 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)

83. 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

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

(a) The demand curve for dollars shifts to the right, and the 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 the Indian Rupee depreciates
(d) The demand curve for dollars shifts to the left and leads to an increase in the exchange rate

85. 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

86. Under a floating exchange rate system, if the demand for foreign currency increases and the supply curve remains unchanged, then the exchange value of _____ rises and the _____ depreciates.

(a) Domestic currency, foreign currency
(b) Foreign currency, domestic currency
(c) Domestic currency, outside currency
(d) None of these

87. 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 for foreign currency shifts 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

88. 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

89. Which one of the 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

Impacts of Exchange Rate Fluctuations on the Domestic Economy

90. 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) Export prices will increase

(b) Employment will increase

(c) Wages will increase

(d) All of the above

91. Which of the following is NOT a consequence of appreciation on the real economy?

(a) Rise in price of exports

(b) Reduction in levels of inflation

(c) Insignificant loss of competitiveness

(d) Positive effect on the domestic industry

UNIT-V: INTERNATIONAL CAPITAL MOVEMENT

Types of Foreign Capital

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

(a) Direct intergovernmental loans

(b) Loans from international institutions (e.g., World Bank, IMF, ADB)

(c) Soft loans, for example, from affiliates of the World Bank such as IDA

(d) All of the above

93. Which of the following is a form of borrowing?

(a) Direct intergovernmental loans

(b) Loans from international institutions (e.g. World Bank, IMF, ADB)

(c) External commercial borrowings

(d) All of the above

94. 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 Indian residents

Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)

95. 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 the flow of 'financial capital'

(c) Foreign direct investment (FDI) is not concerned with either the 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

96. Not a component of FDI according to IMF: **[June 2024]**

(a) Equity capital
(b) Reinvestment earnings
(c) Portfolio investments
(d) Intra-company loans

97. Which of the following statements is false for FPI?

(a) Portfolio capital in general moves to investment in financial stocks, bonds and other financial instruments
(b) It is affected largely by individuals and institutions through the mechanism of the capital market
(c) It is difficult to recover as it involves purely long-term investments, and the investors have a controlling interest
(d) Investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company

98. 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

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

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

PYQs of January, 25 & May, 2025

100. 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

101. What is the Ad valorem tariff? **[May 2025]**

(a) The fixed amount of money per physical unit or weight of commodity imported or exported
(b) A fixed time period for tariff application per calendar year
(c) The duty levied as a fixed percentage of the value of the traded commodity
(d) A flat rate imposed regardless of the product's value

102. A tariff that is set so high that no imports can enter is known as _____. **[May 2025]**

(a) Prohibitive Tariff (b) Bound tariff
(c) Escalated Tariff (d) Variable Tariff

103. Which of these countries is part of the USMCA Agreement? **[May 2025]**

(a) Mexico (b) Malta
(c) Malaysia (d) Mongolia

104. Which one of these is the main reason why GATT lost its relevance by 1980? **[May 2025]**

(a) Efforts at liberalising agricultural trade were successful
(b) International investments did not expand substantially
(c) GATT was a treaty
(d) There were inadequacies in the institutional structure and the dispute settlement system

105. Which of the following correctly differentiates Foreign Direct Investment (FDI) from Foreign Portfolio Investment (FPI)? **[May 2025]**

(a) FDI is a long-term investment in a company's operations, while FPI is a short-term investment in stocks and securities
(b) FDI investors do not own a stake in a company, whereas FPI investors control company decisions
(c) FDI investments are made only by individuals, while FPI investments are made only by institutions
(d) FDI is also known as "hot money," while FPI is considered a stable investment

106. Match the following : **[May 2025]**

	Table A		Table B
(a)	Has a long term interest and is invested for long.	(i)	Foreign Portfolio Investment
(b)	Speculative in Nature	(ii)	Foreign Direct Investment
(c)	Help developing countries benefit fully from global trading system.	(iii)	Free Floating exchange rate system.

(d)	Government and central banks do not participate in the market for foreign exchange.	(iv)	World Trade Organisation

(a) (a)-(ii), (b)-(i), (c)-(iv), (d)-(iii)
(b) (a)-(i), (b)-(ii), (c)-(iv), (d)-(iii)
(c) (a)-(ii), (b)-(i), (c)-(iii), (d)-(iv)
(d) (a)-(1), (b)-(ii), (c)-(iii), (d)-(iv)

107. An investment in which one investor establishes a business activity in a foreign country which is different from investor's main business activity but in some way supplements its major activity is called _____. **[May 2025]**
(a) Horizontal direct investment
(b) Vertical investment
(c) Conglomerate type of FDI
(d) Two-way direct foreign investment

108. The most controversial topic for the Doha Development Agenda was: **[May 2025]**
(a) The Labour Welfare (b) World Peace
(c) Globalisation (d) Agriculture Trade

109. An appreciation of currency or strong currency makes the domestic currency more _____ therefore it can be exchanged for a _____ amount of foreign currency. **[May 2025]**
(a) Weaker, smaller (b) Valuable, larger
(c) Weaker, larger (d) Valuable, smaller

110. Factor Endowment Theory of trade is also known as _____. **[Jan. 2025]**
(a) Baumol and Tobin Theory
(b) Adam Smith, Absolute Cost Advantage Theory
(c) Heckscher-Ohlin Theory
(d) Factor Price Equalisation Theory

111. Which tariff is calculated on the basis of specific contents of the imported goods (duties are payable by their components or related items)? **[Jan. 2025]**
(a) Compound tariff (b) Mixed tariff
(c) Ad valorem tariff (d) Technical tariff

112. Which tariff is expressed either on the basis of the value of the imported goods or on the basis of a unit of measure of the imported goods, depending on which generates the most income (or least income at times) for the country? **[Jan. 2025]**
(a) Ad valorem tariff (b) Specific tariff
(c) Mixed tariff (d) Compound tariff

113. The system wherein the nominal tariff rates on imports of manufactured goods are higher than the nominal tariff rates on intermediate inputs and raw materials, is known as _____. **[Jan. 2025]**
(a) Applied tariff (b) Escalated tariff
(c) Bound tariff (d) Preferential tariff

114. Which of the following is a measure to protect human, animal or plant life from risks arising out of additives, pests, toxins, etc. and to protect the biodiversity? **[Jan. 2025]**
(a) Prohibited tariff
(b) Sanitary and phytosanitary measures
(c) Technical barriers to trade
(d) Anti-dumping duties

115. With regards to international trade the European Union can be categorized as a _____. **[Jan. 2025]**
(a) Trading Bloc
(b) Free Trade Area
(c) Bilateral Agreements
(d) Customs Union

116. Investments which are reciprocal investments between countries are referred to as _____. **[Jan. 2025]**
(a) Horizontal direct investment
(b) Vertical direct investment
(c) Two-way direct foreign investment
(d) Conglomerate foreign investment

117. A total ban imposed by the Government on imports or exports of some or all commodities to a particular country or regions for a specified or indefinite period is known as _____. **[Jan. 2025]**
(a) Prohibitive tariff (b) Anti-dumping duties
(c) Embargo (d) Rules of origin

118. The Theory of Comparative Advantage in International Trade was presented by _____. **[Jan. 2025]**
(a) Adam Smith
(b) David Ricardo
(c) John Maynard Keynes
(d) Milton Friedman

119. '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 the euro area for synchronisation of exchange rates

(d) A currency that is widely used to denominate international contracts made by parties, even when it is not the national currency of either of the parties

ANSWER KEY

1. (b)	**2.** (c)	**3.** (c)	**4.** (a)	**5.** (c)	**6.** (b)	**7.** (d)	**8.** (b)	**9.** (b)	**10.** (b)
11. (d)	**12.** (b)	**13.** (d)	**14.** (d)	**15.** (d)	**16.** (c)	**17.** (a)	**18.** (c)	**19.** (d)	**20.** (d)
21. (a)	**22.** (d)	**23.** (b)	**24.** (b)	**25.** (d)	**26.** (d)	**27.** (d)	**28.** (c)	**29.** (b)	**30.** (b)
31. (c)	**32.** (b)	**33.** (d)	**34.** (c)	**35.** (b)	**36.** (a)	**37.** (a)	**38.** (c)	**39.** (a)	**40.** (a)
41. (b)	**42.** (b)	**43.** (b)	**44.** (b)	**45.** (d)	**46.** (c)	**47.** (d)	**48.** (b)	**49.** (b)	**50.** (d)
51. (a)	**52.** (c)	**53.** (c)	**54.** (b)	**55.** (b)	**56.** (d)	**57.** (b)	**58.** (b)	**59.** (c)	**60.** (a)
61. (c)	**62.** (b)	**63.** (d)	**64.** (a)	**65.** (b)	**66.** (c)	**67.** (a)	**68.** (a)	**69.** (c)	**70.** (c)
71. (b)	**72.** (d)	**73.** (d)	**74.** (d)	**75.** (c)	**76.** (b)	**77.** (a)	**78.** (d)	**79.** (c)	**80.** (d)
81. (a)	**82.** (b)	**83.** (d)	**84.** (c)	**85.** (a)	**86.** (b)	**87.** (d)	**88.** (b)	**89.** (d)	**90.** (d)
91. (d)	**92.** (d)	**93.** (d)	**94.** (d)	**95.** (c)	**96.** (c)	**97.** (c)	**98.** (d)	**99.** (d)	**100.** (b)
101. (c)	**102.** (a)	**103.** (a)	**104.** (d)	**105.** (a)	**106.** (a)	**107.** (b)	**108.** (d)	**109.** (b)	**110.** (c)
111. (d)	**112.** (c)	**113.** (b)	**114.** (b)	**115.** (d)	**116.** (c)	**117.** (c)	**118.** (b)	**119.** (d)	

HINTS & SOLUTIONS

19. (d) Compound Duty is a tariff that combines both per unit and percentage of value.

20. (d) It is a 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 their components or related items.

49. (b) GATT's primary goal was to promote free trade by reducing tariffs, quotas, and other trade barriers, thereby increasing international trade and economic cooperation among its member countries.

60. (a) These are Most–Favoured–Nation (MFN) tariffs.

68. (a) The first summit of the G20 was held in Washington (USA) in 2008.

71. (c) Option (c) is a demerit because the government has to maintain large reserves of Foreign currencies to maintain the exchange rate at the level fixed by it.

76. (b) The nominal exchange rate is defined as the number of units of domestic currency that can purchase a unit of a given foreign currency. A decrease in this variable is termed nominal appreciation of the currency.

91. (d) With increasing export prices, the competitiveness of the domestic industry is adversely affected. Thus, option (d) is not a consequence of appreciation.

Scan the QR code for ICAI Module Q&A

Chapter Wrap-up Test

This is a 20-minutes test. Read each question carefully and attempt all.

1. Which one of the following is International trade?
   (a) Trade between Mumbai and Delhi
   (b) Trade between California and New Jersey
   (c) Trade between France and Spain
   (d) Both (b) and (c)

2. An escalating tariff includes:
   (a) Nominal tariff rates that are higher than those on manufactured goods for raw materials
   (b) An increased tariff designed to prevent the import of a specific good in order to safeguard domestic industries
   (c) Nominal tariff rates that are higher than raw material tariffs on manufactured goods
   (d) Both (a) and (c)

3. In the following list, which one is not a non-tariff barrier?
   (a) Complicated documentation requirements
   (b) Import quotas on particular goods
   (c) Countervalling duties levied by the importing nation
   (d) Requirements for product certification and inspection prior to shipment

4. Trade between any two nations can be helpful if the price ratios of the products traded are:
   (a) Equal
   (c) Undetermined
   (b) Decreasing
   (d) Different

5. According to the theory of absolute advantage:
   (a) Nations can enhance their economic status by specialising in producing goods they can manufacture more efficiently than others
   (b) Increasing exports and reducing imports are key strategies for boosting national wealth and influence
   (c) The price of a good is determined solely by the quantity of labour needed for its production, ensuring stable factor prices
   (d) Differences in absolute advantage reflect disparities in factor endowments across nations

6. The following are examples of comparative advantage:
   (a) The capacity of a nation to produce a good or service at the lowest possible cost in relation to other nations
   (b) The capacity of a nation to generate a good or service at a reduced opportunity cost in comparison to other nations
   (c) Selecting a productive strategy that makes the least amount of the above abundant factors
   (d) (a) and (b)

7. New Trade theory propounded by Heckscher - Ohlin assumes:
   (a) Imperfect competition
   (b) Increasing returns to scale
   (c) Product differentiation
   (d) None of the above

8. Which of the following scenarios best describes why the domestic currency of Country X should strengthen against the US dollar, according to the supply and demand model of exchange rate determination?
   (a) The US chooses not to purchase goods from nation X
   (b) Country X repaying its debts abroad
   (c) A rise in the amount of money sent home by foreign workers to their families
   (d) A rise in the amount of goods imported by Country X's customers

9. Under Floating Exchange Rate System, exchange rate is determined by:
   (a) Central Bank
   (b) Government
   (c) Market forces of Demand and Supply
   (d) None of these

10. Depreciation of domestic currency leads to rise in:
   (a) Exports
   (b) Imports
   (c) Both (a) and (b)
   (d) Neither (a) nor (b)

11. What is Foreign Portfolio Investment?
   (a) Investments in foreign financial markets by domestic investors
   (b) Investments by domestic institutes in foreign companies
   (c) Investment in foreign company to gain significant ownership control
   (d) Investment in foreign currencies for speculative purposes

12. "Unilateral Transfers" are also known as:
   (a) Bilateral Transfers
   (b) One-way Transfers
   (c) Both (a) and (b)
   (d) Neither (a) nor (b)

13. What commitments have the governments of WTO members made under the Agreement on Agriculture?
   (a) Export subsidies, domestic assistance, and market access
   (b) Support for agricultural credit and market access
   (c) On boosting rural development and agricultural productivity
   (d) The entire list

14. What does "Country of Origin" refer to in international trade?
   (a) The country where the product is sold
   (b) The country where the good was produced or where the service provider is based
   (c) The country imposing the import tariff
   (d) The country with the highest demand for the product

15. Which of the following is a major reason for investments moving across borders?
   (a) Self-sufficiency of national economies
   (b) Increasing interdependence of national economies and trade relations
   (c) Decreasing role of transnational corporations
   (d) Reduction in technological innovations

16. Which of the following countries is NOT a member of the G20?
   (a) Norway
   (b) Argentina
   (c) South Africa
   (d) Indonesia

17. Which of the following is a potential problem associated with Foreign Direct Investment (FDI)?
   (a) Increased domestic employment opportunities
   (b) Transfer of outdated technology to the host country
   (c) Strengthening of local businesses
   (d) Reduction in foreign debt

18. "Which of the following is an example of Brownfield FDI in India?"
   (a) Establishing a new manufacturing plant from scratch
   (b) Setting up a new IT services company in Bangalore
   (c) Exporting Indian goods to international markets
   (d) Acquiring an existing airport under the automatic route

19. The following are anti-dumping duties:

(a) Higher import taxes to counteract the impact of exporting companies' unfair practice of imposing lower prices in overseas markets

(b) Higher import taxes to counteract the impact of exporting firms' increased competitiveness as a result of government subsidies

(c) Higher import taxes to counteract the unfair practice of exporting companies charging lower prices in international markets than their production costs

(d) Both (a) and (c)

20. The value of US Dollar $ 1 has gone down from ₹73 to ₹70. It means that:

(a) Indian Rupee has appreciated

(b) US Dollar has depreciated

(c) Both (a) and (b)

(d) None of these

ANSWER KEY

1. (c)	2. (c)	3. (c)	4. (d)	5. (a)	6. (b)	7. (b)	8. (c)	9. (c)	10. (a)
11. (a)	12. (b)	13. (a)	14. (b)	15. (b)	16. (a)	17. (b)	18. (d)	19. (d)	20. (c)

10 Indian Economy

QUICK HIGHLIGHTS

1. **Status of Indian Economy: Pre-Independence Period (1850-1947):**
   - **Indian Economy (1850-1947):** The largest economy that controlled 1/3rd to 1/4th portion of world wealth.
   - **Arthashastra** was written by Kautilya (321-296 BCE).
2. **The Current State of the Indian Economy Government Measures to boost the sectors:**
   - **Primary Sector:**
     - **100% FDI in Food Marketing:** Allowed under the automatic route.
     - **PM KISAN:** Income support for farmers.
     - **Minimum Support Price (MSP):** Fixed at 1.5 times the cost of production.
     - **Institutional Credit:** Concessional rates for agriculture.
     - **Launch of National Mission for Edible Oils:** Promoting domestic edible oil production.
     - **Pradhan Mantri Fasal Bima Yojana (PMFBY):** Insurance scheme for crop loss/damage.
     - **MIDH (Mission for Integrated Development of Horticulture):** Integrated Development of Horticulture.
     - **Soil Health Cards:** Provision for farmers to assess soil quality.
     - **Paramparagat Krishi Vikas Yojana (PKVY):** Promotes organic farming.
     - **Agri Infrastructure Fund:** Debt financing for post-harvest and community farming projects.
     - **Farmer Producer Organisations (FPOs):** Promotes better income through organisation.
     - **Per Drop More Crop (PDMC):** Increases water use efficiency.
     - **Micro Irrigation Fund:** Established to enhance irrigation.
     - **Agricultural Mechanisation:** Various initiatives to modernise farming.
     - **E-NAM:** Electronic trading portal for a unified national market for agricultural commodities.
     - **Kisan Rail:** Enhances logistics for farm produce.
     - **Start-up Ecosystem:** Creation in agriculture and allied sectors.
   - **Secondary Sector:**
     - **Goods and Services Tax (GST):** Replaced multiple taxes with a single tax (July 1, 2017).
     - **Corporate Tax:** Reduced to 22% for domestic companies.
     - **Make in India:** Launched in 2014, focus on investment, innovation, and infrastructure (27 sectors).
     - **Ease of Doing Business:** Ranked 63rd (2020).
     - **Single Window System:** One-stop shop for investor approvals.
     - **PM Gati Shakti:** Multi-modal infrastructure to cut logistics costs.
     - **NLP National Logistics Policy (NLP):** Lower logistics costs.
     - **Production Linked Incentive Scheme (PLI):** Boost manufacturing and exports.

- *Industrial Corridors:* Develop greenfield regions.
- *Faster Adoption and Manufacturing of Hybrid and Electric Vehicles-India (FAME):* Promote electric vehicle tech.
- *Udyami Bharat:* Empower MSMEs.
- *PM Mega Integrated Textile Region and Apparel (PM MITRA):* Boost the textile sector with world-class infrastructure.
- *FDI:* 100% in coal mining, coal sales, and insurance intermediaries.
- *Foreign Investment Promotion Board (FIFP):* Simplified FDI approval, 39% increase.
- *Remission of Duties and Taxes on Export Products (RODTEP):* Boost exports with tax rebates.
- *Start-up India:* Rank 40th in Global Innovation Index.
- *The Emergency Credit Line Guarantee Scheme (ECLGS):* Emergency credit lines for lending institutions.
- *Focus:* Cloud computing, IoT, AI.
- *Manufacturing Policy:* Target 25% GDP share by 2025.

◈ *Tertiary Sector*

- *National Single Window System:* Investor facilitation.
- *FDI Policies:* 100% in telecom, 74% in insurance.

3. *NITI AAYOG:*

◈ The Planning Commission was replaced by the National Institution for Transforming India (NITI) Aayog.

◈ NITI Aayog is expected to serve as a 'Think Tank' of the government.

◈ *Its Key Initiatives:*

- *LIFE:* Aims to replace the 'use-and-dispose' economy.
- *The National Data and Analytics Platform (NDAP):* Improves access to Indian government data.
- *Shoonya:* Promotes electric vehicles.
- *E-Amrit:* One-stop platform for information.
- *India Policy Insights (IPI):* Provides insights to shape India's policies.
- *Methanol Economy:* Reduces oil imports and emissions, and converts waste into methanol.
- *Transforming Gold Market:* Stimulates growth and exports.

QUESTIONS

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. In the British era, what was the reason for the virtual collapse of Indian agriculture?
(a) Absentee landlordism
(b) High indebtedness of agriculturists, growth of a class of exploitative moneylenders
(c) Low attention to productivity-enhancing measures
(d) All of the above

3. In the 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

4. 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

5. Which of the following causes is reducing the ability of Indian agriculturalists to participate in domestic as well as export markets?
[June 2024]
(a) Low farming productivity and subsistence farming
(b) Large amount of marketable surplus with farmers
(c) Dominated by big farmers and farm productivity
(d) Big landholdings by small farmers

6. 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

7. 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

8. 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) Eight

9. 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

Indian Economy: Post Independence (1947–1991)

10. The post-independence economic policy was rooted in:
(a) A capitalist mode of production with heavy industrialisation
(b) Social and economic redistribution and industrialisation directed by the state
(c) Social and economic redistribution through private sector initiative
(d) Industrialisation led by private entrepreneurs and redistribution by the state

11. Which of the following was NOT the ideology of industrialisation that prevailed in the early days of independence?
(a) Establishing an economic system in which the central government would have the authority to design the economic strategy
(b) To carry out the necessary investments in coordination with the private sector
(c) Systematic planning to support industrialisation
(d) Lowest level of industrialisation of the economy

12. In independent India, the comprehensive import controls were maintained until _____.
(a) 1955 (b) 1962
(c) 1966 (d) 1970

13. Rapid industrialisation of the economy was the cornerstone of whose development strategy?
(a) Nehru (b) Patel
(c) Indira (d) None of these

14. The 'Hindu Growth Rate' is a term used to refer to _____.
(a) The high rate of growth achieved after the new economic policy of 1991
(b) The low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year
(c) The low growth of the economy during the British period was marked by an average of 3.5 per cent
(d) The growth rate of the country, because India is referred to as 'Hindustan'

15. 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

16. The policies in 1950's were guided by _____.
(a) The Nehruvian philosophy of visualising a socialist society with emphasis on heavy industries
(b) The Gandhian philosophy of stressing small-scale and cottage industry and village republics
(c) Both (a) and (b)
(d) None of these

17. Which revolution was materialised by innovative farm technologies, including high-yielding seed varieties and intensive use of water, fertilizers & pesticides? **[June 2024]**

(a) The Green Revolution
(b) The Kisan Revolution
(c) The Agricultural Revolution
(d) The Fasal Revolution

18. The economic performance during the period 1965–81 was the worst in independent India's history. The decline in growth during this period is attributed mainly to a fall in productivity. Which of the following factors contributed to the decelerated growth that lasted for two decades?

(i) The license-raj, the autocratic 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)

19. The government nationalised 14 banks in _____ and later nationalised another 6 banks in _____.

(a) 1967, 1977
(b) 1969, 1980
(c) 1980, 1969
(d) None of the above

20. MRTP Act, 1969, aimed at the regulation of _____, which had relatively _____ market power. **[June 2024]**

(a) Large firms, large
(b) Large firms, small
(c) Small firms, small
(d) Small firms, medium

21. In which year, the policy of reservation of many products for exclusive manufacture by the small-scale sector initiated to promote small-scale industries?

(a) 1967 (b) 1969
(c) 1971 (d) 1973

The Era of Reforms

22. The first wave of Liberalisation started in India _____.

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

23. 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

24. Based on the Real Effective Exchange Rate (REER), the rupee 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

25. The budget for 1986 introduced policies of _____.

(a) Cutting taxes further
(b) Liberalising imports
(c) Reducing tariffs
(d) All of the above

26. What is the main cause attributed to the immediate need for economic reforms in 1991? **[June 2024]**

(a) The fiscal deficit was financed by huge amounts of domestic and external debts
(b) Forex reserves touched their highest point
(c) A persistent huge deficit led to declining public debt
(d) The government's revenue expenditure was consistently lowering revenue receipts

27. To manage the economic crisis of 1991, the Indian government approached the World Bank and the IMF. What is the amount of loan received by India?

(a) $ 10 billion
(b) $ 7 billion
(c) $ 5 billion
(d) None of these

28. 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 stabilisation by a substantial reduction in the fiscal deficit

(c) Both (a) and (b)

(d) None of these

29. Which of the following is a part of the 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

30. 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

31. In the "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

32. The New Economic Policy put an end to the 'Licence 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

33. 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

34. When was NITI AAYOG established?

(a) 1st January, 2013

(b) 15th August, 2013

(c) 1st January, 2015

(d) 15th August, 2015

35. To develop the mechanism to formulate credible plans at the village level and aggregate these progressively at higher levels of government is an objective of _____. **[June 2024]**

(a) Ministry of Rural Development

(b) NITI Aayog

(c) Commission of Policy and Planning

(d) Planning Commission

36. Think tank of the Government of India, which replaced the Planning Commission, is _____.

(a) Mission Commission

(b) NITI AAYOG

(c) NITI Commission

(d) None of these

The Current State of The Indian Economy: A Brief Overview

37. India has the world's _____ area planted under wheat, rice and cotton.

(a) Smallest (b) Largest

(c) Negligible (d) Significantly low

38. 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

39. The 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

40. India has the world's _____ cattle herd (buffaloes).

(a) Largest (b) Second Largest

(c) Third Largest (d) Fifth

41. According to the latest estimates, _____ of India's population is directly dependent on agriculture for a living.

(a) 30% (b) 40%
(c) 47% (d) 72%

42. India is among the top _____ exporters of agricultural products in the world.

(a) Three (b) Five
(c) Ten (d) Eleven

43. APEDA - full form: **[June 2024]**

(a) Agricultural Product Export Development Agency
(b) Agricultural Produce Economic Development Association
(c) Animal Product Export Development Authority
(d) Agricultural & Processed Food Export Development Authority

44. Paramparagat Krishi Vikas Yojana (PKVY) is a scheme for supporting and promoting _____.

(a) Organic farming
(b) Improvement of soil health
(c) Traditional farming methods of agriculture
(d) Both (a) and (b)

45. PDMC scheme aims 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

46. 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

47. What does the E-NAM (Electronic National Agriculture Market) aim to achieve? **[June 2024]**

(a) Increase farm productivity
(b) Create a unified national market for agricultural commodities
(c) Provide financial support to farmers
(d) Promote organic farming

48. E-Amrit is related to _____. **[June 2024]**

(a) One-stop destination for all information on electric vehicles
(b) Facilitates and improves access to Indian government data
(c) Improves air quality in India by accelerating the deployment of electric vehicles
(d) Provides a stimulus to exports and economic growth

49. India's rank in the Global Innovation Index (GII) improved to 40th in 2022 from 2015:

(a) 71st (b) 81st
(c) 91st (d) 99th

50. In terms of Ease of Doing Business in 2020, India ranks _____.

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

51. _____ is to facilitate data-based decisions related to integrated planning of multimodal infrastructure, thereby reducing logistics costs.

(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

52. PM Gati Shakti is related to: **[June 2024]**

(a) Empowerment of MSMEs
(b) Data-based decisions related to integrated planning of multimodal infrastructure thereby reducing the logistic cost
(c) Manufacturing of electric and hybrid vehicle technology
(d) Automatic route for FDI

53. FAME-India Scheme aims to:

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

54. _____ aims at the empowerment of Micro Small and Medium Enterprises (MSMEs).

(a) Naya Bharat (b) Viksit Bharat
(c) Udyog Bharat (d) Udyami Bharat

55. The Foreign Investment Promotion Board (FIPB) _____.

(a) Is a government entity through which inward investment proposals were routed to obtain required government approvals
(b) Is no more exists as the same is replaced by a new regime, namely Foreign Investment Facilitation Portal
(c) Is no more exists as all inward investments are through the automatic route and need no approval
(d) Is the body which connects different ministries with respect to foreign portfolio investments

56. The Government of India has allowed 100% FDI in the marketing of food products and in food product E-commerce under the _____ route. **[June 2024]**

(a) Automatic
(b) Green channel route
(c) Priority route
(d) Trade route

57. 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

58. Which of the following sectors contributes the maximum to India's Gross Value Added? **[June 2024]**

(a) Primary sector
(b) Secondary sector
(c) Tertiary sector
(d) All of the above

59. Which of the following are fiscal reforms?

i. Ensuring better tax compliance
ii. Reinvestment of funds in more profitable options
iii. Encouraging private sector participation
iv. Thrust on curbing government expenditure

[May 2025]

(a) Only i and iii (b) Only i, ii, iii
(c) Only i, iii, iv (d) Only i, ii, iv

PYQs of January, 2025 & May, 2025

60. Which of the following best describes the pre-British Indian economy? **[May 2025]**

(a) Dependent on imports for goods
(b) Self-sufficient villages and cities, which were centres of commerce
(c) Focus on industrial production
(d) Dominated by foreign trade

61. The trade policy reforms include _____. **[May 2025]**

(a) Inclusion of licensing restrictions for imports
(b) Removal of licensing procedure for imports
(c) Complication of tariffs.
(d) Inclusion of quantitative restrictions on imports and exports

62. Which initiative by NITI Aayog aims to promote electric vehicles? **[May 2025]**

(a) E-Amrit
(b) Shoonya Campaign
(c) Methanol Economy Program
(d) India Policy Insights (IPI)

63. An appreciation of currency or a strong currency makes the domestic currency more _____; therefore, it can be exchanged for a _____ amount of foreign currency. **[May 2025]**

(a) Weaker, smaller (b) Valuable, larger
(c) Weaker, larger (d) Valuable, smaller

64. What percentage of India's population depends on agriculture for livelihood as per the latest estimates? **[May 2025]**

(a) 18% (b) 25%
(c) 47% (d) 60%

65. Which government scheme focuses on providing financial support to farmers suffering crop loss or damage? **[May 2025]**

(a) PM KISAN
(b) Pradhan Mantri Fasal Bima Yojana (PMFBY)
(c) Soil Health Card Scheme
(d) Paramparagat Krishi Vikas Yojana (PKVY)

66. Which regime replaced the Foreign Investment Promotion Board (FIPB)? **[May 2025]**

(a) SEBI
(b) FIF Portal
(c) NITI Aayog
(d) DPIIT

67. What was India's rank in 2022 as per the Global Innovation Index? **[May 2025]**

(a) 81st (b) 40th
(c) 63rd (d) 25th

68. Which policy replaced the Merchandise Exports from India Scheme (MEIS) in 2021? **[May 2025]**

(a) NDAP
(b) GST
(c) PLI Scheme
(d) RoDTEP

69. The early liberalisation and reforms started in India in _____. **[May 2025]**

(a) 1980s (b) 1970s
(c) 1960s (d) 1990s

70. _____ facilitates and improves access to Indian Government data. **[Jan. 2025]**

(a) E-Amrit (b) E-NAM
(c) NDAP (d) MIDH

71. Which scheme is aimed at promoting the manufacture of electric and hybrid vehicle technology and ensuring sustainable growth for the same? **[Jan. 2025]**

(a) FAME India
(b) E-Amrit
(c) FIPB
(d) PDMC

72. Which Act was initially aimed at regulating large firms which had relatively large market power? **[Jan. 2025]**

(a) RBI Act (b) FEMA
(c) RERA (d) MRTP Act, 1969

73. From which year onwards, India followed the managed floating exchange rate system? **[Jan. 2025]**

(a) 1990 (b) 1991
(c) 1995 (d) 1993

74. Minimum Support Price (MSP) is fixed by the Government of India at _____ of the cost of production. **[Jan. 2025]**

(a) Two and a half times
(b) Half
(c) One and a half times
(d) Twice

75. Which policy was adopted to ensure world-class industrial infrastructure, which would attract cutting-edge technology and boost FDI and local investment in the textile sector? **[Jan. 2025]**

(a) PM-MITRA
(b) PM Gati Shakti National Master Plan
(c) National Logistics Policy
(d) Production Linked Incentive (PLI) Scheme

76. During the British period modern industrial sector saw lopsided growth with the dominance of _____ industries. **[Jan. 2025]**

(a) Wool and cotton
(b) Nylon and silk
(c) Cotton and jute
(d) Silk and cotton

77. Statutory recognition was granted to _____ to facilitate mobilisation of adequate resources and their efficient allocation in the capital markets. **[Jan. 2025]**

(a) RBI (b) BSE
(c) SEBI (d) NSE

78. In which of the following sectors is FDI not permissible? **[Jan. 2025]**

(a) Telecom
(b) Aviation
(c) Atomic energy
(d) Defence

79. Production of milk is included in which sector? **[Jan. 2025]**

(a) Tertiary Sector
(b) Service Sector
(c) Primary Sector
(d) Secondary Sector

ANSWER KEY

1. (d)	**2.** (d)	**3.** (c)	**4.** (d)	**5.** (a)	**6.** (a)	**7.** (a)	**8.** (d)	**9.** (c)	**10.** (b)
11. (d)	**12.** (c)	**13.** (a)	**14.** (b)	**15.** (a)	**16.** (c)	**17.** (a)	**18.** (d)	**19.** (b)	**20.** (a)
21. (a)	**22.** (b)	**23.** (a)	**24.** (c)	**25.** (d)	**26.** (a)	**27.** (b)	**28.** (c)	**29.** (d)	**30.** (d)
31. (b)	**32.** (d)	**33.** (d)	**34.** (c)	**35.** (b)	**36.** (b)	**37.** (b)	**38.** (b)	**39.** (c)	**40.** (a)
41. (c)	**42.** (c)	**43.** (d)	**44.** (d)	**45.** (a)	**46.** (d)	**47.** (b)	**48.** (a)	**49.** (b)	**50.** (a)
51. (a)	**52.** (b)	**53.** (b)	**54.** (d)	**55.** (b)	**56.** (a)	**57.** (a)	**58.** (c)	**59.** (c)	**60.** (b)
61. (b)	**62.** (c)	**63.** (b)	**64.** (c)	**65.** (b)	**66.** (b)	**67.** (b)	**68.** (d)	**69.** (a)	**70.** (c)
71. (a)	**72.** (d)	**73.** (d)	**74.** (c)	**75.** (a)	**76.** (c)	**77.** (c)	**78.** (c)	**79.** (c)	

HINTS & SOLUTIONS

15. (a) India signed a long-term Public Law (PL) 480 agreement to get food aid under the Government agricultural trade development assistance with the US in 1954.

Scan the QR code for ICAI Module Q&A

Chapter Wrap-Up Test

This is a 20-minutes test. Read each question carefully and attempt all.

1. Kautilya's writings are related to which of the following?
   (a) Political science
   (b) Economic policy
   (c) Military strategy
   (d) All of the above

2. The waves of colonialism have impacted:
   (a) Employment sector
   (b) Agricultural sector
   (c) Taxation sector
   (d) All of the above

3. The main feature and nature of our Indian Economy is a harmonious blending of _____ which was damaged because of British colonialism and destroyed the long-established production structure.
   (a) Domestic Trade of cereals
   (b) Agriculture and handicrafts
   (c) Export of Raw materials
   (d) Supply of Natural resources

4. Just before the Great Depression. India was ranked as the _____ largest industrialised country measured by the value of manufactured products.
   (a) 10^{th} (c) 12^{th}
   (b) 11^{th} (d) 13^{th}

5. In the pre-reforms period (i.e. before 1991). control was exercised over import of:
   (a) Consumer Goods (b) Capital Goods
   (c) Both (a) and (b) (d) Neither (a) and (b)

6. What did the policy of one-way free trade mean?
   (a) The British goods were levied tax to enter in India
   (b) The English exporters were favoured while Indian exports were charged with heavy taxes.
   (c) Bulk of Indian trade was done with countries except Britain
   (d) None of the above

7. What portion of the world's wealth did India control during the 1st to 17th century AD?
   (a) Between 10% and 15%
   (b) Between 15% and 20%
   (c) Between 25% and 33%
   (d) More than 50%

8. One of the major criticisms of NITI Aayog is its exclusion from which critical governmental process?
   (a) Policy implementation
   (b) Budgeting process
   (c) Judicial reviews
   (d) Electoral reforms

9. In the pre-reforms period (i.e. before 1991), Export Subsidy Schemes were characterized by:
   (a) High transaction costs
   (b) Delays
   (c) Corruption
   (d) All of the above

10. NITI Aayog replaced which institution and in which year?
    (a) Election Commission, 2012
    (b) Finance Commission, 2014
    (c) MRIP Commission, 2014
    (d) Planning Commission, 2015

11. Which of the following is not true about fiscal policy in the pre-reforms period (i.e. before 1991)?
    (a) High levels of government debt, both from internal and external sources
    (b) High rate of Income taxes and Indirect taxes
    (c) High Return on Government Investments
    (d) High levels of government expenditures

12. India has the world's largest planted area for which of the following crops?
(a) Coffee, sugarcane, and tea
(b) Wheat, rice, and cotton
(c) Fruits, vegetables, and spices
(d) Cocoa, maize, and soybeans

13. Gradual decrease in Government command and control over the economic policies:
(a) Liberalisation
(b) Privatisation
(c) Globalisation
(d) None of the above

14. 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

15. As part of Banking Sector Reforms in 1991. _____ banks can now operate in India.
(a) Private Sector Banks belonging to Resident Persons
(b) Foreign Banks
(c) Both (a) and (b)
(d) Neither (a) and (b)

16. Which of these economic reforms were initiated by the government under their liberalisation policy?
(a) Industrial and financial sector reforms
(b) Industrial, agricultural and financial sector reforms
(c) Agricultural and financial sector reforms
(d) Industrial and agricultural sector reforms

17. Which of the following government initiatives focuses on strengthening the Micro, Small and Medium Enterprises (MSME) sector in India through financial support and ease of doing business?
(a) Make in India
(b) Make in India
(c) Udyami Bharat
(d) Atmanirbhar Krishi

18. FDI is prohibited in which of the following sectors?
(a) Retail (b) E-Commerce
(c) Education (d) Chit Fund

19. What is the primary goal of fixing the Minimum Support Price (MSP) at 1.5 times the all-India weighted average cost of production for 23 crops?
(a) To increase export potential of crops
(b) To ensure higher crop diversity
(c) To provide certainty of returns to farmers
(d) To promote organic farming

20. What is the major focus of the Atmanirbhar Bharat Abhiyan?
(a) Promoting self-reliance in various sectors
(d) Increasing foreign direct investment
(c) Reducing trade deficits
(d) Enhancing public sector enterprises

ANSWER KEY

1. (d)	2. (d)	3. (b)	4. (c)	5. (a)	6. (b)	7. (c)	8. (b)	9. (d)	10. (d)
11. (c)	12. (b)	13. (a)	14. (d)	15. (c)	16. (a)	17. (c)	18. (d)	19. (c)	20. (a)

Mock Test Paper-I

Paper 4: Business Economics

All Questions are Compulsory

Time: 2 Hours **Maximum Marks: 100**

QUESTIONS

1. Business Economics is:
(a) Normative (b) Interdisciplinary
(c) Pragmatic (d) All of these

2. A study of how an increase 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

3. Due to the scarcity of resources, one must:
(a) Take rational economic decisions
(b) Trade off between different alternative use of resources
(c) Use of resources efficiently
(d) All the three

4. Which of the following scenarios illustrates the basic economic problem of "for whom to produce"?
(a) A factory deciding whether to use more labour or capital in production
(b) A government debating whether to allocate more funds to healthcare or education
(c) A company choosing whether to produce luxury cars or economy cars based on consumer demand
(d) A country analysing whether to export more goods or focus on domestic consumption

5. In a market economy, which of the following is a primary function of the price mechanism?
(a) To determine the political stability of a country
(b) To allocate scarce resources among competing uses
(c) To control the fiscal policies of the government
(d) To ensure equal income distribution among citizens

6. "Petrol is becoming cheaper, yet the demand for cars is not rising". This statement indicates that:
(a) The Law of Demand is not operative for cars
(b) The Law of Demand is operative for petrol
(c) The Demand Curve for cars will shift
(d) All the above

7. Which of the following goods typically has less elastic demand?
(a) Water (b) Electricity
(c) Cold-drink (d) Cell phone

8. If the total utility from consuming 4 units of a good is 100 and the total utility from consuming 5 units is 115 . What is the marginal utility of the 5th unit?
(a) 100 (b) 115
(c) 215 (d) 15

9. In case of an Inferior good, the income elasticity of demand is:
(a) Positive (b) Zero
(c) Negative (d) Infinite

10. If the supply curve is perfectly inelastic, the supply curve is:
(a) Upward sloping (b) Horizontal
(c) Downward sloping (d) Vertical

11. What does the budget line represent in the context of indifference curves?

(a) Combinations of goods with maximum satisfaction

(b) Combinations of goods affordable with given income

(c) Combinations of goods with equal prices

(d) Combinations of goods at the equilibrium point

12. If good growing conditions increase the supply of strawberries and hot weather increases the demand for strawberries, the quantity of strawberries bought:

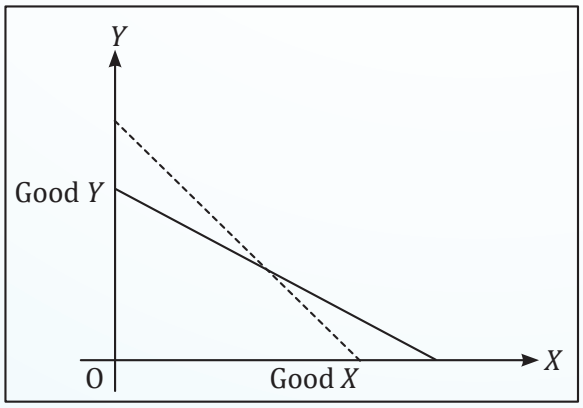
(a) Increases and the price might rise, fall or not change

(b) Does not change, but the price rises

(c) Does not change, but the price falls

(d) Increases and the price rises

13. Refer to the following figure and consider the dotted line as the new budget line. What change does the budget line show?



(a) The price of Good Y increased, and the price of Good X decreased

(b) The price of Good Y decreased, and the price of Good X increased

(c) Both the prices of Good X and Good Y decreased

(d) Income decreased, and the price of Good X increased

14. If the price of a product increases from Rs 10 to Rs 12, and the quantity demanded decreases from 100 units to 80 units, calculate the price elasticity of demand (PED) and identify its type.

(a) 0.5 (inelastic) (b) 1.25 (elastic)

(c) 1 (unit elastic) (d) 0.75 (inelastic)

15. When the price of a good increases from ₹200 to ₹300 , the quantity supplied increases from 2000 to 2500 units. The elasticity of supply in this case will be:

(a) Less than one (b) Greater than one

(c) Equal to one (d) Equal to two

16. A person went to buy a land and he thought one of the following was a wrong feature regarding the land:

(a) Homogeneous (b) Heterogeneous

(c) Immobile (d) No supply price

17. The active factor of production is:

(a) Labour (b) Land

(c) Capital (d) None of these

18. Supply is a _____ variable.

(a) Stock (b) Constant

(c) Flow (d) Both a and b

19. Production function is:

(a) Purely a technical relationship between input and output

(b) Purely an economic relationship between input and output

(c) Both the technical and economical relationship between input and output

(d) None

20. Innovation Theory of Entrepreneurship is propounded by:

(a) Schumpeter (b) Marshall

(c) Adam smith (d) Max Weber

21. At zero level of output, the total cost of production is equal to:

(a) Total Fixed Cost (b) Total Variable Cost

(c) Marginal Cost (d) Explicit Cost

22. When the LAC curve slopes upward, the firm is experiencing _____.

(a) Economies of scale

(b) External economies

(c) Diseconomies

(d) None of these

23. A rational producer will produce at the stage in which the marginal product is positive and:

(a) MP > AP (b) MP = AP

(c) MP < AP (d) MP is zero

24. The conclusion drawn from Cobb-Douglas production function is that labour contributed about _____ and capital about _____ of the increase in the manufacturing production.

(a) $\frac{Đ}{Đ}$ — (b) $\frac{Đ}{Đ}$ —

(c) $\frac{Đ}{Đ}$ — (d) $\frac{Đ}{Đ}$ —

25. At producer's equilibrium point, a particular isoquant is _____ to isocost line.

(a) Tangent (b) Perpendicular

(c) Parallel (d) Concave

26. Which of the following is an example of an oligopolistic industry?

(a) Agriculture

(b) Retail clothing

(c) Automobile manufacturing

(d) Restaurants

27. Given, AR = 5 and Elasticity of demand = 2. Find MR.

(a) +2.5 (b) –2.5

(c) +1.5 (d) +2.0

28. Grains are sold in the market with immediate cash payment. According to the nature of the transaction, this market belongs to which type of market?

(a) Spot market (b) Forward market

(c) Wholesale market (d) Regulated market

29. A Bilateral Monopoly is one in which:

(a) There are two products with one producer

(b) There are international monopoly agreements

(c) Monopoly is shared between the people

(d) A monopolist is facing a monopsonist

30. A perfectly competitive firm should shut down production if the price is :

(a) Below AVC (b) Equal to AVC

(c) Below ATC (d) Equal to ATC

31. In which of the markets, price discrimination cannot persist?

(a) Monopoly

(b) Oligopoly

(c) Monopolistic Competition

(d) Perfect Competition

32. A firm's demand curve is given by P = 300 – 4Q. If the firm currently sells 50 units, what is its total revenue?

(a) $8,000 (b) $18,000

(c) $5,000 (d) $4,000

33. _____ is the market structure where there is a single buyer.

(a) Monopsony (b) Monopoly

(c) Oligopsony (d) Duopoly

34. A Monopoly results in:

(a) Allocative efficiency

(b) Productive efficiency

(c) Deadweight loss

(d) Perfect competition

35. In the short run, marginal cost varies inversely with _____.

(a) Average product of variable factor

(b) Total product

(c) Marginal product of variable factor

(d) Both 'A' and 'B'

36. In the long run, when a firm moves from a smaller-sized plant to a bigger-sized plant, it will experience if it is operating under increasing returns to scale.

(a) Decreasing average costs

(b) Increasing average costs

(c) Constant average costs

(d) Any of the above

37. In a monopoly, the monopolist's demand curve is:

(a) The same as the industry demand curve

(b) The same as the marginal revenue curve

(c) The same as the supply curve

(d) Independent of the market demand curve

38. The kink occurs at:

(a) Any price

(b) Prevailing price

(c) Any quantity

(d) To be determined price

39. Lower prices in railways for senior citizens are a typical example of:

(a) Concessional pricing

(b) Marginal cost pricing

(c) Differential pricing

(d) Subsidised pricing

40. In the long run, a firm under monopolistic competition is in equilibrium when it produces at a level of output:

(a) At the minimum point of the LRAC curve
(b) At the falling segment of the LRAC curve
(c) At the rising segment of the LRAC curve
(d) When Price = MC

41. In the expansion phase which of the following indicators is falling?

(a) Tax collection
(b) Demand for goods and services
(c) Unemployment rate
(d) GDP

42. During recession what will be the market demand for new cars?

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

43. Recession is characterised by all of the following, except _____.

(a) Decline in investments, employment
(b) Increase in the price of inputs due to increased demand for inputs
(c) Investors confidence is shaken
(d) Demand for goods, services decline

44. A war has been going on between Country A and Country B for the last two years. In the current year, both countries have signed a peace agreement, bringing the war to an end. Now, both countries have started to rebuild the losses caused by the war using their funds. Which type of cause of change in the business cycle is this for Country A?

(a) Internal cause
(b) External cause
(c) Both internal and external causes
(d) This is not a cause of a change in the business cycle

45. As business manager when should we plan setting up new ventures and expansion of existing units?

(a) When the economy is experiencing a contraction period.
(b) When the economy is experiencing a high supply of goods and services.
(c) When the economy is experiencing a high demand of goods and services.
(d) None

46. Using the following information:

Year	Nominal GDP in Crores (₹)	Real GDP in Crores (₹)
2020	600	600
2021	1050	650
2022	1250	850
2023	1500	940

Calculate the GDP Deflator for the years 2022 and 2023.

(a) 100 and 161.54 (b) 147.06 and 159.57
(c) 68 and 62.67 (d) 400 and 560

47. Net factor income from abroad is:

(a) Exports minus Imports
(b) Visible Exports minus Visible Imports
(c) Factor incomes received from abroad minus factor incomes paid abroad
(d) Factor incomes received from abroad

48. The investment multiplier assumes that:

(a) The economy is at full employment
(b) Consumer spending is constant
(c) Government spending is constant
(d) There is no leakage in the country

49. In the Keynesian Two Sector Model, which of the following is assumed to be absent?

(a) Consumption expenditure
(b) Savings
(c) Government intervention
(d) Investment

50. 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

51. 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

52.

Private Income	₹10,000
Undistributed Corporate Profits	₹2,000
Profit Taxes	₹500

What is Personal Income?

(a) ₹7,500 (b) ₹8,000
(c) ₹12,500 (d) ₹10,000

53. If the saving function is S = –30 + 0.25Y, then what will be the consumption function (C)?

(a) C = 30 + 0.25Y (b) C = –30 + 0.75Y
(c) C = 30 + 0.75Y (d) C = –30 + 0.25Y

54. What is the value of output based on the 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

55. If NDP at Market Price (NDP_{MP}) is ₹5,000 crore and Net Indirect Taxes (NIT) are ₹800 crore, calculate NDP at Factor Cost (NDP_{FC}).

(a) ₹4,200 crore (b) ₹5,000 crore
(c) ₹800 crore (d) ₹5,800 crore

56. $C = 200 + 0.8Y_d$; G = T = 150; I = 200; TR = 75.

Find equilibrium income.

(a) 625 (b) 2450
(c) 2250 (d) 800

57.

Equilibrium income (Y)	600
Exports (X)	20
Imports (M)	10 + 0.05Y
Profit Taxes	₹500

Calculate Trade Balance.

(a) Surplus (20) (b) Deficit (20)
(c) Surplus (30) (d) Deficit (30)

58. Given the following data, calculate Gross Domestic Product (GDP) using the Expenditure Method.

Particulars	(Amount in Billions)
C	= 600
I	= 300
G	= 200
NX (X – M)	= 50
NFIA	= 40

(a) 900 billion (b) 1000 billion
(c) 850 billion (d) 970 billion

59. The System of Regional Accounts in India provides data on which of the following aspects at the state level?

(a) Population and demographic trends
(b) Agricultural production and land use
(c) Industrial output and manufacturing activitie
(d) All of the above

60. 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) NNP at MP = ₹5,400 Crores
(b) GDP at MP = ₹5,940 Crores
(c) NNP at FC = ₹5,940 Crores
(d) GNP at MP = ₹5,880 Crores

61. 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

62. Which of the following is an example of moral hazard in the insurance market?

(a) Individuals without health insurance avoiding doctor visits

(b) A policyholder driving more cautiously after getting car insurance

(c) A person being less careful about preventing theft after purchasing comprehensive home insurance

(d) An insurer providing discounts for safe driving

63. Which of the following is an example of a pure public good?

(a) Cable TV subscription with different channels

(b) Toll road with limited access

(c) National defence provided by the government

(d) Private tutoring service for individual students

64. 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

65. 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 the distribution of taxes between the centre and the states

(c) GST subsumes the majority of direct taxes and a few indirect taxes

(d) IGST is collected by the state governments

66. Interest on investments received from:

(a) Capital receipt

(b) Revenue receipt

(c) Capital expenditures

(d) None of the above

67. One of the challenges in public expenditure management is:

(a) The inability of the government to borrow from international financial institutions

(b) The difficulty in increasing government spending to stimulate economic growth

(c) The lack of transparency and accountability in budget execution

(d) The lack of demand for public goods and services in the economy

68. Which of the following equations correctly represents the relationship between social cost, private cost, and external cost?

(a) Social Cost = Private Cost – External Cost

(b) Social Cost $\frac{ÐÐÐÐÐÐÐ}{ÐÐÐÐÐÐÐ}$

(c) Social Cost = Private Cost × External Cost

(d) Social Cost = Private Cost + External Cost

69. Fiscal deficit in Government Budget indicates _____.

(a) Excess of capital expenditure over capital receipt (excluding borrowings)

(b) Excess of revenue expenditure over revenue receipt

(c) Borrowing requirement of the State Governments only

(d) Excess of total expenditure over revenue receipts and non-debt creating capital receipts

70. Which type of externality is created when a factory's emissions affect the health of nearby residents?

(a) Positive production externality

(b) Negative production externality

(c) Positive consumption externality

(d) Negative consumption externality

71. 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

72. 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

73. Which of the following is a key characteristic of a liquidity trap?

(a) Low interest rates and hoarding of money

(b) Strong consumer demand and increased borrowing

(c) High effectiveness of monetary policy in boosting spending

(d) High inflation and rising interest rates

74. Risk aversion, as explained by James Tobin, implies that an individual will:

(a) Always choose the investment with the highest return, regardless of risk

(b) Accept higher risk only if compensated with higher expected returns

(c) Prefer riskier assets over risk-free assets at the same return level

(d) Avoid all types of investments due to fear of losses

75. If Velocity = 20, Average Price = 120 and volume of transactions T = 150 Cr, then money supply will be:

(a) 2500 Cr (b) 25 Cr

(c) 900 Cr (d) 1000 Cr

76. _____ represents the ratio of liquid assets of the banks to their deposit liabilities.

(a) SLR (b) CRR

(c) CLR (d) None

77. 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

78. Calculate currency with the public.

Particulars (₹)	In crores
Notes with the public in circulation	23,26,500
Currency of small coins in circulation	500
Currency of rupee coins in circulation	34,500
Cash in hand with banks	80,615

(a) 22,80,885 Crores

(b) 24,42,115 Crores

(c) 22,45,885 Crores

(d) 23,62,000 Crores

79. If the reserve ratio is 10%, what is the money multiplier?

(a) 1.10 (b) 10

(c) 0.10 (d) 0.90

80. What are the three basic components of the monetary policy framework?

(a) Objectives of monetary policy, analytics of monetary policy, and operating procedures

(b) Fiscal policy, monetary policy, and economic growth

(c) Exchange rate stability, inflation control, and employment generation

(d) Government securities, foreign reserves, and trade policy

81. Most tariffs have:

(a) Only revenue effects

(b) Only protective effects

(c) Both protective and revenue effects

(d) Neither protective or revenue effects

82. What is the primary function of the World Trade Organisation (WTO)?

(a) To regulate foreign direct investment (FDI) among member nations

(b) To establish common monetary policies among member countries

(c) To promote regional economic integration in Europe

(d) To facilitate trade negotiations and resolve trade disputes among member countries

83. What is the term used to describe a situation where a country deliberately lowers the value of its currency to gain a competitive advantage in international trade?

(a) Devaluation
(b) Revaluation
(c) Appreciation
(d) Stabilisation

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

(a) Secure access to minerals or raw material
(b) Desire to capture of large and rapidly growing emerging markets
(c) Desire to influence home country industries
(d) (a) and (b) above

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

(a) Direct Quote
(b) Indirect Quote
(c) European Currency
(d) Cross Quotes

86. What motivates Indian companies to make Overseas Direct Investments (ODI)?

(a) To reduce import of foreign goods
(b) To acquire ownership of Indian companies
(c) To expand their global footprint and access international markets
(d) To increase competition in the domestic market

87. What is the purpose of trade negotiations?

(a) To create barriers to international trade and protect domestic industries
(b) To promote import-oriented economies and increase trade deficits
(c) To resolve trade disputes between countries
(d) To improve market access and reduce trade barriers

88. TRIM stands for _____.

(a) Trade Policy International Mechanism
(b) Trade Related Investment Measures
(c) Transparent Reforms Inherent Mechanis
(d) None of these

89. What is the primary advantage of a fixed exchange rate system?

(a) Exchange rate stability, reducing uncertainty for international trade and investments
(b) Flexibility in adjusting the exchange rate based on market conditions
(c) Full control of the exchange rate by market forces
(d) Ability to accumulate foreign exchange reserves easily

90. 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

91. 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

92. Which of the following initiatives is aimed at improving market infrastructure and enhancing farmer collaboration in India?

(a) National Rural Employment Guarantee Act
(b) Farmer Producer Organisations (FPOs)
(c) Mahatma Gandhi National Crop Insurance Scheme
(d) Pradhan Mantri Kaushal Vikas Yojana

93. What major step was taken to liberalise the Indian banking sector during the financial reforms of 1991?

(a) Nationalisation of private banks

(b) Restricting foreign direct investment in the banking sector

(c) Allowing private sector banks to enter the industry

(d) Imposing strict capital controls on banks

94. Gradual decrease in government command and control over economic policies is called _____.

(a) Liberalisation (b) Privatisation

(c) Globalisation (d) None of the above

95. India has the world's largest planted area for which of the following crops?

(a) Coffee, sugarcane, and tea

(b) Wheat, rice, and cotton

(c) Fruits, vegetables, and spices

(d) Cocoa, maize, and soybeans

96. FDI is prohibited in which of the following sectors?

(a) Retail (b) E-Commerce

(c) Education (d) Chit Fund

97. The most important change in Foreign Trade Policy from 1991 onwards was:

(a) Import limitations are being relaxed

(b) Export restrictions are being relaxed

(c) Both (a) and (b) are being relaxed

(d) Import limits are being relaxed specifically on specified commodities

98. 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

99. Which of the following best describes the primary goal of the 'Make in India' initiative launched in 2014?

(a) To reduce agricultural exports from India

(b) To develop India as a global manufacturing and innovation hub

(c) To focus exclusively on traditional handicrafts

(d) To promote foreign investment in agriculture only

100. One of the major criticisms of NITI Aayog is its exclusion from which critical governmental process?

(a) Policy implementation

(b) Budgeting process

(c) Judicial reviews

(d) Electoral reforms

ANSWER KEY

1. (d)	**2.** (a)	**3.** (d)	**4.** (c)	**5.** (b)	**6.** (d)	**7.** (a)	**8.** (d)	**9.** (c)	**10.** (d)
11. (b)	**12.** (a)	**13.** (b)	**14.** (c)	**15.** (a)	**16.** (a)	**17.** (a)	**18.** (c)	**19.** (a)	**20.** (a)
21. (a)	**22.** (c)	**23.** (c)	**24.** (b)	**25.** (a)	**26.** (c)	**27.** (a)	**28.** (a)	**29.** (d)	**30.** (a)
31. (d)	**32.** (c)	**33.** (a)	**34.** (c)	**35.** (c)	**36.** (a)	**37.** (a)	**38.** (b)	**39.** (c)	**40.** (b)
41. (c)	**42.** (b)	**43.** (b)	**44.** (b)	**45.** (c)	**46.** (b)	**47.** (c)	**48.** (d)	**49.** (c)	**50.** (a)
51. (a)	**52.** (a)	**53.** (c)	**54.** (c)	**55.** (a)	**56.** (b)	**57.** (b)	**58.** (b)	**59.** (d)	**60.** (c)
61. (a)	**62.** (c)	**63.** (c)	**64.** (d)	**65.** (b)	**66.** (b)	**67.** (c)	**68.** (d)	**69.** (d)	**70.** (b)
71. (b)	**72.** (c)	**73.** (a)	**74.** (b)	**75.** (c)	**76.** (a)	**77.** (a)	**78.** (a)	**79.** (b)	**80.** (a)
81. (c)	**82.** (d)	**83.** (a)	**84.** (d)	**85.** (b)	**86.** (c)	**87.** (d)	**88.** (b)	**89.** (a)	**90.** (d)
91. (d)	**92.** (b)	**93.** (c)	**94.** (a)	**95.** (b)	**96.** (d)	**97.** (c)	**98.** (a)	**99.** (b)	**100.** (b)

HINTS & SOLUTIONS

1. (d) All of these, Business Economics is an interdisciplinary field that combines economic theory and quantitative methods to analyse business situations. It is also considered normative, as it prescribes policies and strategies for decision-making. Additionally, it is pragmatic, focusing on practical applications and solutions to real-world business problems.

2. (a) This example falls under Macroeconomics because it studies the impact of a change in the corporate income tax rate on the national unemployment rate, which is an aggregate economic indicator. Macroeconomics focuses on the economy as a whole, examining broad variables such as GDP, inflation, and unemployment, and how government policies, like changes in taxation, affect overall economic performance, rather than the behaviour of individual firms or markets.

3. (d) Due to the scarcity of resources, one must take rational economic decisions, trade off between different alternative uses of resources, and use resources efficiently. Hence, the correct answer is (D) All the three.

4. (c) The scenario where a company chooses whether to produce luxury cars or economy cars based on consumer demand illustrates the basic economic problem of "for whom to produce." This decision involves determining which segments of the population will receive the produced goods and services.

5. (b) The primary function of the price mechanism in a market economy is to allocate scarce resources among competing uses. Prices act as signals to both producers and consumers, guiding the decisions on what to produce, how much to produce, and for whom to produce.

6. (d) Petrol and Cars are complementary. So when two goods are complementary they both experience similar demands, meaning that if one experiences higher demand then the other goods shall also experience higher demand and vice versa. As per our statement "Petrol is becoming cheaper, yet the demand for cars is not rising", which is the total opposite of what complementary goods should act. Because the price of petrol is decreasing then the demand for it will also rise as per the law of demand but, as the car is complementary to petrol there should have been a rise in demand for cars too which in this case is not happening and hence the law of demand is absent for cars.

And the demand curve for cars will shift due to the increase in the demand for petrol. Hence, the correct answer is Option (d) All the above.

7. (a) The correct answer is Water.

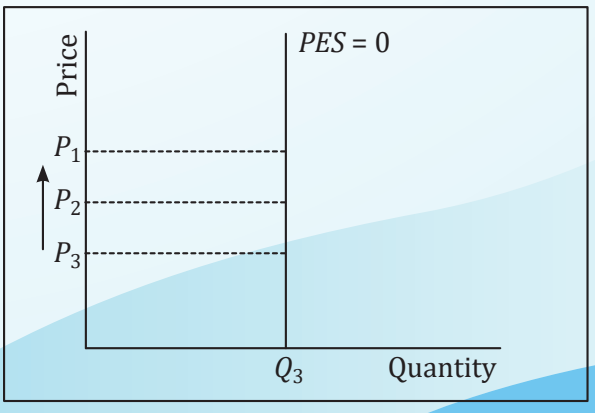
Water has less elastic (inelastic) demand because it is a necessity with few or no close substitutes. Even if the price rises, people will still consume nearly the same amount, as it's essential for daily life.

8. (d) Marginal utility is calculated by taking the change in total utility and dividing it by the change in quantity. Here, the change in total utility is 115 – 100 = 15, and the change in quantity is 5 – 4 = 1. Thus, the marginal utility of the 5 th unit is 15.

9. (c) The correct answer is Negative.

In case of Inferior Goods, the income elasticity of demand is negative because there will be an inverse relation between income and demand for inferior goods. As income increases demand for inferior goods decreases and vice versa.

10. (d) A perfectly inelastic supply curve is vertical to the *Y*-axis. This implies that a price change will not result in any change in quantity supplied.



11. (b) The budget line represents combinations of goods that are affordable with a given income, considering the prices of the goods.

12. (a) When good growing conditions increase the supply of strawberries and hot weather increases their demand, the quantity of strawberries bought will increase. However, the effect on price is uncertain; it may rise, fall, or stay the same depending on whether the increase in demand is greater than, less than, or equal to the increase in supply.

13. (b) There are two reasons why the budget line may shift: either a change in income or a change in the prices of goods.

The given figure indicates that the price of good Y has fallen, allowing consumers to purchase a greater quantity of good Y. Similarly, the price of good X has risen, so consumers will purchase less of good X.

14. (c) Price elasticity of demand (PED) is calculated using the formula:

Ð ÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐ / ÐÐÐÐÐÐÐÐÐÐÐÐÐÐÐ

The percentage change in quantity demanded

ℵ ÐÐ / Ð ÐÐÐ

Next, calculate the percentage change in price

ℵ ÐÐ / Ð ÐÐÐ

Ð ℵ Ð / Ð

The absolute value is 1.0, which indicates that the demand is unit elastic, meaning the quantity demanded changes by the same percentage as the price change.

15. (a) Initial quantity = 2000, New quantity

= ÐÐÐÐ / ÐÐ ℵÐÐÐ

Initial price = ₹200, New price = ₹300

% change in price ℵ ÐÐÐ / Ð ÐÐÐ

So, elasticity of supply, ℵ Ð / Ð Ð

Since the elasticity of supply is 0.5, which is less than 1, the supply is said to be inelastic in this case.

16. (a) Land is heterogeneous in nature; every piece of land differs in location, fertility, climate, and other characteristics. It is not uniform (homogeneous). The other features, heterogeneous, immobile, and no supply price, are correct characteristics of land in economics.

17. (a) Labour is considered the active factor of production because it initiates and directs the use of other factors like land and capital, which are passive without human effort.

18. (c) A flow variable measures the amount of something that moves or is transferred during a specific period of time. In the case of supply, it refers to the amount of goods or services that are offered for sale in the market during a specific period, such as a day, a week, a month or a year. Hence, the correct answer is Option C Flow.

19. (a) A production function describes the maximum output that can be produced from a given set of inputs with available technology. It focuses on the technical relationship, how efficiently inputs are transformed into outputs without involving prices or costs, which are part of economic relationships.

20. (a) Joseph A. Schumpeter propounded the Innovation Theory of Entrepreneurship, which emphasises that entrepreneurs drive economic development through innovations - introducing new products, new methods of production, new markets, new sources of supply, or new forms of organisation.

21. (a) At zero level of output, no variable costs are incurred, but fixed costs (like rent, salaries of permanent staff, and depreciation) still have to be paid. Therefore, the total cost equals the total fixed cost when output is zero.

22. (c) Diseconomies of scale occur when long-run average costs start to rise with increased output. Diseconomies cause the LAC curve to shift upwards as the industry expands.

Thus, diseconomies is the correct answer.

23. (c) A rational producer operates in Stage II of production, where:

Marginal Product (MP) is positive but less than Average Product (AP).

This stage lies between the point where AP is maximum (MP = AP) and the point where MP becomes zero.

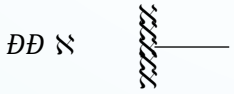
24. (b) As per the Cobb-Douglas production function, labour contributed about — th and Capital about — th of the increase in the manufacturing production.

25. (a)The correct answer is tangent.

At the producer's equilibrium, the chosen isoquant (showing combinations of inputs giving the same output) is tangent to the iso-cost line (showing combinations of inputs with the same total cost). This tangency means the marginal rate of technical substitution (MRTS) equals the ratio of input prices, indicating the most cost efficient input combination for a given output level.

26. (c) The automobile manufacturing industry is typically an oligopoly, with a few large firms (such as Toyota, Ford, and Volkswagen) dominating the market. This is unlike agriculture or retail clothing, which are more competitive with many small firms.

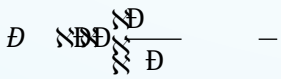
27. (a) We can use the formula that relates Marginal Revenue (MR), Average Revenue (AR), and the Price Electricity of Demand (Ed):



Given:

- AR = 5
- Elasticity of demand (Ed) = 2

Substituting these value as into the formula:



28. (a) A spot market is one where goods are sold and payment is made immediately at the time of the transaction, with instant delivery. Since the grains are sold and cash is paid right away, this transaction falls under the spot market category.

29. (d) A bilateral monopoly is a market situation where there is one seller (monopolist) and one buyer (monopsonist).

This creates a unique condition where both parties have market power, and the price and quantity are determined through negotiation.

30. (a) A perfectly competitive firm should shut down production if the price of the product falls below the average variable cost (AVC). This is because, in the short run, the firm must at least cover its variable costs to continue operating. If the price is below AVC, the firm cannot even cover its day-to-day operating expenses, and continuing production would increase its losses beyond the fixed costs, which it has to bear anyway. Therefore, shutting down minimises losses to only the fixed costs.

Hence, the correct condition for shutdown is when the price is below AVC.

31. (d) Perfect Competition

Price discrimination cannot persist in a perfectly competitive market. In perfect competition, there are many small firms, homogeneous products, and no market power for individual firms. Since all firms sell an identical product at the market determined price, they cannot engage in price discrimination. Price discrimination typically requires some degree of market power, which is absent in a perfectly competitive market where individual firms are price takers.

32. (c) $TR = P \times Q$

$P = 300 - 4Q$

$P = 300 - 4 \times 50 = 100$

$TR = 100 \times 50 = \$5000$

33. (a) Monopsony is the market structure where there is a single buyer. In this market structure, there is only one buyer of a particular good or service, which gives the buyer a significant amount of market power. This means that the buyer can dictate the price at which it is willing to purchase the good or service, and the sellers have little bargaining power to negotiate a higher price. Monopsonies can lead to market inefficiencies and can result in lower prices for the sellers than in a competitive market.

Therefore, the correct answer is Option A Monopsony.

34. (c) Monopolies often produce less than the socially optimal quantity, leading to deadweight loss and allocative inefficiency.

In other words, a monopoly restricts output and charges a higher price compared to perfect competition, leading to underproduction and

loss of total surplus in the economy. This loss of welfare that neither consumers nor producers gain is called dead weight loss.

35. (c) In the short run, **Marginal Cost (MC)** is calculated as:

$$\frac{\text{ĐĐĐĐĐ}}{\text{ĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐĐ}}.$$

Since the wage rate is constant, MC varies inversely with the marginal product of the variable factor, when MP rises, MC falls, and when MP falls, MC rises.

36. (a) Increasing returns to scale means that when all inputs are increased by a certain percentage, output increases by a greater percentage. As a result, the cost per unit (average cost) falls because production becomes more efficient. In the long run, moving from a smaller to a bigger plant under increasing returns to scale leads to lower average costs.

37. (a) In a monopoly, a single firm controls the entire market, meaning the monopolist is the only producer in the industry. Since there are no close substitutes, the demand for the monopolist's product is the same as the industry demand curve.

(b) The same as the marginal revenue curve

→ Incorrect, because the marginal revenue (MR) curve lies below the demand curve in a monopoly.

(c) The same as the supply curve → Incorrect, as monopolists do not have a well-defined supply curve like in perfect competition.

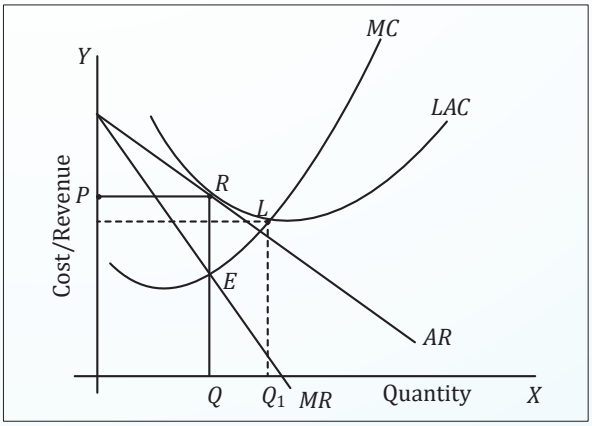
(d) Independent of the market demand curve

→ Incorrect, because the monopolist's pricing and output decisions depend on market demand.

38. (b) In the kinked demand curve model of oligopoly, the kink occurs at the prevailing price, which is the price currently charged by firms in the market. At this point, the demand curve has two segments: above the prevailing price, demand is relatively elastic because competitors are unlikely to match price increases; while below it, demand is relatively inelastic because competitors are likely to match price cuts. This kink explains price rigidity in oligopolistic markets.

39. (c) Differential pricing (also called price discrimination) occurs when different prices are charged to different groups of consumers for the same service or product, based on characteristics like age, location, or time. Offering lower railway fares to senior citizens is a classic example, as the service is the same, but the price varies depending on the passenger's age.

40. (b) If the firm in a monopolistically competitive market earns supernormal profits, it attracts new firms to enter the industry. With the entry of new firms, the market will be shared by more firms. As a result, profit per firm will fall. This will go on till super-normal profits are wiped out and all firms earn only normal profits. Therefore, AC = AR, and the output level is less than the output at which LRAC is minimum, meaning the firm operates on the falling (left) segment of the LRAC curve.



41. (c) One of the key indicators of economic health during the expansion phase is the unemployment rate. When the economy is expanding, it's common for the unemployment rate indicator to fall. It falls as economic growth accelerates, businesses expand, and job opportunities increase.

42. (b) If there is a recession in the economy then aggregate demand for goods and services will decrease, rate of unemployment increases as a result the income level of the customer decreases gradually hence the demand curve for the car shifts backward or left or there is a decrease in demand.

43. (b) All of the following-apart from the rise in input prices as a result of increasing demand for inputs -are signs of an economic recession. A recession is characterized as a significant decline in economic activity that impacts the entire economy and can last for more than a few months.

44. (b) An external cause of change in the business cycle refers to factors outside the economic system of a country, such as wars, natural disasters, political events, or global crises. In this case, the war between Country A and Country B-and its end through a peace agreement-originated from geopolitical conflict, not from internal economic factors. The rebuilding process after the war is a response to this external shock, which can lead to economic expansion as resources are mobilised for reconstruction.

45. (c) High demand indicates that consumers are willing and able to purchase goods and services, creating favorable market conditions for new ventures and expansions. Overall, setting up new ventures and expanding existing units during periods of high demand can position businesses for success by capitalizing on market opportunities, driving revenue growth, and enhancing competitive advantage.

46. (b) To calculate the GDP Deflator, the formula is:

For 2022:

For 2023:

47. (c) Net factor income from abroad is factor income received from abroad minus factor incomes paid abroad.

Net factor income from abroad = Factor income earned by our residents from the rest of the world - Factor income earned by non-residents in our domestic territory.

48. (d) The investment multiplier concept is based on the idea that an initial increase in investment leads to a greater increase in national income.

This process assumes no leakages, such as savings, taxes, or imports, meaning that all income is spent on domestic consumption, leading to successive rounds of spending.

49. (c) The two-sector model considers only households and businesses, assuming no government taxation or spending.

50. (a) While calculating Personal Income (PI) from National Income (NI), we:

Add: Transfer payments to individuals (like pensions, unemployment benefits), because they are received by households but not included in NI.

Subtract: Undistributed profits, corporate taxes, and contributions to social security, because they are part of N| but not received by households.

51. (a) The income multiplier (k) is given as 4, which means:

MPS = 1 – MPC

MPS = 1 – 0.75 = 0.25

52. (a) Personal Income = Private Income - Undistributed Corporate Profits - Profit Taxes

Personal Income = 10,000 – 2,000 – 500 = 7,500

53. (c) The saving function is: $S = -30 + 0.25Y$.

$Y = C + S$ OR $C = Y - S$

$C = Y - (-30 + 0.25Y)$

$C = Y + 30 - 0.25Y$

$C = 30 + (1 - 0.25)Y$

$C = 30 + 0.75Y$

54. (c) Value of Output = Sales + Closing Stock – Opening Stock

Substitute values:

= 40,000 + 2,000 – 500

= 42,000 – 500 = 41,500 Lakhs

55. (a) The formula :

$NDP_{FC} = NDP_{MP}$ – Net Indirect Taxes

Thus,

$NDP_{FC} = 5000 - 800$

$NDP_{FC} = 4200$ crore

56. (b) Step 1: Disposable income

$Y_d = Y - T + TR$

$Y_d = Y - 150 + 75 = Y - 75$

Step 2: Consumption function in terms of Y

$C = 200 + 0.8\,(Y - 75)$

$C = 200 + 0.8Y - 60$

$C = 140 + 0.8Y$

Step 3: Equilibrium condition

$Y = C + I + G$

$Y = (140 + 0.8Y) + 200 + 150$

$Y = 490 + 0.8Y$

Step 4: Solve for Y

$Y - 0.8Y = 490$

$0.2Y = 490$

$$Y = \frac{Đ}{Đ} = 2450$$

57. (b) Trade Balance = $X - M$

Given: $X = 20$

$M = 10 + 0.05(600)$

$M = 10 + 30 = 40$

So, Trade Balance $= 20 - 40 = -20$

58. (b) $GDP = C + I + G + (X - M)$

$GDP = 500 + 250 + 180 + 70$

$GDP = 1000$ billion

Note: NFIA is not included in GDP calculation, as GDP measures domestic output, while NFIA is used to calculate GNP.

59. (d) The System of Regional Accounts in India compiles state-level economic data, covering:

- Demographic trends (population statistics, workforce data)
- Agricultural production (crop yields, land use patterns)
- Industrial output (manufacturing performance, sectoral contributions)

Thus, the correct answer is (d) All of the above.

60. (c) 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

$NNP_{MP} = GNP_{DP}$ Dep. = 5,880 – 480 = ₹5,400 Crores

$NNP_{FC} = NNP_{YP} - NIT$ = ₹ 5,400 – ₹ 540 = ₹ 4.860 Crores

61. (a) Redistribution measures (like subsidies, welfare schemes, progressive taxation) aim to promote equity (fairness). However, they can create efficiency costs (like disincentives to work or invest).

Thus, policy-makers aim to achieve redistribution with minimal efficiency costs by balancing the goals of equity and efficiency.

62. (c) This scenario exemplifies moral hazard because the policyholder may take fewer precautions against theft, knowing that the insurance will cover any losses.

63. (c) A pure public good has two key characteristics:

1. Non-excludability - No one can be excluded from using it.
2. Non-rivalry - One person's use does not reduce its availability for others.

National defense meets both criteria:

- It protects all citizens regardless of individual contribution (non-excludable).
- One person's security does not reduce protection for others (non-rivalrous).

64. (d) Government expenditure includes various types of spending by the government:

- Current Expenditure: Covers day-to-day operational costs such as salaries, maintenance, and administrative expenses.
- Capital Expenditure: Includes investments in infrastructure, machinery, and public projects that help in economic growth.
- Transfer Payments: Comprise welfare payments, pensions, and subsidies, which do not directly result in the production of goods and services but support economic stability.

Since all the options fall under government expenditure, Option (d) is correct.

65. (b) The Finance Commission is responsible for recommending how tax revenues should be shared between the central and state governments.

(a) Incorrect: The Centre cannot tax agricultural income and mineral rights, as these are under the jurisdiction of state governments.

(c) Incorrect: GST subsumes most indirect taxes (not direct taxes). Direct taxes like income tax and corporate tax remain outside GST.

(d) Incorrect: IGST (Integrated GST) is collected by the central government, which later distributes it to states.

66. (b) Since interest income is received in the course of ordinary business activities, hence it is categorized as revenue receipt.

67. (c) A key challenge in public expenditure management is ensuring that government funds are used efficiently, transparently, and for their intended purposes. Issues like corruption, misallocation of resources, and poor monitoring can lead to inefficiencies and wastage.

68. (d) The social cost of an activity includes both the private cost incurred by the producer and the external cost borne by society. This relationship is accurately represented by the equation.

Social Cost = Private Cost + External Cost.

69. (d) The fiscal deficit measures the gap between the government's total expenditure and the sum of its revenue receipts and non-debt-creating capital receipts. It essentially represents the borrowing requirement of the government to finance its expenditure.

Fiscal Deficit = Total Expenditure - (Revenue Receipts + Non-Debt Creating Capital Receipts)

70. (b) The factory's emissions create a negative production externality, as the negative effects on residents' health are not reflected in the factory's production costs.

71. (b) Under the Monetary Policy Framework Agreement (2015), the Government of India and the RBI agreed to maintain CPI inflation within a target band of 4%±2%, meaning the acceptable range is 2% to 6%. This framework aims to ensure price stability while supporting economic growth.

72. (c) When commercial banks reduce their excess reserves, they lend more to the public. This increases the money multiplier effect, leading to a higher money supply (M) in the economy. The monetary base (MB) remains unchanged because it consists of currency in circulation and reserves with the central bank, which are not directly affected by lending decisions.

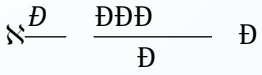
73. (a) A liquidity trap occurs when interest rates are already very low, and people prefer holding onto cash rather than spending or investing, reducing the effectiveness of monetary policy.

74. (b) Tobin's theory states that risk-averse individuals demand additional compensation (higher returns) to take on more risk. They do not avoid risk completely but require adequate incentives.

75. (c) To find the money supply, we use Fisher's Equation of Exchange: MV = PT

Given, V = 20, P = 120, T = 150 crore

Now,



76. (a) Statutory Liquidity Ratio is the abbreviation. Commercial banks are required to keep it as a reserve. A certain percentage of the net demand and time liabilities may be maintained by commercial banks as approved securities as part of the reserve requirement.

77. (a) Deflation is a period of falling prices and low demand. To counter deflation, the RBI uses expansionary monetary policy, such as reducing the CRR (Cash Reserve Ratio). This allows banks to keep less cash with the RBI and lend more to the public, increasing the money supply and stimulating demand.

78. (a) Currency with the public = Notes in circulation + Small coins + Rupee coins – Cash in hand with banks

Total currency in circulation = 23,26,500 + 500 + 34,500 = 23,61,500 crores

So, Currency with Public = 23,61,500 - 80,615

= 22,80,885 crores

79. (b) The money multiplier is calculated using the formula: Money Multiplier $\frac{\text{ĐĐĐĐĐĐĐ}}{\text{ĐĐĐĐĐĐĐ}}$.

Given that the reserve ratio is 10% (or 0.10),

$\frac{\text{Ð}}{\text{ĐĐ}}$ Ð

80. (a) The text states that the monetary policy framework consists of three key components: the objectives of monetary policy, the analytics of monetary policy (focusing on transmission mechanisms), and the operating procedure (focusing on targets and instruments).

81. (c) Tariffs are always charged by the government for the welfare of the public, so it has both in most tariffs revenue and protective effects.

82. (d) The World Trade Organisation (WTO) is an international body that oversees global trade rules, facilitates trade negotiations, and provides a dispute resolution mechanism for trade conflicts among member nations.

(a) Incorrect: WTO does not regulate foreign direct investment (FDI); that falls under other organizations like UNCTAD and IMF.

(b) Incorrect: WTO does not establish monetary policies; this is the role of institutions like the IMF and central banks.

(c) Incorrect: WTO is a global organisation, not focused only on regional integration like the EU.

83. (a) Devaluation is when a country deliberately lowers the value of its currency relative to other currencies, usually to make its exports cheaper and imports more expensive, boosting trade competitiveness.

(b) Revaluation Incorrect → This is the intentional increase in currency value by the government.

(c) Appreciation Incorrect → This is a natural increase in currency value due to market forces, not government action.

(d) Stabilization Incorrect → This refers to efforts to maintain a stable currency value, not lowering it deliberately.

84. (d) Reasons for foreign direct investment (FDI) include:

- Secure access to minerals or raw materials: Companies invest abroad to secure necessary resources that are not available domestically.
- Desire to capture large and rapidly growing emerging markets: Companies seek to enter and expand in new markets with high growth potential.

Desire to influence home country industries is less commonly cited as a primary reason for FDI. Thus, (d). (a) and (b) above.

85. (b) An indirect quote, the inverse of a direct quote, shows the number of foreign currency units equivalent to one unit of local currency (e.g., ₹1 INR = $0.013 USD).

86. (c) Indian companies invest overseas (Overseas Direct Investment - ODI) primarily to expand their global presence, access new markets, acquire technology, secure resources, and enhance competitiveness on an international scale.

(a) Incorrect: ODl is about expanding abroad, not reducing imports.

(b) Incorrect: ODI involves acquiring foreign companies, not Indian ones.

(d) Incorrect: ODI aims at global expansion, not increasing domestic competition.

87. (d) The primary goal of trade negotiations is to enhance market access, lower tariffs, remove trade restrictions, and establish fair trade rules between countries. This promotes economic growth and international cooperation.

(a) Incorrect: Trade negotiations generally aim to reduce trade barriers, not create them.

(b) Incorrect: They focus on balancing trade rather than promoting trade deficits.

(c) Incorrect: While resolving disputes is part of trade agreements, the main goal is broader market access.

88. (b) TRIM stands for Trade-Related Investment Measures. These are regulations or policies that affect the investment environment and may impact international trade.

89. (a) A fixed exchange rate system ensures that a country's currency value remains stable relative to another currency or a basket of currencies. This reduces uncertainty for businesses and investors, making international trade and longterm investments more predictable.

(b) Incorrect: A fixed exchange rate lacks flexibility; adjustments require government intervention, not market forces.

(c) Incorrect: In a fixed system, the government or central bank controls the rate, not the market.

(d) Incorrect: While fixed systems may require foreign exchange reserves, accumulating them is not the primary advantage.

90. (d) In a two-nation, two-commodity world, once it is established that one nation has a comparative advantage in one commodity, then the other nation must necessarily have a comparative advantage in the other commodity.

91. (d) The correct answer is (d) All of the above During the British era, increased pressure on land caused:

- Subdivision and fragmentation of land holdings as land was divided among heirs, making holdings smaller and less viable.
- Subsistence farming, where farmers grew just enough to feed themselves, with little surplus.
- Reduced agricultural productivity and widespread poverty due to inefficient small plots and exploitative policies.

92. (b) The government promotes FPOs to improve market infrastructure, support farmers' collective bargaining, and enhance their access to better resources and market opportunities.

93. (c) As part of the 1991 financial sector reforms, the Indian government liberalised the banking sector by allowing private sector banks to operate. This move aimed to increase competition, improve efficiency, and enhance customer service.

94. (a) Liberalisation, the loosening of government controls. It is the process or means of elimination of the control of the state over economic activities. It provides greater autonomy to the business enterprises in decision-making and eliminates government interference. For example, gradually, the government decreases command and control over economic policies.

95. (b) India has the largest area planted under wheat, rice, and cotton, underscoring its strong agricultural base.

96. (d) Foreign Direct Investment (FDI) is prohibited in the Chit Fund business in India. This is part of the negative list under the FDI policy notified by the Government of India.

97. (c) The 1991 economic reforms in India marked a major shift in foreign trade policy. These reforms focused on liberalisation, privatisation, and globalisation, leading to significant changes in both import and export regulations. Import limitations were relaxed to promote a more open economy, allowing easier access to foreign goods, while export restrictions were also reduced to encourage Indian products' entry into global markets. This dual approach helped to integrate India into the global economy and boost its trade performance.

98. (a) OGL (Open General License) was a system in India under which certain goods, including capital goods, could be imported without an individual import license. The list of such items expanded over time, and by April 1990, it included 1,329 capital goods items.

99. (b) Launched in 2014, 'Make in India' is aimed at attracting investment, fostering innovation, building infrastructure, and positioning India as a hub for manufacturing, design, and innovation across various sectors.

100. (b) A major criticism of NITI Aayog is that it is excluded from the budgeting process, limiting its influence on financial allocations for developmental projects.

Mock Test Paper-II

Paper 4: Business Economics

All Questions are Compulsory

Time: 2 Hours **Maximum Marks: 100**

QUESTIONS

1. Who gave the "Welfare Definition" of Economics?
   (a) Adam Smith (b) Alfred Marshal
   (c) Marshall (d) Malthus
2. Which of the following is an example of positive economics?
   (a) The government should increase spending on healthcare
   (b) The unemployment rate in the country decreased by 1% last quarter
   (c) Reducing income inequality is more important than economic growth
   (d) The government ought to provide free education for all
3. Under which of the following economy the consumers have limited freedom of choice?
   (a) Socialist (b) Capitalist
   (c) Mixed (d) Restricted
4. Analysis of the impact of COVID-19 on the Indian Economy falls under:
   (a) Macro economics
   (b) Micro economics
   (c) Economics of slicing
   (d) Normative economics
5. Distribution and Sharing of National Product relates to the problem of:
   (a) What to Produce
   (b) How to Produce
   (c) For whom to Produce
   (d) How to provide for growth
6. The term "Ceteris Paribus" in the Law of Demand means:
   (a) All factors except one remain constant
   (b) All factors remain constant
   (c) All factors are variable
   (d) None of the above
7. What does the Law of Diminishing Marginal Utility state?
   (a) Marginal utility decreases as more units of a good are consumed
   (b) Marginal utility remains constant as more units of a good are consumed
   (c) Total utility decreases as more units of a good are consumed
   (d) Total utility increases indefinitely as more units of a good are consumed
8. According to the Graphic or Point Method of elasticity of demand, the price elasticity of demand at a point on a straight line is equal to _____ of the demand curve.
   (a) Upper segment of the demand curve divided by lower segment
   (b) Lower segment of the demand curve plus upper segment of the demand curve
   (c) Lower segment of the demand curve divided by upper segment
   (d) Lower segment of the demand curve multiplied by upper segment of the demand curve
9. What does the slope of a budget line represent?
   (a) The ratio of the prices of two goods
   (b) The level of income of the consumer
   (c) The quantity of one good that can be obtained for a given amount of another good
   (d) The opportunity cost of purchasing additional units of a good

10. Which of the following is true about MU Curve?

(a) MU is derived from TU i.e., $MU_n = TU_n - TU_{n-1}$

(b) When MU falls but remains positive, TU continues to rise

(c) Both (a) and (b)

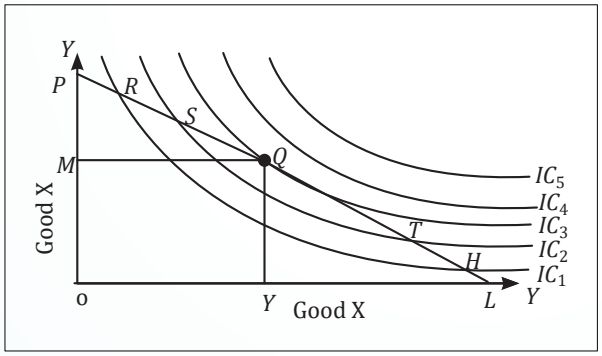
(d) None of the above

11. On _____ demand curve, Δq is zero.

(a) Flatter (b) Vertical

(c) Horizontal (d) Linear

12.



Identify the consumer's equilibrium point in the diagram.

(a) Point R (b) Point S

(c) Point Q (d) Point T

13. Refer to the following supply function: q = 120 + 6p. Find the elasticity of supply when the price is ₹10 .

(a) – (b) –

(c) – (d) –

14. Suppose a consumer is willing to pay ₹100 for good X , but the market price is ₹70. For good Y, the willingness to pay is ₹80 , while the market price is ₹60 . What is the total Consumer Surplus?

(a) ₹10 (b) ₹20

(c) ₹50 (d) ₹60

15. Due to an increase in the price of product X from 100 to 110, quantity supplied increases from 150 units to 200 units. Calculate the elasticity of supply using the Arc elasticity method.

(a) 2.5 (b) 3

(c) 3.3 (d) 3.5

16. In the Law of Variable Proportions, the increasing returns to a factor happen because:

(a) Indivisibility of fixed factor

(b) Division of labour

(c) Specialisation

(d) All the above

17. What is the meaning of Total Cost?

(a) It is the sum of all expenditure incurred in producing a given volume of output

(b) The costs which are readily identified and are traceable to a particular product

(c) Cost which does not change with the change in output

(d) None of the above

18. A firm has Total Fixed Cost (TFC) = ₹200. At 10 units, Average Variable Cost (AVC) is ₹30. At 20 units, Average Variable Cost rises to ₹35. What is the new Average Cost (AC) per unit for 20 units?

(a) 30 (b) 35

(c) 40 (d) 45

19. Originally, the Cobb-Douglas Production Function applied to:

(a) Individual manufacturing firm

(b) Individual firm

(c) Whole of manufacturing in the US

(d) None of the above

20. A firm starts borrowing heavily from external sources, and as a result, finds it difficult to meet interest and repayment obligations. This situation is an example of:

(a) Financial diseconomies

(b) Financial economies

(c) Managerial diseconomies

(d) Technical diseconomies

21. A rational producer operates in short-run production at which stage?

(a) First Stage (b) Second Stage

(c) Third Stage (d) None of these

22. Convexity of an isoquant denotes that the two factors are _____ of each other.

(a) Perfect complements

(b) Imperfect complements

(c) Perfect substitutes

(d) Imperfect substitutes

23. A firm has economic costs of ₹50 per unit, which includes ₹10 as implicit costs. If the firm is able to sell the product at ₹55 per unit, what can be said about the firm's profits?

(a) Explicit costs of ₹40, and super profit of ₹5
(b) Explicit costs of ₹50, and super profit of ₹5
(c) Explicit costs of ₹40, and super profit of ₹15
(d) Explicit costs of ₹60, and super profit of ₹15

24. A firm has the following Total Cost Function: $TC = 100 + 20Q + 5Q^2$, where Q is the quantity of output produced. What is the firm's Fixed Cost when Q = 10 ?

(a) 120 (b) 220
(c) 100 (d) 105

25. Use the following data:

Hours of Labour	Total Output	Marginal Output
0	-	-
1	300	300
2	540	240
3	720	180

What is the marginal product of the 3rd hour of labour?

(a) 170 (b) 180
(c) 190 (d) 160

26. In perfect competition, which condition ensures that all firms are price takers?

(a) Homogeneous products
(b) Free entry and exit of firms
(c) Perfect knowledge and information
(d) Optimal allocation of resources

27. When the actual price of a commodity is less than the equilibrium price, its price:

(a) Starts rising (b) Starts falling
(c) Starts fluctuating (d) Remains constant

28. Monopsony means:

(a) There are large firms
(b) The small number of large buyers
(c) There is a single buyer
(d) Single seller and single buyer

29. The Secular Period is also known as:

(a) Very short period (b) Short period
(c) Long period (d) Very long period

30. There will be productive efficiency when:

(a) MC = AC
(b) The firm is producing at the minimum point of the Average Cost curve
(c) MC curve cuts the AC curve
(d) All the above

31. Price discrimination will be profitable only if:

(a) The elasticity of demand is uniform in all markets
(b) The elasticity of demand is different in different markets
(c) Total demand in the market is perfectly inelastic
(d) Total demand in the market is perfectly elastic

32. The Cobweb Theory was propounded by:

(a) Adam Smith (b) Nicholas Kaldor
(c) J M Keynes (d) None of these

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

(a) Open oligopoly
(b) Partial oligopoly
(c) Collusive oligopoly
(d) Syndicated oligopoly

34. The very short period market is suitable for which of the following products?

(a) Gold and silver
(b) Vegetables and fruits
(c) Bricks and sand
(d) Supply of capital

35. Which of the following represents an ideal market?

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

36. Dumping is an example of price discrimination which is _____ price discrimination.

(a) First degree (b) Second degree
(c) Third degree (d) International

37. Which of the following industries is a classic example of an oligopoly?

(a) Soft drink market like Coca-Cola, Pepsi

(b) Clothing brands like Nike, Adidas, and Puma

(c) Toothpaste brands like Colgate and Pepsodent

(d) Smartphone manufacturing like Apple, Samsung, Xiaomi

38. The kinked demand curve in an oligopoly arises because:

(a) Firms have perfect knowledge of demand

(b) Competitors match price decreases but ignore price increases

(c) The market has only one firm

(d) All firms sell identical products

39. In the long-run equilibrium of a monopolistic competition market, which of the following statements is correct?

(a) Price equals marginal cost (P = MC), and firms earn supernormal profits

(b) Price exceeds marginal cost (P > MC), and firms earn normal profits

(c) Price equals marginal cost (P = MC), and firms earn normal profits

(d) Price is less than the average cost (P < AC), and firms earn losses

40.

Year	P (₹)	TR (₹)	MR (₹)
1	50	50	–
2	48	a	b
3	45	135	c

Find the missing values in the table (TR and MR).

(a) a = 39, b = 46; c = 39

(b) a = 46, b = 96; c = 39

(c) a = 96, b = 46; c = 39

(d) a = 96, b = 39; c = 39

41. The rhythmic fluctuation in aggregate economic activity that an economy experiences over a period of time is called:

(a) Business cycle (b) Contraction phase

(c) Recovery (d) Recession

42. What is one of the main features of the Recovery phase of the Business Cycle?

(a) Increasing inflation

(b) Decreasing consumer confidence

(c) Rising GDP

(d) Increasing unemployment

43. Which of the following factors is typically considered a cause of fluctuations in the business cycle?

(a) Long-term demographic trends

(b) Instable monetary policy

(c) Predictable consumer spending patterns

(d) Variations in business confidence and investment

44. Which of the following statements is correct?

(a) No economy experiences a perfectly timed cycle

(b) Only capitalist economies follow a perfectly timed cycle

(c) Most economies follow a perfectly timed cycle

(d) All economies follow a perfectly timed cycle

45. Businesses whose fortunes are closely linked to the rate of economic growth called _____.

(a) Cyclical business

(b) Capital goods business

(c) Seasonal business

(d) Dynamic business

46. Which of the following is a FALSE statement?

(a) The very long run focuses on the growth of productive capacity

(b) In the very long run, the productive capacity is assumed to be given

(c) In the very short run, shifts in aggregate demand determine how much output is produced

(d) Fluctuations in the rates of inflation and unemployment are important long-run issues

47. Domestic Income is _____ be greater than National Income.

(a) Never (b) May or may not

(c) Always (d) None of these

48. What will be GDP_{MP} on the following information?

Particulars	Amount (in Crores)
GNP_{MP}	1100
NFIA	200
Depreciation	50
NIT	100

(a) 1000 crores
(b) 1050 crores
(c) 900 crores
(d) 1300 crores

49. What is the primary difference between Personal Income and Disposable Income?
(a) Disposable income is before taxes, personal income is after taxes
(b) Personal income includes transfer payments, disposable income does not
(c) Disposable income is personal income minus personal taxes
(d) Personal income is used for savings only, disposable income is used for consumption only

50. In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45 degree line indicates:
(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

51.

Year	Particulars	Amount (₹ Crore)
2018-19	Nominal GDP	1500
2018-19	Real GDP	1200
2019-20	GDP Deflator	140

Calculate:
1. GDP deflator for 2018-19.
2. Inflation rate in 2019-20.

(a) 120.5; 11.5%
(b) 125; 12%
(c) 135; 12%
(d) 75; 14%

52. The following information is available regarding the structure model of an economy:

C = 40 + 0.8Y

I = 80

G = T = 40

What will be the equilibrium level of income?
(a) 800 (b) 610
(c) 175 (d) none of these

53. 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

54. Suppose an economy experiences an increase in investment (ΔI) of $800 million, which results in an increase in income (ΔY) of $4 billion. What is the value of the investment multiplier (k) in this case?
(a) 2 (b) 3
(c) 4 (d) 5

55. Savings represent:
(a) An injection into the circular flow of income
(b) A withdrawal from the circular flow
(c) Both an injection and a withdrawal
(d) None

56. Who are the normal residents of the country?
(a) A resident who has their own house in that country
(b) A resident with a bank account in that country
(c) Ordinary residents with economic interests in that country
(d) None of these

57. National Income will be equal to Domestic Income when:
(a) Depreciation = 0
(b) Indirect Taxes = 0
(c) Net Indirect Taxes = 0
(d) Net Factor Income from Abroad = 0

58. 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

59. Given the following data, determine the National Income of a country using expenditure method.

Particulars	₹ in Crores
Private Final Consumption Expenditure	1000
Government Final Consumption Expenditure	550
Compensation of Employees	600 Net
Exports	–15
Net Indirect Taxes	60
Net Domestic Fixed Investment	385
Consumption of Fixed Capital Formation	65
Net Factor Income from Abroad	-10
Interest	310
Rent	200
Mixed Income of Self-Employed	350
Profit	400

(a) 1255 (b) 1850
(c) 1855 (d) 1580

60. Calculate National Income with the help of the Income Method:

Item	₹ in Crores
Compensation of employees	1600
Profit	700
Net factor Income from above abroad	40
Indirect Taxes	200
Subsidies	80
Private Final Consumption Expenditure	1800
Net domestic capital formation	900
Depreciation	150
Interest	600
Rent	400
Moxed Income of self employed	800
Export	50
Import	30
Government Final consumption expenditure	1100
Employees contribution to social security scheme	400

(a) 4140 Cr (b) 4240 Cr
(c) 1414 Cr (d) 1440 Cr

61. As per Adam Smith, the role of government was:

(a) National defense
(b) Establishing a system of justice & internal law & order
(c) Establishment and maintenance of highly beneficial public institutions.
(d) All of the above

62. What is the duration of the Union Budget?

(a) Annual
(b) Half-yearly
(c) Two Years
(d) Five Years

63. Which financial statement details the government's annual receipts and expenditures in India?

(a) Economic Survey
(b) Budget
(c) Annual Financial Statement
(d) Fiscal Policy Report

64. How can information asymmetry lead to market failure?

(a) By ensuring all parties have equal knowledge
(b) By causing one party to have more information than another
(c) By promoting transparency
(d) By reducing transaction costs

65. What is the first step in the process of budget-making?

(a) Setting financial goals and objectives

(b) Estimating government revenue for the fiscal year

(c) Allocating funds to various ministries and departments

(d) Presenting the budget to the public

66. If a textile mill produces large amounts of negative externality, then which one of the following is possible?

(a) The output of textiles is too little when compared to the socially optimal quantity

(b) The output of textiles is too large when compared to the socially optimal quantity

(c) The output of textiles is not socially optimal, as it is likely to be a regulated one

(d) Any of the above

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

(a) 268 (b) 246

(c) 269 (d) 275

68. Who introduced the concept of "Collective Consumption Good" in his paper "The Pure Theory of Public Expenditure"?

(a) Paul A. Samuelson (b) Adam Smith

(c) JM Keynes (d) Alfred Marshall

69. An adequate amount of a pure public good will not be provided by the private market because of:

(a) The existence of negative externalities

(b) Governments would anyway produce them

(c) There are restrictions as well as taxes on the private market

(d) The possibility of free riding

70. The following hypothetical figures relate to country A.

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

The revenue deficit for country A is:

(a) 5,000 (b) 24,000

(c) 4,500 (d) 2,000

71. Risk in investments refers to the probability that the actual returns will be _____ to/from the expected returns.

(a) Increased (b) Reduced

(c) Equal (d) Different

72. What is the primary objective of India's monetary policy framework as per the amended RBI Act (2016)?

(a) Achieving high economic growth

(b) Reducing fiscal deficit

(c) Inflation targeting

(d) Increasing foreign exchange reserves

73. Which of the following is a key assumption in the Baumol's model of cash management?

(a) Transaction costs vary over time

(b) Cash requirements are known in advance with certainty

(c) There is no relationship between carrying and ordering costs

(d) The model applies only when cash payments are unpredictable

74. 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

75. Fiat money is materially _____ but has _____ simply because a nation collectively agreed to ascribe a value to it.

(a) Liquid, exchangeability

(b) Transparent, liquid

(c) Worthless, value

(d) Valuable, worthless

76. Which of the following statements is true regarding the determination of money supply?

(a) Money supply is always determined by the central bank

(b) The money multiplier approach ignores the role of bank reserves

(c) The monetary base consists of currency in circulation and bank reserves

(d) Economic activities have no impact on money supply

77. Calculate Narrow Money (M_1) from the following data:

Particulars	₹ in Crores
Currency with the public	= ₹1,00,000 crore
Demand Deposits with the Banking System	= ₹2,50,000 crore
Time Deposits with the Banking System	= ₹3,00,000 crore
Other Deposits with RBI	= ₹1,50,000 crore
Saving Deposits of Post Office Saving Banks	= ₹80,000 crore

What is the value of M_1?

(a) ₹4,80,000 crore (b) ₹5,00,000 crore

(c) ₹3,50,000 crore (d) ₹6,00,000 crore

78. Which of the following is not a channel of monetary transmission mechanism?

(a) Savings & Investments Channel

(b) Cash Flow Channel

(c) Exchange Rate Channel

(d) International Trade Channel

79. Which of the following statements is true regarding the Cash Reserve Ratio (CRR)?

(a) Banks can earn interest on CRR deposits with RBI

(b) Banks can lend the CRR amount to customers

(c) CRR is a portion of bank reserves that must be kept in cash with RBI

(d) CRR is maintained in the form of government securities

80. The nominal demand for money rises if:

(a) The opportunity costs of money holdings, i.e. bonds and stock returns, rB and rE, respectively, decline and vice versa

(b) The opportunity costs of money holdings, i.e. bonds and stock returns, rB and rE, respectively, rise and vice versa

(c) The opportunity costs of money holdings, i.e. bonds and stock returns, rB and rE , respectively, remain constant

(d) (b) and (c) above

81. Under which type of union is a common monetary policy and fiscal policy followed?

(a) Economic Union (b) Custom Union

(c) Common Market (d) All the above

82. What is a Global Depository Receipt?

(a) It is a receipt issued by multinational banks on the deposit of money

(b) It is a receipt issued by the stock exchange for investment by a foreign portfolio investor

(c) It is a receipt issued by an overseas bank in lieu of shares of a domestic company

(d) It is a receipt issued by the stock exchange to the bank clearing mechanism

83. The WTO commitments:

(a) Affect developed countries adversely because they have comparatively less agricultural goods

(b) Affect none as they increase world trade and ensure prosperity for all

(c) Affect both developed and developing countries equally

(d) Affect developing countries more because they need to make radical adjustments

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

(a) 239 RTAs (b) 339 RTAs

(c) 439 RTAs (d) 539 RTAs

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

(a) Only food products

(b) Only non-food traded products

(c) Only technical standard products

(d) Both food and non-food traded products

86. The Government has imposed a tariff of ₹4,000 on each solar panel plus ₹100 per kg on the battery. What type of tariff is this?

(a) Specific Tariff (b) Ad valorem Tariff

(c) Compound Tariff (d) Technical Tariff

87. Paul Krugman emphasised:
(a) Unlike Heckshr Ohlin's trade theory, most of international trade takes place between countries which have same ratio of capital & labour
(b) Free trade
(c) Both A and B
(d) None

88. Which of the following is a reason for Foreign Direct Investment?
(a) Secure access to minerals or raw materials
(b) Desire to capture large and rapidly growing emerging markets
(c) Desire to influence home country industries
(d) (a) and (b) above

89. The following are examples of comparative advantage:
(a) The capacity of a nation to produce a good or service at the lowest possible cost in relation to other nations
(b) The capacity of a nation to generate a good or service at a reduced opportunity cost in comparison to other nations
(c) Selecting a productive strategy that makes the least amount of the above abundant factors
(d) (a) and (b)

90. Under a managed floating exchange rate system, who is responsible for maintaining reserves of foreign exchange?
(a) International Monetary Fund (IMF)
(b) Central Government
(c) Central Bank of the country
(d) Commercial Banks

91. Conservative economic policies were followed by India immediately after independence in the _____ sector(s).
(a) Industry (b) External Trade
(c) Financial (d) All of the above

92. Which revolution was driven by modern farm technologies, including high-yielding seeds, increased irrigation, and intensive use of fertilisers and pesticides?
(a) The White Revolution
(b) The Yellow Revolution
(c) The Blue Revolution
(d) The Green Revolution

93. Which of the following is an example of Liberalisation?
(a) Simplification of tax structure
(b) Removing quotas and bars
(c) Removing economic restrictions
(d) All of the above

94. Which long-term food aid agreement did India sign with the United States in 1954?
(a) PL-480 (b) PL-440
(c) PL-420 (d) PL- 400

95. Which of the following measures is part of trade policy reforms?
(a) Imposing licensing restrictions on imports
(b) Eliminating the licensing requirement for imports
(c) Increasing complexity of tariffs
(d) Imposing quantitative restrictions on imports and exports

96. To manage the economic crisis of 1991, the Indian Government approached the World Bank and the IMF. What is the amount of loan received by India?
(a) $5 billion (b) $7 billion
(c) $10 billion (d) $17 billion

97. APEDA: Full form:
(a) Agricultural Product Export Development Agency
(b) Agricultural Product Economic Development Association
(c) Animal Product Export Development Authority
(d) Agricultural and Processed Food Export Development Authority

98. Production of wool is included in which sector?
(a) Tertiary Sector (b) Service Sector
(c) Secondary Sector (d) Primary Sector

99. India has the World's _____ cattle herd (buffaloes).
(a) Largest (b) Second Largest
(c) Third Largest (d) Fifth Largest

100. The scheme "Per Drop More Crop" emphasises:
(a) Water conservation and efficient irrigation
(b) Increase in water use in industries
(c) Higher use of pesticides in farming
(d) Mechanisation of agriculture

ANSWER KEY

1. (b)	2. (b)	3. (a)	4. (a)	5. (c)	6. (a)	7. (a)	8. (c)	9. (a)	10. (c)
11. (b)	12. (c)	13. (a)	14. (c)	15. (b)	16. (d)	17. (a)	18. (d)	19. (c)	20. (a)
21. (b)	22. (d)	23. (a)	24. (c)	25. (b)	26. (c)	27. (a)	28. (c)	29. (d)	30. (d)
31. (b)	32. (b)	33. (b)	34. (b)	35. (a)	36. (d)	37. (a)	38. (b)	39. (b)	40. (c)
41. (a)	42. (c)	43. (d)	44. (a)	45. (a)	46. (d)	47. (b)	48. (c)	49. (c)	50. (c)
51. (b)	52. (a)	53. (b)	54. (d)	55. (b)	56. (c)	57. (d)	58. (b)	59. (b)	60. (a)
61. (d)	62. (a)	63. (c)	64. (b)	65. (a)	66. (b)	67. (b)	68. (a)	69. (d)	70. (c)
71. (d)	72. (c)	73. (b)	74. (a)	75. (c)	76. (c)	77. (b)	78. (d)	79. (c)	80. (a)
81. (a)	82. (c)	83. (d)	84. (b)	85. (d)	86. (d)	87. (c)	88. (d)	89. (b)	90. (c)
91. (d)	92. (d)	93. (d)	94. (a)	95. (b)	96. (b)	97. (d)	98. (d)	99. (a)	100. (a)

HINTS & SOLUTIONS

1. (b) The "Welfare Definition" of economics is given by Alfred Marshall.

He defined economics as: "Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being."

2. (b) The correct answer is B. Inflation in the country rose to 6% last year, because positive economics deals with factual and testable statements about "what is," while the other options are normative as they express opinions, values, or prescriptions about "what ought to be."

3. (a) In a socialist economy, the government controls production and distribution, meaning consumers have limited freedom of choice as goods and services are produced based on government planning rather than market demand.

(b) Capitalist: Consumers have maximum freedom as production is driven by market forces.

(c) Mixed: Consumers have some choice, but government regulations exist alongside the free market.

(d) Restricted: This is not a standard economic system.

4. (a) Macroeconomics deals with the performance, structure, and behavior of an economy as a whole. It looks at broad factors such as national income, output, unemployment, inflation, and economic growth. Analyzing the impact of a major event like Covid-19 on the overall economy, including aspects like GDP, unemployment rates, and fiscal policy, is a macroeconomic concern.

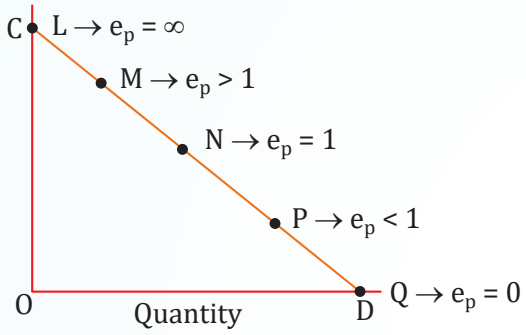
5. (c) Distribution and Sharing of National Product relates to the problem of "For whom to Produce".

6. (a) Ceteris Paribus is a Latin phrase meaning "other things being equal". In the Law of Demand, it assumes that only the price of the commodity changes, while all other factors (income, tastes, prices of related goods, etc.) remain constant.

Hence, the correct meaning is that all factors except one remain constant.

7. (a) The Law of Diminishing Marginal Utility states that as a consumer consumes more units of a good, the additional satisfaction (marginal utility) gained from each additional unit decreases.

8. (c) Price elasticity of Demand under geometric method is calculated by dividing the lower segment of the demand curve with its upper segment.



9. (a) The ratio of prices of two goods. The slope of a budget line indicates the rate at which one good can be exchanged for another while keeping total expenditure constant. It represents the ratio of the prices of the two goods in the consumer's budget. A steeper slope implies a higher relative price of one good compared to the other, while a flatter slope indicates a lower relative price.

10. (c) The correct answer is Both (a) and (b).

This is because MU is derived from TU.

$MU_n = TU_n - TU_{n-1}$ or $MU_1 = TU_2 - TU_1$

When Marginal Utility (MU) falls but remains positive, Total Utility (TU) continues to rise. When MU becomes zero, TU reaches its maximum point. If MU turns negative, TU starts to decline. Thus, both statements about the MU curve are correct.

11. (b) A vertical demand curve indicates that the quantity demanded of a good does not change regardless of changes in its price. This situation is known as perfectly inelastic demand. The notation Δq represents the change in quantity demanded. For a vertical demand curve, Δq is zero because consumers will purchase the same amount regardless of how much the price increases or decreases.

12. (c) Point Q is the consumer equilibrium. At the point where the indifference curve is tangent to the budget line. The slope of the indifference curve (the marginal rate of substitution) equals the slope of the budget line (the ratio of the prices of the two goods).

13. (a)

$$\frac{\Delta}{\Delta} \quad -$$

Since, $q = 120 + 6p$, $\frac{\Delta}{\Delta}$

When $p = 10$, $q = 120 + 6 \times 10 = 180$

So, $\frac{\Delta\Delta}{\Delta\Delta\Delta}$ —— –

14. (c) Formula: CS = Willingness to Pay – Actual Payment. So,

For X : $CS_X = 100 - 70 = ₹30$

For Y : $CS_Y = 80 - 60 = ₹20$

Total CS = 30 + 20 = ₹50

15. (b) Using Arc elasticity:

$$\frac{\Delta}{\Delta} \quad \frac{\Delta}{\Delta}$$

$\Delta q = 200 - 150 = 50$, $\Delta p = 110 - 100 = 10$

$p_1 + p_2 = 210$, $q_1 + q_2 = 350$

So, $\frac{\Delta\Delta}{\Delta\Delta}$ —— $\Delta\Delta$

16. (d) Increasing returns to factors can result from various factors, including the indivisibility of fixed factors, division of labor, and specialization. When fixed factors of production, such as capital or land, cannot be easily divided or utilized in smaller quantities, the productivity of the variable factors may increase as more fixed factors are employed. Additionally, division of labor and specialization allow workers to focus on specific tasks, leading to greater efficiency and higher overall productivity, contributing to increasing returns to factors.

17. (a) Total cost is the sum of all expenditures incurred in producing a given volume of output. It is the cost of production of all the units of a commodity produced by a firm. Total Cost (TC) = Total Fixed Cost (TFC) + Total Variable Cost (TVC).

18. (d)

TFC = 200 (constant)

TVC at 10 units = 30 × 10 = 300

At new output,

TVC at 20 units = 35 × 20 = 700

TC = TFC + TVC = 200 + 700 = 900

Δ $\frac{\Delta}{\Delta}$ $\frac{\Delta}{\Delta}$ Δ

19. (c) Cobb-Douglas Production function represents the relationship between two inputs that are physical capital and labour and the number of outputs that can be produced .In this case, output is manufacturing production and inputs used are labour and capital. Thus, in its original for Cobb-Douglas production function applies to whole of manufacturing in US. Paul H. Douglas and C.W. Cobb of the U.S.A. studied the production function of the American manufacturing industries.

20. (a) The correct answer is A. Financial Diseconomies. This occurs when a firm relies heavily on external sources of funds and struggles to meet interest and repayment obligations. Such over-dependence increases the cost of finance and reduces efficiency. It is distinct from financial economies, which arise from efficient financing; managerial diseconomies, caused by poor management in large firms; and technical diseconomies, which result from overuse of machinery or production capacity.

21. (b) Second stage of production a rational producer likes to operate in short - run production. A rational producer aims to operate in the second phase as total product is maximum and marginal product of each variable factor is positive. This is known as the stage of diminishing returns.

22. (d) The correct answer is imperfect substitutes.

The isoquant curve, due to the Marginal Rate of Technical Substitution (MRTS), is convex to the origin. This indicates that factors of production can be substituted for one another. An increase in one factor can be used in conjunction with a decrease in another factor. In other words, if the use of one input increases, it allows a reduction in the other input while maintaining the same level of output. The two goods produced are not substitutes for each other.

23. (a) Economic cost = Explicit cost + Implicit cost = ₹50/unit

Implicit cost = ₹10.

So explicit cost = 50 – 10 = ₹40 unit

Selling price = ₹55.

Economic profit (super profit) = Selling price -

Economic cost = 55 – 50 = 5/unit

24. (c) The Total cost (TC) function is:

$TC = 100 + 20Q + 5Q^2$

Fixed Cost (FC) is the part of the total cost that does not change with output. In the TC function, the constant term 100 is the fixed cost.

25. (b) The correct answer is 180.

This is because of the following situation:

$MP_n = TP_n - TP_{n-1}$

$AP = \frac{Ð}{ÐÐÐÐÐÐÐÐÐÐÐ}$

Therefore, MP = 180

Hours of Labour	Total Output	Marginal Output
0	-	-
1	300	300
2	540	240
3	720	180

26. (c) Perfect knowledge and information ensure that all firms in perfect competition have complete information about market prices, allowing them to adjust their output but not influence market price. This condition leads to price-taking behavior.

27. (a) When the actual price of a commodity is below the equilibrium price, the quantity demanded exceeds the quantity supplied. This creates a shortage in the market. To restore equilibrium, sellers tend to raise the price, so the price starts rising until it reaches the equilibrium level where demand equals supply.

28. (c) A monopsony is a market situation in which there is only one buyer for a particular product or service. In this market, the single buyer has significant power over the price and quantity of goods or services because suppliers have few alternative outlets for their products.

29. (d) The Secular Period refers to a very long period of time in economics, often used in the context of analysing trends in population, capital formation, or economic growth over decades or centuries. It contrasts with short-term or cyclical fluctuations.

30. (d) Productive efficiency occurs when a firm produces at the lowest possible cost per unit.

MC = AC: Marginal cost equals average cost at the minimum point of the AC curve.

Minimum point of the AC curve: The firm is producing at the most efficient scale.

MC curve cuts AC curve: This is the point where AC is at its minimum.

Therefore, the correct answer is Option D - All the above.

31. (b) Price discrimination is profitable when a firm can charge different prices in different markets based on the elasticity of demand in each market. If the elasticity of demand varies across markets, the firm can set higher prices in markets with less elastic (more inelastic) demand, where consumers are less responsive to price changes, and lower prices in markets with more elastic demand. This difference in elasticity allows the firm to maximize profits by capturing consumer surplus in each market segment.

32. (b) The Cobweb Theory was propounded by Nicholas Kaldor, highlighting how past prices influence current production, often causing cyclical price patterns.

33. (b) The correct answer is B. Partial oligopoly In a partial oligopoly, the market has a few firms, but one large firm dominates the industry and acts as a price or output leader. Other smaller firms in the industry tend to follow the leader's pricing or production decisions.

- Open oligopoly - Firms compete openly without collusion.
- Collusive oligopoly - Firms secretly or openly collude to fix prices or output.
- Syndicated oligopoly - Firms formally agree to coordinate through a syndicate.

34. (b) The very short period market is suitable for products like vegetables and fruits because in this market, the supply is fixed-there is not enough time to increase production. Prices are primarily determined by demand, and only perishable goods that cannot be stored for extended periods are traded. Durable goods like gold, silver, or products like bricks and sand are not suitable because their supply can be adjusted over time, and capital relates to long-term markets.

35. (a) An ideal market is characterised by perfect competition, where there are many buyers and sellers, identical products, free entry and exit, and perfect information, ensuring that no single participant can influence prices. Markets like a monopoly or an oligopoly do not meet these conditions, so they are not considered ideal.

36. (d) Dumping is a form of price discrimination where a firm sells the same product at different prices in different countries. It is called international price discrimination because the price difference is based on the foreign and domestic markets, not on individual consumers or domestic groups. First, second, and third-degree price discrimination occur within a single country and differ in method; therefore, dumping specifically falls under the international category. Therefore, the correct answer is Option (d) International.

37. (a) A classic oligopoly is a market dominated by a few large firms, where each firm's decisions affect the others. The soft drink market, led by Coca-Cola and Pepsi, is the textbook example of this. Clothing brands, toothpaste brands, and smartphoncs operate in monopolistic competition markets, where many firms sell similar but slightly differentiated products, so they are not classic oligopolies.

38. (b) The kinked demand curve arises in oligopoly markets because each firm assumes that competitors will follow a price decrease but not a price increase. This creates a demand curve that is more elastic above the current price and less clastic below, leading to price rigidity.

39. (b) Price exceeds marginal cost (P > MC) and firms earn normal profits. In the long run, a monopolistically competitive firm earns normal profits because the entry of new firms eliminates supernormal profits. However, due to product differentiation, the firm faces a downwardsloping demand curve, so it sets the price above the marginal cost (P > MC). This results in excess capacity, meaning the firm produces less than the output that would minimise average cost. Unlike perfect competition, the long-run equilibrium here does not achieve productive efficiency, but firms still earn zero economic profit.

40. (c)

Q	P(₹)	TR(₹)	MR(₹)
1	50	50	-
2	48	96	46
3	45	135	39

- a or TR at Q = 2: 2 × 48 = 96
- b or MR at Q = 2: TR2 – TR1 = 96 – 50 = 46
- c or MR at Q = 3: TR3 – TR2 = 135 – 96 = 39

41. (a) The business cycle refers to the rhythmic fluctuations in aggregate economic activity that an economy experiences over time. It consists of alternating periods of expansion (recovery), peak, contraction (recession), and trough, reflecting changes in output, employment, and income. Other options-contraction, recovery, and recession-are specific phases of the business cycle, not the overall concept itself.

42. (c) During the recovery phase, the economy begins to grow again after reaching the trough. GDP increases as businesses start to invest and hire again, leading to higher production and employment levels.

43. (d) Option (d) is correct. Variations in business confidence and investment are often cited as causes of fluctuations in the business cycle. Changes in business sentiment can lead to fluctuations in economic activity, affecting employment, production levels, and overall economic growth.

44. (a) In reality, no economy follows a perfectly timed cycle because economic fluctuations are influenced by multiple factors such as demand shocks, policy changes, technological innovations, and external events. While cycles are rhythmic, their duration, intensity, and timing vary across countries and periods, so a perfectly timed cycle does not exist.

45. (a) Cyclical businesses are those that experience fluctuations in demand and revenue as the economy moves through the different phases of the business cycle. These businesses tend to perform well during economic expansions, as increased consumer spending and business investment drive demand for their products and services. However, during economic contractions, cyclical businesses may struggle as demand falls and consumers and businesses tighten their spending.

Hence, the correct answer is Option A - Cyclical business.

46. (d) Fluctuations in the rates of inflation and unemployment are important short-run issues because the Keynesian explanation is all about the short run.

47. (b) Domestic Income refers to the total income earned within a country's borders, including income earned by foreign residents, while National Income refers to the total income earned by the residents of a country, including income earned abroad and excluding income sent abroad by foreigners. Because of this difference, Domestic Income can be greater than, less than, or equal to National Income, depending on whether the country has a net inflow or outflow of income from abroad.

Therefore, Domestic Income may or may not be greater than National Income.

48. (c) $GDP_{MP} = GNP_{MP} - NFIA$

$GDP_{MP} = 1100 - 200 = 900$ crores

49. (c) Disposable income is the amount of personal income left after deducting personal taxes. It represents the income available for individuals to spend or save.

50. (c) The point where the aggregate expenditure line crosses the 45-degree line will be the equilibrium for the economy. It is the only point on the aggregate expenditure line where the total amount being spent on aggregate demand equals the total level of production.

51. (b) GDP Deflator 2018–19 = ĐĐĐÂĐ / ĐĐĐĐ Đ

GDP Deflator 2018 – 19 = ĐĐ / ĐĐ Đ = 125

ĐĐĐĐÂĐĐĐĐÂĐĐĐĐĐĐĐĐĐÂ / ĐĐĐĐĐĐĐĐÂĐĐĐ ĐĐĐ

= ĐĐĐ / Đ ĐĐĐ

52. (a) Y = C + I + G

Y = 40 + 0.8Y + 80 + 40

Y = 160 + 0.8Y

1Y – 0.8Y = 160

0.2Y = 160

Y = Đ / Đ = 800

53. (b) Simon Kuznets developed methods to estimate national income and was awarded the Nobel Prize in Economics in 1971 for his work

on economic growth and national income. Richard Stone further refined national income accounting systems and is known as the father of national income accounting. Both played key roles in establishing modern national income accounting practices.

54. (d) Formula, ——

Using the data, Ð ℵ $\frac{ÐÐ}{Ð}$

This means that for every $1 increase in investment, income (GDP) increases by $5 in the economy.

55. (b) In the circular flow of income, savings represent income not spent on consumption. Since this portion of income is withdrawn from the flow of expenditure on goods and services, it is considered a leakage or withdrawal.

In contrast, injections into the circular flow include investment, government spending, and exports, which add income to the economy.

56. (c) In national income accounting, normal residents of a country are those who have economic interests in the country, meaning they earn income and spend a significant part of their resources there, regardless of property ownership or bank accounts.

57. (d) National income is equal to domestic income when there will be no net factor income from abroad as there is no such area called the external sector or 'rest of the world sector' in a closed economy structure.

58. (b) Supra-regional sectors are economic activities whose output cuts across state boundaries, such as railways, telecommunications, and defence production. Because their contribution cannot be attributed to a single state, they are treated separately while preparing State Income estimates.

59. (b) Expenditure Method formula: NDP_{MP} = Private Final Consumption Expenditure + Net Domestic Fixed Investment + Government final consumption expenditure + Net Exports (Exports-Imports)

$NNP_{MP} = NDP_{MP}$ + Net factor income from abroad

NNP_{MP} – Indirect Taxes = NNP_{FC} = National Income

Income Method Formula: NDP_{FC} = Employee compensation + profits + rent + interest + mixed income

$NNP_{FC} = NDP_{FC}$ + NFIA = National Income

Particulars	In Crores
Expenditure Method	
Private Final Consumption Expenditure	1000
+ Government Final Consumption Expenditure	550
+Compensation of Employees	600 Net
+Exports	–15
NDP@MP	1920
+Net Factor Income from Abroad	–10
NNP@MP	1910
-Net indirect tax	–60
Consumption of Fixed Capital Formation t In	65
Compensation of employess	600
Interest	310
Rent	200
Mixed Income of Self-Employed	350
Profit	400
NDP@FC	1860
+ NFIA	–10
NNP@FC	= 1850

60. (a) Income Method or NI = Compensation of Employees+ Operating Surplus + Mixed Income of self-employed + Net factor Income from abroad.

= 1600 + (Rent + Interest + Profit)+ Mixed Income of self-employed + NFIA

= 1600 + (400 + 600 + 700) + 800 + 40

= 1600 + 1700 + 840 = 4140 Cr

61. (d) According to Adam Smith, the government should perform only three essential functions: providing national defense to protect the country from external threats, establishing a system of justice and maintaining internal law and order to safeguard individuals from injustice and oppression, and creating and maintaining public institutions and works which, though highly beneficial for society, are not profitable for private individuals to undertake. Thus, the role of government, as per Adam Smith, includes all of the above.

62. (a) The Union Budget in India is presented annually, outlining the government's revenue and expenditure for the upcoming financial year.

63. (c) The Annual Financial Statement details the government's annual receipts and expenditures in India. It is a crucial document presented as part of the budget process and includes details of the Consolidated Fund, Contingency Fund, and Public Account.

64. (b) Information asymmetry occurs when one party has more or better information than the other, leading to imbalances in transactions and potentially resulting in market failure.

65. (a) The first step in budget-making is to establish the government's financial goals and objectives for the upcoming fiscal year. This involves:

- Identifying key economic priorities (e.g., growth, employment, inflation control).
- Addressing social and infrastructure needs.
- Aligning budget plans with long-term development policies.

66. (b) When a firm, like a textile mill, generates negative externalities (e.g., pollution), the social cost of production is higher than the private cost. Since the firm only considers its private cost, it produces more than the socially optimal quantity, leading to overproduction from a societal perspective.

67. (b) Article 246 of the Indian Constitution demarcates the powers of the Union and the States by classifying subjects into three lists under the Seventh Schedule:

1. Union List - subjects on which only Parliament can legislate.
2. State List-subjects on which only State Legislatures can legislate.
3. Concurrent List - subjects on which both Parliament and State Legislatures can legislate, but Union law prevails in case of conflict.

68. (a) The concept of "Collective Consumption Goods" (Public Goods) was introduced by Paul A. Samuelson in his 1954 paper "The Pure Theory of Public Expenditure".

69. (d) An adequate amount of a pure public good will not be provided by the private market because of the possibility of free riding.

70. (c) Revenue Deficit = Revenue Expenditure - Revenue Receipts

Revenue Deficit = 24,500 – 20,00 = 4500.

(Borrowing, recovery of loans, and other capital items don't affect revenue deficit. The given "expenditure on revenue account" already includes items like interest payments-don't add them again.)

71. (d) The correct answer is D- Different (either higher or lower).

Risk means uncertainty; the actual return on an investment may deviate from the expected return, and this deviation can be positive (higher) or negative (lower). It's not just about losses; it's about variability.

72. (c) The amended RBI Act (2016) provides a statutory basis for implementing a flexible inflation targeting framework. The Reserve Bank of India (RBI), in consultation with the Government of India, sets an inflation target to ensure price stability. The target for the period from August 5, 2016, to March 31, 2021, was set at 4% Consumer Price Index (CPI) inflation, with an upper tolerance limit of 6% and a lower limit of 2%. The RBI is required to publish a Monetary Policy Report every six months explaining the sources and forecasts of inflation.

73. (b) The Baumol Model assumes that the firm's cash requirements are known in advance and can be planned with certainty. This model is based on the premise of predictable cash flows.

74. (a) Correct Answer: Option A - Zero, interest payment, expected rate of capital gain In Keynes's Liquidity Preference Theory:

Money gives zero return (it is held for liquidity, not income).

- Bonds offer returns in two forms:
- Interest payment (coupon)
- Expected capital gain or loss due to price changes.

75. (c) Fiat money has no intrinsic or material value (it is just paper or digital), but it has value because the government and people accept it as a medium of exchange. Its worth comes purely from collective trust, not physical material.

76. (c) The correct answer is Option C because the monetary base-also known as high-powered money-consists of currency in circulation and bank reserves held with the central bank. This base forms the foundation for the creation of the broader money supply through the money multiplier process. While the central bank influences the money supply by controlling the monetary base and policy rates, it is not the only determinant; commercial banks and public behavior also play a crucial role. Additionally, bank reserves are central to the money multiplier model, and economic activities like lending and saving significantly affect the overall money supply.

77. (b) M_1 = Currency with public + Demand Deposits with Banking System + Other Deposits with RBI

= 1,00,00 crore + 2,50,000 crore + 1,50,000 crore = 5,00,000 crore

78. (d) The monetary transmission mechanism refers to the process through which monetary policy decisions (like changes in interest rates) affect the real economy, especially output and inflation. Common channels include:

1. Savings & Investment Channel: Affects consumption and investment via interest rates.
2. Cash Flow Channel: Affects firms' and households' spending via income and liquidity.
3. Exchange Rate Channel: Affects net exports via changes in currency value.

79. (c) Cash Reserve Ratio (CRR) refers to the portion of a bank's reserves that must be kept in cash with the Reserve Bank of India (RBI). Banks cannot lend this amount or earn interest on it. Therefore, option C is correct, while A, B, and D are incorrect.

80. (a) The nominal demand for money rises when opportunity costs of money holdings-i.e, bonds and stock returns, rB and rE , respectively-declines and vice versa as when interest rate is high people convert their holdings in bonds to earn high interest rate and vice versa.

81. (a) An Economic Union is the highest form of economic integration, where member countries not only adopt a common external trade policy and allow free movement of goods, services, labour, and capital (as in a customs union and common market), but also implement a common monetary and fiscal policy. This means that countries coordinate their economic policies, and in some cases adopt a single currency, to achieve greater economic stability and integration. Other forms of integration, like a Customs Union or Common Market, do not require common monetary or fiscal policies.

82. (c) A Global Depository Receipt (GDR) is a financial instrument issued by a foreign bank that represents shares of a domestic company. It allows the domestic company to raise capital in international markets. Investors can trade GDRs on foreign stock exchanges without directly holding the company's local shares.

83. (d) WTO commitments often require countries to liberalise trade, reduce tariffs, and remove subsidies.

- Developing countries may be affected more because they often rely on protected domestic industries and agriculture, and sudden liberalisation requires radical structural adjustments.
- Developed countries are usually better prepared and more competitive internationally, so the impact on them is relatively smaller.

84. (b) According to the WTO (World Trade Organisation), as of 1 February 2021, there were 339 Regional Trade Agreements (RTAs) in force worldwide.

85. (d) The WTO Agreement on Technical Barriers to Trade (TBT) covers all goods (both food and non-food items). It deals with technical regulations, product standards, and conformity assessment procedures that could affect international trade.

86. (d) It is a 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 their components or related items.

87. (c) Paul Krugman, a Nobel laureate, emphasized:

- A: That much of international trade occurs between countries with similar factor endowments (i.e., similar ratios of capital and labor), which contrasts with the Heckscher-Ohlin theory, which predicts trade based on differences in factor endowments.
- B: He also strongly supported free trade and argued for its benefits through his New Trade Theory, which includes concepts like economies of scale and network effects.

So, both statements are true.

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

Foreign Direct Investment (FDI) is motivated by:

1. Secure access to minerals or raw materials Companies invest abroad to ensure a steady supply of essential inputs.
2. Desire to capture large and rapidly growing emerging markets - FDI allows firms to be closer to consumers in key markets.

89. (b) Comparative advantage is based on the idea that nations should specialise in the production of goods for which they have a lower opportunity cost compared to other nations. This allows for more efficient resource allocation and can lead to mutual gains from trade.

90. (c) In a managed floating (or dirty float) system, the central bank intervenes in the foreign exchange market to stabilise the currency and maintain adequate reserves of foreign exchange.

91. (d) Since India was a closed economy with conservative policies, it regularised all the sectors including industries, external trade and financial sector with strict policies.

92. (d) The Green Revolution refers to the period when agriculture was transformed through the adoption of high-yielding varieties (HYV) seeds, chemical fertilisers, pesticides, and modern irrigation techniques. It significantly increased food grain production in India during the 1960s and 1970s.

- B. Blue Revolution - Related to the increase in fish production through aquaculture and fisheries development.
- C. White Revolution - Related to the increase in milk production (Operation Flood) in India.
- D. Yellow Revolution - Focused on the production of oilseeds in India.

93. (d) Correct answer is Option D - All of the above.

All of the above options are examples of liberalisation. Liberalisation refers to the removal or reduction of economic restrictions or barriers by a government to encourage economic growth and development. Simplification of tax structure, removal of quotas and bars, and removal of economic restrictions are some of the measures taken by governments to liberalise their economies.

94. (a) In 1954, India signed a long-term agreement with the US for food aid known as PL-480. This agreement was part of the Public Law 480, which facilitated the export of American agricultural products to developing countries.

95. (b) Trade policy reforms are aimed at liberalising trade. This includes removing restrictions like import licensing, reducing tariffs, and easing quantitative limits, to encourage freer flow of goods and services. Options A, C, and D represent restrictive trade measures, not reforms.

96. (b) To overcome the Balance of Payments crisis of 1991, India approached the IMF and World Bank and received a loan assistance package of around $7 billion, which was linked with structural reforms such as liberalisation, privatisation, and globalisation (LPG reforms).

97. (d) The correct answer is: D. Agricultural and Processed Food Export Development Authority APEDA is a government organisation in India under the Ministry of Commerce & Industry. It is responsible for the promotion and development of the export of agricultural and processed food products. Its role includes export promotion, setting standards, and providing financial assistance to exporters.

98. (d) Activities that involve the extraction or production of natural resources, like agriculture, mining, fishing, and livestock products (milk, wool), are part of the Primary Sector.

99. (a) India has the largest cattle herd in the world, including both cows and buffaloes. This contributes significantly to milk production, the leather industry, and agricultural activities.

100. (a) The scheme "Per Drop More Crop" promotes efficient use of water in irrigation, mainly through drip and sprinkler methods, to grow more crops with less water.

January, 2025 Question Paper with Answer Key

All Questions are Compulsory

Time: 2 Hours **Maximum Marks: 100**

QUESTIONS

1. Which of the following does not describe the nature of business economics?
(a) It is normative in nature.
(b) It is abstract and purely theoretical.
(c) It is an art.
(d) It incorporates elements of macro analysis.

2. "Buyers ultimately determine which goods and services will be produced and in what quantities." The given statement is the meaning of:
(a) Planned economy
(b) Consumer sovereignty
(c) Freedom of economic choice
(d) Freedom of Enterprise

3. Which of the following is not one of the four basic economic problems of an economy?
(a) What to produce?
(b) Where to produce?
(c) For whom to Produce?
(d) What Provisions are to be made for economic growth?

4. Finance minister was discussing, balance of trade and balance of payments. This area comes under:
(a) Micro Economics (b) Macro Economics
(c) Capitalist Economy (d) Mixed Economy

5. Which of the following is an example of normative statement?
(a) The demand for a good will increase if its price decreases.
(b) The government should increase taxes on liquor to reduce its consumption.
(c) A decreases in interest rates will lead to an increase in investment.
(d) An increase in government spending will reduce the unemployment rate.

6. When some people start investing money in share market then many people start following the same without considering its advantages and disadvantages is an example of:
(a) Veblen effect (b) Bandwagon Effect
(c) Snob Effect (d) Sheep Effect

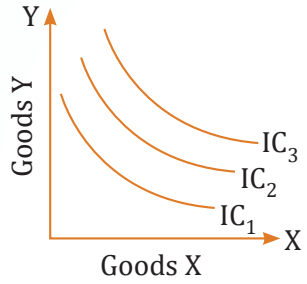
7. 'Ceteris Paribus' is a Latin phrase that generally means:
(a) All other things being equal
(b) An inverse relationship
(c) Income of consumers
(d) Tastes and preferences of consumers

8. The slope of a demand curve is:
(a) —— (b) ——
(c) $\frac{\Delta}{\Delta}$ (d) $\frac{\Delta}{\Delta}$

9. A shopkeeper sells two commodities A and B, which are close substitute of each other. It is observed that when the price of commodity A rises by 20% the demand for B increases by 30%. What is the cross price elasticity for commodity B against the price of commodity A?
(a) +1 (b) -1
(c) +1.5 (d) -1.5

10. "Excess of the price which a consumer would be willing to pay rather than go without a thing over that which he actually does pay", is called:
(a) Consumers equilibrium
(b) Consumers surplus
(c) Change in demand
(d) Change in price

11. With reference to the following indifference map, which of the following curve represents highest satisfaction level?



(a) $1C_3$
(b) IC_2
(c) IC_I
(d) All the curves represents same satisfaction level.

12. Which of the following refers to the want satisfying power of goods and services ? It is not absolute but relative. It is a subjective concept and it depends upon the mental attitude of people.
(a) Utility
(b) Consumers equilibrium
(c) Need
(d) Demand

13. If the price of Wheat increases from 1,800 per Quintal to 2,200 per Quintal and consequently the quantity supplied rises from 2,000 Quintal to 3,200 Quintal. Calculate the elasticity of supply.
(a) +0.7 (b) +1.7
(c) +2.7 (d) +3.7

14. In case of perfectly elastic supply:
(a) $E_s > 1$ (b) $E_s = 1$
(c) $E_s = 0$ (d) $E_s = \infty$

15. The Supply function is given as q = 120 + 6p. Find the elasticity of supply, when price is 10.
(a) – (b) –
(c) $\frac{Ð}{__}$ (d) –

16. Which of the following is not a characteristic of land?
(a) Land is heterogeneous.
(b) Land is an active factor.
(c) Supply of land is fixed.
(d) Land has multiple uses.

17. Cobb-Douglas production function is stated as:
(a) $Q = K^aLC^{(l-a)}$ (b) $Q = K^{(l-a)}L^aC$
(c) $Q = K^aL^{(l-a)}C$ (d) $Q = KL^aC^{(l-a)}$

Based on the information given in the following table, answer the Question Nos. 18 to 20:

Product Schedule			
Quantity of labour	Total Product	Average Product	Marginal Product
1	10	-	-
2	-	-	11
3	-	11	-
4	-	-	11
5	52	-	-
6	-	-	8

18. What will be the average product when quantity of labour is 6?
(a) 9 (b) 10
(c) 11 (d) 12

19. What will be the total product when quantity of labour is 4?
(a) 38 (b) 40
(c) 42 (d) 44

20. What will be the marginal product when quantity of labour is 5?
(a) 8 (b) 9
(c) 10 (d) 11

21. Who describes production function as the relationship between the maximum amount of output that can be produced and the input required to make that output?
(a) Cobb-Douglas (b) Samuelson
(c) Paul Sweezy (d) Alfred Marshall

22. In short-run, when average cost falls as a result of an increase in output, marginal cost is _____ average cost
(a) Greater than (b) Less than
(c) Equal to (d) Independent of

23. Initially a firm enjoys _____ of scale and beyond a certain limit it suffers from _____ of scale.
(a) Internal economies, internal diseconomies
(b) External economies, external diseconomies
(c) Internal diseconomies, internal economies
(d) External diseconomies, external economies

24. The long-run average cost curve is also called:
(a) Kinked curve (b) Equal quantity curve
(c) Envelope curve (d) Sharp curve

25. _____ are already incurred once and for all, and cannot be recovered.
(a) Sunk costs (b) Historical cost
(c) Private costs (d) Social costs

26. Price elasticity of demand of a firm under perfect competition will be:
(a) Very Large (b) Infinite
(c) Large (d) Small

27. Many sellers offering differentiated products to many buyers is the characteristics of:
(a) Perfect competition
(b) Monopolistic competition
(c) Oligopoly competition
(d) Monopoly

28. Identify the correct relationship among MR, AR & e (price elasticity of demand).
(a) MR = AR × e(e – 1) (b) Đ ĐĐĐ
(c) Đ Đ / ĐĐ (d) Đ ĐĐĐ

29. Total revenue will be maximum, where elasticity is equal to:
(a) 1 (b) Less than 1
(c) Greater than 1 (d) Zero

30. When both demand and supply increase, the equilibrium quantity _____ but the change in equilibrium price is _____.
(a) Decreases, uncertain
(b) Increases, constant
(c) Increases, uncertain
(d) Decreases, constant

31. Identify the correct below mentioned condition/ conditions for equilibrium of a firm under perfect competition:
(I) MR = MC
(II) MR > MC
(III) MR < MC
(IV) MC should have a positive slope.
(V) MC should have a negative slope.
(a) (II) and (V) (b) (II) and (IV)
(c) (III) and (V) (d) (I) and (IV)

32. When a perfect competitive firm earns _____ its average revenues are more than its average total cost.
(a) Supernormal profits
(b) Normal profits
(c) Normal profits and supernormal profits
(d) Losses

33. Market for soaps and detergents are the appropriate example of:
(a) Monopoly
(b) Oligopoly
(c) Monopolistic competition
(d) Perfect competition

34. Downward sloping and highly inelastic demand curve is the feature of:
(a) Monopoly
(b) Oligopoly
(c) Monopolistic competition
(d) Perfect competition

35. Market characterized by a single buyer of a product or service and is mostly applicable to factor markets in which a single firm is the only buyer of a factor is known as:
(a) Oligopsony (b) Duopoly
(c) Bilateral monopoly (d) Monopsony

36. 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

37. Average revenue curve is also known as:
(a) Profit Curve (b) Demand Curve
(c) Average Cost Curve (d) Indifference Curve

38. With a decrease in demand there is _____.
(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) A decrease in the equilibrium price and quantity demanded and supplied.
(d) No change in overall price but a reduction in equilibrium quantity.

39. 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 less than the original equilibrium price and quantity.

(d) The new equilibrium price will be less than the original equilibrium price.

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

(a) Open oligopoly (b) Collusive oligopoly

(c) Partial oligopoly (d) Syndicated oligopoly

41. The consumption function is a functional relationship between aggregate consumption and:

(a) Aggregate disposable income

(b) Aggregate demand

(c) Aggregate supply

(d) Savings

42. The value of all final goods and services produced in the country within a given period is called:

(a) National Income

(b) Gross Domestic Product (GDP)

(c) Net National Product (NNP)

(d) Gross National Product (GNP)

43. If GDP_{MP} is more than GNP_{MP}, it means:

(a) The aggregate amount that a country's citizens and companies earn abroad is greater than the aggregate amount that foreign citizens and overseas companies earn in that country.

(b) NFIA is negative.

(c) The aggregate amount that a country's citizens and companies carn abroad is equal to the aggregate amount that foreign citizens and overseas companies earn in that country.

(d) NFIA is positive.

44. Find the real GDP if nominal GDP=720 and price index = 120.

(a) 864 (b) 500

(c) 600 (d) 700

45. Which of the following is not true for personal income?

(a) It is income received by household sector.

(b) It includes Non-profit Institutions serving households.

(c) It is a measure of actual current income receipts of persons only from productive activities.

(d) It excludes retained earnings.

46. Calculate average propensity to save when C = 300 and Y = 1200.

(a) 0.25 (b) 0.50

(c) 0.75 (d) 0.80

47. Marginal propensity to consume is:

(a) Zero when the income is zero.

(b) Always less than unity but greater than zero.

(c) Greater than one when income rises.

(d) It does not depend on income.

48. Product Method or Value-added method for calculation of National Income is also called:

(a) Industrial Origin Method

(b) Income Disposal Method

(c) Factor Payment Method

(d) Distributed Share Method

49. In a 3-sector model, suppose $C = 8 + 0.6Y_d$, I = 60, G = T =10 where C is consumption, I is investment, Y_d is disposable income, G is government expenditure and T is tax.

Find out the equilibrium level of national income.

(a) 120 (b) 150

(c) 180 (d) 200

50. In an economy investment expenditure is increased by 300 crores and marginal propensity to consume is 0.6. Calculate the total increase in income.

(a) 300 crores (b) 100 crores

(c) 650 crores (d) 750 crores

51. While using the income method, which of the following income is included while calculating national income ?

(a) Capital gains

(b) Windfall profits

(c) Income from sale of second-band goods

(d) Commissions and brokerages

52. Calculate Gross value added at market price if sales = 750, opening stock = 300, closing stock = 200 and intermediate consumption is 250.

(a) 400 (b) 450
(c) 600 (d) 650

53. Nominal GDP is:

(a) Same as real GDP
(b) Real GDP less depreciation
(c) GDP at current prices
(d) GDP at constant prices

54. The investment multiplier is defined as the ratio of:

(a) Change in investment due to change in saving
(b) Change in demand due to change in investment
(c) Change in consumption due to change in investment
(d) Change in national income due to change in investment

55. The ratio of total consumption to total income is known as:

(a) Average Propensity to Consume (APC)
(b) Marginal Propensity to Consume (MPC)
(c) Saving function
(d) Income function

56. When entrepreneurs are pessimistic about future market conditions:

(a) It does not impact the economy.
(b) Expansionary phase may begin.
(c) Economy faces contraction in economic activities.
(d) Investments tend to increase.

57. Which of the following is not a characteristic of business cycle?

(a) They occur periodically.
(b) They are recurrent.
(c) They occur at regular intervals.
(d) They have distinct phases of expansion, peak, contraction and trough.

58. Which of the following is not an internal cause of business cycles?

(a) Fluctuations in effective demand
(b) Fluctuation in investment
(c) Variations in government spending
(d) Technology shock

59. Changes in stock price, new orders for capital and consumer goods are examples of:

(a) Leading indicators
(b) Lagging indicators
(c) Coincident indicators
(d) Non-economic indicators

60. Variables that change after the real output changes are called:

(a) Leading indicators
(b) Lagging indicators
(c) Coincident indicators
(d) Non-economic indicators

61. Taxes on agriculture income is levied by:

(a) Central government
(b) State government
(c) Both central and state government as they are in concurrent list
(d) Local self-government

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

(a) Allocation function
(b) Distribution function
(c) Stabilization function
(d) Protection function

63. A progressive direct tax system ensures:

(a) Economic growth with stability because it distributes the burden of taxes unequally.
(b) Those who have greater ability to pay contribute more and the tax burden is distributed fairly among the population.
(c) Uniform taxes for all.
(d) Luxuries are taxed heavily.

64. Non-debt capital receipts of government include:

(a) Market loans for different purposes
(b) State provident fund (Net)
(c) Securities issued against small savings
(d) Recoveries of loans and advances

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

(a) Recognition lag
(b) Decision lag
(c) Implementation lag
(d) Impact lag

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

(a) Revenue deficit (b) Fiscal deficit
(c) Primary deficit (d) Budgetary deficit

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

(a) Non-debt capital receipts
(b) Debt capital receipts
(c) Revenue receipts
(d) Estimated receipts

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

(a) CGST (b) SGST
(c) IGST (d) Income tax

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

(a) Government intervention to correct externalities
(b) Government intervention in the case of merit goods
(c) Government intervention in the case of demerit goods
(d) Government intervention for correcting market failure

70. Which constitutional body maintains fiscal federalism in India ?

(a) Central government
(b) Parliament
(c) Reserve Bank of India
(d) Finance Commission

71. Which of the following is not a characteristic of money?

(a) Generally acceptable
(b) Effortlessły recognisable
(c) Easily transportable
(d) Easily reproducible by people

72. The currency issued by the Central Bank is known as _____ and is backed by supporting reserves and its value is a sovereign guarantee.

(a) Real money (b) Credit money
(c) Fiat money (d) Sovereign bonds

73. Considering that with a money multiplier of 1.5 there has been an increment of 600 cr of money supply. Find out the monetary base.

(a) ₹800 cr (b) ₹200 cr
(c) ₹400 cr (d) ₹900 cr

74. Calculate Narrow Money M_1 from the following data.

Currency with public	₹88,000 cr
Demand deposit with the banking system	₹2,20,000 cr
Time deposit with the banking system	₹2,40,000 cr
Other deposits with RBI	₹2,60,000 cr
Saving deposits with Post Office Saving Bank	₹50,000 cr

(a) ₹5,68,000 cr (b) ₹6,18,000 cr
(c) ₹5,98,000 cr (d) ₹6,38,000 cr

75. Calculate currency with the public from the following data:

Notes in circulation	₹45,000 cr
Circulation of rupee coins	₹1,500 cr
Circulation of small coins	₹750 cr
Cash on hand with banks	₹27,500 cr

(a) ₹74,750 cr (b) ₹19,750 cr
(c) ₹73,250 cr (d) ₹29,750 cr

76. _____ is a penal rate at which RBI lends money to banks, above the rate available under the repo policy.

(a) Marginal standing facility rate
(b) Bank rate
(c) Repo rate
(d) Reverse repo rate

77. Liquidity Adjustment Facility (LAF) was introduced by RBI on the basis of the recommendation of the _____ Committee on the reforms in banking sector.

(a) Tandon (b) Narsimham
(c) Chore (d) Basel

78. Money created by the commercial banks is called _____.

(a) Real money (b) High powered money
(c) Fiat money (d) Credit money

79. Under the concept of money supply, the term 'public' do not include _____.

(a) Households
(b) Institutions
(c) Government and banking system
(d) Firms

80. Compute the total credit money created by the banking system if the required reserved ratio is 15% for every 12,00,000 deposited in the banking system?

(a) ₹1,00,00,000 (b) ₹80,00,000
(c) ₹1,25,00,000 (d) ₹1,50,00,000

81. Factor Endowment Theory of trade is also known as _____.

(a) Baumol and Tobin theory
(b) Adam Smith, Absolute Cost Advantage theory
(c) Heckscher – Ohlin theory
(d) Factor Price Equalisation theory

82. Which tariff is calculated on the basis of specific contents of the imported goods (duties are payable by its components or related items)?

(a) Compound tariff (b) Mixed tariff
(c) Ad valorem tariff (d) Technical tariff

83. Which tariff is expressed either on the basis of the value of the imported goods or on the basis of a unit of measure of the imported goods depending on which generates the most income (or least income at times) for the country?

(a) Ad valorem tariff (b) Specific tariff
(c) Mixed tariff (d) Compound tariff

84. The system wherein the nominal tariff rates on imports of manufactured goods are higher than the nominal tariff rates on intermediate inputs and raw materials is known as

(a) Applied tariff (b) Escalated tariff
(c) Bound tariff (d) Preferential tariff

85. Which of the following is a measure to protect human, animal or plant life from risks arising out of additives, pests, toxins, etc. and to protect the biodiversity?

(a) Prohibited tariff
(b) Sanitary and phytosanitary measures
(c) Technical barriers to trade
(d) Anti-dumping duties

86. With regards to international trade the European Union can be categorised as a _____.

(a) Trading bloc
(b) Free trade area
(c) Bilateral agreements
(d) Customs union

87. Which of the following country is not a member of the G20 economies?

(a) Argentina (b) India
(c) Tunisia (d) Mexico

88. Investments which are reciprocal investments between countries are referred to as _____.

(a) Horizontal direct investment
(b) Vertical direct investment
(c) Two-way direct foreign investment
(d) Conglomerate foreign investment

89. A total ban imposed by the Government on imports or exports of some or all commodities to a particular country or regions for a specified or indefinite period is known as _____.

(a) Prohibitive tariff (b) Anti-dumping duties
(c) Embargo (d) Rules of origin

90. The theory of Comparative Advantage in International Trade was presented by _____.

(a) Adam Smith
(b) David Ricardo
(c) John Maynard Keynes
(d) Milton Friedman

91. _____ facilitates and improves access to Indian Government data.

(a) E-Amrit (b) E-NAM
(c) NDAP (d) MIDH

92. Which scheme is aimed at promoting manufacture of electric and hybrid vehicle technology and to ensure sustainable growth for the same?

(a) FAME India (b) E-Amrit
(c) FIPB (d) PDMC

93. Which Act was initially aimed for regulation of large firms which had relatively large market power?

(a) RBI Act (b) FEMA
(c) RERA (d) MRTP Act, 1969

94. From which year onwards, India followed the managed floating exchange rate system?

(a) 1990 (b) 1991

(c) 1995 (d) 1993

95. Minimum Support Price (MSP) is fixed by the Government of India at _____ of the cost of production.

(a) Two and a half times

(b) Half

(c) One and a half time

(d) Twice

96. Which policy was adopted to ensure world class industrial Infrastructure which would attract cutting edge technology and boost FDI and local investment in the textile sector?

(a) PM-MITRA

(b) PM Gati Shakti National Master Plan

(c) National Logistic Policy

(d) Production Linked Incentive (PLI) Scheme

97. During the British period modern industrial sector saw lopsided growth with the dominance of _____ industries.

(a) Wool and cotton

(b) Nylon and silk

(c) Cotton and jute

(d) Silk and cotton

98. Statutory recognition was granted to _____ to facilitate mobilization of adequate resources and their efficient allocation in the capital markets.

(a) RBI (b) BSE

(c) SEBI (d) NSE

99. In which of the following sector FDI is not permissible ?

(a) Telecom

(b) Aviation

(c) Atomic energy

(d) Defence

100. Production of milk is included in which sector?

(a) Tertiary sector

(b) Service sector

(c) Primary sector

(d) Secondary sector

ANSWER KEY

1. (b)	**2.** (b)	**3.** (b)	**4.** (b)	**5.** (b)	**6.** (b)	**7.** (a)	**8.** (d)	**9.** (c)	**10.** (b)
11. (a)	**12.** (a)	**13.** (c)	**14.** (d)	**15.** (a)	**16.** (b)	**17.** (d)	**18.** (b)	**19.** (d)	**20.** (a)
21. (b)	**22.** (b)	**23.** (a)	**24.** (c)	**25.** (a)	**26.** (b)	**27.** (b)	**28.** (d)	**29.** (a)	**30.** (c)
31. (d)	**32.** (a)	**33.** (c)	**34.** (a)	**35.** (d)	**36.** (c)	**37.** (b)	**38.** (c)	**39.** (d)	**40.** (c)
41. (a)	**42.** (b)	**43.** (b)	**44.** (c)	**45.** (c)	**46.** (c)	**47.** (b)	**48.** (a)	**49.** (c)	**50.** (d)
51. (d)	**52.** (a)	**53.** (c)	**54.** (d)	**55.** (a)	**56.** (c)	**57.** (c)	**58.** (d)	**59.** (a)	**60.** (b)
61. (b)	**62.** (a)	**63.** (b)	**64.** (d)	**65.** (d)	**66.** (b)	**67.** (c)	**68.** (c)	**69.** (a)	**70.** (d)
71. (d)	**72.** (c)	**73.** (c)	**74.** (a)	**75.** (b)	**76.** (a)	**77.** (b)	**78.** (d)	**79.** (c)	**80.** (b)
81. (c)	**82.** (d)	**83.** (c)	**84.** (b)	**85.** (b)	**86.** (d)	**87.** (c)	**88.** (c)	**89.** (c)	**90.** (b)
91. (c)	**92.** (a)	**93.** (d)	**94.** (d)	**95.** (c)	**96.** (a)	**97.** (c)	**98.** (c)	**99.** (c)	**100.** (c)

May, 2025 Question Paper with Answer Key

All Questions are Compulsory

Time: 2 Hours **Maximum Marks: 100**

QUESTIONS

1. The microeconomic theory mainly does not deal with which of the following issues:
- (a) Stage of business cycles
- (b) Demand analysis and forecasting
- (c) Production and Cost Analysis
- (d) Inventory management

2. Which of the following is not correct about business economics with reference to economics?
- (a) Business economics helps in proper decision making in a particular business entity.
- (b) Business economics has a narrow scope in comparison to economics.
- (c) Economics is an applied branch of business economics.
- (d) Business economics includes the analysis of micro level issues like demand, supply etc.

3. Command Economy is another name for:
- (a) Capitalist Economy
- (b) Socialist Economy
- (c) Mixed Economy
- (d) Macro Economy

4. Which of the following is not a merit of Capitalist Economy?
- (a) Faster economic growth
- (b) Collective ownership
- (c) High degree of operative efficiency
- (d) Luxury goods

7. Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This is called:
- (a) Demonstrative effect
- (b) Bandwagon effect
- (c) Snob effect
- (d) Veblen effect

8. An expectation that price will fall in future will lead to:
- (a) A downward movement along the same demand curve
- (b) An upward movement along the same demand curve
- (c) Rightward shift of demand curve
- (d) Leftward shift of demand curve

9. A consumer buys 100 units of a goods at a price of 6 per unit. Suppose price elasticity of demand is-3. At what price will he buy 80 units?
- (a) ₹ 5.8
- (b) ₹ 6.2
- (c) ₹ 6.4
- (d) ₹ 6.75

10. If total revenue of goods increases with an increase in its price, demand for the goods is said to be:
- (a) Elastic
- (b) Unit elastic
- (c) Inelastic
- (d) Infinitely elastic

11. Which of the following statement is not true while determining price elasticity of demand?
- (a) Goods which have close or perfect substitutes, have highly elastic demand curves.
- (b) The greater the proportion of income spent on a commodity; generally the lesser will be its elasticity of demand.
- (c) Necessities are generally price inelastic.
- (d) The more possible uses of a commodity, greater will be its price elasticity.

12. When two goods are complementary, the cross elasticity between them is:
- (a) Infinite
- (b) Positive and large
- (c) Zero
- (d) Negative

13. When total utility is increasing at decreasing rate:
- (a) Marginal utility is equal to total utility.
- (b) Marginal utility is decreasing but remains positive.
- (c) Marginal utility becomes negative.
- (d) Marginal utility is equal to zero.

14. Due to an increase in price of product X from 100 to 110 quantity supplied increases from 150 units to 200 units. Calculate elasticity of supply using arc-elasticity method.
- (a) 2.3 (b) 3
- (c) 3.33 (d) 3.5

15. The rate at which a consumer is prepared to exchange goods X and Y, holding the level of satisfaction constant is called as _____.
- (a) Indifference curve
- (b) Marginal rate of substitution
- (c) Diminishing marginal utility
- (d) Consumer surplus

16. The form of capital which performs its function in production in a single use and is not available for further use is termed as:
- (a) Fixed capital (b) Circulating capital
- (c) Real capital (d) Intangible capital

17. Survival, growth and expansion come under which of the following objective of an enterprise?
- (a) Organic objective (b) Economic objective
- (c) Social objective (d) National objective

18. The minimum quantities of various inputs that are required to yield a given quantity of output is termed as:
- (a) Demand function
- (b) Supply function
- (c) Production function
- (d) Investment function

19. Which of the following is not true about relationship between average product and marginal product?
- (a) When average product rises as a result of an increase in the quantity of variable input marginal product is more than the average product.
- (b) When average product is maximum, marginal product is equal to average product.
- (c) When average product falls, marginal product is less than the average product.
- (d) When average product is negative, marginal product becomes zero.

20. Total product starts declining in which stage of production?
- (a) Stage 1: The stage of increasing returns
- (b) Stage 2: The stage of diminishing returns
- (c) Stage 3: The stage of negative returns
- (d) It may decline in any stage of production

21. Returns to scale refers to:
- (a) Changes in output as a result of proportionate change in one of the variable factors of production.
- (b) Changes in output as a result of proportionate change in all factors of production.
- (c) Changes in output as a result of proportionate change in any two variable factors of production.
- (d) Changes in output as a result of variation in factor proportions.

22. Linear Homogeneous Production function is another name for _____.
- (a) Law of variable proportion
- (b) Constant returns to scale
- (c) Increasing returns to scale
- (d) Decreasing returns to scale

23. Budget line or budget constraint line which shows the various alternative combinations of two factors which the firm can buy with given outlay is called:
- (a) Isoquant (b) Indifference curve
- (c) Isocost line (d) Iso-product curve

Use the following data to answer question 24-25:

Output (Q)	0	1	2	3	4	5
Total cost (TC)	₹ 200	₹ 310	₹ 410	₹ 500	₹ 604	₹ 710

24. The Average Fixed Cost of 2 units of output is:
- (a) ₹ 85 (b) ₹ 100
- (c) ₹ 110 (d) ₹ 205

25. Diminishing marginal returns start to occur between units:
- (a) 1 and 2 (b) 2 and 3
- (c) 3 and 4 (d) 4 and 5

26. Calculate Marginal Revenue (MR) when Average Revenue (AR) = 45 and price elasticity of demand (e) = 3.

(a) ₹ 15 (b) ₹ 30
(c) ₹ 25 (d) ₹ 135

27. Which of the following is not a feature of perfect competition market?

(a) Very large number of sellers
(b) Homogeneous products
(c) Inelastic demand
(d) Firms are price takers

28. A firm should not produce at all if:

(a) AR is greater than minimum AVC
(b) AR is equal to ATC
(c) If its total variable costs are not met
(d) AR is greater than ATC

29. Which type of markets allocates productive resources to producers and helps ensure that those resources are used efficiently?

(a) Product markets (b) Factor markets
(c) Local Markets (d) Retail markets

30. The firm will be making maximum profits by expanding output to the level where:

(a) Marginal revenue is greater than marginal cost
(b) Marginal revenue is equal to marginal cost
(c) Marginal revenue is less than marginal cost
(d) Marginal revenue is equal to average cost

31. What will happen to the equilibrium price and equilibrium quantity when demand increases and supply decreases?

(a) The equilibrium price rises but change in equilibrium quantity is uncertain.
(b) Both equilibrium price and equilibrium quantity falls.
(c) Both equilibrium price and equilibrium quantity go up.
(d) The equilibrium quantity increases but the change in equilibrium price is uncertain.

32. Suppose that a sole proprietor is earning total revenue of 120,000/- and is incurring explicit cost of 95,000/-. If the owner could work for another company for 30,000/- a year, which of the following statement is false?

(a) The firm incurred an economic loss of ₹5,000/-
(b) The firm is having accounting profit of ₹25,000/-
(c) Total economic costs are ₹30,000/-
(d) The total accounting costs are ₹ 95,000/

Use the following data to answer question 33-34:

Quantity	0	10	20	30	40
Total Cost (in ₹)	100	220	320	410	510

33. What is the average variable cost when 20 units are produced?

(a) ₹ 5 (b) ₹ 10
(c) ₹ 11 (d) ₹ 16

34. Between 10 and 20 units, what is the marginal cost per unit?

(a) ₹ 10 (b) ₹ 20
(c) ₹ 100 (d) ₹ 220

35. Which of the following is not a feature of the monopoly market?

(a) Single buyer of the products
(b) Barriers to entry
(c) No close substitutes
(d) Market power

36. Which of the following is not a condition for price discrimination?

(a) The seller should have price setting power.
(b) The seller should be able to divide his market into two or more sub markets.
(c) The price elasticity of the product should be different in different sub markets.
(d) It should be possible for buyers of low-priced market to resell the product to the buyers of high-priced market.

37. Under second degree price discrimination, different prices are charged for

(a) Each individual consumer
(c) Customer segment
(b) Location
(d) Different quantities sold

38. Kinked demand curve model of oligopoly is also called:

(a) Sweezy's Model (b) McKinsey's Model
(c) Oskar's Model (d) Neumann's Model

39. Assume that when price is 30 the quantity demanded is 19 units and when price is 28 the quantity demanded is 20 units, what is the marginal revenue resulting from an increase in output from 19 units to 20 units ?

(a) ₹ 10 (b) – ₹ 10
(c) ₹ 20 (d) – ₹ 20

40. The oligopoly market in which few firms come to a common understanding with each other in fixing price or output or both is called:

(a) Pure Oligopoly (b) Collusive Oligopoly
(c) Partial Oligopoly (d) Syndicated Oligopoly

41. During the upswing phase of business cycle, the involuntary unemployment is _____.

(a) Highest (b) Almost Zero
(c) Lowest (d) Not affected

42. The level of national income and expenditure declines rapidly during which phase of the business cycle?

(a) Upswing
(b) Downswing
(c) Recovery
(d) Trough and Depression

43. In all kinds of businesses, the different phases of business cycle generally occurs as:

(a) Having perfectly timed cycles
(b) No fixed time cycles but are regular
(c) Boom have longer period than Depression
(d) Depression have longer period than Boom

44. An indicator which gives information about the rate of change of the expansion or contraction of an economy is called _____.

(a) Leading Indicator
(b) Lagging Indicator
(c) Both Leading and Lagging Indicator
(d) Co-incident Indicator

45. There is a war going between Country A and Country B for last two years. Now in the current year both countries have signed a peace agreement and war has come to an end. Now both countries have started to rebuild the losses caused due to war out of their own funds. Which type of cause of change in business cycle is this for Country A?

(a) Internal Cause
(b) External Cause
(c) Both Internal and External Cause
(d) This is not a cause of change in business cycle

46. Which of the following organisation is responsible for the compilation of National accounts statistics?

(a) Central Statistical Organisation (CSO)
(b) Directorate of Economics and Statistics (DES)
(c) Ministry of Finance of Central Government
(d) Reserve Bank of India (RBI)

47. Which of the following is not a significance and usefulness of the National Income estimates?

(a) Businesses use it to forecast the future demand of their products
(b) To identify the sector wise composition of national income
(c) To assist in making policies related to inflation
(d) To assist in making policies related to population growth

48. Considering the data given in the table below calculate the Inflation rate of year 3:

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

(a) 13.19% (b) 15.20%
(c) 19% (d) -19%

49. Which of the following defines the Gross National Product (GNP) of a country under the concept of National Income?

(a) It is market value of all final economic goods & services produced within the domestic territory of a country including Net Factor Income from abroad.
(b) It is market value of all final economic goods & services produced within the domestic territory of a country excluding Net Factor Income from abroad.
(c) It is production cost of all final economic goods & services produced within the domestic territory including depreciation.
(d) It is production cost of all final economic goods & services produced within the domestic territory excluding depreciation.

50. The Gross Domestic Product at Factor Cost (GDP_{FC}) is calculated by which of the following formula (Here GDP_{MP} is Gross Domestic Product at market prices):

(a) $GDP_{FC} = GDP_{MP}$ + Net Factor Income from Abroad

(b) $GDP_{FC} = GDP_{MP}$ + Net Factor Income from Abroad - Depreciation

(c) $GDP_{FC} = GDP_{MP}$ – Indirect Taxes + Subsidies

(d) $GDP_{FC} = GDP_{MP}$ + Indirect Taxes – Subsidies

51. Which of the following is true about the basic price in the determination of National Income?

(a) Basic Price = Factor Cost – Manufacturing Taxes + Manufacturing Subsidy

(b) Basic Price = Factor Cost – Depreciation

(c) Basic Price = Factor Cost + Net Factor Income from Abroad

(d) Basic Price = Factor Cost + Production Tax – Production Subsidy

52. Which of the following is an indicator of the standard of living of a country under the concept of National Income?

(a) Personal Income

(b) Disposable Personal Income

(c) Per Capita Income

(d) GDP at factor cost

53. The amount of money in the hands of the individual that is available for their consumption or savings is known as

(a) Private Income

(b) Per Capita Income

(c) Disposable Personal Income

(d) Personal Income

54. Which of the following is included in the calculation of Personal Income under the concept of National Income?

(a) Unemployment Compensation

(b) Retained Earnings

(c) Indirect Business Taxes

(d) Contribution towards Social Security

55. Which of the following is true in relation with Private Income under the concept of National Income?

(a) It is personal income adjusted by inflation rate.

(b) It is personal income less personal income tax.

(c) It is the income (both factor & transfer income) accrued to private sector from all sources within the country only.

(d) It is income (both factor and transfer income) accrued to the private sector from all sources within and outside the country.

56. In the preparation of state income estimates, certain activities like railways, banking, insurance etc. that cut across state boundaries, and thus their economic contribution assigned to more than one state are known as _____.

(a) Central Sectors of economy

(b) Supra Regional Sectors of economy

(c) Tertiary Sectors of economy

(d) Secondary Sectors of economy

57. Which of the following is not a sector to be included in the three sector model of Keynesian theory of Income determination?

(a) Household Sector (b) Business Sector

(c) Foreign Sector (d) Government Sector

58. Under the Keynesian theory of National Income determination, which of the following term is given to the demand for money?

(a) Investment multiplier

(b) Liquidity preference

(c) Aggregate demand

(d) Marginal Propensity

59. Under the Keynesian theory of determination of national income, the assumption is that the consumption increases with an increase in disposable income but the increase in consumption will be _____ the increase in disposable income.

(a) Equal to (b) Opposite to

(c) Greater than (d) Less than

60. Which of the following is true in respect of relation of Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) as per the Keynesian theory of determination of National Income?

(a) MPC = MPS

(b) MPC+MPS = 1

(c) MPC+MPS = 0

(d) No relation exists between MPC and MPS

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

(a) The Allocation Function
(b) The Redistribution Function
(c) The Stabilization Function
(d) The Utilisation Function

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

(a) Social Cost = Private Cost + External Cost
(b) Social Cost = Private Cost + External Cost – Total Negative Externalities
(c) Social Cost = Private Cost + External Cost – Government Taxes
(d) Social Cost = Private Cost + Total Negative Externalities – Government Taxes

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

(a) Non-rival in consumption
(b) Indivisibility
(c) More vulnerable to externalities
(d) Excludable

64. What does the term "lemon" means in the model of "Lemons problem" developed by "George Akeil of" in relation to used car market:-

(a) Only good quality used cars
(b) Both poor and good quality used cars
(c) Average quality used cars
(d) Scrapped used cars

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

(a) Government intervention to correct externalities.
(b) Government intervention for equitable distribution.
(c) Government intervention to correct information failure.
(d) Government intervention in case of public goods.

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

(a) Budget
(b) Annual Financial Statement
(c) Statement of Income & Expenditure
(d) Interim Budget

67. Which of the following information regarding the receipts and expenditure of the Government is not presented in the budget documents?

(a) Budget estimates of Current financial year
(b) Budget estimates of the Ensuing financial year
(c) Revised estimates of the Ensuing financial year
(d) Actual expenditure and Income of Current financial year

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

(a) NITI Aayog
(b) Department of Revenue under Finance Ministry
(c) Department of Expenditure under Finance Ministry
(d) Reserve Bank of India

69. During the Budget proceedings, the speaker of Lok Sabha once the prescribed time is over, puts all the outstanding demand for grants, whether discussed or not, to the vote of the house, this process is known as:

(a) Cut Motion
(b) Presenting the appropriation bill
(c) Outcome Budget
(d) Guillotine

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

(a) It is deliberate policy of Government.
(b) An economy producing full employment does not require Government action in the form of fiscal policy.
(c) Taxation policy is part of Fiscal policy.
(d) Fiscal Policy is supply side policy.

71. What is the term Y represent in the expression $M_d = k\ PY$?

(a) Real National income
(b) Price level
(c) Money supply
(d) Interest rate

72. Banks availing Marginal Standing Facility Rate can use a maximum of how much percentage of Statutory Liquidity Ratio Securities?

(a) 1% (b) 2%
(c) 3% (d) 4%

73. Calculate currency with Public from following Data (₹ in lakhs)

Notes in Circulation	2,59,121
Coins in Circulation	23,345
Cash on hands with Banks	19,009
Coin on hands with Banks	909

(a) 3,02,384 (b) 2,62,548
(c) 2,53,876 (d) 2,15,858

74. Liquidity trap occurs when:

(a) Interest rates are high, and people prefer bonds over cash balances.
(b) Interest rates are near zero, and people prefer holding cash over bonds.
(c) Inflation rates are high, reducing purchasing power of money balances.
(d) Central banks increase CRR drastically.

75. What is the likely impact of an increase in the Time Deposit to Demand Deposit (TD/DD) ratio on the banking system and monetary expansion?

(a) It leads to higher availability of free reserves and consequent enlargement of volume of multiple deposit expansion and monetary expansion.
(b) It reduces the availability of free reserves, thereby restricting the process of monetary expansion.
(c) It has no impact on the banking system as time deposits and demand deposits are interchangeable.
(d) It directly reduces the money supply as time deposits are not considered part of the money supply.

76. Broad money includes currency deposits with an agreed maturity of up to _____ years, deposits redeemable at notice up to _____ months and repurchase agreements, money market fund shares/units and debt security up to _____ years.

(a) 3 years, 6 months, 3 years
(b) 2 years, 6 months, 2 years
(c) 3 years, 3 months, 3 years,
(d) 2 years, 3 months, 2 years

77. Which of the following is NOT included in M_1?

(a) Currency with the public
(b) Demand deposits with banks
(c) Time (term) deposits with banks
(d) Other deposits with RBI

78. Which of the following is NOT one of the four determinants of the Friedman's demand for money?

(a) Nominal Demand for money is a function of total wealth.
(b) It is positively related to price level P, if price level rises the demand for money increases.
(c) Nominal demand for money falls if the opportunity costs of money holding declines.
(d) Nominal Demand for money is influenced by inflation.

79. Which of the following is NOT a quantitative tool of monetary policy?

(a) Cash Reserve Ratio (CRR)
(b) Statutory Liquidity Ratio (SLR)
(c) Open Market Operations (OMO)
(d) Liquidity Adjustment Facility (LAF)

80. Which of the following expressions is true?

(a) Reverse Repo Rate = Repo Rate - 1
(b) Reverse Repo Rate = Repo Rate + 1
(c) Repo Rate = Reverse Repo Rate - 1
(d) Repo Rate = 1- Reverse Repo Rate

81. In the Theory of Comparative Costs, which of the following statements are true?

I. It is based on money cost which is more realistic
II. It is Positive in Nature
III. It is Normative in nature
IV. Do not take into account the factor price differences

(a) I and II are correct
(b) III and IV are correct
(c) II and IV are correct
(d) I and IV are correct

82. The value of the product or service is enhanced as the number of individuals using it increases. What effect is this?

(a) Veblen Effect
(b) Bandwagon Effect
(c) Income Effect
(d) Snob Effect

83. What is the Ad valorem tariff?

(a) The fixed amount of money per physical unit or weight of commodity imported or exported.
(b) A fixed time period for tariff application per calendar year.
(c) The duty levied as a fixed percentage of the value of the traded commodity.
(d) A flat rate imposed regardless of the product's value.

84. A tariff that is set so high that no imports can enter is known as _____

(a) Prohibitive Tariff (b) Bound Tariff
(c) Escalated Tariff (d) Variable Tariff

85. Which of these countries is part of the USMCA Agreement?

(a) Mexico (b) Malta
(c) Malaysia (d) Mongolia

86. Which one of these is the main reason why GATT lost its relevance by 1980?

(a) Efforts at liberalising agricultural trade were successful.
(b) International investments did not expand substantially.
(c) GATT was a treaty.
(d) There were inadequacies in institutional structure and dispute settlement system.

87. The most controversial topic for Doha Development Agenda was

(a) The Labour Welfare
(b) World Peace
(c) Globalization
(d) Agriculture Trade

88. Match the following:

Table A	Table B
(a) Has a long term interest and is invested for long	(i) Foreign Portfolio Investment
(b) Speculative in Nature	(ii) Foreign Direct Investment
(C) Help developing countries benefit fully from global trading system	(iii) Free Floating exchange rate system
(d) Government and central banks do not participate in the market for foreign exchange	(iv) World Trade Organization

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

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

(a) Horizontal direct investment
(b) Vertical investment
(c) Conglomerate type of FDI
(d) Two way direct foreign investment

90. An appreciation of currency or strong currency makes the domestic currency more _____ therefore it can be exchanged for a _____ amount of foreign currency.

(a) Weaker, smaller (b) Valuable, larger
(c) Weaker, larger (d) Valuable, smaller

91. Which of the following are fiscal reforms?

i. Ensuring better tax compliance
ii. Reinvestment of funds in more profitable options
iii. Encouraging private sector participation
iv. Thrust on curbing government expenditure

(a) Only i and iii (b) Only i, ii, iii
(c) Only i, iii, iv (d) Only i, ii, iv

92. Which of the following best describes the pre-British Indian economy ?

(a) Dependent on imports for goods
(b) Self-sufficient villages and cities which were centers of commerce
(c) Focus on industrial production
(d) Dominated by foreign trade

93. The trade policy reforms include _____.
- (a) Inclusion of licensing restrictions for imports
- (b) Removal of licensing procedure for imports
- (c) Complication of tariffs.
- (d) Inclusion of quantitative restrictions on imports and exports

94. Which initiative by NITI Aayog aims to promote electric vehicles?
- (a) E-Amrit
- (b) Shoonya Campaign
- (c) Methanol Economy Program
- (d) India Policy Insights (IPI)

95. The early liberalization and reforms started in India in _____.
- (a) 1980s (b) 1970s
- (c) 1960s (d) 1990s

96. What percentage of India's population depends on agriculture for livelihood as per latest estimates?
- (a) 18% (b) 25%
- (c) 47% (d) 60%

97. Which government scheme focuses on providing financial support to farmers suffering crop loss or damage?
- (a) PM KISAN
- (b) Pradhan Mantri Fasal Bima Yojana (PMFBY)
- (c) Soil Health Card Scheme
- (d) Paramparagat Krishi Vikas Yojana (PKVY)

98. Which regime replaced the Foreign Investment Promotion Board (FIPB)?
- (a) SEBI
- (b) FIF Portal
- (c) NITI Aayog
- (d) DPIHT

99. What was India's rank in 2022 as per Global Innovation Index?
- (a) 81st (b) 40th
- (c) 63rd (d) 25th

100. Which policy replaced the Merchandise Exports from India Scheme (MEIS) in 2021?
- (a) NDAP (b) GST
- (c) PLI Scheme (d) RoDTEP

ANSWER KEY

1. (a)	**2.** (c)	**3.** (b)	**4.** (b)	**5.** (d)	**6.** (b)	**7.** (d)	**8.** (d)	**9.** (c)	**10.** (c)
11. (b)	**12.** (d)	**13.** (b)	**14.** (b)	**15.** (b)	**16.** (b)	**17.** (a)	**18.** (c)	**19.** (d)	**20.** (c)
21. (b)	**22.** (b)	**23.** (c)	**24.** (b)	**25.** (c)	**26.** (c)	**27.** (c)	**28.** (c)	**29.** (b)	**30.** (b)
31. (a)	**32.** (c)	**33.** (c)	**34.** (a)	**35.** (a)	**36.** (d)	**37.** (d)	**38.** (a)	**39.** (b)	**40.** (b)
41. (b)	**42.** (d)	**43.** (b)	**44.** (d)	**45.** (b)	**46.** (a)	**47.** (d)	**48.** (b)	**49.** (a)	**50.** (c)
51. (d)	**52.** (c)	**53.** (c)	**54.** (a)	**55.** (d)	**56.** (b)	**57.** (c)	**58.** (b)	**59.** (d)	**60.** (b)
61. (c)	**62.** (a)	**63.** (d)	**64.** (b)	**65.** (c)	**66.** (b)	**67.** (d)	**68.** (c)	**69.** (d)	**70.** (d)
71. (a)	**72.** (a)	**73.** (b)	**74.** (b)	**75.** (a)	**76.** (d)	**77.** (c)	**78.** (c)	**79.** (d)	**80.** (a)
81. (b)	**82.** (b)	**83.** (c)	**84.** (a)	**85.** (a)	**86.** (d)	**87.** (d)	**88.** (a)	**89.** (b)	**90.** (b)
91. (c)	**92.** (b)	**93.** (b)	**94.** (a,b)	**95.** (a)	**96.** (c)	**97.** (b)	**98.** (b)	**99.** (b)	**100.** (d)