

Practice Test-10 (Objective)

Sampurna June 2024

Business Economics

- Q 1** Price exceeds MC under monopoly, but not under perfect competition because-
- (A) in perfect competition $AR = MR$
 (B) in perfect competition $AR = MC$
 (C) in monopoly $AR > MR$
 (D) All the above
- Q 2** 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
- Q 3** TR minus total explicit cost is called _____
- (A) profit (B) economic profit
 (C) supernormal profit (D) accounting profit
- Q 4** 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
- Q 5** Which of the following is not an external causes of Business Cycle:
- (A) Technology Shock
 (B) Fluctuations in Investment
 (C) Natural Factors
 (D) Population Growth
- Q 6** According to whom fluctuations in economic activities are due to fluctuations in aggregate effective demand:-
- (A) Schumpeter (B) Pigou
 (C) Keynes (D) Hawtrey
- Q 7** Collectively peaks and troughs together is known as:-
- (A) Turning Points (B) Contraction
 (C) Expansion (D) A trough
- Q 8** Variables that change before the real output changes are called:-
- (A) Lagging Indicator
 (B) Leading Indicator
 (C) Concurrent Indicator
 (D) None of these
- Q 9** Economy's historical performance was reflected by:-
- (A) Lagging indicating
 (B) Leading indicating
 (C) Either (a) and (b)
 (D) None
- Q 10** _____ is a market in which two firms sell a product to a large number of consumers.
- (A) Perfect Competition
 (B) monopoly
 (C) duopoly
 (D) oligopoly
- Q 11** All the characteristics of monopolistic competition except -
- (A) Large number of buyers and sellers
 (B) Freedom of entry and exit
 (C) Excess production capacity in long run
 (D) Full control over price of commodity
- Q 12** The term business cycle refers to-
- (A) fluctuations in aggregate economic activity over time.
 (B) ups and down in the production of goods
 (C) increasing unemployment
 (D) declining savings
- Q 13** _____ is the severe form of recession with lowest level of economic activity.
- (A) Upswing (B) Depression
 (C) Downswing (D) Peak
- Q 14** What are 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
- Q 15** If a producer sells 4 units of a good at Rs. 10 per unit and 5 units at Rs. 8 per unit, marginal revenue would be -
- (A) 0 (B) 1
 (C) 2 (D) 3
- Q 16** Industries that are most adversely affected by business cycles are the
- (A) Durable goods and services sector
 (B) Non-durable goods and services
 (C) Capital goods and Nondurable goods sectors
 (D) Capital goods and durable goods sectors
- Q 17** You want to invest in a firm whose profits show large fluctuations throughout the business cycle. Which of the following would you invest in?
- (A) A corporation that depends heavily on business fixed investment

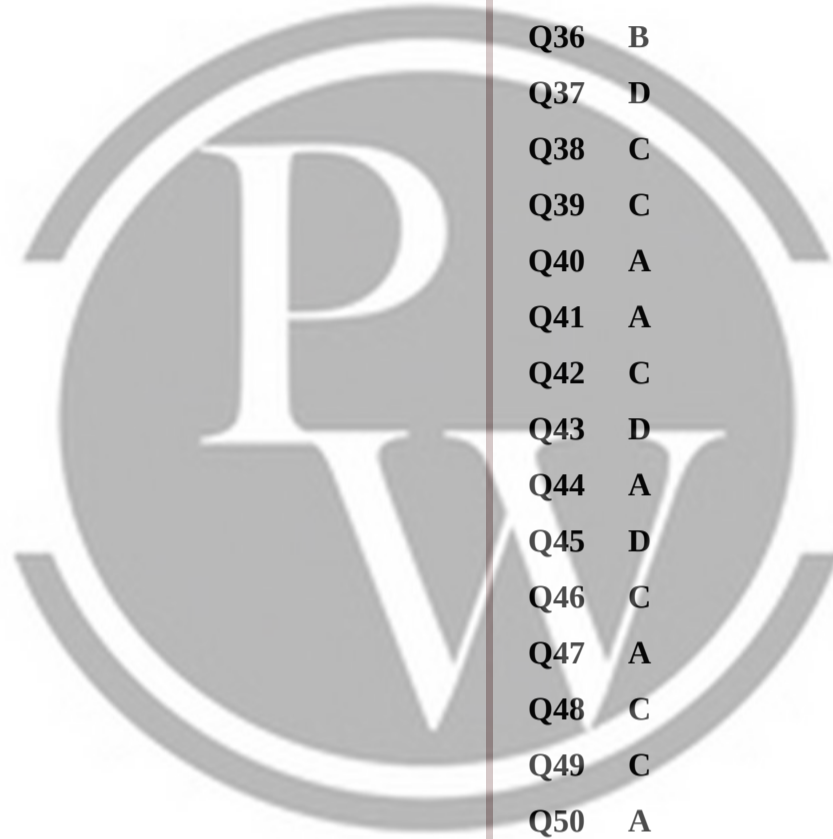
- (B) A corporation that depends heavily on consumer services
- (C) A corporation that depends heavily on consumer non-durables
- (D) A corporation that depends heavily on government purchases
- Q 18** Which of the following macroeconomic variables doesn't vary much over the seasons?
- (A) The nominal money stock
- (B) The unemployment rate
- (C) The real wage
- (D) Average labor productivity
- Q 19** While _____ indicators forecast economic fluctuation, _____ indicators confirm the trends.
- (A) Lagging ; leading
- (B) Lagging; coincident
- (C) Coincident ; leading
- (D) Leading ; lagging
- Q 20** Economics use the terms shocks to mean
- (A) unexpected government actions that affect the economy.
- (B) typically unpredictable forces that have major impacts on the economy.
- (C) sudden rises in oil prices.
- (D) the business cycle.
- Q 21** Wars, new inventions, harvest failures and changes in government policy are examples of
- (A) the business cycle
- (B) economic models
- (C) shocks
- (D) opportunity costs
- Q 22** In the short run, an increase in export sales would cause output to _____ and the price level to _____.
- (A) rise; rise (B) rise; stay constant
- (C) fall; stay constant (D) fall; rise
- Q 23** The Kinked demand curve is related to -
- (A) monopoly (B) pure competition
- (C) oligopoly (D) none of these
- Q 24** There are few firms selling homogeneous or differentiated products in -
- (A) Perfect competition
- (B) Oligopoly
- (C) Monopolistic competition
- (D) None of these
- Q 25** Coincident indicators show _____.
- (A) The current state of business cycle
- (B) The rate of change of expansion
- (C) The rate of change of contraction
- (D) All the above
- Q 26** Changes in stock prices, profit margins and profits, manufacturing activity, etc. are examples of _____ indicator.
- (A) Leading (B) Lagging
- (C) Concurrent (D) Coincident
- Q 27** According to classical macroeconomics, prices adjust _____ to shocks, so the government should _____.
- (A) slowly; do little
- (B) rapidly; do little
- (C) rapidly; fight recessions
- (D) slowly; fight recessions
- Q 28** According to Keynesian macroeconomics, prices adjust _____ to shocks, so the government should _____.
- (A) Slowly; do little
- (B) Rapidly; do little
- (C) Rapidly; fight recessions
- (D) Slowly; fight recessions
- Q 29** 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)
- Q 30** Last stage of recession is called:
- (A) Depression (B) Recovery
- (C) Slowdown (D) All of these.
- Q 31** According to _____ a trade cycles is a purely monetary phenomena.
- (A) Keyens (B) Hawtrey
- (C) Schumpeter (D) Nicholas Kaldor
- Q 32** According to _____ tradecycles occur due to the onset of innovations.
- (A) Hawtrey (B) Adam Smith
- (C) JM Keynes (D) Schumpeter
- Q 33** Cost of living increase when business cycle is operating at its -
- (A) Lowest point (B) Peak
- (C) Contracting (D) Expanding
- Q 34** Which is more prone to the adverse effects of the business cycle?
- (A) Services (B) Industries
- (C) Agriculture (D) None of these
- Q 35** To influence spending the monetary policy is directed at directly influencing in the short run :
- (A) Interest Rate (B) Unemployment
- (C) Inflation Rate (D) Growth Rate
- Q 36** During recession what will be the market demand for new cars?
- (A) Demand Curve will shift to the right
- (B) Demand curve will shift to the left
- (C) Demand will not shift but the quantity of cars sold per month will decrease
- (D) Demand will not shift but the quantity of cars sold per month will increase
- Q 37** Economic indicator required to predict the turning point of business cycle is:-
- (A) Leading indicator
- (B) Lagging indicator
- (C) Coincident

- (D) All of the above
- Q 38** Research on the effects of recessions on the real level of the GDP shows that
- (A) Recessions cause only temporary reductions in real GDP, which are offset by growth during the expansion phase
 - (B) Recessions cause large, permanent reductions in the real level of GDP.
 - (C) Recessions cause both temporary and permanent declines in real GDP, but most of the decline is temporary.
 - (D) Recessions cause both temporary and permanent declines in real GDP, but most of the decline is permanent.
- Q 39** At the time of Great Depression of 1930s, the global GDP fell by around _____.
- (A) 12% (B) 14%
 - (C) 15% (D) 10%
- Q 40** Which one of the following is not correct about business cycle?
- (A) They occur simultaneously in all industries and sectors
 - (B) They affect not only output level but also other related variables
 - (C) They are international in character
 - (D) None of the above
- Q 41** Which of the following describes best a typical trade cycle?
- (A) Economic expansions are followed by economic contractions
 - (B) Inflation is followed by rising income and employment
 - (C) Economic expansions are followed by economic growth and development
 - (D) Stagflation followed by rising employment
- Q 42** During upswing, the unemployment rate _____ and output _____
- (A) rises; falls (B) rises; rises
 - (C) falls; rises (D) falls ; falls
- Q 43** Which of the following does not occur during the expansion phase?
- (A) Consumer spending increases
 - (B) Employment increases as demand for labour rises
 - (C) Business profits and business confidence increase
 - (D) None of the above
- Q 44** When aggregate economic activity is declining, the economy is said to be in _____ .
- (A) contraction (B) an expansion
 - (C) a trough (D) a turning point
- Q 45** Which one of the following is not an example of coincident indicator?
- (A) GDP (B) Inflation
 - (C) retail sales (D) New orders for plant and machinery
- Q 46** Which one of the following is an example of lagging indicators?
- (A) personal income
 - (B) new orders for plant and equipment
 - (C) the consumer price index
 - (D) slower deliveries
- Q 47** The product of price and output is represents -
- (A) Total Revenue
 - (B) Marginal Revenue
 - (C) Average Revenue
 - (D) Price
- Q 48** There is a large scale of involuntary unemployment in the _____ phase of the business cycle.
- (A) expansion (B) peak
 - (C) contraction (D) none of the above
- Q 49** If any unemployment exists during expansion phase of business cycle, it is _____ unemployment.
- (A) Voluntary and frictional
 - (B) Technological and structural
 - (C) Frictional and structural
 - (D) Structural and involuntary
- Q 50** The most probable outcome of increase in aggregate demand is _____
- (A) expansion of economic activity
 - (B) contraction of economic activity
 - (C) stable economic activity
 - (D) volatile economic activity

Answer Key

Q1 D
Q2 A
Q3 D
Q4 B
Q5 D
Q6 C
Q7 A
Q8 B
Q9 A
Q10 C
Q11 D
Q12 A
Q13 B
Q14 A
Q15 A
Q16 A
Q17 A
Q18 D
Q19 D
Q20 B
Q21 C
Q22 A
Q23 C
Q24 B
Q25 A

Q26 A
Q27 B
Q28 D
Q29 D
Q30 A
Q31 B
Q32 D
Q33 B
Q34 B
Q35 A
Q36 B
Q37 D
Q38 C
Q39 C
Q40 A
Q41 A
Q42 C
Q43 D
Q44 A
Q45 D
Q46 C
Q47 A
Q48 C
Q49 C
Q50 A



Hints & Solutions

Q 1 Text Solution:

Under perfect competition, $AR = MR$, while under monopoly $AR > MR$. Even when equilibrium in both cases is struck when $MR = MC$, under perfect competition the price is equal to MC at the equilibrium, while, $P > MC$ at the monopoly firm's equilibrium.

Q 2 Text Solution:

The AR curve and industry demand curve are the same in the case of Monopoly.

Q 3 Text Solution:

The correct answer is accounting profit.

Accounting profits means the profits which only include implicit cost in them along with normal profits. It only excludes explicit cost from the overall revenue.

Therefore, $TR - \text{Total Explicit Cost} = \text{Accounting Profit}$.

Q 4 Text Solution:

The shutdown (or down) point is the output and price point where a firm is able to just cover its total variable cost. The average variable cost (AVC) is at its minimum point. It is where the marginal cost (MC) curve intercepts the average variable cost (AVC) curve.

Q 5 Text Solution:

Population growth is not an external cause of the business cycle, as it is an internal factor that can affect the level of demand and supply in an economy.

External causes of the business cycle refer to factors outside the control of the domestic economy, such as technology shocks, fluctuations in investment due to global events, and natural factors such as weather patterns or natural disasters. These external factors can have a significant impact on the business cycle, causing fluctuations in economic growth and activity.

Therefore the correct answer is Option D - Population Growth.

Q 6 Text Solution:

According to Keynes, changes in aggregate effective demand are to account for changes in economic activity. Recessionary or depressive conditions will arise from a decline in aggregate effective demand.

Q 7 Text Solution:

Peaks and troughs together known as Turning Points. After Peak Contraction will start and after trough expansions will start.

Q 8 Text Solution:

Variables that change before the real output changes are called Leading Indicators. These are economic indicators that change before the economy starts to follow a particular pattern or trend. They are used to

forecast changes in the economy and help policymakers make informed decisions. Examples of leading indicators include stock prices, consumer confidence, and the average workweek.

Hence the correct answer is Option B - Leading Indicator.

Q 9 Text Solution:

Lagging indicators are used to classify the economy's historical state. They have turning points that reflect the entire economy's historical performance. Even though leading, coincident, and lagging indicator details differ amongst economies and they have a lot of characteristics.

Q 10 Text Solution:

In a duopoly, two competing businesses control the majority of the market sector for a particular product or service they provide. For example, Coca-Cola and Pepsi represent a duopoly because the two firms control almost the entire market for cola beverages.

Q 11 Text Solution:

Monopolistic competition has following characteristics -

Large number of buyers and sellers

Freedom of entry and exit

Excess production capacity in long run.

It does not include Full control over price of commodity.

Q 12 Text Solution:

A. fluctuations in aggregate economic activity over time.

The term "business cycle" encompasses the recurring pattern of expansions and contractions in aggregate economic activity, including fluctuations in production, employment, income, and other economic indicators over time. It describes the periodic shifts between periods of economic growth and recession that occur within an economy, reflecting changes in overall levels of economic activity.

Q 13 Text Solution:

A severe recession is referred to as a depression. A depression is characterized by an economy's inability to recover from a recession. When there has been a downturn and no economic growth for longer than two years, a depression develops.

Q 14 Text Solution:

The two main components of business cycle theories are a description of shocks and a model of how the economy responds to them.

Q 15 Text Solution:

The correct answer is 0.

This is because marginal revenue refers to change in total revenue when one more unit of a commodity is sold. $MR_n = TR_n - TR_{n-1}$.

Therefore, MR at 5 units and at 4 units implies $MR = 40 - 40 = 0$.

Q 16 Text Solution:

Option A: Durable goods and services sector.

Industries most adversely affected by business cycles are typically the durable goods and services sector.

Durable goods, such as automobiles and furniture, are expensive and often postponed during economic downturns due to decreased consumer confidence and disposable income. Additionally, service industries like tourism and leisure activities also suffer as consumers cut discretionary spending during economic downturns, exacerbating the impact of the business cycle on these sectors.

Q 17 Text Solution:

A corporation that depends heavily on business fixed investment

Option A is associated with the business fixed investment category, which tends to be more cyclical and responsive to changes in the business cycle. Business fixed investment includes spending on capital goods like machinery and equipment, and such investments often vary significantly during different phases of the economic cycle. This can lead to larger profit fluctuations compared to other options.

Q 18 Text Solution:

The macroeconomic variable that doesn't vary much over the seasons is:

D. Average labor productivity

Average labor productivity is a measure of the output produced per unit of labor input. It is generally considered a relatively stable measure over short-term variations, including seasonal changes. Options A, B, and C may be influenced by seasonal factors:

- A. The nominal money stock can be influenced by various factors, including seasonal patterns in economic activity.
 - B. The unemployment rate may exhibit seasonal variations, such as fluctuations in industries with seasonal demand.
 - C. The real wage can be affected by changes in the cost of living, which may have seasonal components.
- Therefore, option D is the most likely macroeconomic variable that doesn't vary much over the seasons.

Q 19 Text Solution:

The correct answer is Option D - leading ; lagging.

Leading indicators are economic data points that tend to change before the overall economy starts to follow a particular trend. They are used to anticipate changes in the economy and help investors and policymakers make informed decisions. Examples of leading indicators include stock market trends, consumer confidence, and business expectations.

Lagging indicators, on the other hand, are economic data points that tend to change after the overall

economy has already started to follow a particular trend. They confirm trends that have already occurred and provide insights into the strength and stability of the economy. Examples of lagging indicators include unemployment rates, corporate profits, and inflation. Coincident indicators are economic data points that tend to change at the same time as the overall economy. They help provide an overall snapshot of the current state of the economy. Examples of coincident indicators include GDP, industrial production, and retail sales.

Q 20 Text Solution:

Economists use the term shocks to mean typically unpredictable forces that have major impacts on the economy (option B). Economic shocks refer to **sudden and often unexpected events or forces that disrupt the normal functioning of an economy**

Q 21 Text Solution:

The correct option is:

C) Shocks

Wars, new inventions, harvest failures, and changes in government policy are examples of external shocks or economic shocks. These events can have significant, often unpredictable, impacts on the economy, causing fluctuations and changes beyond normal cyclical patterns.

Q 22 Text Solution:

Option A: Rise; rise.

In the short run, an increase in export sales would typically lead to an increase in output as firms increase production to meet the higher demand from foreign markets. This increased demand for goods would put upward pressure on prices as well, leading to a rise in the price level. Therefore, both output and the price level would likely rise in response to an increase in export sales in the short run.

Q 23 Text Solution:

The kinked demand curve model assumes that a business might face a dual demand curve for its product based on the likely reactions of other firms to a change in its price or another variable. The kinked demand curve suggests periods of price stability or price stickiness between rival firms. The Kinked demand curve is related to oligopoly.

Q 24 Text Solution:

Under oligopoly, there are few firms selling homogeneous or differentiated products.

Q 25 Text Solution:

The correct answer is Option A - The current state of the business cycle. Coincident indicators are economic indicators that tend to move in line with the overall economy and provide a current snapshot of the state of the business cycle. These indicators are used to assess the current state of economic activity, including the level of production, employment,

income, and sales. Examples of coincident indicators include gross domestic product (GDP), industrial production, retail sales, and employment levels. When the economy is in a period of expansion, coincident indicators will generally be increasing, reflecting the growth in economic activity. Conversely, when the economy is in a period of contraction, coincident indicators will generally be decreasing, reflecting the decline in economic activity. Overall, coincident indicators are useful for policymakers, investors, and businesses because they provide real-time information on the state of the economy. By monitoring coincident indicators, decision-makers can assess the current state of the business cycle and make informed decisions about policy, investments, and other activities.

Q 26 Text Solution:

Leading indicators are economic indicators that change before the economy starts to follow a particular pattern or trend. They are used to predict future trends and patterns in economic activity. Changes in stock prices, profit margins and profits, manufacturing activity, etc. are examples of leading indicators.

Q 27 Text Solution:

The classical economist believes in the free market economy in which demand and supply adjust automatically according to market force. If there is an imbalance in the demand and supply of the goods, then prices adjust faster to shocks so the government should not worry about it or do little.

Q 28 Text Solution:

According to Keynesian macroeconomics, prices adjust slowly to shocks, so the government should fight recessions. The Keynesian approach suggests that in a recession, there is a decrease in aggregate demand, leading to a decline in economic activity and employment. In such a scenario, the government should intervene by increasing its spending or reducing taxes to stimulate aggregate demand and economic growth. Keynesian economists argue that the government can use fiscal policy to stabilize the economy during recessions. They also believe that prices and wages are sticky in the short run, which means they do not adjust quickly to changes in supply and demand, resulting in prolonged periods of unemployment and economic downturns. Therefore, the government should act to counteract recessions with appropriate fiscal policies.

Hence, the correct answer is Option D - Slowly; fight recessions.

Q 29 Text Solution:

During the Great Depression, the capital goods / consumer durable goods industry suffered from excess production capacity. This economic downturn led to reduced efficiency in surviving firms, as managers

had to allocate time away from production to establish new relationships

Q 30 Text Solution:

The trough or depression is the state of economic activity that is the lowest. All economic activity reaches its lowest point and enters the trough phase. The transition from trough to growth occurs here.

Q 31 Text Solution:

Hawtrey is the economist who believed that trade cycles are purely monetary phenomena. According to him, fluctuations in the economy are caused by the variation in the money supply. He believed that business cycles are a result of changes in the demand for money and that central banks could stabilize the economy by adjusting the money supply. Hawtrey's theory was based on the idea that changes in the money supply affect interest rates, which, in turn, influence investment and consumption decisions, leading to fluctuations in economic activity. Therefore the correct answer is Option B - Hawtrey.

Q 32 Text Solution:

Schumpeter argued that periodic innovations in the economic system are too accountable for the occurrence of business cycles.

On the basis of the above statement of Schumpeter we can conclude that trade cycles occur due to the onset of innovations.

Q 33 Text Solution:

The cost of living tends to increase when the business cycle is operating at its peak. During the peak phase of the business cycle, the economy is operating at or near full employment and the demand for goods and services exceeds the supply, leading to an increase in prices. This increase in prices affects the cost of living, making it more expensive for consumers to purchase goods and services, and reducing the purchasing power of their income. As a result, inflation tends to be higher during the peak phase of the business cycle. The correct answer is Option B - Peak.

Q 34 Text Solution:

Industries are more vulnerable to the negative consequences of the business cycle due to major impact on the business environment.

Q 35 Text Solution:

The monetary policy is primarily directed at influencing interest rates in the short run to influence spending. The central bank can increase or decrease the money supply to affect the interest rate, which can influence spending on consumption and investment. By lowering interest rates, the central bank aims to stimulate spending and boost economic growth, while raising interest rates can help to control inflation by reducing spending. Ultimately, the effectiveness of monetary policy in influencing spending depends on a variety of factors, including the responsiveness of

households and businesses to changes in interest rates, the health of the financial system, and external economic conditions.

Therefore the correct answer is Option A - Interest Rate.

Q 36 Text Solution:

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.

Q 37 Text Solution:

Many studies have come to the conclusion that economic indicators can be used to predict future developments in the business cycle because recurring events are easier to predict than random occurrences and because we have a great deal of experience with them. These indicators are of 3 types: Leading indicator, Lagging indicator and Coincident.

Q 38 Text Solution:

The research on the effects of recessions on the real level of GDP suggests that recessions cause both temporary and permanent declines in real GDP, but most of the decline is temporary. While recessions can have long-lasting effects on the economy, historical data has shown that economies tend to recover from recessions and eventually return to their pre-recession levels of output. However, the severity and duration of a recession can impact the extent of the decline and the time it takes to recover. In some cases, recessions can also lead to structural changes in the economy, resulting in permanent declines in certain industries or regions.

Therefore the correct answer is Option C - Recessions cause both temporary and permanent declines in real GDP, but most of the decline is temporary.

Q 39 Text Solution:

The correct answer is Option C - 15%. During the Great Depression of the 1930s, the global economy experienced a severe contraction, with many countries experiencing a significant decline in economic activity. According to estimates by the World Bank, global GDP fell by around 15% between 1929 and 1932. The Great Depression was triggered by a stock market crash in the United States in 1929, which led to a contraction in lending and a decline in economic activity. This led to a downward spiral of falling prices, wages, and employment, as businesses struggled to stay afloat and consumers cut back on spending. The Great Depression was a global phenomenon, affecting countries around the world, and lasting for several years. It had a profound impact on the economic and social conditions of the time, and helped to shape economic policies and thinking for decades to come.

Q 40 Text Solution:

The incorrect statement is Option A - "They occur simultaneously in all industries and sectors."

Business cycles are a pattern of economic expansion and contraction that occur over time. They are characterized by periods of economic growth (expansions) followed by periods of economic contraction (recessions). During expansions, businesses are growing, jobs are created, and incomes rise. During recessions, the opposite occurs, with businesses contracting, jobs being lost, and incomes declining.

One important feature of business cycles is that they do not occur simultaneously in all industries and sectors. Different industries and sectors may experience different patterns of growth and contraction, depending on a variety of factors, such as changes in consumer demand, shifts in technology, or changes in government policy. For example, during a recession, some industries, such as construction and manufacturing, may be particularly hard hit, while others, such as healthcare and education, may be less affected.

Business cycles also affect not only output level but also other related variables, such as employment, inflation, and interest rates. These variables can have important implications for consumers, businesses, and policymakers, and can help to shape economic policies and decisions.

Finally, business cycles are international in character, meaning that they affect not only individual countries but also the global economy. Economic activity in one country can spill over into other countries, through trade, investment, and financial linkages, and can have significant impacts on economic conditions around the world.

Q 41 Text Solution:

The correct answer is Option A - Economic expansions are followed by economic contractions. A typical trade cycle, also known as a business cycle, is a pattern of economic expansion and contraction that occurs over time. This cycle is characterized by periods of economic growth, or expansions, followed by periods of economic contraction, or recessions. During expansions, businesses are growing, jobs are being created, and incomes are rising. This period is generally characterized by increased investment, rising consumer confidence, and an overall sense of optimism about the economy.

However, expansions cannot last forever, and eventually, the economy will begin to slow down. This can be due to a variety of factors, such as changes in consumer demand, shifts in technology, or changes in government policy. As the economy slows down, businesses may begin to contract, jobs may be lost, and incomes may decline. This period is known as a recession.

Overall, a typical trade cycle is characterized by alternating periods of economic expansion and contraction. While the length and severity of each cycle can vary, the general pattern of economic

growth followed by economic contraction is a common feature of most modern economies.

Q 42 Text Solution:

During the upswing phase of the business cycle, the correct answer is Option C - falls; rises.

The upswing phase, also known as the expansion or recovery phase, is the period following a recession when the economy begins to recover and grow.

During this phase, businesses are expanding, jobs are being created, and incomes are rising. As a result, the unemployment rate tends to fall as more people are finding jobs.

At the same time, output, or the total amount of goods and services produced in the economy, tends to rise during the upswing phase. As businesses expand and consumer confidence increases, demand for goods and services increases, leading to higher production and output.

Overall, the upswing phase is characterized by a period of increasing economic growth and improving economic conditions, with falling unemployment and rising output being key indicators of this phase of the business cycle.

Q 43 Text Solution:

The Option D - "None of the above" is the correct answer.

During the expansion phase of the business cycle, all of the given factors typically occur. This phase is characterized by increasing economic growth, with rising consumer spending, increasing employment, and improving business profits and confidence being key indicators.

As the economy recovers from a recession, consumer confidence typically increases, leading to a rise in consumer spending. This, in turn, creates demand for goods and services, leading to increased employment opportunities. As businesses expand to meet this demand, profits and confidence tend to increase, leading to further economic growth.

Overall, the expansion phase is a period of increasing economic activity and improving economic conditions, with a range of positive factors typically occurring, including rising consumer spending, increasing employment, and improving business profits and confidence.

Q 44 Text Solution:

When the economy is in contraction, it means that it is experiencing a downturn as a whole. The business cycle often experiences a contraction after its peaks but before it enters a trough.

Q 45 Text Solution:

The correct answer is Option D - New orders for plant and machinery.

Coincident indicators are economic indicators that move in line with the business cycle and reflect the current state of the economy. They are used to confirm the current phase of the business cycle. The examples

of coincident indicators include GDP, industrial production, employment, and retail sales.

New orders for plant and machinery are an example of a leading indicator. Leading indicators are economic indicators that change before the economy changes and are used to predict future changes in the economy. They are used to identify turning points in the business cycle and to predict the future state of the economy.

Overall, while new orders for plant and machinery can be an important economic indicator, it is not an example of a coincident indicator, as it does not reflect the current state of the economy, but rather is an indicator of future economic activity.

Q 46 Text Solution:

An observable or measurable element known as a lagging indicator is one that changes sometime after the economic, financial, or business variable with which it is related changes.

The unemployment rate, corporate earnings, the consumer price index, and the cost of labour per unit of output are a few examples of lagging economic indicators in general.

Q 47 Text Solution:

The correct answer is Total Revenue. This is because $TR = P \cdot Q$, $AR = TR/Q$ therefore, $AR = P$. AR refers to revenue per unit of output. $AR = P$ i.e. Average revenue is equal to the price of commodities.

Q 48 Text Solution:

C. contraction

In the contraction phase of the business cycle, economic activity slows down, leading to a decrease in production, declining GDP, and rising unemployment. In this phase, firms often reduce their workforce or implement layoffs due to decreased demand for goods and services. As a result, involuntary unemployment tends to be more prevalent during the contraction phase of the business cycle.

Q 49 Text Solution:

Frictional unemployment occurs when workers are in between jobs or are searching for new employment opportunities. It is often a temporary type of unemployment that is a natural part of the job search process.

Structural unemployment, on the other hand, occurs when there is a mismatch between the skills that workers possess and the skills that are required for the available jobs. This type of unemployment is typically caused by changes in the structure of the economy or technological advances that make certain skills obsolete.

During the expansion phase of the business cycle, the economy is growing, businesses are expanding, and demand for labor is typically high. As a result, unemployment tends to be lower during this phase of the cycle. However, some amount of frictional and structural unemployment may still exist, as workers

may be transitioning between jobs or may not possess the skills required for the available positions.

Overall, while some level of unemployment may exist during the expansion phase of the business cycle, it is typically lower than during other phases of the cycle, such as the recession or trough phases.

Therefore, the correct answer is Option C - Frictional and structural.

Q 50 Text Solution:

A rise in aggregate demand drives economic growth in the near term. If the economy has excess capacity, an increase in AD will result in a higher level of real GDP. As a result there will be expansion of economic activity.



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