CA

Practice Test - 12(Objective)

Sampurna June 2024

Business Economics

Q1 'Market failure' is a situation which occurs when -

(A) private goods are not sufficiently provided by the market

(B) public goods are not sufficiently provided by public sector

(C) The market fail to form or they allocate resources efficiently

(D) (b) and (c) above

Q2 Which of the following is an example of market failure?

(A) Prices of goods tend to rise because of shortages

(B) Merit goods are not sufficiently produced and supplied

(C) Prices fall leading to fall in profits and closure of firms

(D) None of the above

Q3 Which of the following is an outcome of market power?

(A) makes price equal to marginal cost and produce a positive external benefit on others

(B) can cause markets to be efficient due to reduction in costs

(C) makes the firms price makers and restrict output So as to make allocation inefficient

(D) (b) and(c) above

Q4 Markets do not exist -

(A) for goods which have positive externalities

(B) for pure public goods

(C) for goods which have negative externalities

(D) none of the above

Q5 Which of the following is the right argument for provision of public good by government?

(A) Govenments have huge resources at their disposal

(B) Public goods will never cause any type of externality

(C) Markets are unlikely to produce sufficient quantity of public goods

(D) Provision of public goods are very profitable for any government

Q6 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) Al the above

Q7 Read the following statements:

1.The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy

2.Market failures can at all times be corrected through government intervention

3. Public goods will not be produced in sufficient quantities in a market economy

Of the three statements above: -

(A) 1,2 and 3 are correct

(B) 1 and 3 are correct

(C) 2 and 3 are correct

(D) 3 alone is correct

Q8

When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?

(A) It is trying to establish stability in an economy

(B) It is trying to redistribute income and wealth

(C) It is trying to allocate resources to their most efficient use

(D) It is creating a source of market failure

Q9 Which function does the government perform when it provides transfer payments to offer support to the underprivileged?

(A) Allocation

(B) Efficiency

(C) Distribution

(D) None of the above

Q10 GST compensation is given to -

(A) to the industries which have made losses due to 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

Q11 The incentive to let other people pay for a good or Service, the benefits of which are enjoyed by an individuality -

(A) Is a case of negative externality

(B) Is a case of market efficiency

(C) Is a case of free riding

(D) Is inappropriate and warrant action

Q12 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

Q13 Negative externalities lead to: -

(A) Overproduction of goods and services

(B) Overconsumption of goods and services

(C) Market failure due to external benefits

(D) Social costs exceeding private costs

Q14 Positive externalities lead to: -

(A) Underproduction of goods and services

(B) Underconsumption of goods and services

(C) Market failure due to external costs

(D) Social benefits exceeding private benefits

Q15 When externalities are present in a market, the equilibrium quantity and price determined by the market do not represent the:

(A) Marginal cost and marginal utility

(B) Social cost and social benefit

(C) Producer surplus and consumer surplus

(D) Market demand and market supply

Q16 Contractionary fiscal policy is implemented to: -

(A) Stimulate economic growth and reduce unemployment

(B) Reduce government spending and increase taxes to control inflation

(C) Increase the money supply and lower interest
rates

(D) Encourage international trade and exports

Q17 The main tools of fiscal policy include: -

(A) Open market operations and discount rate adjustrments

(B) Changes in the money supply and reserve requirements

(C) Changes in government spending and taxation

(D)

Changes in the interest rate and exchange rate

Q18 During an economic recession, the government is likely to implement: -
(A) Expansionary fiscal policy to increase aggregate demand
(B) Contractionary fiscal policy to control inflationary pressures
(C) An increase in the reserve ratio to control money supply
(D) An increase in interest rates to attract foreign investment

Q19 Fiscal policy refers to the -
(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) (d) and (b) above

Q20 During recession the fiscal policy of the government should be directed towards -
(A) Increasing the taxes and reducing the aggregate demand
(B) Decreasing taxes to ensure higher disposable income
(C) Increasing government expenditure and increasing taxes
(D) None of the above

Q21 Budget of the government generally impacts -
(A) the resource allocation in the economy
(B) redistribution of income and enhance quality
(C) equity stability in the economy by measures to control price fluctuations
(D) All the above

Q22 Government borrowing is treated as capital because receipt -
(A) It is mainly used for creating assets by government
(B) It creates a liability for the government
(C) Both a) and b) above are correct
(D) None of the above is correct

Q23 Grants given by the central government to state governments is -
(A) A revenue expenditure as it is meant to meet the current expenditure of the states
(B) A revenue expenditure as it does neither creates any asset, nor reduces any liability of the government
(C) A capital expenditure because it increase the capital base of the states
(D) It is a grant and so does not come under revenue expenditure or capital expenditure

Q24 Non-debt capital receipts -
(A) do not add to the assets of the government and therefore not treated as capital receipts
(B) are those that do not create any future repayment burden for the government
(C) are those that create future liabilities for the government
(D) facilitate capital investments at low cost

Q25 Which of the following is a capital receipt?
(A) Licence fee received
(B) Sale proceeds from disinvestment
(C) Assistance from Japan for covid vaccine
(D) Dividend from a public sector enterprise

Q26 Money means anything that serves as -
(A) Medium of Exchange
(B) Common Measure of Value
(C) Store of Value
(D) All of the above

Q27 Measure of value of all goods and services refers ....from following function of money.

(A) Medium of exchange
(B) Unit of account
(C) Standard of different payments
(D) Store of value

Q28 Which of the following functions are not performed by Money?
(A) As a medium of exchange
(B) As a unit of account
(C) As a store of value
(D) As a tissue paper

Q29 Which is not the static function of money ?
(A) As a medium of exchange
(B) As a unit of account
(C) As encouragement to division of labour
(D) As standard of deferred payment

Q30 Functions of money doesnt include : -
(A) Medium of exchange
(B) Store of value
(C) Measure of value
(D) Employment generation

Q31 Demand Deposits with Banks are considered as Money because they are -
(A) Generally acceptable as a means of payment
(B) More liquid than Cash
(C) Held by the Government
(D) Managed efficiently by Bank Managers

Q32 In Static Sense, Money serves as -
(A) Medium of Exchange
(B) Common Measure of Value
(C) Standard of Deferred Payments
(D) All of the above

Q33 In Dynamic Sense, Money serves the following purposes -
(A) Gives direction to economic trends
(B) Encourages specialization and division of labour.
(C) Ensures transformation of Savings into Investments
(D) All of the above

Q34 When we say that Money serves as a medium of aspect of exchange, we are considering the --
(A) Static
(B) Dynamic
(C) Both (a) and (b)
(D) Neither (a) nor (b)

Q35 When we say that Money serves as a common measure of value, we are considering the Money. ...
(A) Static
(B) Dynamic
(C) Both (a) and (b)
(D) Neither (a) nor (b)

Q36 Money Supply is the stock of money held by -
(A) Public
(B) Public and Banking System
(C) Banking System and Government
(D) None of these

Q37 In order to increase money supply in the country the RBI may :-
(A) Reduce CRR
(B) Increase CRR
(C) Either A or B
(D) Increase Bank Rate

Q38 Which of the following is / a determinant(s) of money supply in an economy?
(A) Behaviour of the Public
(B) Behaviour of Commercial Banks
(C) Behaviour of the Central Bank
(D) All of the above

Q39 The Quantity Theory of Money suggests that the demand for money is primarily influenced by: -
(A) The interest rate
(B) The price level
(C) The level of income
(D) Government policies

Q40 According to the Keynesian Theory of Money Demand, the main determinant of the demand

for money is:
(A) The nominal interest rate
(B) The rate of inflation
(C) The level of investment
(D) The real interest rate

Q41 The money multiplier approach assumes that banks will:
(A) Hold excess reserves
(B) Lend out all their deposits
(C) Decrease their lending during economic expansions
(D) Not influence the money supply

Q42 If the central bank conducts an open market sale of government securities, the money supply will: -
(A) Increase
(B) Decrease
(C) Remain unchanged
(D) Double

Q43 In the money multiplier approach, the process of money creation continues until: -
(A) The government intervenes and controls the supply money
(B) The central bank runs out of monetary base
(C) The banks hold excess reserves
(D) The money supply equals the monetary base multiplied by the money multiplier

Q44 The money multiplier approach assumes that there are no leakages or withdrawals from the banking system the form of: -
(A) Taxes and government spending
(B) Interest payments
(C) Foreign exchange transactions
(D) Currency held by the public

Q45 What is monetary policy?
(A) Government policies that regulate international trade
(B) Government policies that control fiscal deficits
(C) Central bank policies that manage the money supply and interest rates
(D) Central bank policies that control inflation

Q46 The term "moral suasion" in the context of monetary refers to the central bank's ability to: -
(A) Influence behavior through advertising campaigns
(B) Persuade commercial banks to comply with its policy recommendations
(C) Control international trade agreements
(D) Limit speculative trading in financial markets

Q47 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

Q48 A Central bank's target for inflation is often expressed through: -
(A) The GDP growth rate
(B) The unemployment rate
(C) The consumer price index (CPI) or The inflation rate
(D) The inflation rate exchange rate

Q49 The Phillips Curve illustrates the trade off between -
(A) Fiscal trade-off between: policy and monetary policy
(B) Inflation and unemployment
(C) Imports and exports
(D) Government spending and tax revenue

Q50 The term "forward guidance" in monetary policy refers to the central bank's communication about its future :-
(A) Fiscal policy plans
(B) Inflation targets
(C) Foreign exchange reserves
(D) Interest rate intentions

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Answer Key

Q1	(C)	Q26	(D)
Q2	(B)	Q27	(B)
Q3	(C)	Q28	(D)
Q4	(B)	Q29	(C)
Q5	(C)	Q30	(D)
Q6	(D)	Q31	(A)
Q7	(B)	Q32	(D)
Q8	(B)	Q33	(D)
Q9	(C)	Q34	(A)
Q10	(C)	Q35	(A)
Q11	(C)	Q36	(B)
Q12	(D)	Q37	(A)
Q13	(D)	Q38	(D)
Q14	(A)	Q39	(B)
Q15	(B)	Q40	(D)
Q16	(B)	Q41	(B)
Q17	(C)	Q42	(B)
Q18	(A)	Q43	(D)
Q19	(A)	Q44	(D)
Q20	(B)	Q45	(C)
Q21	(D)	Q46	(B)
Q22	(B)	Q47	(B)
Q23	(B)	Q48	(C)
Q24	(B)	Q49	(B)
Q25	(B)	Q50	(D)

Hints & Solutions

Q1 Text Solution:

Market failure (Option C) refers to inefficient allocation of resources in markets, leading to societal welfare losses. For instance, externalities, such as pollution, aren't factored into prices, distorting market outcomes. This results in suboptimal production/consumption levels, highlighting market inefficiencies.

Q2 Text Solution:

Market failure is an economic situation where goods and services are not distributed effectively due to factors disrupting the balance of supply and demand, leading to negative consequences for society, the environment, or individuals, and often requiring intervention for resolution.

Q3 Text Solution:

Market power refers to the ability of a company or a group of companies to establish their policies such as their prices, product quality and investments in innovation, to a significant extent without a severe competitive constraint from competitors, customers or consumers. When a company, whether a buyer or seller, has market power, it can influence market outcomes such as prices, quality, the volume of output or contractual conditions. In antitrust analysis, the concept is used to identify whether a company would have the ability to act anticompetitively in a given market.

Q4 Text Solution:

The existence of pure public goods can cause market failure because they are not efficiently allocated through the market mechanism of supply and demand. Because public goods are non-excludable, there is no way for private firms to charge consumers for their use.

Q5 Text Solution:

Markets often have a difficult time producing public goods because free riders attempt to use the public good without paying for it. The free rider problem can be overcome through measures that ensure the users of a public good pay for it.

Q6 Text Solution:

The justification for government intervention is best described by -

- The need to prevent recession and inflation in the economy.
- The need to modify the outcomes of private market actions.
- The need to bring in justice in distribution of income and wealth.
- All are correct.

Q7 Text Solution:

Option B is the correct answer.

Q8 Text Solution:

Progressive tax is the taxing mechanism in which the taxing authority charges more taxes as the income of the taxpayer increases. A higher tax is collected from the taxpayers who earn more and lower taxes from taxpayers earning less.

Q9 Text Solution:

A ***transfer payment*** is a payment of money, usually from ***the government***, for which there are no goods or services exchanged.This is distribution function of Government.

Q10 Text Solution:

GST compensation is given to to the states to compensate for the loss of revenue due to the introduction of GST.

Q11 Text Solution:

When individuals make decisions about buying a public good, a free-rider problem can arise—people have an incentive to let others pay for the public good and then to “free ride” on the purchases of others.

Q12 Text Solution:

A negative externality occurs when a cost spills over. A positive externality occurs when a benefit spills over. So, externalities occur when some of the costs or benefits of a transaction fall on someone other than the producer or the consumer.

Q13 Text Solution:

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Q14 Text Solution:

With positive externalities, private returns are smaller than social returns. When there are differences between private and social costs or private and social returns, the main problem is that market outcomes may not be efficient.

Q15 Text Solution:

Externalities lead to market failure because a product or service's price equilibrium does not accurately reflect the true costs and benefits of that product or service.When externalities are present in a market, the equilibrium quantity and price determined by the market do not represent the Social cost and social benefit .

Q16 Text Solution:

Contractionary fiscal policy is implemented to reduce government spending and increase taxes to control inflation. This policy aims to decrease aggregate demand in the economy, thereby reducing inflationary pressures by curbing excessive spending and consumption.

Q17 Text Solution:

Taxation and government spending are the two fundamental instruments of fiscal policy. Other tools that governments can employ to affect economic activity include transfer payments (such as welfare payments) and public-sector borrowing.

Q18 Text Solution:

During a recession, the government may lower tax rates or increase spending to encourage demand and spur economic activity. Conversely, to combat inflation, it may raise rates or cut spending to cool down the economy.

Q19 Text Solution:

Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, especially macroeconomic conditions. These include aggregate demand for goods and services, employment, inflation, and economic growth.

Q20 Text Solution:

Expansionary fiscal policy increases the level of aggregate demand, either through increases in government spending or through reductions in taxes. Expansionary fiscal policy is most appropriate when an economy is in recession and producing below its potential GDP.

Q21 Text Solution:

Government budgets impact resource allocation as evidenced by the allocation of funds to different sectors like healthcare and defense. They also influence income redistribution through programs like social security and progressive taxation. Moreover, budgetary measures, such as fiscal policies and price controls, aim to stabilize the economy and promote equity, as seen during periods of economic downturns.

Q22 Text Solution:

Capital receipts refer to those money receipts which creates a liability for the government or cause reduction in assets of the government. Therefore, borrowing is a capital receipt as it creates a liability for the government.

Q23 Text Solution:

Revenue expenditure are all such types of government expenditure that does not create any assets for the government or does not cause any reduction in the liability of the government. Therefore, grants as a part of revenue expenditure is a unilateral payment or transfer payment from central government to the state government in case of uncertainties.

Q24 Text Solution:

Non-debt creating capital receipts refer to those receipts of the government which lead to a decrease in assets, and not an increase in liabilities. For instance, disinvestment is a non-debt creating capital receipt.

Q25 Text Solution:

Capital receipts are a non-recurring incoming cash flow into your business, which leads to the creation of a liability (a debt to be paid in the future) and a decrease in company assets (resources that lead to capital gain).Therefore Sale proceeds from disinvestment is a capital receipt.

Q26 Text Solution:

In short, money can be anything that can serve as a. • store of value, which means people can save it and use it later—smoothing their purchases over time; • unit of account, that is, provide a common base for prices; or. • medium of exchange, something that people can use to buy and sell from one another.

Q27 Text Solution:

Measure of value of all goods and services refers Unit of account from following function of money.

Q28 Text Solution:

Money cannot be use as a tissue paper.

Q29 Text Solution:

Static Functions of Money are -

A medium of Exchange

A measure of Value

The Standard of Deferred Payments

Store of Value Thus As encouragement to division of labour is not static function.

Q30 Text Solution:

Money refers to a common medium of exchange that is issued under the law of government and acts as a legal tender for the whole country. The functions of money can be classified into two categories:

- Primary function: The primary function of money includes money as a medium of exchange and money as a measure of value.
- Secondary function: The secondary function of money includes money as a store of value and money as a standard of deferred payment.

Therefore, Employment generation is not a function of money.

Q31 Text Solution:

Demand deposits are considered as money because, They can be withdrawn anytime. They, at times, act as supplements for cash and cheque payments. These are a form of money in the bank.

Q32 Text Solution:

All are correct options.

Q33 Text Solution:

All options are correct.

Q34 Text Solution:

Correct option is A. Static

Q35 Text Solution:

Correct option is A. Static

Q36 Text Solution:

Correct option is B. public and banking system

Q37 Text Solution:

Correct option is A. Reduce CRR

Q38 Text Solution:

All of the above is correct answer.

Q39 Text Solution:

Fisher's quantity theory of money suggests that the demand for money is purely a function of income, and interest rates have no effect on the demand for money.

Q40 Text Solution:

Keynes reformulated the Quantity Theory of Money. According to him, money does not directly affect the price level. Also, a change in the quantity of money can lead to a change in the rate of interest.Further, with a change in the rate of interest, the volume of investment can change. Also, this change in investment volume can lead to a change in income, output, and employment along with a change in the cost of production.Thus, The real interest rate is the correct answer.

Q41 Text Solution:

It means that if the reserve ratio is higher, then the money multiplier will be lower and the banks need to keep more reserves. As a result, they will not be able to lend more money to individuals and businesses.

Q42 Text Solution:

If the central bank conducts an open market sale of government securities, the money supply will Decrease .

Q43 Text Solution:

In the money multiplier approach, the process of money creation continues until the money supply equals the monetary base multiplied by the money multiplier

Q44 Text Solution:

The money multiplier approach assumes that there are no leakages or withdrawals from the banking system the form of Currency held by the public.

Q45 Text Solution:

Monetary Policy Central bank policies that manage the money supply and interest rates .

Q46 Text Solution:

Moral Suasion refers to a type of influencing procedure which is applied by Central Banks to keep the pressure on commercial banks in order to abide by the monetary policies that are established. It is carried out by transferring speeches, seminars and meetings.

Q47 Text Solution:

Liquidity trap is a situation when expansionary monetary policy (increase in money supply) does not increase the interest rate, income and hence does not stimulate economic growth.Thus B is the correct answer.

Q48 Text Solution:

In economics, inflation is a general increase in the prices of goods and services in an economy. This is usually measured using the consumer price index. When the general price level rises, each unit of currency buys fewer goods and services; consequently, inflation corresponds to a reduction in the purchasing power of money. The opposite of CPI inflation is deflation, a decrease in the general price level of goods and services. The common measure of inflation is the inflation rate, the annualized percentage change in a general price index. As prices faced by households do not all increase at the same rate, the consumer price index is often used for this purpose.

Q49 Text Solution:

A Phillips curve shows the tradeoff between unemployment and inflation in an economy. From a Keynesian viewpoint, the Phillips curve should slope down so that higher unemployment means lower inflation, and vice versa.

Q50 Text Solution:

Forward guidance in monetary policy involves a central bank's communication about its future intentions regarding interest rates. It aims to provide guidance to market participants and the public about the expected path of interest rates, helping shape expectations and influence economic behavior.