

Chapter 1 - Nature & Scope of Business Economics

1. Economists regard decision making as important because:
 - a. The resources required to satisfy our unlimited wants and needs are finite, or scarce
 - b. It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.
 - c. Resources have alternative uses.
 - d. **All the above.**

2. Business Economics is
 - a. Abstract and applies the tools of Microeconomics.
 - b. Involves practical application of economic theory in business decision making
 - c. Incorporates tools from multiple disciplines.
 - d. **(b) and (c) above.**

3. In Economics, we use the term scarcity to mean
 - a. Absolute scarcity and lack of resources in less developed countries.
 - b. **Relative scarcity i.e. scarcity in relation to the wants of the society**
 - c. Scarcity during times of business failure and natural calamities.
 - d. Scarcity caused on account of excessive consumption by the rich.

4. What implication(s) does resource scarcity have for the satisfaction of wants?
 - a. **Not all wants can be satisfied.**
 - b. We will never be faced with the need to make choices
 - c. We must develop ways to decrease our individual wants.
 - d. The discovery of new natural resources is necessary to increase our ability to satisfy wants.

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

6. In every economic system, scarcity imposes limitations on
 - a. **households, business firms, governments, and the nation as a whole**
 - b. households and business firms, but not the governments.
 - c. local and state governments, but not the federal government.
 - d. households and governments, but not business firms.

7. Macroeconomics is also called——— economics.
 - a. Applied
 - b. **Aggregate**
 - c. Experimental
 - d. none of the above

8. An example of 'positive' economic analysis would be:
- an analysis of the relationship between the price of food and the quantity purchased.**
 - determining how much income each person should be guaranteed.
 - determining the 'fair' price for food
 - deciding how to distribute the output of the economy.
9. A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of
- Macro-Economics**
 - Descriptive Economics.
 - Micro-economics.
 - Normative economics.
10. Which of the following does not suggest a macro approach for India?
- Determining the GNP of India.
 - Finding the causes of failure of ABC Ltd.**
 - Identifying the causes of inflation in India
 - Analyze the causes of failure of industry in providing large scale employment
11. Ram: My corn harvest this year is poor.
Krishan: Don't worry. Price increases will compensate for the fall in quantity supplied.
Vinod: Climate affects crop yields. Some years are bad, others are good.
Madhu: The Government ought to guarantee that our income will not fall.
In this conversation, the normative statement is made by:
- Ram
 - Krishan
 - Vinod
 - Madhu**
12. Consider the following and decide which, if any, economy is without scarcity:
- The pre-independent Indian economy, where most people were farmers.
 - A mythical economy where everybody is a billionaire.
 - Any economy where income is distributed equally among its people.
 - None of the above.**
13. Which of the following is not a subject matter of Micro-economies?
- The price of mangoes.
 - The cost of producing a fire truck for the fire department of Delhi, India.
 - The quantity of mangoes produced for the mangoes market.
 - The national economy's annual rate of growth.**
14. The branch of economic theory that deals with the problem of allocation of resources is
- Micro-Economic theory.**
 - Macro-economic theory.
 - Econometrics.
 - none of the above.

15. Which of the following is not the subject matter of Business Economics?

- a. Should our firm be in this business?
- b. How much should be produced and at price should be kept?
- c. How will the product be placed in the market?
- d. **How should we decrease unemployment in the economy?**

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

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

17. Which of the following would be considered a topic of study in Macroeconomics?

- a. The effect of increase in wages on the profitability of cotton industry
- b. The effect on steel prices when more steel is imported
- c. **The effect of an increasing inflation rate on living standards of people in India**
- d. The effect of an increase in the price of coffee on the quantity of tea consumed

18. The difference between positive and normative Economics is:

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

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

- a. Capital Budgeting
- b. Risk Analysis
- c. Business Cycles
- d. **Accounting Standards**

20. Which of the following statements is incorrect?

- a. Business economics is normative in nature.
- b. Business Economics has a close connection with statistics.
- c. **Business Economist need not worry about macro variables.**
- d. Business Economics is also called Managerial Economics.

21. Economic goods are considered scarce resources because they

- a. cannot be increased in quantity.
- b. **do not exist in adequate quantity to satisfy the requirements of the society.**
- c. are of primary importance in satisfying social requirements.
- d. are limited to man made goods

22. In a free market economy, the allocation of resources is determined by

- a. voting done by consumers
- b. a central planning authority.
- c. **consumer preferences.**
- d. the level of profits of firms.

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

- a. Demand
- b. Supply
- c. Efficiency
- d. **Prices**

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

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

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

- a. Firms decide whom to hire and what to produce
- b. Firms aim at maximizing profits.
- c. Households decide which firms to work for and what to buy with their incomes.
- d. **Government policies are the primary forces that guide the decisions of firms and households**

26. In a mixed economy

- a. all economic decisions are taken by the central authority.
- b. all economic decisions are taken by private entrepreneurs.
- c. **economic decisions are partly taken by the state and partly by the private entrepreneurs.**
- d. none of the above

27. The central problem in economics is that of

- a. comparing the success of command versus market economies.
- b. guaranteeing that production occurs in the most efficient manner
- c. guaranteeing a minimum level of income for every citizen
- d. **allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.**

28. Capital intensive technique would get chosen in a

- a. labour surplus economy where the relative price of capital is lower.
- b. **capital surplus economy where the relative price of capital is lower.**
- c. developed economy where technology is better.
- d. developing economy where technology is poor

29. Which of the following is not one of the four central questions that the study of economics is supposed to answer?
- Who produces what?
 - When are goods produced?**
 - Who consumes what?
 - How are goods produced?
30. Larger production of ____ goods would lead to higher production in future.
- consumer goods
 - capital goods**
 - agricultural goods
 - public good
31. The economic system in which all the means of production are owned and controlled by private individuals for profit.
- Socialism
 - Capitalism**
 - Mixed economy
 - Communism
32. Macro Economics is the study of _____.
- all aspects of scarcity
 - the national economy and the global economy as a whole.**
 - big businesses
 - the decisions of individual businesses and people.
33. Freedom of choice is the advantage of
- Socialism
 - Capitalism**
 - Communism
 - None of the above
34. Exploitation and inequality are minimal under:
- Socialism**
 - Capitalism
 - Mixed economy
 - None of the above
35. Administered prices refer to:
- Prices determined by forces of demand and supply
 - Prices determined by sellers in the market
 - Prices determined by an external authority which is usually the government**
 - None of the above
36. In Economics, the central economic problem means:
- Output is restricted to the limited availability of resources**
 - Consumer do not have as much money as they would wish
 - There will always be certain level of unemployment

d. Resources are not always allocated in an optimum way

37. Scarcity definition of Economics is given by

- a. Alfred Marshall
- b. Samuelson
- c. **Robinson**
- d. Adam Smith

38. The definition “Science which deals with wealth of Nation” was given by:

- a. Alfred Marshall
- b. A C Pigou
- c. **Adam Smith**
- d. J B Say

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

- a. Right of private property
- b. Freedom of choice by the consumers
- c. **No profit, No Loss motive**
- d. Competition

40. There is need of economic study, because –

- a. The resources are limited
- b. The wants are unlimited
- c. The resources are unlimited
- d. **Both a and b**

41. The benefit of economic study is –

- a. It ensures that all problems will be appropriately tackle
- b. It helps in identifying problems
- c. **It enables to examine a problem in its right perspective**
- d. It gives exact solutions to every problem

42. The managerial economics –

- a. **Is Applied Economics that fills the gap between economic theory and business practice**
- b. is just a theory concept
- c. Trains managers how to behave in recession
- d. Provides the tools which explain various concepts

43. Which of the following statements is correct?

- a. Micro economics is important for study of a particular household and a particular firm
- b. Macroeconomics is important for study of economic conditions of a country
- c. None of the above
- d. **Both a and b**

44. Mr. Satish hired a business consultant to guide him for growth of his business. The consultant visited his factory and suggested some changes with respect to staff appointment, loan availability and so on. Which approach is that consultant using?
- Micro economics**
 - Macro economics
 - None of the above
 - Both a and b
45. Profit motive is a merit of
- Socialism
 - Capitalist**
 - Mixed economy
 - None of the above
46. _____ is also called as command economy
- Socialist**
 - Capitalist
 - Mixed economy
 - None of the above
47. Which of the following statements is/are correct regarding business economics?
- Business economics attempts to indicate how business policies are firmly rooted in economic principles.
 - Business economics uses micro economic analysis of the business unit and macro-economic analysis of business environment.
 - Business economics takes a pragmatic approach towards facilitating an integration between economic theory and business practices.
 - All the above.**
48. Unlimited ends and limited means together present the problem of
- Scarcity of resources
 - Choice**
 - Distribution
 - None of the above

Extra Questions

49. Which of the following is/are limitation(s) of the wealth definitions of economics given by classical economists?
- By considering the problem of production distribution & exchange of wealth, they focused attention on important issues with which economics is concerned.
 - By restricting the definition of wealth to material wealth & the neglect of immaterial services, they narrowed down the scope of economics.**
 - Both (A) and (B)
 - None of these

50. According to which of the following definitions, economics studies human behavior regarding how he satisfied his wants with scarce resources?
- Robbin's definition**
 - Marshall's definition
 - J.B. Say's definition
 - Adam Smith's definition
51. _____ is concerned with welfare proposition.
- Normative Economics**
 - Positive Economics
 - Both (A) and (B)
 - None of these
52. Which of the following is/are correct about micro economics?
- Micro economics studies the economy in its totality.
 - In micro economics we make a microscopic study of the economy
 - Micro economics deals with the division of total output among industries and firms & the allocation of resources among competing uses.
 - Both (B) and (C)**
53. "If Americans today, for example were to content to live at the level of the Indian middle class people, all their wants would be fully satisfied with their available resources and capacity to produce." On the basis of the above statement, which of the following conclusion can be made?
- The possession of goods and services by USA has enormously increased to exceed their wants.
 - The affluent and developed countries of USA and Western Europe face the problem of scarcity even today as their present wants remain ahead of their increased resources and capacity to produce.**
 - The affluent and developed countries are not facing the problem of scarcity.
 - None of these
54. If there is no central planning authority to make the fundamental economic decisions and thus to allocate productive resources, how can then free enterprise or capitalist economy solve its central problems?
- Through the power of God
 - On the basis of decision taken by industrial groups.
 - The free market economy uses the impersonal forces of the market to solve its central problems**
 - None of these
55. The industrialization and economic development of the USA, Great Britain and other Western European countries have taken place under the condition of _____.
- Socialism and planned structure
 - Capitalism and laissez faire**
 - Mixed economic structure
 - None of these

56. The greater the inequalities in the distribution of money incomes, the _____ the inequalities in the distribution of national output.
- Greater**
 - Lesser
 - (A) or (B)
 - None of these
57. "A wise individual or a society likes to provide for its growth of productive capacity." This requires that a part of its resources should be devoted to the production of _____.
- Consumer goods
 - Capital goods**
 - Defense goods
 - None of these
58. In the beginning the name of economics was _____.
- Economics of wealth
 - Political economy**
 - Welfare economics
 - None of these
59. The word economics has been derived from a _____ word.
- French
 - Latin
 - Greek**
 - German
60. Economics is mainly concerned with
- the achievement of economic development
 - the achievement and use of material requirements to satisfy human wants**
 - the exploring more resources to satisfy human wants
 - the limiting human wants with respect to given resources
61. Business economics is a field in _____ which uses economic theory and quantitative methods to analyze business enterprises
- Welfare Economics
 - Development Economics
 - Applied economics**
 - None of these
62. Economics is a branch of _____ focused on the production, distribution and consumption of goods and services
- Natural science
 - Physical science
 - Social science**
 - None of these

63. Business economics is _____ in its approach.

- a. Idealistic
- b. **Pragmatic**
- c. Both (A) and (B)
- d. None of these

64. The scope of business economics includes _____

- a. Demand analysis
- b. Cost analysis
- c. Inventory management
- d. **All of these**

65. A socialist economy is a system of production where goods and services are produced

- _____
- a. to generate profit
 - b. **directly for use**
 - c. Both (A) and (B)
 - d. None of these

66. Which one of the following statements is correct regarding socialist economy?

- a. Production is planned or coordinated and suffers from the business cycle
- b. Production suffers from the business cycle
- c. **Production is planned and does not suffer from business cycle**
- d. None of these

67. Which of the following is not a merit of socialist economy?

- a. It provides equal access to health care and education
- b. Workers are no longer exploited because they own the means of production
- c. **Profits are not spread equitably among all workers according to their individual contributions.**
- d. Natural resources are preserved for the good of the whole.

68. Which of the following is/are the merit(s) of mixed economic system?

- a. Entrepreneurs able to make profit
- b. Progressive taxes to reduce inequality
- c. Government's provision of public goods
- d. **All of the above**

69. Which of the following falls under Micro Economics?

- a. National Income
- b. General Price level
- c. **Factor Pricing**
- d. National Saving and Investment

70. Which of the following statements is correct?

- a. Employment and economic growth are studied in micro-economics.
- b. Micro economics deals with balance of trade
- c. **Economic condition of a section of the people is studied in micro-economics**

d. External value of money is dealt with in micro-economics

71. Which of the following is not an economic activity?

- a. **A son looking after his ailing mother**
- b. A chartered accountant doing his own practice
- c. A soldier serving at the border
- d. A farmer growing millets

72. 'A government deficit will reduce unemployment and cause an increase in prices'. This statement is:

- a. **Positive**
- b. Normative
- c. Both
- d. None of the above

73. Normative economics is _____ in nature

- a. Modern
- b. Descriptive
- c. **Prescriptive**
- d. None of the above

74. The term economics is derived from Greek work "*Oikonomia*" which means

- a. **Household management**
- b. Art of Living
- c. Science of good governance
- d. Law of rational behavior

75. The famous book "Wealth of Nations" was published in

- a. **1776**
- b. 1750
- c. 1850
- d. 1886

76. _____ guide a capitalist economy to decide what to produce

- a. Market survey
- b. Economic models
- c. **Intensity of consumer demand**
- d. Cost of Production

77. 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. **Planned Production**

78. _____ economics explains cause and effect relationship between economic phenomena
- Positive**
 - Normative
 - Negative
 - Applied
79. _____ refers to the sum total of arrangements for the production and distribution of goods and services in a society
- Business Economics
 - Micro Economics
 - Economic System**
 - Economics
80. _____ is the mainstay in the capitalism
- Profit motive
 - Private property**
 - Consumers
 - Competition
81. Which of the following is not an example of Capitalist economy?
- USA
 - Germany
 - North Korea**
 - South Korea
82. The word 'Economics' originates from the word
- Oikonomicos
 - Oyekonomik
 - Oikonomia**
 - Oiconomia
83. 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?
- Problem solving
 - Problem analyzing
 - Managerial expertise
 - Decision making**
84. Which of the following is not the feature of capitalist economy?
- Right to private property
 - Freedom of economic choice.
 - Collective ownership**
 - Consumer Sovereignty
85. The concept of socialist economy was propounded by.....
- Karl Marx and Frederic Engels.**
 - Marshall
 - Adam Smith

d. Joel Dean

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

- a. Socialism
- b. **Capitalism**
- c. Mixed
- d. All of the above

87. Under the pragmatic approach, economics is abstract and purely theoretical in nature and takes assumptions:

- a. Practical, Unrealistic
- b. Practical, Realistic
- c. **Theoretical, Unrealistic**
- d. Theoretical, Realistic

88. Which of the following is a subject matter of macroeconomics?

- a. Behavior of firms
- b. Factor Pricing
- c. **Overall level of savings and investments**
- d. The economic condition of a section of people

89. Mr. X had been given a task to segregate normative and non-normative statements. Help him to identify which one of these is a normative economic statement?

- a. Pollution level is rising day by day because of urbanization.
- 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 roads, people will be stuck in traffic jams.
- d. The government has allotted a major portion of revenue to defense.

90. What is the nature of business economics, which is an applied branch of economics?

- 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.**

91. Which statement differentiates business economics from economics?

- a. It is abstract in nature.
- b. It is a narrower concept than economics.
- c. It is no different from economics.
- d. **It is pragmatic in nature**

92. Sarah, runs a lemonade stall, her decision-making process involves assessing the demand for her lemonade, pricing strategies, and maximizing her profit within the limited scope of her small business. Which level of the economy does Sarah's lemonade stall represent?

- a. Macro Economy
- b. Global Economy
- c. **Micro Economy**
- d. National Economy

93. In which economy, the material means of production i.e. factories, capital, mines, etc. are owned by the whole community represented by the State?
- Socialist Economy**
 - Capitalist Economy
 - Mixed Economy
 - Communist Economy
94. Which of the following is related with the total arrangements for the production and distribution of goods and services in a society?
- Economic Problem
 - Economic Choice
 - Economic System**
 - Economic Institution
95. Business Economics is basically concerned with:
- Applied Economics
 - Managerial Economics
 - Micro Economics**
 - Macro Economics
96. Price in capitalist economy is determined by:
- Small private firms
 - Big corporates
 - Market forces of demand and supply**
 - Government
97. Command economy is another name for:
- Capitalist economy
 - Socialist economy**
 - Mixed economy
 - Macro economy
98. Which of the following is not a merit of Capitalist economy?
- Faster economic growth
 - Collective ownership**
 - High degree of operative efficiency
 - Incentives for innovation and technological progress
99. The microeconomic theory mainly does not deal with which of the following issues:
- Stage of business cycle**
 - Demand analysis and forecasting
 - Production and cost analysis
 - Inventory management
100. Which of the following is not correct about business economics with reference to economics?
- Business economics helps in proper decision making in a particular business activity
 - Business economics has a narrow scope in comparison to economics
 - Economics is an applied branch of business economics**

d. Business economics includes the analysis of micro level issues like demand, supply, etc.

101. 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

102. "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

103. 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?

104. Finance minister was discussing, balance of trade and balance of payment. This area comes under:

- a. Micro economics
- b. **Macro economics**
- c. Capitalist economy
- d. Mixed economy

105. 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 decrease in interest rates will lead to an increase in investment
 - d. An increase in government spending will reduce the unemployment rate,
-

Chapter 2 (Unit 1) - Theory of Demand

1. Demand for a commodity refers to:
 - a. desire backed by ability to pay for the commodity.
 - b. need for the commodity and willingness to pay for it
 - c. the quantity demanded of that commodity at ascertain price.
 - d. **the quantity of the commodity demanded at a certain price during any particular period of time.**
2. Contraction of demand is the result of:
 - a. decrease in the number of consumers.
 - b. **increase in the price of the good concerned.**
 - c. increase in the prices of other goods.
 - d. decrease in the income of purchasers
3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
 - a. The preference of the individual.
 - b. His monetary income.
 - c. **Price of the commodity**
 - d. Price of related goods.
4. Which of the following pairs of goods is an example of substitute?
 - a. Tea and sugar
 - b. **Tea and coffee**
 - c. Pen and Ink
 - d. Shirt and trousers
5. In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be:
 - a. 0
 - b. **1**
 - c. 1.5
 - d. 2
6. The Law of Demand, assuming other things to remain constant, establishes the relationship between:
 - a. income of the consumer and the quantity of a good demanded by him.
 - b. **price of a good and the quantity demanded**
 - c. price of a good and the demand for its substitute.
 - d. quantity demanded of a good and the relative prices of its complementary goods.

7. Identify the factor which generally keeps the price-elasticity of demand for a good low:
- Variety of uses for that good
 - Very low price of a commodity**
 - Close substitutes for that good.
 - High proportion of the consumer's income spent on it
8. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:
- Equal to one
 - Greater than one
 - Less than one**
 - Zero.
9. In the case of an inferior good, the income elasticity of demand is:
- Positive
 - Zero
 - Negative**
 - Infinite
10. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:
- Remain the same.
 - Increase**
 - Decrease
 - Any of these.
11. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
- Horizontal
 - Vertical**
 - positively sloped.
 - negatively sloped.
12. Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:
- Shift towards left since these are substitute
 - Shift towards right since these are substitutes**
 - Remain at the same level
 - None of the above
13. All of the following are determinants of demand except:
- Tastes and preferences
 - Quantity supplied.**
 - Income of the consumer
 - Price of related goods.

14. A movement along the demand curve for soft drinks is best described as:
- An increase in demand.
 - A decrease in demand
 - A change in quantity demanded.**
 - A change in demand.
15. If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for:
- Coke will decrease
 - 7-Up will decrease.
 - Coke and 7-UP will increase.
 - Coke and 7-Up will decrease**
16. If a good is a luxury, its income elasticity of demand is
- Positive and less than 1.
 - Negative but greater than -1.
 - Positive and greater than 1.**
 - Zero
17. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is:
- Elastic**
 - Inelastic
 - Unitarily elastic
 - Perfectly elastic
18. If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross price elasticity of demand between mutton and chicken is
- 0.25
 - 0.25**
 - 4
 - 4
19. Given the following four possibilities, which one results in an increase in total consumer expenditure?
- Demand is unitary elastic and price falls.
 - Demand is elastic and price rises.
 - Demand is inelastic and price falls.
 - Demand is inelastic and prices rises**
20. Which of the following is an incorrect statement?
- When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes.
 - When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise
 - As the income of the consumer increases, the demand for the commodity increases always and vice versa.**
 - When a commodity becomes fashionable people prefer to buy it and therefore its demand increases

21. Suppose the price of movies seen at a theatre rises from Rs 120 per person to Rs 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies? (Use Arc Elasticity Method)
- 0.5
 - 0.8**
 - 1.0
 - 1.2
22. Suppose a department store has a sale on its silverware. If the price of a plate-setting is reduced from Rs. 300 to Rs. 200 and the quantity demanded increases from 3,000 plate-settings to 5,000 plate-settings, what is the price elasticity of demand for silverware? (Use Arc Elasticity Method)
- 0.8
 - 1.0
 - 1.25**
 - 1.5
23. When the numerical value of cross elasticity between two goods is very high, it means
- The goods are perfect complements and therefore have to be used together
 - The goods are perfect substitutes and can be used with ease in place of one another
 - There is a high degree of substitutability between the two goods**
 - The goods are neutral and therefore cannot be considered as substitutes
24. If the local pizzeria raises the price of a medium pizza from Rs. 60 to Rs. 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is: (Use Arc Elasticity Method)
- 0.67
 - 1.5
 - 2.0
 - 3.0**
25. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?
- Quantity demanded will fall by a relatively large amount.
 - Quantity demanded will fall by a relatively small amount**
 - Quantity demanded will rise in the short run, but fall in the long run
 - Quantity demanded will fall in the short run, but rise in the long run
26. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
- Large fall in quantity demanded**
 - Large fall in demand
 - Small fall in quantity demanded.
 - Small fall in demand.

27. 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 percent.
- c. **An auto producer is interested in determining the response of consumers to the price of cars being lowered by Rs 100.**
- d. None of the above.

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

- a. The percentage change in quantity demanded is less than the percentage change in price.
- b. **The percentage change in quantity demanded is greater than the percentage change in price.**
- c. Demand is inelastic.
- d. The consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.

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

- a. **The percentage change in quantity demanded is less than the percentage change in price.**
- b. The percentage change in quantity demanded is greater than the percentage change in price.
- c. Demand is elastic
- d. The consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low

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

- a. It represents a small part of the consumer's income.
- b. **The good has many substitutes available.**
- c. It is a necessity (as opposed to a luxury).
- d. There is little time for the consumer to adjust to the price change.

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

- a. The good has many substitutes
- b. The good is a luxury (as opposed to a necessity).
- c. **The good is a small part of the consumer's income.**
- d. There is a great deal of time for the consumer to adjust to the change in prices

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

- a. The good has many substitutes
- b. The good is a luxury (as opposed to a necessity).
- c. **The good is a small part of the consumer's income.**
- d. There is a great deal of time for the consumer to adjust to the change in prices

33. Suppose a consumer's income increases from Rs. 30,000 to Rs. 36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Use Arc Elasticity Method)
- 0.5
 - 1.0**
 - 1.5
 - 2.0
34. What will happen in the rice market if buyers are expecting higher rice prices in the near future?
- The demand for rice will increase and the demand curve will shift to the right**
 - The demand for rice will decrease and the demand curve will shift to the left
 - The demand for rice will be unaffected as it is a necessity
 - The demand for wheat will increase and the demand curve will shift to the right
35. In the case of a Giffen good, the demand curve will usually be
- Horizontal
 - Downward-sloping to the right.
 - Vertical
 - Upward-sloping to the right**
36. For a normal good with a downward sloping demand curve
- The price elasticity of demand is negative; the income elasticity of demand is negative.
 - The price elasticity of demand is positive; the income elasticity of demand is negative.
 - The price elasticity of demand is positive; the income elasticity of demand is positive.
 - The price elasticity of demand is negative; the income elasticity of demand is positive.**
37. Conspicuous goods are also known as
- Prestige goods
 - Snob goods
 - Veblen goods
 - All of the above**
38. The quantity purchased remains constant irrespective of the change in income. This is known as
- negative income elasticity of demand
 - income elasticity of demand less than one
 - zero income elasticity of demand**
 - income elasticity of demand is greater than one
39. As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means inferior goods have
- income elasticity of demand less than one
 - negative income elasticity of demand**
 - zero income elasticity of demand
 - unitary income elasticity of demand

40. When income increases the money spent on necessities of life may not increase in the same proportion, This means
- income elasticity of demand is zero
 - income elasticity of demand is one
 - income elasticity of demand is greater than one
 - income elasticity of demand is less than one**
41. The luxury goods like jewellery and fancy articles will have
- low income elasticity of demand
 - high income elasticity of demand**
 - zero income elasticity of demand
 - none of the above
42. A good which cannot be consumed more than once is known as
- Durable good
 - Non-durable good**
 - Producer good
 - None of the above
43. A relative price is
- price expressed in terms of money
 - what you get paid for babysitting your cousin
 - the ratio of one money price to another**
 - equal to a money price
44. Demand is the
- the desire for a commodity given its price and those of related commodities
 - the entire relationship between the quantity demanded and the price of a good other things remaining the same**
 - willingness to pay for a good if income is larger enough
 - ability to pay for a good
45. Suppose potatoes have $(-).0.4$ as income elasticity. We can say from the data given that:
- Potatoes are superior goods
 - Potatoes are necessities
 - Potatoes are inferior goods.**
 - There is a need to increase the income of consumers so that they can purchase potatoes.
46. The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are
- Normal goods
 - Complements
 - Substitutes**
 - Inferior goods

47. Chicken and fish are substitutes. If the price of chicken increases, the demand for fish will
- Increase or decrease but the demand curve for chicken will not change
 - Increase and the demand curve for fish will shift rightwards**
 - Not change but there will be a movement along the demand curve for fish.
 - Decrease and the demand curve for fish will shift leftwards.
48. Potato chips and popcorn are substitutes. A rise in the price of potato chips will _____ the demand for popcorn and the quantity of popcorn sold will _____
- increase; increase**
 - increase; decrease
 - decrease; decrease
 - decrease; increase
49. If the price of orange Juice increases, the demand for apple Juice will _____.
- increase because they are substitutes**
 - decrease because they are substitutes
 - remain the same because real income is increased
 - decrease as real income decreases
50. An increase in the demand for computers, other things remaining same, will:
- Increase the number of computers bought.
 - Decrease the price but increase the number of computers bought.
 - Increase the price of computers.
 - Increase the price and number of computers bought.**
51. When total demand for a commodity whose price has fallen increases, it is due to:
- Income effect.
 - Substitution effect
 - Complementary effect
 - Price effect**
52. With a fall in the price of a commodity:
- Consumer's real income increases**
 - Consumer's real income decreases
 - There is no change in the real income of the consumer
 - None of the above
53. With an increase in the price of diamond, the quantity demanded also increases. This is because it is a:
- Substitute good
 - Complementary good
 - Conspicuous good**
 - None of the above

54. An example of goods that exhibit direct price-demand relationship is

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

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

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

56. 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. Decrease in quantity of camera demanded
- d. **Decrease the price and decrease in the number of cameras bought.**

57. Which of the following statements about inferior goods is/are false?

- I. Inferior goods are those that we will never buy, no matter how cheap they are.
- II. Inferior goods are those that we buy more of, if we become poorer.
- III. Inferior goods are those that we buy more of, if we become richer.

- a. **I and III only**
- b. I only
- c. III only.
- d. I, II, and III.

58. The price of a commodity decreases from Rs 6 to Rs 4 and the quantity demanded of the good increases from 10 units to 15 units, find the coefficient of price elasticity.

- a. **1.5**
- b. 2.5
- c. -1.5
- d. 0.5

59. 'No matter what the price of coffee is, Arjun always spend a total of exactly 100 per week on coffee.' The statement implies that:

- a. Arjun is very fond of coffee and therefore he has an inelastic demand for coffee
- b. Arjun has elastic demand for coffee
- c. Arjun's demand for coffee is relatively less elastic
- d. **Arjun's demand for coffee is unit elastic**

60. A firm learns that the own price elasticity of a product it manufactures is 3.5. What would be the correct action for this firm to take if it wishes to raise its total revenue?

- a. **Lower the price because demand for the good is elastic.**
- b. Raise the price because demand for the product is inelastic.
- c. Raise the price because demand is elastic.
- d. We need information in order to answer this question.

61. At higher prices people demand more of certain goods not for their worth but for their prestige value – This is called
- Veblen effect**
 - Giffen paradox
 - Speculative effect
 - None of the above
62. If the price of air-conditioner increases from Rs 30,000 to Rs 30,010 and resultant change in demand is negligible, we use the measure of _____ to measure elasticity.
- Point elasticity of demand since it is a small change**
 - Arc elasticity of demand since it is a small change
 - Price elasticity based on average prices method
 - Any of the above
63. Given the following four possibilities, which one will result in an increase in total expenditure of the consumer?
- Demand is unit elastic and price rises
 - Demand is elastic and price rises
 - Demand is inelastic and price falls
 - demand is inelastic and price rises**
64. The cross elasticity between Rye bread and Whole Wheat bread is expected to be:
- Positive**
 - Negative
 - Zero
 - Can't say
65. The cross elasticity between Bread and DVDs is:
- Positive
 - Negative
 - Zero**
 - One
66. Which of the following statements is correct?
- With the help of statistical tools, the demand can be forecasted with perfect accuracy
 - The more the number of substitutes of a commodity, the more elastic is the demand**
 - Demand for butter is perfectly elastic.
 - Gold jewellery will have negative income elasticity.
67. Suppose the income elasticity of education in private school in India is 3.6. What does this indicate
- Private school education is highly wanted by rich
 - Private school education is a necessity
 - Private school education is a luxury**
 - We should have more private schools.

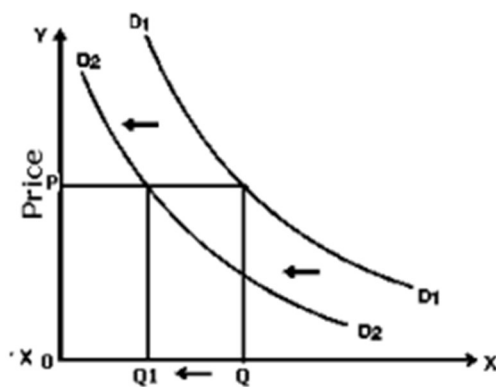
68. If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is;
- The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
 - The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold**
 - The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
 - (a) and (c) above are true

69. The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is;



- Good X and Good Y are perfect complements
- Good X and Good Y are perfect substitutes
- Good X and Good Y are remote substitutes
- Good X and Good Y are close substitutes**

70. The diagram given below shows



- A change in demand which may be caused by a rise in income and the good is a normal good
- A shift of demand curve caused by a fall in the price of a complementary good
- A change in demand which is caused by a rise in income and the good is an inferior good**
- A shift of demand curve caused by a rise in the price of a substitute and the good is a normal good

71. The demand curve of a normal good has shifted to the right. Which of the four events would have caused the shift?
- A fall in the price of a substitute with the price of the good unchanged
 - A fall in the nominal income of the consumer and a fall in the price of the normal good
 - A fall in the price of a complementary good with the price of the normal good unchanged**
 - A fall in the price of the normal good, other things remaining the same
72. If roller-coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls
- The demand for roller-coaster rides will rise and the demand curve will shift to right**
 - The demand for roller coaster ride cannot be predicted as it depends on the tastes of consumers for the ride
 - There will be an expansion in the demand for roller coaster drive as it complementary
 - None of the above
73. 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

- Both goods are normal goods in both cities A and B
 - Good X is a normal good in both cities; good Y is an inferior good in city A**
 - Good X is a normal good in both cities; good Y is an inferior good in city B
 - Need more information to make an accurate comment
74. During a recession, economies experience increased unemployment and a reduced level of income. How would a recession likely to affect the market demand for new cars?
- Demand curve will shift to the right.
 - Demand curve will shift to the left**
 - Demand will not shift, but the quantity of cars sold per month will decrease.
 - Demand will not shift, but the quantity of cars sold per month will increase.

Extra Questions

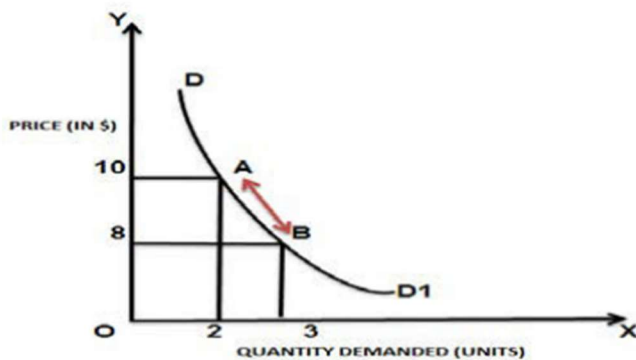
75. Which of the following groups of goods have inelastic demand?
- Salt, Smart Phone and Branded Lipstick
 - School Uniform, Branded Goggles and Smart Phone
 - Salt, School Uniform and Medicine**
 - Medicine, Branded Sports Shoes and Diamond ring

76. If the price of a commodity raised by 12% and E_d is (-) 0.63, the expenditure made on the commodity by a consumer will _____
- Decrease
 - Increase**
 - Remain same
 - Can't say
77. During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy _____ vegetables than/as her usual demand showing the demand of vegetables is _____.
- more, inelastic demand
 - less, elastic demand
 - same, inelastic demand**
 - same, elastic demand
78. Commodities such as prescribed medicines and salt have _____ and hence, have an _____ demand.
- Several substitutes, elastic
 - Several substitutes, inelastic
 - No close substitutes, inelastic**
 - No close substitutes, elastic
79. Let slope of demand curve is (-) 0.6, calculate elasticity of demand when initial price is Rs. 30 per unit and initial quantity is 100 units of the commodity
- 0.5
 - 5.55
 - 0.5**
 - 0.18
80. Let $Q_x = 1500/P_x$, the elasticity of demand of the good X when its price falls from Rs. 8 to Rs. 2 per unit, will be-
- greater than one**
 - less than one
 - equal to one
 - can't say
81. Law of demand is a qualitative concept whereas price elasticity of demand is _____.
- also qualitative concept
 - Quantitative concept
 - Quantitative and qualitative concept**
 - Neither qualitative nor quantitative concept
82. The most crucial determinant of demand for an item is _____
- Income of consumer
 - Prices of other related goods
 - Taste and preference of consumer
 - Its own price**

83. The price of a piece of jewellery rises, the demand for it may also rise as consumers attach a _____ to owning and displaying expensive items.
- money value
 - use value
 - snob value**
 - None of these

84. With reference to Arc elasticity measures the responsiveness of demand _____ on the demand curve
- at one given point
 - at intercepts on X-axis & Y-axis
 - between two points**
 - Any of the above

85.



In the above figure, DD1 is the demand curve of a commodity. There are two points on the demand curve i.e., A and B with (P, Q) as (10, 2) & (8, 3) respectively. If the initial point is A OR initial point is B, the price elasticity of demand will be –

- same in both cases by point method of price elasticity of demand
 - different in both cases by Arc method of price elasticity of demand
 - same in both cases by Arc method & different by point method of price elasticity of demand**
 - None of these
86. Goods X and Y being independent goods, the cross price elasticity of demand (ignoring the sign) between them will be-
- 1 (unit elastic)
 - less than 1
 - greater than 1
 - Zero**
87. 'Ceteris Paribus' clause in Law of demand does not mean-
- The price of the commodity does not change**
 - The price of substitutes does not change
 - The income of consumer does not change
 - The price of complementary goods does not change

88. Demand for electricity is elastic because _____.
- it is very expensive
 - it has a number of close substitutes
 - it has alternative uses**
 - none of the above
89. _____ and _____ do not directly affect the demand curve
- the price of related goods, consumer incomes
 - Consumer incomes, tastes
 - the costs of production, bank opening hours**
 - the price of related goods, preferences
90. If consumers always spend 15 percent of their income on food, then the income elasticity of demand for food is _____.
- 1.50
 - 1.15
 - 1**
 - 0.15
91. The elasticity of substitution between two perfect substitutes is:
- Zero
 - greater than zero
 - less than infinity
 - infinite**
92. In the case of a straight line demand curve meeting the two axes the price – elasticity of demand at the mid-point of the line would be:
- 0
 - 1**
 - 1.5
 - 2
93. Cross elasticity of demand between tea and coffee is:
- Positive**
 - Negative
 - Zero
 - Infinity
94. If a point on a demand curve of any commodity lies on X Axis, then price elasticity of demand of that commodity at that point will be _____
- Infinite
 - More than zero
 - Less than zero
 - Zero**

Read the following data and answer Questions Number 95-100.

XYZ are three commodities where X and Y are complements whereas X and Z are substitutes. A shopkeeper sells commodity X at Rs. 40 per piece. At this price he is able to sell 100 pieces of X per month. After some time, he decreases the price of X to Rs. 20. Following the price decrease, he is able to sell 150 pieces of X per month, the demand for Y increases from 25 units to 50 units and the demand for commodity Z decreases from 150 to 75 units.

95. The price elasticity of demand when the price of X decreases from Rs. 40 per piece to Rs. 20 per piece will be equal to:

- a. 1.5
- b. 1
- c. 1.66
- d. 0.6

96. The cross elasticity of monthly demand for Y when the price of X decrease from Rs. 40 to Rs. 20 is equal to:

- a. 2
- b. -2
- c. -1.5
- d. 1.5

97. The cross-elasticity of Z when the price of X decreases from 40 to 20 is equal to:

- a. -0.6
- b. 0.6
- c. -1
- d. 1

98. What can be said about price elasticity of demand for X?

- a. Demand is unit elastic
- b. Demand is highly elastic
- c. Demand is perfectly elastic
- d. Demand is inelastic

99. Suppose income of the residents of locality increase by 50% and the quantity of X commodity increases by 20%. What is income elasticity of demand for commodity X?

- a. 0.6
- b. 0.4
- c. 1.25
- d. 1.35

100. We can say that commodity X in economics is a/an

- a. luxury good
- b. inferior Good
- c. normal Good
- d. none of the above

101. For Giffen goods, the Engel curve is:

- a. Positive sloped
- b. Vertical
- c. Horizontal
- d. **Negative sloped**

102. The Coefficient of Price elasticity of demand between two points on a demand curve is _____

- a. **Arc elasticity**
- b. Point elasticity
- c. Price elasticity
- d. None of these

103. When the demand curve is a rectangular hyperbola an increase in the price of the commodity causes the total expenditure of consumers of the commodity to:

- a. **Remain unchanged**
- b. Increase
- c. Decrease
- d. Any of the above

104. A movement along a curve rather than a shift in the curve can be measured by:

- a. Cross elasticity of demand
- b. Income elasticity of demand
- c. **Price elasticity of demand & Price elasticity of Supply**
- d. None of these

105. The Substitution effect will be stronger when-

- a. The goods are closer substitutes
- b. There is lower cost of switching to the substitute good
- c. There is lower inconvenience while switching to the substitute good.
- d. **All of these**

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

- a. Law of diminishing marginal utility
- b. **Income effect and substitution effect**
- c. Either (a) or (b)
- d. None of these

107. If increasing railway fare increases revenue, then the demand for railway travel has a price elasticity of _____

- a. Greater than 1
- b. 1
- c. **Greater than 0 but less than 1**
- d. None of these

108. The substitution effect works to encourage a consumer to purchase more of a product when the price of that product is falling because-
- The consumer's real income has increased.
 - The consumer's real income has decreased.
 - The product is now relatively less expensive than before.**
 - Other products are now less expensive than before.
109. Demonstration effect, a term coined by _____
- Adam Smith
 - James Duesenberry**
 - Alfred Marshall
 - None of these
110. "The increase in demand of a commodity due to the fact that others are also consuming the same commodity" is known as _____
- Veblen effect
 - Bandwagon effect**
 - Snob effect
 - Demonstration effect
111. A necessity is defined as a good having:
- A positive income elasticity of demand
 - A negative income elasticity of demand
 - An income elasticity of demand between zero and 1.**
 - An income elasticity of more than 1.
112. Snob effect is explained as _____
- It is a function of consumption of others**
 - It is a function of price
 - Both (a) and (b)
 - None of these
113. As the consumer's income increases, the demand for necessities of life will increase _____ to the increase in income
- Less than proportionate**
 - More than proportionate
 - Proportionate
 - None of these
114. The tendency of people to imitate the consumption pattern of other people is known as
- Demonstration**
 - Bandwagon
 - Prestige
 - Veblen

115. When the quantity of a commodity that an individual buyer demands fall in response to the growth of purchases by other buyers, such an effect
- Bandwagon
 - Snob**
 - Veblen
 - Demonstration
116. If the demand for petrol remains unchanged with rise in its price, it means petrol is a
- Normal good
 - Necessity**
 - Luxury good
 - Giffen good
117. The demand function is given as $Q = 100 - 10P$. Find the elasticity using point method when price is Rs. 5
- 2
 - 2
 - 1
 - 1**
118. A firm learns that the own price elasticity of a product it manufactures is 3.5. What should be the correct action for the firm if it wishes to raise its total revenue?
- Lower the price because demand for the good is elastic**
 - Raise the price because demand for the product is elastic
 - Raise the price because demand is elastic
 - We need information in order to answer this question.
119. A consumer buys 80 units of a commodity at Rs. 4 per unit. When the price falls, he buys 100 units. If $E_d = -1$, the new price will be:
- Rs. 3.5
 - Rs. 3**
 - Rs. 2.5
 - Rs. 2
120. Goods which have fewer substitutes are:
- Less elastic**
 - Unit elastic
 - More elastic
 - Perfectly elastic
121. Price elasticity of Demand for addictive products like Cigarettes and alcohol would be
- Greater than 1
 - Less than 1**
 - Infinity
 - One

122. Ceteris paribus, what would be the impact on foreign exchange earnings for a given falling export prices, if the demand for the country's exports is inelastic?
- a. **Foreign Exchange Earnings decrease**
 - b. Foreign Exchange Earnings increase
 - c. No effect on Foreign Exchange earnings
 - d. None of the above
123. If the co-efficient of cross elasticity of demand for X & Y is 2, it means that X and Y are:
- a. Complementary goods
 - b. **Substitute goods**
 - c. Inferior goods
 - d. Normal goods
124. The demand for which type of goods is likely to be derived demand?
- a. Consumer goods
 - b. Non-durable consumer goods
 - c. **Non-durable producer goods**
 - d. Durable goods
- Ignore this question, not in syllabus
125. In case of unequal distribution of income in the country, the propensity to consume will be, and demand for Consumer Goods will be ____
- a. Higher; Higher
 - b. Higher; Lower
 - c. Lower; Higher
 - d. **Lower; Lower**
126. If the Consumers expect an Increase in Income in the future, its current demand will be ____
- a. Decrease
 - b. **Increase**
 - c. No change
 - d. Nothing can be said
127. When Consumers feel that if the commodity is expensive, that it has got more utility, we are referring to—
- a. Inferior goods
 - b. Normal goods
 - c. **Conspicuous goods**
 - d. Giffen goods
128. Giffen Goods are goods which:
- a. Are considered inferior by consumers
 - b. Occupy a substantial place in the consumers' budget
 - c. **Both a. and b.**
 - d. None of the above

129. Goods which are required for immediate or urgent consumption are:
- Less elastic**
 - Unit elastic
 - More elastic
 - None of the above
130. If the demand for the good is more elastic, the Demand curve will be:
- Parallel to the X-axis
 - Downward sloping to the right, flatter**
 - Downward sloping to the right, steeper
 - Parallel to the y-axis
131. What is the elasticity between midpoint & upper extreme point of a straight line demand curve?
- Infinite
 - Zero
 - >1**
 - <1
132. Total Expenditure of a consumer increases if:
- Demand is elastic and price rises
 - Demand is elastic and price falls
 - Demand is inelastic and price rises
 - Demand is inelastic and price falls
- Only (ii)
 - Only (iii)
 - Both (i) and (iii)
 - Both (ii) and (iii)**
133. What will be the Slope of Demand Curve when it shows the Cross Elasticity between two Complementary Goods?
- Negative**
 - Positive
 - Zero
 - Can't say
134. Consumption of high-priced goods by status-seeking rich people for conspicuous consumption is called:
- Snob effect
 - Bandwagon effect
 - Demonstration effect
 - Veblen effect**
135. If the quantity demanded of coffee increased by 8% while the price of tea increased by 25%, the cross elasticity of demand between coffee and tea is:
- 0.32
 - 0.32**
 - 3.125
 - 3.125

136. Calculate the price elasticity of demand when the price increases from Rs. 20 to Rs. 22 and quantity demanded falls from 300 to 200 units (Midpoint method):
- 4.2
 - 4.2**
 - 4
 - 4
137. Mr. Z went to a stationery shop to buy pens. The price of a pen decreased from Rs. 5 to Rs. 3 per unit. If the price elasticity of demand for pens is 2.5 and the original quantity demanded for pens is 20, then what is the new quantity demanded?
- 10
 - 40**
 - 30
 - 20
138. Suppose the price elasticity of demand of a firm for its product is -1.2. If the price of the product is increased by 5%, then it is most probable that:
- Both total revenue and profit would increase.
 - Both total revenue and profit would decrease,
 - Total revenue would decrease but profit may increase.**
 - Total revenue would increase but profit may decrease
139. Mr. X and Mr. Y are rich rivals and, in a party, Mr. X wears an expensive dress and on seeing it Mr. Y who also has the same dress decided to reject the use of the same dress further. Rather Mr. Y will try to use an even more expensive one. Which effect affects Mr. Y?
- Bandwagon Effect
 - Demonstration Effect
 - Snob Effect**
 - Veblen Effect
140. If the income elasticity of a specific types of goods is greater than one, what does it suggest about the goods?
- It is an inferior good
 - It is a normal good
 - It is a necessity good
 - It is a luxury good**
141. The demand function of a product X (in kg.) is expressed as $Q = 1000 - 50P$, where Q is the quantity demanded and P is the price of the product. When price of X is 10 per kg., its price elasticity will be:
- 1**
 - 1
 - 2
 - 2

142. The price of 1 kg. of tea is Rs. 50. At this price, 10kg of tea is demanded. If the price of coffee rises from Rs. 30 to Rs. 40 per kg, the quantity demanded of tea rises from 10kg to 15kg. What will be the cross price elasticity of tea?
- +1
 - 1.5
 - +1.5**
 - 1
143. If change in quantity demanded is 60% and change in advertisement expenditure is 20% then what will be the advertisement elasticity?
- 3**
 - 0.33
 - 6
 - 20
144. 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:
- Veblen effect
 - Bandwagon effect**
 - Snob effect
 - Sheep effect
145. 'Ceteris Paribus' is a Latin phrase that generally means:
- All other things being equal**
 - An inverse relationship
 - Income of consumers
 - Tastes and preferences of consumers
146. The slope of a demand curve is:
- $\Delta Q / \Delta P$
 - $\Delta P / \Delta Q$
 - $-\Delta Q / \Delta P$
 - $-\Delta P / \Delta Q$**
147. 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?
- +1
 - 1
 - +1.5**
 - 1.5
148. An expectation that price will fall in future will lead to:
- A downward movement along the same demand curve
 - An upward movement along the same demand curve
 - Rightward shift of demand curve
 - Leftward shift of demand curve**

149. A consumer buys 100 units of a good at a price of Rs. 6 per unit. Suppose price elasticity of demand is -3. At what price will he buy 80 units?
- Rs. 5.8
 - Rs. 6.2
 - Rs. 6.4**
 - Rs. 6.75
150. If total revenue of good increases with an increase in its price, demand for the good is said to be:
- Elastic
 - Unit elastic
 - Inelastic**
 - Infinitely elastic
151. Which of the following statement is not true while determining price elasticity of demand?
- Goods which have close or perfect substitutes, have elastic demand curves.
 - The greater the proportion of income spent on a commodity; generally, the lesser will be its elasticity of demand.**
 - Necessities are generally price inelastic.
 - The more possible uses of a commodity, greater will be its price elasticity.
152. Commodities for which the quantity demanded rises only up to a certain level of income and decreases with an increase in income beyond this level are called:
- Normal goods
 - Inferior goods**
 - Essential goods
 - Luxury goods
153. Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This is called:
- Demonstration effect
 - Bandwagon effect
 - Snob effect
 - Veblen effect**

Chapter 2 (Unit 2) – Theory of Consumer Behaviour

1. Total utility is maximum when:
 - a. **Marginal utility is zero**
 - b. Marginal utility is at its highest point.
 - c. Marginal utility is negative
 - d. None of the above

2. Which one is not an assumption of the theory of consumer behaviour based on analysis of indifference curves?
 - a. Given scale of preferences as between different combinations of two goods.
 - b. Diminishing marginal rate of substitution
 - c. **Diminishing marginal utility of money**
 - d. Consumers would always prefer more of a particular good to less of it, other things remaining the same.

3. An indifference curve slopes down towards right since more of one commodity and less of another result in
 - a. **Same level of satisfaction**
 - b. Greater satisfaction
 - c. Maximum satisfaction
 - d. Any of the above

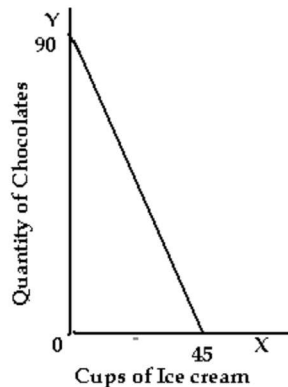
4. Which of the following statements is incorrect?
 - a. An indifference curve must be downward-sloping to the right
 - b. Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
 - c. **The income elasticity for inferior goods to a consumer is positive**
 - d. The total effect of a change in the price of a good on its quantity demanded is called the price effect.

5. The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of
 - a. Operation of the law of demand.
 - b. Consumer surplus enjoyed in hobbies and rare collections
 - c. **Exception to the law of diminishing utility.**
 - d. None of the above

6. By consumer surplus, economists mean
 - a. The area inside the budget line above the price of the commodity
 - b. The area between the average revenue and marginal revenue curves.
 - c. **The difference between the maximum amount a person is willing to pay for a good and its market price**
 - d. The difference between the market price and the supply curve

7. Which of the following is a property of an indifference curve?
- It is convex to the origin due to diminishing marginal rate of substitution**
 - The marginal rate of substitution is constant as you move along an indifference curve.
 - Marginal utility is constant as you move along an indifference curve.
 - Total utility is greatest where the budget line cuts the indifference curve
8. When economists speak of the utility of a certain good, they are referring to
- The demand for the good.
 - The usefulness of the good in consumption.
 - The expected satisfaction derived from consuming the good.**
 - The rate at which consumers are willing to exchange one good for another.
9. A point below the budget line of a consumer
- Represents a combination of goods which costs the whole of consumer's income
 - Represents a combination of goods which costs less than the consumer's income**
 - Represents a combination of goods which is unattainable to the consumer given his/her money income
 - Represents a combination of goods which costs more than the consumers' income
10. Comforts lie between
- inferior goods and necessities
 - luxuries and inferior goods
 - necessaries and luxuries**
 - none of the above

11. The figure below shows the budget constraint of a consumer with an income of Rs. 900/- to spend on two commodities, namely ice cream and chocolates.

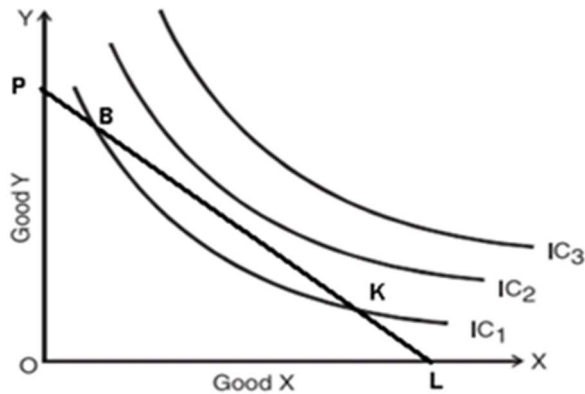


The prices of these two commodities respectively are:

- Rs. 10 and Rs 20
- Rs 20 and Rs. 10**
- Rs. 10 and Rs 5
- Any of the above

Refer to the figure below, answer questions 12 and 13

12. If this consumer is spending her entire income and consuming at point B, what advise will you give her?



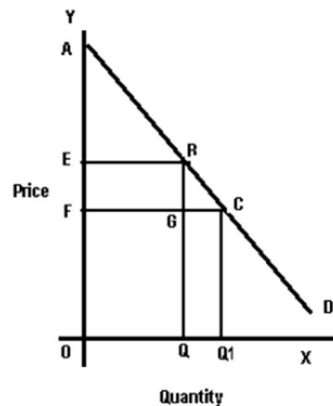
- a. No advice needed, as she is maximizing her utility at B
- b. Consume more of Good X and less of Good Y**
- c. Consume more of X and less of Y and reach point K
- d. Consume same quantity of Good Y and more of Good X

13. Which of the following statements is true about this consumer?

- a. The consumer is not maximizing her utility at point K
- b. The consumer is spending her entire income on both goods
- c. The consumer gets equal pleasure at points B and K
- d. All the above**

Refer to the figure below. Answer questions 14 and 15

14. The effect on consumer surplus of a fall in price from E to F is



- a. A decrease in consumer surplus by EFGR
- b. A decrease in consumer surplus by AER
- c. A decrease in consumer surplus by EFCR
- d. None of the above**

15. When price rises from F to E, the increase in revenue earned by the seller is
- a. Equivalent to area EFGH
 - b. Equivalent to area EFCR
 - c. Equivalent to area AER
 - d. None of the above
16. How would the budget line be affected if the price of both goods fell?
- a. The budget line would not shift.
 - b. The new budget line must be parallel to the old budget line.
 - c. The budget line must be shifting to the left
 - d. The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion.
-

Extra Questions

17. The desire for a commodity by a person depends upon the _____ he expects to obtain from it.
- a. Utility
 - b. Pleasure
 - c. Taste
 - d. None of these
18. Being _____, utility varies with different persons.
- a. Absolute
 - b. Objective
 - c. Subjective
 - d. None of these
19. A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has _____
- a. more of one of the goods
 - b. less of at least one of the goods
 - c. more of at least one of the goods and less of the other good.
 - d. more of at least one of the goods and no less of the other good
20. Which of the following is incorrect regarding indifference curve approach of consumer's behavior?
- a. Indifference curve analysis assumes utility is merely orderable and not quantitative.
 - b. Consumer is capable of comparing the different levels of utilities or satisfactions from different commodities.
 - c. Consumer can say by how much one level of satisfaction is higher or lower than other.
 - d. None of these

21. According to ordinal approach of consumer's behavior-

- a. Consumer is able to indicate the exact amounts of utilities that he derives from commodity or any combinations of them
- b. Utility being psychological feeling is not quantifiable.
- c. The consumer is capable of simply comparing the different levels of satisfaction.
- d. **Both (B) and (C)**

22. While drawing budget line of a consumer consuming Nachos chips and Pepsi, if the quantity of Nachos taken on Y-axis and quantity of Pepsi on X-axis. The slope of budget line will be:

- a. **P_p / P_n**
- b. P_n / P_p
- c. M / P_n
- d. M / P_p

Where, P_p – Price of Pepsi, P_n - Price of Nachos & M – Money income of consumer

23. Match the following

	List – I		List –II
A.	Cardinal Approach	1.	Marginal Utility
B.	Ordinal Approach	2.	Alfred Marshall
C.	Hicks & Allen Approach	3.	J.R. Hicks
D.	Consumers' surplus	4.	Indifference curve

Codes	A	B	C	D
a.	1	2	3	3
b.	1	3	2	4
c.	1	3	4	2
d.	1	4	2	3

24. Law of diminishing marginal rate of substitution is associated with

- a. Marshall
- b. **Hicks**
- c. Slutsky
- d. Keynes

25. According to principle of diminishing marginal rate of substitution

- i. One commodity must be decreased while other is increased
- ii. Commodity which is increased has higher marginal significance
- iii. Commodity which is decreased has higher marginal significance
- iv. Neither qualitative nor quantitative concept

Of these concepts:

- a. Only i. is correct
- b. Both i. & ii. are correct
- c. **Both i. & iii. are correct**
- d. All are correct

26. MU curve will be below X-axis when

- a. MU is zero
- b. TU is falling
- c. MU is negative
- d. Both (B) and (C)

27. A falling MU curve illustrates

- a. The principle of diminishing marginal utility
- b. The principle of diminishing marginal rate of substitution
- c. The principle of equi-marginal utility
- d. Any of the above

28. The Slope of Indifference Curve indicate

- a. Marginal Rate of Substitution of x for y
- b. Slope of the budget line
- c. Prices of x and y
- d. Change in prices

29. An indifference curve slopes down towards right since more of one commodity and less of another result in:

- a. same satisfaction
- b. greater satisfaction
- c. maximum satisfaction
- d. decreasing expenditure

30. The law of consumer surplus is based on:

- a. indifferent curve analysis
- b. revealed preference theory
- c. law of substitution
- d. the law of diminishing marginal utility

31. In economics, what a consumer is ready to pay minus what he actually pays, is termed as

- a. Consumer's equilibrium
- b. Consumer's surplus
- c. Consumer's expenditure
- d. None of the above

32. The indifference curve approach does not assume:

- a. Rationality on the parts of consumer
- b. Ordinal measurement of satisfaction
- c. Consistent consumption pattern behaviour of consumers
- d. Cardinal measurement of utility

33. A rise in price of a good:

- a. Reduce Consumer Surplus
- b. Increase in Consumer Surplus
- c. It will not change
- d. None of these

34. What are the limitations of Consumer Surplus?

- a. Consumer surplus cannot be measured precisely
- b. The Consumer surplus derived from a commodity is affected by availability of substitute
- c. Both (a) & (b)**
- d. None of these

35. The indifference curve of two perfect substitutes will be:

- a. Straight line**
- b. U- Shaped
- c. C Shaped
- d. L shaped

36. The rate at which the consumer is prepared to exchange-good x and y is:

- a. Marginal rate of substitution**
- b. Elasticity of Substitution
- c. Diminishing Marginal Utility
- d. None of these

37. When two goods are perfect substitutes for each other:

- a. Indifference curve for these two goods are straight parallel line with a constant slope along the curve
- b. Indifference curve has a constant MRS
- c. Concave to the Origin
- d. Both (a) and (b)**

38. After reaching the saturation point, consumption of additional units of the commodity cause -

- a. Total utility to fall and marginal utility to increase
- b. Total and marginal utility both to increase.
- c. Total utility to fall and marginal utility to become negative.**
- d. Marginal utility to fall and total utility to become negative.

39. Diminishing marginal utility implies that the

- a. marginal utility of a good diminishes over time.
- b. total utility is negative.
- c. last unit of a good consumed will contribute most to the consumer's satisfaction
- d. first unit of a good consumed will contribute most to the consumer's satisfaction.**

40. The law of diminishing marginal utility states that

- a. total utility is maximized when a consumer obtains the same amount of utility per unit of each product consumed
- b. beyond some point additional units of a product will yield less and less extra satisfaction to a consumer.**
- c. price must be lowered to induce firms to supply more of a product.
- d. it will take larger and larger amounts of resources beyond some point to produce successive units of a product.

41. A consumer is in equilibrium when s/he is deriving _____ satisfaction from the goods.

- a. Maximum
- b. Possible
- c. maximum possible**
- d. None of these

42. The price which a consumer would be willing to pay for a commodity equals to his-

- a. Total utility
- b. Marginal utility**
- c. Average utility
- d. Does not have any relation to any of these

43. Match the following

	List – I		List –II
A.	Two perfect substitute goods	1.	Linear Indifference Curve
B.	Two perfect complementary goods	2.	Monotonic Preference
C.	Indifference curve is always	3.	L-Shape Indifference Curve
D.	Higher IC gives higher level of satisfaction	4.	Convex to the origin

Codes	A	B	C	D
a.	1	2	3	3
b.	3	1	4	2
c.	1	3	4	2
d.	1	3	2	4

44. The other name of the Budget line is:

- a. Demand line
- b. Price line**
- c. Supply line
- d. None of the above

45. If $M_{ux} > P_x$, then consumer:

- a. Is at equilibrium
- b. He will buy more of X good**
- c. He will buy less of X good
- d. None of the above

46. The farther the IC is from the origin, then

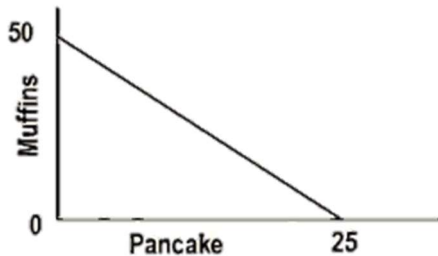
- a. The lower is the satisfaction level
- b. The higher is the satisfaction level**
- c. Same satisfaction level
- d. None of the above

- 47..... shows all those combinations of two goods which a consumer can buy spending his given money income on two goods at their given prices.
- Budget Line**
 - Indifference Curve
 - Demand curve
 - Supply curve
- 48.The indifference curve becomes _____ as we move down and to the right.
- Steeper
 - Flatter**
 - Linear
 - None of the above
- 49.When $MRS_{xy} < P_x/P_y$, in order to reach equilibrium, the consumption of
- Good Y should increase**
 - Good X should increase
 - Good X & Y should increase
 - None of the above
- 50.Following are the characteristics of wants, except:
- Each want is satiable
 - All wants recur again & again**
 - Wants are not independent; they are complementary
 - Wants are subjective & relative
51. Change in total utility generated by consuming one additional unit of that good or service is known as:
- Total Utility
 - Marginal Utility**
 - Utility
 - None of the above
- 52.Which of the following is not an assumption of Marginal Utility Analysis?
- There should not be any gap between consumption of different units
 - Different units of the commodity are assumed to be heterogeneous**
 - Constancy of marginal utility of money
 - Independent utility
- 53.The consumer's objective of reaching highest Indifference curve and maximizing satisfaction is restricted by-
- Total utility curve
 - Marginal utility curve
 - Marginal rate of substitution
 - Price line**

54. Ram wanted to purchase an Apple tab at Rs. 12,000/ . The actual price in the market (MRP) is Rs. 11,000/ and a discount was given at 20%. Additionally, there is a cash discount of Rs. 300. Find the consumer's surplus:

- a. 3200
- b. 3500**
- c. 1000
- d. 3300

55. When the total income of a consumer is Rs. 750, find out the prices of pancake & muffins respectively if:



- a. 15, 30
- b. 30, 15**
- c. 50, 25
- d. 25, 50

56. A point above the budget line of a consumer represents:

- a. Represents costs less than the whole consumer's income.
- b. Represents a combination of goods which costs the whole of the consumer's income.
- c. Represents a combination which is totally unattainable.**
- d. Represents a combination that is attainable.

57. An increase in consumer surplus is likely to occur when

- a. There is a rise in price of goods.
- b. There is a fall in price of goods.**
- c. Demand decreases.
- d. Supply increases.

58. Which tool does the ordinal utility approach use to analyse consumer behaviour and is based on consumer preferences?

- a. Indifference Curve Analysis**
- b. Law of Diminishing Marginal Utility
- c. Elasticity of Demand
- d. Consumer Surplus

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

- a. Higher indifference curve represents higher level of satisfaction.
- b. Indifference curve is a negatively sloped line.
- c. Intersecting point of two indifference curves represents highest level of satisfaction.**
- d. An indifference curve is convex to the origin.

60. "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
- Consumer Equilibrium
 - Consumer surplus**
 - Change in demand
 - Change in price
61. 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.
- Utility**
 - Consumer Equilibrium
 - Need
 - Demand
62. The rate at which a consumer is prepared to exchange goods X and Y, holding the level of satisfaction constant is called as
- Indifference curve
 - Marginal rate of substitution**
 - Diminishing marginal utility
 - Consumer surplus
63. When total utility is increasing at decreasing rate:
- Marginal utility is equal to total utility
 - Marginal utility is decreasing but remains positive**
 - Marginal utility becomes negative
 - Marginal utility is equal to zero

Chapter 2 (Unit 3) – Supply

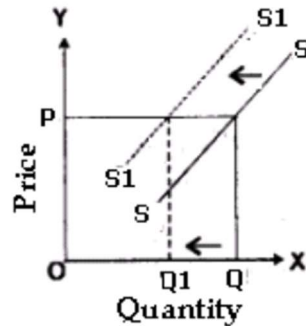
- Which of the following statements about price elasticity of supply is correct?
 - Price elasticity of supply is a measure of how much the quantity supplied of a good respond to a change in the price of that good
 - Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price
 - Price elasticity of supply in the long run would be different from that of the short run
 - All the above**
- Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same?
 - Supply curve will shift to the left.**
 - Supply curve will shift to the right.
 - Supply will not shift, but the quantity of cars produced per month will decrease.
 - Supply will not shift, but the quantity of cars produced per month will increase.
- A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
 - Zero**
 - Infinity
 - Equal to one
 - Greater than zero but less than infinity
- An increase in the supply of a good is caused by:
 - Improvements in its production technology
 - Fall in the prices of other goods which can be produced using the same inputs
 - Fall in the prices of factors of production used in its production
 - all of the above**
- Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:
 - Demand
 - Price**
 - Cost of production
 - State of technology
- A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:
 - Zero
 - Infinite**
 - Equal to one
 - Greater than zero but less than one
- Contraction of supply is the result of:
 - Decrease in the number of producers.
 - Decrease in the price of the good concerned.**
 - Increase in the prices of other goods.

- d. Decrease in the outlay of sellers.
8. The quantity supplied of a good or service is the amount that
- is actually bought during a given time period at a given price
 - producers wish they could sell at a higher price
 - producers plan to sell during a given time period at a given price**
 - people are willing to buy during a given time period at a given price
9. Supply is the
- limited resources that are available with the seller
 - cost of producing a good
 - entire relationship between the quantity supplied and the price of good**
 - Willingness to produce a good if the technology to produce it becomes available
10. In the book market, the supply of books will decrease if any of the following occurs except:
- a decrease in the number of book publishers
 - a decrease in the price of the book**
 - an increase in the future expected price of the book
 - an increase in the price of paper used.
11. If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is
- 2.5**
 - 0.4
 - 2.5
 - 4
12. An increase in the number of sellers of bikes will increase the
- The price of a bike
 - Demand for bikes
 - The supply of bikes**
 - Demand for helmets
13. If the supply of bottled water decreases, other things remaining the same, the equilibrium price _____ and the equilibrium quantity _____
- increases; decreases**
 - decreases; increases
 - decreases; decreases
 - increases; increases
14. In a very short period, the supply
- can be changed
 - cannot be changed**
 - can be increased
 - none of the above

15. When supply curve moves to the left, it means
- lesser quantity is supplied at a given price
 - larger quantity is supplied at a given price
 - prices have fallen and quantity is supplied at a lower price
 - none of the above
16. When supply curve moves to right, it means
- supply increases and more quantity is supplied at a given price
 - supply decreases and less quantity is supplied at a given price
 - supply remains constant at a given price
 - none of the above
17. The elasticity of supply is defined as the
- responsiveness of the quantity supplied of a good to a change in its price
 - responsiveness of the quantity supplied of a good without change in its price
 - responsiveness of the quantity demanded of a good to a change in its price
 - responsiveness of the quantity demanded of a good without change in its price
18. Elasticity of supply is measured by dividing the percentage change in quantity supplied of a good by _____
- Percentage change in income
 - Percentage change in quantity demanded of goods
 - Percentage change in price
 - Percentage change in taste and preference
19. Elasticity of supply is zero means
- perfectly inelastic supply
 - perfectly elastic supply
 - imperfectly elastic supply
 - none of the above
20. Elasticity of supply is greater than one when
- Proportionate change in quantity supplied is more than the proportionate change in price.
 - Proportionate change in price is greater than the proportionate change in quantity supplied.
 - change in price and quantity supplied are equal
 - None of the above
21. If the quantity supplied is exactly equal to the relative change in price, then the elasticity of supply is
- Less than one
 - Greater than one
 - One
 - None of the above

22. The supply function is given as $Q = -100 + 10P$. Find the elasticity using point method, when price is Rs. 15.
- 4
 - 3
 - 5
 - 3**
23. The supply curve shifts to the right because of _____
- improved technology**
 - increased price of factors of production
 - increased excise duty
 - all of the above
24. Which of the following statements is correct?
- When the price falls the quantity demanded falls
 - Seasonal changes do not affect the supply of a commodity
 - Taxes and subsidies do not influence the supply of the commodity
 - With lower cost, it is profitable to supply more of the commodity.**
25. If the demand is more than supply, then the pressure on price will be
- Upward**
 - Downward
 - Constant
 - None of the above
26. The supply curve for highly perishable commodities during very short period is generally _____
- Elastic
 - Inelastic
 - Perfectly elastic
 - Perfectly inelastic**
27. Supply is a _____ concept.
- Stock
 - Flow and stock
 - Flow**
 - None of the above
28. Data on production of vegetables for the past two years showed that, despite stable prices, there is a substantial decline in output of cabbage leading to lower supply into the market. Which of the following can possibly be the reason?
- An increase in the price of cauliflower which is equally preferred by consumers**
 - Announcement of a subsidy by government on vegetable production
 - More farmers producing cabbage and the increasing competition among them
 - A substantial decrease in the price of capsicum

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



- a. A fall in wage costs of the firm along with a fall in consumer incomes
- b. A shortage of raw materials and consequent increase in raw material price**
- c. An increase in subsidy by the government and a reduction in taxes
- d. Decrease in the market price of the commodity in question

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

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

- a. Horizontal straight line parallel to the quantity axis
- b. Steeply rising with elasticity less than one
- c. Vertical straight line parallel to Y axis**
- d. A perfectly elastic supply curve

31. If there is decrease in quantity supplied of a commodity, there will be-

- a. Upward movement on same supply curve
- b. Rightward shift in supply curve
- c. Downward movement on same supply curve**
- d. Leftward shift in supply curve

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

- a. Product of slope of supply curve and ratio of quantity supply to price
- b. Elasticity of supply is equal to the slope of supply curve.
- c. Product of reciprocal of supply curve and ratio of price to quantity supplied**
- d. Elasticity of supply is equal to reciprocal of slope of supply curve.

Extra Questions

33. A new technique of production reduces the marginal cost of producing paper. How will this affect the supply curve of writing material like notebook, register & notepad etc.?

- a. Upward movement on same supply curve
- b. Downward movement on same supply curve
- c. Leftward shift in supply curve
- d. **Rightward shift in supply curve**

34. Supply and stock are _____

- a. same things
- b. **different**
- c. having no comparison
- d. Both (B) and (C)

35. Yesterday, seller A supplied 400 units of a good X at Rs. 10 per unit. Today, seller A supplies the same quantity of units at Rs. 5 per unit. Based on this evidence, seller A has experienced a (an)

- a. Decrease in supply
- b. **Increase in supply.**
- c. Increase in the quantity supplied.
- d. Decrease in the quantity supplied.

Ignore this question

36. Suppose we are drawing a supply curve of a farmer which of the following will not be held constant?

- a. Price of Inputs
- b. Weather Conditions
- c. Technology
- d. **The price of the Commodity under consideration**

37. Behavior of Supply depends upon:

- a. Phenomenon Considered
- b. Degree of possible adjustment in supply
- c. Time Period under Consideration
- d. **All the above**

38. If the supply of mangoes decreases, other things remaining the same, the equilibrium price and the equilibrium quantity _____

- a. **Increases; decreases**
- b. Decreases; increases
- c. Decreases; decreases
- d. Increases; increases

39. The supply function is given as $Q = -50 + 15p$. Find the elasticity using point method, when price is Rs. 20.
- 1.2
 - 0.83
 - 0.86
 - None of the above
40. When price of a good rises from Rs. 20 to Rs. 30 the producer supplies 20% more, the price elasticity of supply is:
- 0.5
 - 0.4
 - 1
 - None of the above
41. The supply curve shows:
- The minimum quantity that supplier is willing to supply at each price
 - The minimum price which will induce suppliers to offer the various quantities for sale
 - The maximum price which will induce suppliers to offer the various quantities for sale
 - Both a & c
42. The flatter the curve, supply elasticity is:
- Less
 - More
 - zero
 - 1
43. Commodities which requires specialized resources for production may have:
- Less elastic supply
 - More elastic supply
 - Unitary elastic supply
 - Infinite elasticity
44. The market demand curve is: $Q_d = 10 - 2p$ and the market supply curve is: $Q_s = -2 + 10p$. The market will be in equilibrium if:
- $P = 1$ and $Q = 12$
 - $P = 5$ and $Q = 8$
 - $P = 1$ and $Q = 8$
 - None of the above
45. Producer surplus is represented by the area:
- Above the supply curve and below the demand curve
 - Below the supply curve and above the demand curve
 - Above the supply curve and below the price line
 - Below the supply curve and above the price line

46. In case there are fewer barriers of entry into the market, elasticity of supply will be:
- Low
 - High**
 - Zero
 - None of the above
47. Commodities which can be easily and inexpensively stored without losing value may have
- Inelastic supply
 - Perfectly inelastic supply
 - Elastic supply**
 - Any of the above
48. Slope of supply curve is 0.6, calculate elasticity of supply when initial price is Rs. 30 per unit and initial quantity is 100 units
- 0.5**
 - 5.5
 - 0.5
 - 0.18
49. Supply will be _____ if firms are not working to full capacity
- Inelastic
 - Perfectly inelastic
 - Elastic**
 - Any of the above
50. The price of a commodity is 10 per unit. At this price, the quantity supplied is 500 units. Price elasticity of supply of the commodity is 1.25. At what price the quantity to be supplied would be 20% more?
- 8.40
 - 11.60**
 - 12.50
 - 7.50
51. If the price of Wheat increases from Rs. 1,800 per Quintal to Rs. 2,200 per Quintal and consequently the quantity supplied rises from 2,000 Quintal to 3,200 Quintal. Calculate the elasticity of supply.
- +0.7
 - +1.7
 - +2.7**
 - +3.7
52. In case of perfectly elastic supply:
- $E_s > 1$
 - $E_s = 1$
 - $E_s = 0$
 - $E_s = \text{infinity}$**

53. The supply function is given as $q = 120 + 6p$. Find the elasticity of supply, when price is Rs. 10

- a. **+1/3**
- b. +2/3
- c. -2/3
- d. +3/4

54. Due to an increase in price of product X from Rs. 100 to Rs. 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

Chapter 3 (Unit 1) – Theory of Production

1. Which of the following is considered production in Economics?
 - a. **Tilling of soil**
 - b. Singing a song before friends.
 - c. Preventing a child from falling into a manhole on the road.
 - d. Painting a picture for pleasure.

2. Identify the correct statement:
 - a. **The average product is at its maximum when marginal product is equal to average product.**
 - b. The law of increasing returns to scale relates to the effect of changes in factor proportions.
 - c. Economies of scale arise only because of indivisibilities of factor proportions.
 - d. Internal economies of scale can accrue when industry expands beyond optimum.

3. Which of the following is not a characteristic of land?
 - a. Its supply for the economy is limited.
 - b. It is immobile.
 - c. Its usefulness depends on human efforts.
 - d. **It is produced by our forefathers.**

4. Which of the following statements is true?
 - a. Accumulation of capital depends solely on income of individuals.
 - b. **Savings can be influenced by government policies.**
 - c. External economies go with size and internal economies with location.
 - d. The supply curve of labour is an upward slopping curve.

5. In the production of wheat, all of the following are variable factors that are used by the farmer except:
 - a. the seed and fertilizer used when the crop is planted.
 - b. **the field that has been cleared of trees and in which the crop is planted.**
 - c. the tractor used by the farmer in planting and cultivating not only wheat but also corn and barley
 - d. the number of hours that the farmer spends in cultivating the wheat fields.

6. The marginal product of a variable input is best described as:
 - a. total product divided by the number of units of variable input
 - b. **the additional output resulting from a one-unit increase in the variable input.**
 - c. the additional output resulting from a one-unit increase in both the variable and fixed inputs.
 - d. the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used

7. Diminishing marginal returns implies:
- Decreasing average variable cost
 - Decreasing marginal costs
 - Increasing marginal costs**
 - Decreasing average fixed costs
8. The short run, as economists use the phrase, is characterized by
- at least one fixed factor of production and firms neither leaving nor entering the industry.**
 - generally, a period which is shorter than one year.
 - all factors of production are fixed and no variable inputs.
 - all inputs are variable and production is done in less than one year.
9. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:
- when total product is rising, average and marginal product may be either rising or falling.
 - when marginal product is negative, total product and average product are falling.
 - when average product is at a maximum, marginal product equals average product, and total product is rising.
 - when marginal product is at a maximum, average product equals marginal product, and total product is rising.**
10. To economists, the main difference between the short run and the long run is that:
- In the short run all inputs are fixed, while in the long run all inputs are variable
 - In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
 - In the short run, at least one of the firm's input levels is fixed.**
 - In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.
11. Which of the following is the best definition of "production function"?
- The relationship between market price and quantity supplied.
 - The relationship between the firm's total revenue and the cost of production.
 - The relationship between the quantities of inputs needed to produce a given level of output**
 - The relationship between the quantity of inputs and the firm's marginal cost of production.
12. The "law of diminishing returns" applies to:
- the short run, but not the long run.**
 - the long run, but not the short run.
 - both the short run and the long run.
 - neither the short run nor the long run.

13. Diminishing returns occur:

- a. when units of a variable input are added to a fixed input and total product falls.
- b. when units of a variable input are added to a fixed input and marginal product falls**
- c. when the size of the plant is increased in the long run
- d. when the quantity of the fixed input is increased and returns to the variable input falls.

Use the following information to answer questions 14-16.

Hours of Labour	Total Output	Marginal product
0	-	-
1	100	100
2	-	80
3	240	0

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

- a. 80
- b. 100
- c. 180**
- d. 200

15. What is the marginal product of the third hour of labour?

- a. 60**
- b. 80
- c. 100
- d. 240

16. What is the average product of the first three hours of labour?

- a. 60
- b. 80**
- c. 100
- d. 240

17. If a firm moves from one point on a production isoquant to another, which of the following will not happen.

- a. A change in the ratio in which the inputs are combined to produce output
- b. A change in the ratio of marginal products of the inputs
- c. A change in the marginal rate of technical substitution
- d. A change in the level of output.**

18. Which of the following statements is true?

- a. The services of a doctor are considered production**
- b. Man can create matter
- c. The services of a housewife are considered production.
- d. When a man creates a table, he creates matter.

19. Which of the following is a function of an entrepreneur?

- a. Initiating a business enterprise
- b. Risk bearing
- c. Innovating.
- d. **All of the above**

20. In describing a given production technology, the short run is best described as lasting:

- a. up to six months from now.
- b. up to five years from now
- c. as long as all inputs are fixed
- d. **as long as at least one input is fixed.**

21. If decreasing returns to scale are present, then if all inputs are increased by 10% then:

- a. output will also decrease by 10%
- b. output will increase by 10%.
- c. **output will increase by less than 10%**
- d. output will increase by more than 10%

22. 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.

23. If the marginal product of labour is below the average product of labour, it must be true that:

- a. the marginal product of labour is negative.
- b. the marginal product of labour is zero
- c. **the average product of labour is falling.**
- d. the average product of labour is negative

24. The average product of labour is maximized when marginal product of labour

- a. **equals the average product of labour**
- b. equals zero
- c. is maximized
- d. none of the above.

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

- a. **the technology is changing**
- b. there must be some inputs whose quantity is kept fixed
- c. we consider only physical inputs and not economically profitability in monetary terms.
- d. the technology is given and stable.

26. What is a production function?

- a. **Technical relationship between physical inputs and physical output**
- b. Relationship between fixed factors of production and variable factors of production.
- c. Relationship between a factor of production and the utility created by it.
- d. Relationship between quantity of output produced and time taken to produce the output.

27. Laws of production does not include

- a. returns to scale.
- b. law of diminishing returns to a factor
- c. law of variable proportions
- d. **least cost combination of factors.**

28. An Iso-quant shows:

- a. All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.
- b. All the alternative combinations of two products among which a producer is indifferent because they yield the same profit
- c. **All the alternative combinations of two inputs that yield the same total product.**
- d. Both (b) and (c).

29. Economies of scale exist because as a firm increases its size in the long run:

- a. Labour and management can specialize in their activities more.
- b. As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost
- c. The firm can afford to employ more sophisticated technology in production.
- d. **All of these**

30. The production function:

- a. Is the relationship between the quantity of inputs used and the resulting quantity of product
- b. Tells us the maximum attainable output from a given combination of inputs.
- c. Expresses the technological relationship between inputs and output of a product.
- d. **All the above.**

31. The production process described below exhibits.

Number of Workers	Output
0	0
1	23
2	40
3	50

- a. constant marginal product of labour.
- b. **diminishing marginal product of labour**
- c. increasing return to scale
- d. increasing marginal product of labour.

32. In the short run, the firm's product curves show that

- a. Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.
- b. When marginal product is equal to average product, average product is decreasing but at its highest.
- c. When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.
- d. In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.**

33. A fixed input is defined as

- a. That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
- b. That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.**
- c. That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
- d. That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.

34. Average product is defined as

- a. total product divided by the total cost.
- b. total product divided by marginal product.
- c. total product divided by the number of units of variable input**
- d. marginal product divided by the number of units of variable input.

35. Which of the following statements is true?

- a. After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product
- b. Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate
- c. The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs
- d. All the above.**

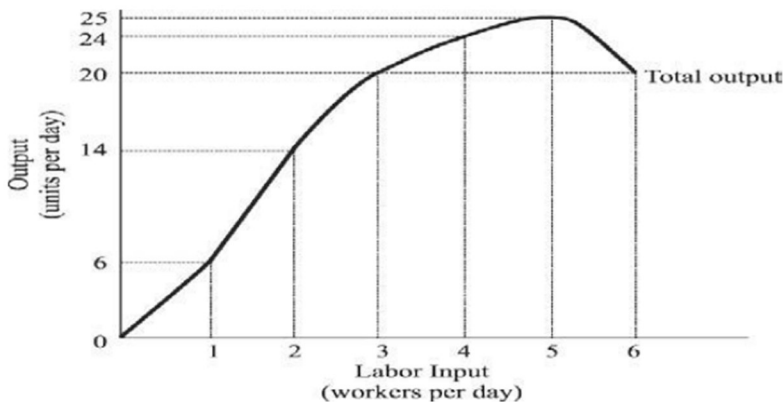
36. Marginal product, mathematically, is the slope of the

- a. total product curve.**
- b. average product curve
- c. marginal product curve
- d. implicit product curve.

37. Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:
- 50
 - 100**
 - 150
 - 200

38. Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence
- 50, 50, 50, 50
 - 50, 110, 180, 260
 - 50, 100, 150, 200
 - 50, 90, 120, 140**

39. Use the following diagram to answer the question given below it



The marginal physical product of the third unit of labour is _____, the MP of the _____ labour is Negative

- Six; fourth
 - Six; third
 - Six; fifth
 - Six; sixth**
40. In the third of the three stages of production:
- the marginal product curve has a positive slope.
 - the marginal product curve lies completely below the average product curve.**
 - total product increases
 - marginal product is positive.
41. Which of the following statements describes increasing returns to scale?
- Doubling of all inputs used leads to doubling of the output.
 - Increasing the inputs by 50% leads to a 25% increase in output.
 - Increasing inputs by 1/4 leads to an increase in output of 1/3**
 - None of the above

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

- a. **Innovate**
 - b. Bear the sense of responsibility
 - c. Finance
 - d. Earn profit
-

Extra Questions

43. In the long run which factor of production is fixed?

- a. Labour
- b. Capital
- c. Building
- d. **None of these**

44. Law of diminishing returns to scale is relevant to _

- a. **Short period**
- b. Long period
- c. Market period
- d. None of these

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

- a. **Constant returns to scale**
- b. Decreasing returns to scale
- c. Increasing returns to scale
- d. All of the above at various level of output

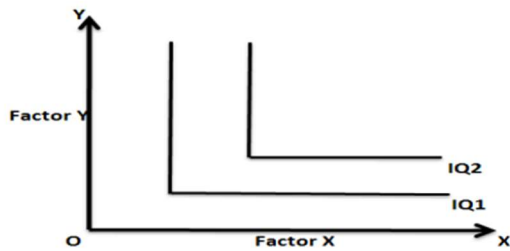
46. In second stage of the Law of Variable Proportion-

- a. MP diminishes & AP increases
- b. AP diminishes but MP increases
- c. **Both MP & AP diminish**
- d. Both MP & AP increase

47. If all inputs are increased in the same proportion, then it is the case of

- 1. Short run production function
 - 2. Long run production function
 - 3. Law of Variable Proportion
 - 4. Law of Returns to Scale
- a. 1 & 2 only
 - b. 2 & 3 only
 - c. 1 & 4 only
 - d. **2 & 4 only**

48.



Iso-Quants shown in the above figure exhibits:

1. Perfect substitutability of factors
2. Perfect complementarity of factors
3. Fixed proportion production function
4. Variable proportion production function
 - a. 1 & 2 only
 - b. 1 & 3 only
 - c. 3 & 4 only
 - d. 2 & 3 only

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

	List – I		List –II
A.	MP is larger than AP	1.	AP is at its maximum
B.	MP is equal to AP	2.	AP is falling
C.	MP is smaller than AP	3.	AP is rising

Codes	A	B	C
a.	1	2	3
b.	3	1	2
c.	2	3	1
d.	3	2	1

50. Cobb-Douglas function

When, P = Actual output

L = Labour C = Capital

b = No. of units of labour

k = Exponent of labour

j = Exponent of capital, is represented as-

- a. $P = b L^j C^k$
- b. $P = b L^{1/j} C^{1/k}$
- c. $P = b L^k C^j$
- d. $P = 1/ b L^k C^j$

51. Assertion (A): An Iso-cost line is a straight line.

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

- a. (A) is true and (R) is false
- b. Both (A) and (R) are true & (R) is the correct explanation of (A)**
- c. Both (A) and (R) are true & (R) is not the correct explanation of (A)
- d. (A) is false and (R) is true

52. "Returns to Scale" refers to the effect on total output of changes in:

- a. a factor
- b. various inputs separately
- c. all the inputs simultaneously**
- d. None of these

53. Consider the following statements about the relationship between cost and production

- 1. When AP rises, AVC falls
- 2. When AP reaches at maximum, AVC is minimum
- 3. When AP falls, AVC rises

Which of the above statements is correct?

- a. 1 & 2
- b. 3 only
- c. 1, 2 & 3**
- d. 2 & 3

54. Which one of the following is not an assumption of law of variable proportion?

- a. Technology of production remains unchanged.
- b. Only physical inputs & output are considered.
- c. All units of variable factors are different.**
- d. There must be some inputs whose quantity is kept fixed.

55. The schedule given below representing the combinations of two variable inputs (Labour & Capital) for two Isoquants of output 100 and 200 respectively

Combinations	IQ ₁			IQ ₂		
	Output	Capital	Labour	Output	Capital	Labour
I	100	90	10	200	85	5
II	100	60	20	200	70	10
III	100	40	30	200	60	15
IV	100	30	40	200	55	20

On the basis of above schedule, which of the following statement is true?

- a. IQ₁ & IQ₂ are parallel to each other**
- b. IQ₁ & IQ₂ are non-parallel & intersecting to each other.
- c. IQ₁ & IQ₂ are neither parallel nor intersecting each other.
- d. Can't say

56. Isoquant word is made up of two words i.e., Iso & Quant. Where quant means quantity or output then Iso means-
- Maximum
 - Equal**
 - Minimum
 - None of these
57. Isoquant curve is convex to the origin due to diminishing MRTS. If X-axis is labour (L) axis & Y-axis is Capital (K) axis, then MRTS =
- $\Delta L / \Delta K$
 - $\Delta K / \Delta L$**
 - $1 / \Delta K$
 - a. and b.
58. An isoquant slopes:
- downward to the left
 - downward to the right**
 - upward to the left
 - upward to the right
59. Diminishing marginal returns imply
- decreasing average variable costs
 - decreasing marginal costs
 - increasing marginal costs**
 - decreasing average fixed costs
60. The producer is in equilibrium at a point where the cost line is:
- above the isoquant
 - below the isoquant
 - cutting the isoquant
 - tangent to isoquant**
61. Which of the following is not a characteristic of land?
- its supply for the economy is limited
 - it is immobile
 - its usefulness depends on human efforts
 - it is produced by our forefathers**
62. A firm's production function:
- Shows how much output and the level of input required for the firm to maximize profits
 - Establishes the minimum level of output that can be produced using the available resources
 - Shows the maximum output that can be produced with a given amount of inputs with available technology**
 - Shows labour force which is employed

63. According to ____, land has certain original and indestructible powers and these properties of land cannot be destroyed
- Ricardo**
 - James bates
 - James bates
 - J.R. Parkinson
64. Which of the following function can never be delegated by the entrepreneur?
- Initiating the business enterprise
 - Innovation
 - Risk bearing**
 - All of the above
65. When Average product is maximum:
- MP is at maximum
 - MP curve cuts AP from below
 - Total Product is at maximum
 - First stage of Increasing returns to factor ends.**
66. Which of the following statement is not true?
- Iso-cost line never touches the axis**
 - Isoquants are convex to the origin
 - Isoquants are non-intersecting
 - Higher Iso-cost line shows higher budget
67. _____ is that point on TP at which MP is maximum
- Saturation point
 - Production Optimization point
 - Inflexion point**
 - Maximum point
68. The quantity of the variable factor becomes too excessive relative to the fixed factor so that they get in each other's way, is the case of:
- Increasing return to scale
 - Decreasing return to scale
 - Diminishing return to factor
 - Negative return to factor**
69. In Cobb-Douglas production function, if labour elasticity and capital elasticity is more than 1, it refers to:
- Increasing return to factor
 - Constant return to scale
 - Increasing return to scale**
 - Decreasing return to scale

70. Profit is the reward for bearing _____

- a. Foreseeable risk
- b. Uncertainties**
- c. Both of the above
- d. None of the above

71. _____ is a precondition for mobilization of savings?

- a. Income of individual
- b. Ability to save
- c. Availability of financial products and institutions**
- d. Willingness to save

72. If a firm moves from one point on a production isoquant to another, which of the following will not happen:

- a. A change in the ratio in which the inputs are combined to produce output
- b. A change in the ratio of marginal products of the inputs
- c. A change in the marginal rate of technical substitution
- d. A change in the level of output**

73. Stages I and III are called

- a. Economic Absurdity**
- b. Economic Stability
- c. Economic Equilibrium
- d. All of the above

74. Circulating capital means:

- a. Capital is a durable source which gives returns for a specific period.
- b. Interest generated from capital and reinvested to earn more interest.
- c. Capital performs its production function in single use and is not used further.**
- d. Used for a series of services over a period of time.

75. A person went to buy land and thought one of the following was a wrong feature regarding land:

- a. Homogeneous**
- b. Heterogeneous
- c. Immobile
- d. No supply price

Use the following information to answer the questions from 76-78

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

76. What is the marginal production of the 4th unit?

- a. 170
- b. **140**
- c. 120
- d. 160

77. What is the total output at the 3rd unit?

- a. 520
- b. 680
- c. **540**
- d. 600

78. What is the Average Product of the 5th unit?

- a. 200
- b. **160**
- c. 190
- d. 800

79. Which of the following defines all those combinations of inputs which are capable of producing the same level of output?

- a. Indifference curve
- b. **Iso quant**
- c. Iso cost
- d. Budget line

80. How is production in the economic sense distinguished from non-market activities performed within a household?

- a. Involvement of love and affection
- b. **Exchange in the market**
- c. Voluntary nature of the activity
- d. Intangible outputs

Use the following information to answer questions 81-82.

Hours of Labour	Total Product	Average Product	Marginal Product
0	-	-	-
1	20	20	-
2	50	25	30
3	90	30	40
4	-	30	-

81. What is the average product for the third hour of labour?

- a. 25
- b. 30**
- c. 35
- d. 40

82. What is the marginal product of the second hour of labour?

- a. 10
- b. 20
- c. 30**
- d. 40

83. What is the primary characteristic of Decreasing Returns to Scale?

- a. Total output increases at an increasing rate
- b. Total output increases at a decreasing rate**
- c. Total output remains constant
- d. Total output decreases

84. When does the Law of Variable Proportions, or the Law of Diminishing Returns, become relevant?

- a. In the long run
- b. In the short run**
- c. In both the short and long run
- d. Only when all factors are variable

85. 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

86. 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

87. 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

88. 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

89. 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

90. 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.

91. Linear Homogenous 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

92. 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

93. 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.**

94. 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. **Iso-cost curve**
- d. Iso-product curve

Chapter 3 (Unit 2) – Theory of Cost

- 1) Which cost increases continuously with the increase in production?
 - a. Average cost
 - b. Marginal cost
 - c. Fixed cost
 - d. **Variable cost**

- 2) Which of the following cost curves is never 'U' shaped?
 - a. Average cost curve
 - b. Marginal cost curve
 - c. Average variable cost curve
 - d. **Average fixed cost curve.**

- 3) Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?
 - a. **Cost of raw materials.**
 - b. Cost of equipment
 - c. Interest payment on past borrowings
 - d. Payment of rent on building

- 4) In the short run, when the output of a firm increases, its average fixed cost:
 - a. Increases
 - b. **Decreases**
 - c. remains constant
 - d. first declines and then rises

- 5) Which one of the following is also known as planning curve?
 - a. **Long run average cost curve.**
 - b. Short run average cost curve
 - c. Average variable cost curve
 - d. Average total cost curve

- 6) With which of the following is the concept of marginal cost closely related?
 - a. **Variable cost.**
 - b. Fixed cost
 - c. Opportunity cost
 - d. Economic cost

- 7) Which of the following statements is correct?
 - a. When the average cost is rising, the marginal cost must also be rising.
 - b. When the average cost is rising, the marginal cost must be falling.
 - c. **When the average cost is rising, the marginal cost is above the average cost**
 - d. When the average cost is falling, the marginal cost must be rising.

- 8) Which of the following is an example of “explicit cost”?
- The wages a proprietor could have made by working as an employee of a large firm
 - The income that could have been earned in alternative uses by the resources owned by the firm
 - The payment of wages by the firm.**
 - The normal profit earned by a firm.
- 9) Which of the following is an example of an “implicit cost”?
- Interest that could have been earned on retained earnings used by the firm to finance expansion**
 - The payment of rent by the firm for the building in which it is housed
 - The interest payment made by the firm for funds borrowed from a bank.
 - The payment of wages by the firm.
- 10) Marginal cost is defined as:
- the change in total cost due to a one unit change in output.**
 - total cost divided by output.
 - the change in output due to a one unit change in an input
 - total product divided by the quantity of input.

Use the following data to answer questions 11-13.

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

- 11) The average fixed cost of 2 units of output is:
- Rs. 80
 - Rs. 85
 - Rs. 120**
 - Rs. 205
- 12) The marginal cost of the sixth unit of output is:
- Rs. 133
 - Rs. 75
 - Rs. 80**
 - Rs. 450
- 13) Diminishing marginal returns start to occur between units:
- 2 and 3
 - 3 and 4
 - 4 and 5**
 - 5 and 6

- 14) Which of the following is true of the relationship between the marginal cost function and the average cost function?
- If MC is greater than ATC, then ATC is falling
 - The ATC curve intersects the MC curve at minimum MC
 - The MC curve intersects the ATC curve at minimum ATC**
 - If MC is less than ATC, then ATC is increasing.
- 15) Which of the following statements is true of the relationship among the average cost functions?
- $ATC = AFC - AVC$
 - $AVC = AFC + ATC$.
 - $AFC = ATC + AVC$
 - $AFC = ATC - AVC$**
- 16) Which of the following is not a determinant of the firm's cost function?
- The production function.
 - The price of labour.
 - Taxes
 - The price of the firm's output**
- 17) Which of the following statements is correct concerning the relationships among the firm's cost functions?
- $TC = TFC - TVC$.
 - $TVC = TFC - TC$
 - $TFC = TC - TVC$.**
 - $TC = TVC - TFC$.
- 18) Suppose output increases in the short run. Total cost will:
- increase due to an increase in fixed costs only
 - increase due to an increase in variable costs only.**
 - increase due to an increase in both fixed and variable costs
 - decrease if the firm is in the region of diminishing returns
- 19) Which of the following statements concerning the long-run average cost curve is false?
- It represents the least-cost input combination for producing each level of output.
 - It is derived from a series of short-run average cost curves.
 - The short-run cost curve at the minimum point of the long-run average cost curve represents the least-cost plant size for all levels of output**
 - As output increases, the amount of capital employed by the firm increases along the curve.
- 20) The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?
- Diseconomies of scale
 - Diminishing returns
 - The difficulties encountered in coordinating the many activities of a large firm.
 - The increase in productivity that results from specialization**

- 21) The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?
- a. **Diseconomies of scale.**
 - b. Increasing returns
 - c. The firm being able to take advantage of large-scale production techniques as it expands its output.
 - d. The increase in productivity that results from specialization
- 22) A firm's average total cost is Rs. 300 at 5 units of output and Rs. 320 at 6 units of output. The marginal cost of producing the 6th unit is:
- a. Rs. 20
 - b. Rs. 120
 - c. Rs. 320
 - d. **Rs. 420**
- 23) A firm producing 7 units of output has an average total cost of Rs. 150 and has to pay Rs. 350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?
- a. Rs. 200
 - b. Rs. 50
 - c. Rs. 300
 - d. **Rs. 100**
- 24) A firm has a variable cost of Rs. 1000 at 5 units of output. If fixed costs are Rs. 400, what will be the average total cost at 5 units of output?
- a. **Rs. 280**
 - b. Rs. 60
 - c. Rs. 120
 - d. Rs. 1,400
- 25) A firm's average fixed cost is Rs. 20 at 6 units of output. What will it be at 4 units of output?
- a. Rs. 60
 - b. **Rs. 30**
 - c. Rs. 40
 - d. Rs. 20
- 26) The efficient scale of production is the quantity of output that minimizes
- a. average fixed cost.
 - b. **average total cost.**
 - c. average variable cost.
 - d. marginal cost.
- 27) When marginal costs are below average total costs,
- a. average fixed costs are rising.
 - b. **average total costs are falling**
 - c. average total costs are rising.
 - d. average total costs are minimized.

28) A firm's long-run average total cost curve is

- a. Identical to its long-run marginal-cost curve.
- b. Also its long-run supply curve because it explains the relationship between price and quantity supplied.
- c. In fact, the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
- d. **Tangent to all the curves of short-run average total cost.**

29) In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience

- a. an increase in pollution level
- b. diseconomies of scale.
- c. **economies of scale.**
- d. constant returns to scale.

30) A firm's long-run average total cost curve is

- a. Identical to its long-run marginal-cost curve as all factors are variable.
- b. Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run
- c. In fact, the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
- d. **Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.**

31) The marginal cost for a firm of producing the 9th unit of output is Rs. 20. Average cost at the same level of output is Rs. 15. Which of the following must be true?

- a. marginal cost and average cost are both falling
- b. **marginal cost and average cost are both rising**
- c. marginal cost is rising and average cost is falling
- d. it is impossible to tell if either of the curves are rising or falling

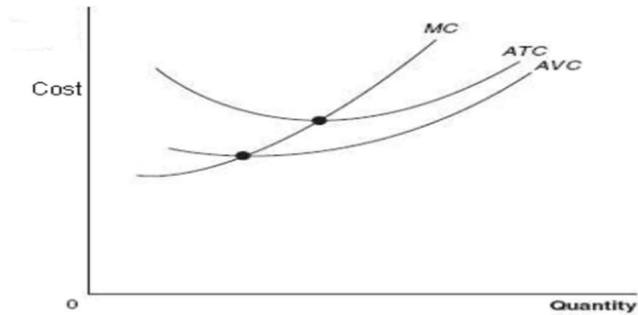
32) Implicit cost can be defined as

- a. Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.
- b. **Money not paid out to the owners of the firm for the self-owned factors employed in a business and therefore not entered into books of accounts.**
- c. Money payments which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.
- d. Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts.

33) Economic costs of production differ from accounting costs of production because

- a. Economic costs include expenditures for hired resources while accounting costs do not
- b. Accounting costs include opportunity costs which are deducted later to find paid out costs
- c. Accounting costs include expenditures for hired resources while economic costs do not.
- d. **Economic costs add the opportunity cost of a firm which uses its own resources.**

34) In figure below, possible reason why the average variable cost curve approaches the average total cost curve as output rises is:



- a. Fixed costs are falling while total costs are rising at rising output.
- b. Total costs are rising and average costs are also rising.
- c. Marginal costs are above average variable costs as output rises.
- d. Average fixed costs are falling as output rises.**

35) Which of the following statements is correct?

- a. Fixed costs vary with change in output.
- b. If we add total variable cost and total fixed cost, we get the average cost.
- c. Marginal cost is the result of total cost divided by number of units produced.
- d. Total cost is obtained by adding up the fixed cost and total variable cost.**

36) Which of the following statements is incorrect?

- a. The LAC curve is also called the planning curve of a firm.
- b. Total revenue = price per unit \times number of units sold.
- c. Opportunity cost is also called alternative cost.
- d. If total revenue is divided by the number of units sold, we get marginal revenue.**

37) The vertical difference between TVC and TC is equal to-

- a. MC
- b. AVC
- c. TFC**
- d. None of the above

38) The falling part of long run average cost curve is tangent to the _____ of corresponding short run average cost curve(s).

- a. Falling part**
- b. Rising part
- c. Minimum point
- d. None of the above

39) Which one of the following is an external economies of scale in long run?

- a. Risk bearing economies
- b. Financial economies
- c. Development of skill labour**
- d. None of the above

Extra Questions

- 40) Cost incurred which has 'no relevance' to future planning is called_
- Marginal Cost
 - Sunk Cost**
 - Book Cost
 - Average Cost
- 41) Which one of the following cost curve is rectangular hyperbola in shape?
- TFC
 - MC
 - AFC**
 - AVC
- 42) Which of the following is not a formula for marginal cost?
- $MC_N = TC_N - TC_{N-1}$
 - $MC = \Delta TC / \Delta Q$
 - $MC_N = TVC_N - TVC_{N-1}$
 - $MC_N = TFC_N - TFC_{N-1}$**
- 43) Which of the following is incorrect formula?
- $TC = AC \times Q$
 - $\sum MC = TC$**
 - $\sum MC = TVC$
 - $\sum MC + TFC = TC$
- 44) A firm encounters its "shutdown point" when:
- average total cost equals price at the profit-maximizing level of output
 - average variable cost equals price at the profit-maximizing level of output**
 - average fixed cost equals price at the profit-maximizing level of output
 - marginal cost equals price at the profit-maximizing level of output
- Read the following paragraph and answer question 45-47
- Suppose that a sole proprietorship is earning total revenues of Rs.10,00,000 and is incurring explicit costs of Rs.7,50,000. The owner could work for another company for Rs. 3,00,000 a year.
- 45) What will be the implicit cost of the firm?
- Rs. 3,00,000**
 - Rs. 2,50,000
 - Rs. 7,50,000
 - Insufficient data
- 46) The above mentioned firm is earning:
- Accounting profit of Rs. 2,50,000.
 - Economic loss of Rs. 50,000
 - Both a. and b. are correct.**
 - None of the above is correct.

47) Suppose in the above mentioned question, the owner had invested Rs. 500,000 by withdrawing from his saving accounts on which he was earning 5% interest per annum, the economic profit or loss is

- a. economic profit of Rs. 75,000
- b. economic loss of Rs. 75,000**
- c. economic profit of Rs. 2,50,000
- d. economic loss of Rs. 2,50,000

48) The LAC curve which envelops the family of SAC curve, is “U” shape because:

- a. All SAC curves are U shaped
- b. Law of variable proportions
- c. Law of Return to scale**
- d. All of the above

49) Different department can be further sub divided into separate sections like sales can be split into separate sections such as for advertising, exports, and customer service is an example of:

- a. Technical economies
- b. Managerial economies**
- c. Commercial economies
- d. Financial economies

50) When LAC Curve is declining, it will be tangent to the:

- a. Falling portions of the SAC Curves**
- b. Rising portions of the SAC Curves
- c. Both (a) and (b)
- d. Neither (a) and (b)

51) Average Cost of Producing 50 units of a Commodity is 250 and variable cost is 10,000. What will be the average fixed cost of producing 100 units of the Commodity?

- a. 10
- b. 30
- c. 20
- d. 25**

52) Fixed cost are a function of:

- a. Output
- b. Capacity**
- c. Time
- d. They can never be changed

53) When LAC curve is _____, it will be tangent to the rising portions of the SAC curves.

- a. Decreasing
- b. Increasing**
- c. Constant
- d. None of the above

54) When AC increases as a result of an increase in output:

- a. $MC = AC$
- b. $MC > AC$**
- c. $MC < AC$
- d. None of the above

55) Beyond certain output level, when there is a sharp increase in Average Variable Cost (AVC), Average Cost (AC) also increases due to the reason that:

- a. Fall in AFC is less than the sharp rise in AVC**
- b. Fall in AFC is greater than the sharp rise in AVC
- c. Fall in AFC is equal to the rise in AVC
- d. None of the above

56) Average Variable Cost Curve has a positive slope:

- a. Up to normal capacity output
- b. Beyond normal capacity output**
- c. At all levels of output
- d. None of the above

57) Which of the following is an example of sunk cost?

- a. Expenses incurred on advertising**
- b. Buy a new production facility
- c. Replace worn out machinery
- d. All of the above

58) Empirical evidence shows that the modern firms face _____ LAC

- a. U- shaped
- b. Boat shaped
- c. L- shaped**
- a. Linear

59) _____ arises due to endogenous factors?

- a. External economies
- b. Internal economies**
- c. Both a. and b.
- d. None of the above

60) Advertisement and other marketing expenditure will increase more proportionately” Which diseconomies is referred here?

- a. Technical
- b. Commercial**
- c. Financial
- d. Managerial

- 61) The normal returns on money capital invested by the entrepreneur himself in his own business is an example of:
- Explicit cost
 - External cost
 - Private cost
 - Implicit cost**
- 62) The money cost of production incurred by the firm such as wages, lighting, lease payment etc., are:
- Implicit cost
 - Opportunity cost
 - Outlay cost**
 - Economic cost
- 63) What term is used to describe costs that remain fixed over a certain range of output but suddenly jump to a new higher level when output goes beyond a given limit?
- Variable cost
 - Semi-variable cost
 - Stair-step variable cost**
 - Sunk cost
- 64) Which of the following expenses is included in cost of production and termed as accounting cost?
- Wages paid to workers employed in the factory.**
 - Expenses incurred on Research & Development.
 - Expenses incurred on advertising.
 - Common costs incurred for general operation of business.
- 65) What will be the total amount of sunk cost on the basis of following information?
- | Particulars | Amount (₹ in crores) |
|--------------------------|----------------------|
| Fuel and Power | 1,000 |
| Research and Development | 150 |
| Rent | 9 |
| Wages | 10 |
| Advertisement | 5 |
- 1,150 crores
 - 155 crores**
 - 159 crores
 - 164 crores
- 66) A firm produces 5 units of output at average fixed cost of 4 per unit. For production of 10 units of output average cost is 7 per unit. Average variable cost for producing 10 units of output is:
- ₹4
 - ₹5**
 - ₹6
 - ₹10

- 67) In short-run, when average cost falls as a result of an increase in output, marginal cost is _____ average cost
- Greater than
 - Less than**
 - Equal to
 - Independent of
- 68) Initially a firm enjoys _____ of scale and beyond a certain limit it suffers from _____ of scale.
- Internal economies, internal diseconomies**
 - external economies, external diseconomies
 - Internal diseconomies, internal economies
 - external diseconomies, external economies
- 69) The long-run average cost curve is called
- Kinked curve
 - Equal quantity curve
 - Envelope curve**
 - Sharp curve
- 70) _____ are already incurred once and for all, and cannot be recovered.
- Sunk costs**
 - Historical cost
 - Private costs
 - Social costs
- 71) A firm should not produce at all if:
- AR is greater than minimum of AVC
 - AR is equal to ATC
 - If its total variable costs are not met**
 - AR is greater than ATC
- 72) Suppose a sole proprietor is earning total revenue of Rs. 1,20,000 and is incurring explicit cost of Rs. 95,000. If the owner could work for another company for Rs. 30,000 a year which of the following statement is false?
- The firm incurred an economic loss of Rs. 5,000
 - The firm is having accounting profit of Rs. 25,000
 - Total economic cost are Rs. 30,000**
 - The total accounting costs are Rs. 95,000

Use the following data to answer questions 73-74.

Output	0	10	20	30	40
Total Cost	100	220	320	410	510

73) What is the average variable cost when 20 units are produced?

- a. Rs. 5
- b. Rs. 10
- c. **Rs. 11**
- d. Rs. 16

74) Between 10 and 20 units, what is the marginal cost per unit?

- a. **Rs. 10**
- b. Rs. 20
- c. Rs. 100
- d. Rs. 220

Chapter 4 – Price Determination in Different Markets

1. Assume that when price is Rs. 20, the quantity demanded is 9 units, and when price is Rs. 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. Rs. 20
 - b. Rs. 19
 - c. Rs. 10**
 - d. Rs. 1
2. Assume that when price is Rs. 20, the quantity demanded is 15 units, and when price is Rs. 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
 - a. Rs. 18
 - b. Rs. 16
 - c. -Rs. 12**
 - d. Rs. 28
3. Suppose a firm is producing a level of output such that $MR > MC$, what should be firm do to maximize its profits?
 - a. The firm should do nothing.
 - b. The firm should hire less labour.
 - c. The firm should increase price.
 - d. The firm should increase output.**
4. Marginal Revenue is equal to:
 - a. The change in price divided by the change in output
 - b. The change in quantity divided by the change in price.
 - c. The change in $P \times Q$ due to a one unit change in output.**
 - d. Price, but only if the firm is a price searcher.
5. Suppose that a sole proprietorship is earning total revenues of Rs. 1,00,000 and is incurring explicit costs of Rs. 75,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that:
 - a. The firm is incurring an economic loss.**
 - b. Implicit costs are Rs. 25,000
 - c. The total economic costs are Rs. 1,00,000
 - d. The individual is earning an economic profit of Rs. 25,000
6. Which of the following is not an essential condition of pure competition?
 - a. Large number of buyers and sellers
 - b. Homogeneous product
 - c. Freedom of entry
 - d. Absence of transport cost**

7. What is the shape of the demand curve faced by a firm under perfect competition?
- Horizontal**
 - Vertical
 - Positively sloped
 - Negatively sloped
8. Which is the first order condition for the profit of a firm to be maximum?
- $AC = MR$
 - $MC = MR$**
 - $MR = AR$
 - $AC = AR$
9. Which of the following is not a characteristic of a “price-taker”?
- $TR = P \times Q$
 - $AR = \text{Price}$
 - Negatively – sloped demand curve**
 - Marginal Revenue = Price
10. Which of the following statements is false?
- Economic costs include the opportunity costs of the resources owned by the firm.
 - Accounting costs include only explicit costs.
 - Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs.
 - Accounting profit is equal to total revenue less implicit costs.**
11. With a given supply curve, a decrease in demand causes
- an overall decrease in price but an increase in equilibrium quantity
 - an overall increase in price but a decrease in equilibrium quantity.
 - an overall decrease in price and a decrease in equilibrium quantity.**
 - no change in overall price but a reduction in equilibrium quantity.
12. It is assumed in economic theory that
- decision making within the firm is usually undertaken by managers, but never by the owners.
 - the ultimate goal of the firm is to maximize profits, regardless of firm size or type of business organization.**
 - as the firm’s size increases, so do its goals.
 - the basic decision making unit of any firm is its owners.
13. Assume that consumers’ incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:
- price will increase.
 - price will decrease.
 - quantity will increase.
 - quantity will decrease.**

14. If supply increases in a greater proportion than demand

- a. The new equilibrium price and quantity will be greater than the original equilibrium price and quantity
- b. The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher
- c. The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
- d. **The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.**

15. Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be:

- a. an increase in equilibrium price and quantity
- b. a decrease in equilibrium price and quantity
- c. **an increase in equilibrium quantity and uncertain effect on equilibrium price.**
- d. a decrease in equilibrium price and increase in equilibrium quantity.

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

- a. Price will increase; quantity cannot be determined
- b. Price will decrease; quantity cannot be determined
- c. **Quantity will increase; price cannot be determined**
- d. Quantity will decrease; price cannot be determined

17. Which of the following is not a condition of perfect competition?

- a. A large number of firms
- b. Perfect mobility of factors.
- c. **Informative advertising to ensure that consumers have good information.**
- d. Freedom of entry and exit into and out of the market.

18. Which of the following is not a characteristic of a perfectly competitive market?

- a. Large number of firms in the industry
- b. Outputs of the firms are perfect substitutes for one another.
- c. **Firms face downward-sloping demand curves.**
- d. Resources are very mobile.

19. Which of the following is not a characteristic of monopolistic competition?

- a. Ease of entry into the industry.
- b. Product differentiation.
- c. A relatively large number of sellers.
- d. **A homogeneous product.**

20. Monopoly may arise in a product market because

- a. A significantly important resource for the production of the commodity is owned by a single firm.
- b. The government has given the firm patent right to produce the commodity.
- c. The costs of production and economies of scale makes production by a single producer more efficient.
- d. **All the above**

21. Oligopolistic industries are characterized by:

- a. **a few dominant firms and substantial barriers to entry.**
- b. a few large firms and no entry barriers.
- c. a large number of small firms and no entry barriers.
- d. one dominant firm and low entry barriers.

22. Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be “small” relative to the market. Which of the following best describes this smallness?

- a. The individual firm must have fewer than 10 employees.
- b. The individual firm faces a downward-sloping demand curve
- c. The individual firm has assets of less than Rs.20 lakhs.
- d. **The individual firm is unable to affect market price through its output decisions**

23. For a price-taking firm:

- a. marginal revenue is less than price.
- b. **marginal revenue is equal to price.**
- c. marginal revenue is greater than price.
- d. the relationship between marginal revenue and price is indeterminate

24. Monopolistic competition differs from perfect competition primarily because

- a. **in monopolistic competition, firms can differentiate their products.**
- b. in perfect competition, firms can differentiate their products.
- c. in monopolistic competition, entry into the industry is blocked
- d. in monopolistic competition, there are relatively few barriers to entry

25. The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures

- a. the efficient output level will be produced in the long run.
- b. firms will be producing at minimum average cost
- c. **firms will only earn a normal profit.**
- d. firms realize all economies of scale.

26. Which of the following is the distinguishing characteristic of oligopolies?

- a. A standardized product
- b. The goal of profit maximization
- c. **The interdependence among firms**
- d. Downward-sloping demand curves faced by firms.

27. In which form of the market structure is the degree of control over the price of its product by a firm very large?
- Monopoly**
 - Imperfect Competition
 - Oligopoly
 - Perfect competition
28. Average revenue curve is also known as:
- Profit Curve
 - Demand Curve**
 - Average Cost Curve
 - Indifference Curve
29. Under which of the following forms of market structure does a firm have no control over the price of its product?
- Monopoly
 - Monopolistic competition
 - Oligopoly
 - Perfect competition**
30. Discriminating monopoly implies that the monopolist charges different prices for his commodity:
- from different groups of consumers
 - for different uses
 - at different places
 - any of the above**
31. Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:
- Uniform
 - Different**
 - Less
 - Zero
32. In the context of oligopoly, the kinked demand hypothesis is designed to explain
- Price and output determination
 - Price rigidity**
 - Price leadership
 - Collusion among rivals.
33. The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that
- the firm has some, but not complete, control over its product price
 - there are so many buyers and sellers in the market that any individual firm cannot affect the market.**
 - each firm produces a homogeneous product.
 - there is easy entry into or exit from the market place.

34. Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that

- a. the firm operates in a perfectly competitive market.
- b. the firm can sell all that it wants to at the established market price.
- c. the XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output
- d. the XYZ Co. will not be able to maximize profits because price and revenue are subject to change.

35. If firms in the toothpaste industry have the following market shares, which market structure would best describe the industry

Market share	(% of market)
Toothpaste	18.7
Dentipaste	14.3
Shinibright	11.6
I can't believe its not toothpaste	9.4
Brighter than white	8.8
Pastystuff	7.4
Others	29.8

- a. Perfect competition
- b. Monopolistic competition.
- c. Oligopoly
- d. Monopoly

36. The kinked demand curve model of oligopoly assumes that

- a. the response (of consumers) to a price increase is less than the response to a price decrease.
- b. the response (of consumers) to a price increase is more than the response to a price decrease
- c. the elasticity of demand is constant regardless of whether price increases or decreases.
- d. the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases

37. A firm encounters its “shutdown point” when:

- a. average total cost equals price at the profit-maximising level of output.
- b. average variable cost equals price at the profit-maximising level of output
- c. average fixed cost equals price at the profit-maximising level of output.
- d. marginal cost equals price at the profit-maximising level of output.

38. Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?

- a. The firm should shut down in order to minimize its losses.
- b. The firm should raise its price enough to cover its losses
- c. The firm should move its resources to another industry
- d. The firm should continue to operate in the short run in order to minimize its losses.

39. When price is less than average variable cost at the profit-maximizing level of output, a firm should:
- a. produce where marginal revenue equals marginal cost if it is operating in the short run.
 - b. produce where marginal revenue equals marginal cost if it is operating in the long run.
 - c. shutdown, since it will lose nothing in that case.
 - d. shutdown, since it cannot even cover its variable costs if it stays in business**
40. A purely competitive firm's supply schedule in the short run is determined by
- a. its average revenue.
 - b. its marginal revenue.
 - c. its marginal utility for money curve
 - d. its marginal cost curve.**
41. One characteristic not typical of oligopolistic industry is
- a. horizontal demand curve.**
 - b. too much importance to non-price competition
 - c. price leadership.
 - d. a small number of firms in the industry
42. The structure of the toothpaste industry in India is best described as
- a. perfectly competitive
 - b. monopolistic
 - c. monopolistically competitive.**
 - d. Oligopolistic
43. The structure of the cold drink industry in India is best described as
- a. perfectly competitive
 - b. monopolistic
 - c. monopolistically competitive.
 - d. Oligopolistic**
44. Which of the following statements is incorrect?
- a. Even a monopolistic firm can have losses
 - b. Firms in a perfectly competitive market are price takers.
 - c. It is always beneficial for a firm in a perfectly competitive market to discriminate prices**
 - d. Kinked demand curve is related to an oligopolistic market
45. Under perfect competition, in the long run, there will be no _____
- a. normal profits
 - b. supernormal profits**
 - c. production
 - d. costs

46. When _____, we know that the firms are earning just normal profits.
- a. $AC = AR$
 - b. $MC = MR$
 - c. $MC = AC$
 - d. $AR = MR$
47. When _____, we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.
- a. $AC = AR$
 - b. $MC = AC$
 - c. $MC = MR$
 - d. $AR = MR$
48. When _____, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.
- a. $MC = MR$
 - b. $MC = AC$
 - c. $MC = AR$
 - d. $AR = MR$
49. Agricultural goods markets depict characteristics close to
- a. **perfect competition.**
 - b. Oligopoly
 - c. monopoly.
 - d. monopolistic competition.
50. Which of the following is not a characteristic of a competitive market?
- a. There are many buyers and sellers in the market.
 - b. The goods offered for sales are largely the same.
 - c. **Firms generate small but positive supernormal profits in the long run**
 - d. Firms can freely enter or exit the market.
51. Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?
- a. Electricity
 - b. Cable television
 - c. Cola
 - d. **Milk**
52. Which of the following statements is accurate regarding a perfectly competitive firm?
- a. Demand curve is downward sloping
 - b. The demand curve always lies above the marginal revenue curve
 - c. Average revenue need not be equal to price
 - d. **Price is given and is determined by the equilibrium in the entire market**

53. The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as
- a. Monopolistically competitive
 - b. a monopoly
 - c. an oligopoly**
 - d. perfectly competitive
54. A market structure in which many firms sell products that are similar but not identical is known as
- a. monopolistic competition**
 - b. monopoly
 - c. perfect competition
 - d. oligopoly
55. When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is
- a. more than the price charged by either monopoly or a competitive market
 - b. less than the price charged by either monopoly or a competitive market
 - c. more than the price charged by a monopoly and less than the price charged by a competitive market
 - d. less than the price charged by a monopoly and more than the price charged by a competitive market.**
56. In the long-run equilibrium of a competitive market, firms operate at
- a. the intersection of the marginal cost and marginal revenue
 - b. their efficient scale
 - c. zero economic profit
 - d. all of these answers are correct**
57. Which of the following is not a characteristic of a monopolistically competitive market?
- a. Free entry and exit
 - b. Abnormal profits in the long run**
 - c. Many sellers
 - d. Differentiated products
58. In a very short period market:
- a. the supply is fixed**
 - b. the demand is fixed
 - c. demand and supply are fixed
 - d. none of the above
59. Time element was conceived by
- a. Adam Smith
 - b. Alfred Marshall**
 - c. Pigou
 - d. Lionel Robinson

60. 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

61. AR can be symbolically written as:

- a. MR/Q
- b. Price X Quantity
- c. TR / Q**
- d. None of the above

62. AR is also known as:

- a. Price**
- b. Income
- c. Revenue
- d. None of the above

63. Marginal revenue can be defined as the change in total revenue resulting from the:

- a. purchase of an additional unit of a commodity
- b. sales of an additional unit of a commodity**
- c. sale of subsequent units of a product
- d. none of the above

64. When $e > 1$ then MR is

- a. Zero
- b. Negative
- c. Positive**
- d. One

65. When $e = 1$ then MR is

- a. Positive
- b. Zero**
- c. One
- d. Negative

66. When $e < 1$ then MR is

- a. Negative**
- b. Zero
- c. Positive
- d. One

67. In Economics, the term 'market' refers to a:

- a. place where buyer and seller bargain a product or service for a price**
- b. place where buyer does not bargain
- c. place where seller does not bargain
- d. none of the above

68. Under perfect competition a firm is the _____
 a. price-maker and not price-taker
b. price-taker and not price-maker
 c. neither price-maker nor price-taker
 d. none of the above

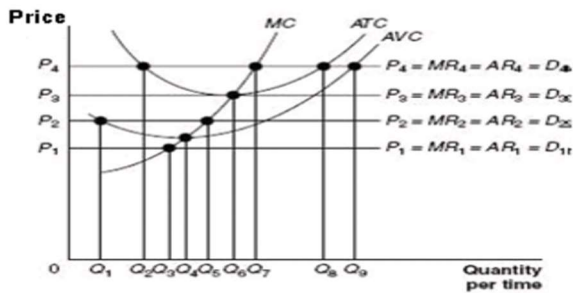
69. A Monopolist is a
a. price-maker
 b. price-taker
 c. price-adjuster
 d. none of the above

70. Price discrimination is one of the features of _____
 a. monopolistic competition
b. monopoly
 c. perfect competition
 d. oligopoly

71. Under monopoly, the degree of control over price is:
 a. None
 b. Some
c. very considerable
 d. none of the above

72. Generally, perishable goods like butter, eggs, milk, vegetables etc., will have
 a. regional market
b. local market
 c. national market
 d. none of the above

73. At price P1, the firm in the figure would produce



a. Zero output
 b. Q3
 c. Q5
 d. Q6

74. Secular period is also known as

- a. very short period
- b. short period
- c. very long period**
- d. long period

75. Stock exchange market is an example of

- a. unregulated market
- b. regulated market**
- c. spot market
- d. none of the above

76. The market for the ultimate consumers is known as

- a. whole sale market
- b. regulated market
- c. unregulated market
- d. retail market**

77. The condition for pure competition is

- a. large number of buyer and seller, free entry and exist
- b. homogeneous product
- c. both (a) and (b)**
- d. large number of buyer and seller, homogeneous product, perfect knowledge about the product

78. Pure oligopoly is based on the _____ products

- a. Differentiated
- b. Homogeneous**
- c. Unrelated
- d. none of the above

79. In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, then it is called:

- a. full oligopoly
- b. collusive oligopoly
- c. partial oligopoly**
- d. syndicated oligopoly

80. When the products are sold through a centralized body, oligopoly is known as

- a. organized oligopoly
- b. partial oligopoly
- c. competitive oligopoly
- d. syndicated oligopoly**

81. When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as
- a. first degree of price discrimination
 - b. second degree of price discrimination
 - c. third degree of price discrimination**
 - d. none of the above.
82. Under _____ the monopolist will fix a price which will take away the entire consumers' surplus.
- a. second degree of price discrimination
 - b. first degree of price discrimination**
 - c. third degree of price discrimination
 - d. none of the above.
83. Price discrimination is related to
- a. Time
 - b. size of the purchase
 - c. income
 - d. any of the above**
84. The firm and the industry are one and the same in _____
- a. Perfect competition
 - b. Monopolistic competition
 - c. Duopoly
 - d. Monopoly**
85. The demand curve of a monopoly firm will be _____
- a. Upward sloping
 - b. Downward sloping**
 - c. Horizontal
 - d. Vertical
86. If the average cost is higher than the average revenue then the firm incurs _____
- a. Normal profit
 - b. Abnormal profit
 - c. Loss**
 - d. No profit, no loss
87. Which of the following statements is correct?
- a. Price rigidity is an important feature of monopoly.
 - b. Selling costs are possible under perfect competition.
 - c. Under perfect competition factors of production do not move freely as there are legal restrictions.
 - d. An industry consists of many firms.**

88. Which of the following statements is incorrect?

- a. Under monopoly there is no difference between a firm and an industry
- b. A monopolist may restrict the output and raise the price
- c. Commodities offered for sale under a perfect competition will be heterogeneous**
- d. Product differentiation is peculiar to monopolistic competition

89. For market the essential condition is –

- a. A particular geographical place
- b. Control of the government
- c. Close contact between buyers and sellers**
- d. None of these

90. Assume that when Price is Rs. 10, the quantity demanded is 5 units and when Price is Rs. 12 the quantity demanded is 4 units. Based on this information, what is the Marginal Revenue resulting from increase in output from 4 units to 5 units.

- a. Rs. 5
- b. Rs. 4**
- c. Rs. 2
- d. Rs. 3

91. Average revenue is equal to.

- a. The change in P & Q due to a one unit change in output.
- b. Nothing but price of one unit of output.**
- c. The change in quantity divided by change in price.
- d. Graphically it denotes the firm's supply curve.

92. Example of a commodity said to have an International Market.

- a. Perishable Goods.
- b. High Value and Small Bulk Commodities.**
- c. Product whose trading is restricted by government.
- d. Bulky Articles

93. Weekly market is example of _____ Market

- a. Regulated Market
- b. Spot Market
- c. Forward Market
- d. Unregulated Market**

94. Conditions for equilibrium of a firm are:

- a. $MR = MC$
- b. MC should cut MR from below.
- c. $MR = AR$ and MC should cut MR from below
- d. $MR = MC$ and MC should have a positive slope.**

95. Natural Monopoly arises when

- a. There is enormous goodwill enjoyed by a firm
- b. There are stringent legal and regulatory requirements.
- c. There are very large Economies of Scale.**
- d. There are Business Combinations and Cartels.

96. Price Discrimination cannot persist under the following market form:

- a. Perfect Competition**
- b. Monopoly
- c. Monopolistic
- d. Oligopoly

97. Sweezy's Model explains the concept of price rigidity relating to following market form:

- a. Oligopoly Market**
- b. Perfect Competition Market
- c. Monopoly Market
- d. Monopolistic Market

98. Combination of Monopoly Market and Monopsony Market is called as

- a. Duopoly Market
- b. Oligopoly Market
- c. Bilateral Monopoly Market**
- d. Monopolistic Market

99. Price varies by attributes such as location or by Customer Segment is _____ degree of Price Discrimination.

- a. First
- b. Second
- c. Third**
- d. Fourth

Extra Questions

100. The kinked demand curve model of oligopoly is useful in explaining

- a. the way that collusion works
- b. why oligopolistic price and output are extremely sensitive to changes in marginal cost.
- c. why oligopolistic prices might change only infrequently.**
- d. the process by which oligopolists merge with one other.

101. The monopolistically competitive seller's demand curve will become more elastic, the

- a. more significant the barriers to entering the industry.
- b. greater the degree of product differentiation.
- c. larger the number of competitors.**
- d. smaller the number of competitors.

102. With respect to the pure monopolist's demand curve it can be said that
- The stronger the barrier to entry, the more elastic is the monopolist's demand curve
 - Price exceeds marginal revenue at all outputs greater than 1.**
 - Demand is perfectly inelastic.
 - Marginal revenue equals price at all outputs.
103. For an imperfectly competitive firm
- Total revenue curve is straight up sloping line because a firm's sales are independent of product price
 - The marginal revenue curve lies above the demand curve because any reduction in price applies to all units sold.
 - The marginal revenue curve lies below the demand curve because any reduction in price applies to all units sold.**
 - Marginal revenue curve lies below the demand curve because any reduction in price applies to only extra unit sold.
104. A firm reaches a break-even point (normal profit position) where,
- Marginal revenue curve cuts the horizontal axis.
 - Marginal cost curve intersects the average variable cost curve.
 - Total revenue equals total variable cost.
 - Total revenue and total cost are equal.**
105. A purely competitive seller's average revenue curve coincides with
- its marginal revenue curve only
 - its demand curve only
 - both its demand & marginal revenue curves**
 - Neither demand nor marginal revenue curve
106. For a purely competitive firm total revenue
- is price times quantity sold
 - increases by a constant absolute amount as output expands.
 - graphs as a straight up sloping line from the origin.
 - has all of the above characteristics**
107. The demand curve confronted by an individual purely competitive firm is-
- Relatively elastic i.e., the elasticity coefficient is greater than unity.
 - Perfectly elastic.**
 - Relatively inelastic i.e., the elasticity coefficient is less than unity.
 - Perfectly inelastic
108. An industry comprised of a very large number of sellers producing a standardized product is known as
- Monopolistic competition
 - Oligopoly
 - Pure monopoly
 - Pure competition**

109. Demand curve is:

	List I		List II
I	Horizontal	A	Monopoly
II	Kinked	B.	Oligopoly
III.	Downward sloping	C.	Perfect competition

a. I-C, II-A, III-B

b. I-C, II-B, III-a

c. I-A, II-B, III-C

d. I-B, II-A, III-C

110. Price control is:

	List I		List II
I	Highest	A	Monopoly
II	Second Highest	B.	Oligopoly
III.	Third Highest	C.	Monopolistic Competition
IV.	Fourth Highest	D.	Perfect competition

a. I-D, II-C, III-B, IV-A

b. I-A, II-B, III-C, IV-D

c. I-D, II-A, III-C, IV-B

d. I-A, II-C, III-B, IV-D

111. Which of the following assumptions is correct in connection with oligopoly?

1. If an oligopolist increases his price his rivals will follow.
2. If an oligopolist increases his price his rivals will not follow.
3. If an oligopolist increases his price his rivals will lower their prices.
4. If an oligopolist decreases his price his rivals will not react.

a. 1 only

b. 2 only

c. 1 & 3 only

d. 4 only

112. Which of the following is not correct?

1. Monopoly form of market organization may be the result of increasing returns to scale
2. Monopoly form of market organization may be the result of patent or govt. decision
3. Monopoly form of market or organization may be the result of control over the supply of raw materials
4. Monopoly form of market or organization may be the result of control over the demand of raw materials

a. 1 only

b. 2 only

c. 1 & 3 only

d. 4 only

113. Marginal cost is equal to marginal revenue, average cost is equal to average revenue, average revenue is equal to marginal revenue and average cost is equal to marginal cost. This is the condition of:

1. Long period equilibrium for a firm under oligopoly
2. Short period equilibrium for a firm under oligopoly
3. Long period equilibrium
4. Long period equilibrium for a firm under perfect competition
5. Short period equilibrium for a firm under perfect competition

- a. 1 & 5 only
b. 3 & 4 only
 c. 3 & 1 only
 d. 2 only

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

	List I		List II
A	Perfect competition	1	Differentiated product
B	Monopolistic competition	2	Homogeneous or differentiated products
C	Oligopoly	3	Homogenous product
D	Monopoly	4	Sharply differentiated products

Codes	A	B	C	D
a.	1	2	3	4
b.	3	1	2	4
c.	4	3	2	1
d.	1	4	3	2

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

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

- a. 1, 2, 3 & 4
 b. 2, 3, 4 & 5
 c. 3, 4 & 5
d. 1, 2, 4 & 5

116. If a monopolist could perfectly discriminate then which of the following statements would be true?

- a. Every increment of the goods would be priced separately so as to capture the entire consumer surplus**
 b. Every increment of the goods would be priced evenly.
 c. Every increment of the goods would be priced higher than the previous one.
 d. Every increment of the goods would be priced lower than the previous one.

117. For a competitive firm, long period normal price will
- a. **Equal AC and MC of productions**
 - b. Equal MC of production only
 - c. Equal TC of production only
 - d. None of these
118. Monopolistic competition has features of
- a. Monopoly but not competition
 - b. **Monopoly and competition with features of competition predominating**
 - c. Monopoly and competition with features of monopoly predominating
 - d. None of the above
119. Imperfect competition arises when
- a. There is imperfect rivalry among competitors
 - b. There are unexplainable imperfections in the market
 - c. Competition does not exist
 - d. **Product variation, ignorance of consumers and distance & transportation costs lead Imperfection in the competitive market which operates on certain assumptions.**
120. Marginal revenue along with marginal cost helps to determine
- a. **Profit maximizing output**
 - b. Profit/unit
 - c. Price/unit
 - d. Total revenue
121. Which of the following is true at equilibrium in monopolistic competition?
- a. Price is greater than marginal cost
 - b. Price is greater than marginal revenue
 - c. **Both (A) and (B)**
 - d. Price is equal to marginal revenue
122. The kinked demand curve theory explains that even when the demand conditions ____ the price _____
- a. Change, changes
 - b. **Change, remains stable**
 - c. Remain stable, changes
 - d. Remain stable, falls
123. Consider the following:
1. Large number of buyers and sellers
 2. Firms produce differentiated products
 3. Free entry & exit of firms
 4. Perfect knowledge about technology
- Which of the above are the characteristics of monopolistic competition?
- a. 1 & 3
 - b. 2 & 3
 - c. 2, 3 & 4
 - d. **1, 2, 3 & 4**

124. Monopoly equilibrium can be reached when _____.

- a. **Marginal cost is rising**
- b. Marginal cost is remaining constant
- c. Marginal cost is falling
- d. None of these

125. The size of a monopolist's plant and the degree of utilization of any given plant size depend entirely on the _____.

- a. Factor price
- b. Price of good
- c. **Market demand**
- d. Market supply

126. In the perfect competition at short run, the firm is a price _____ and can sell _____ amount of output at the ongoing market price.

- a. **Taker, any**
- b. Taker, a definite
- c. Maker, any
- d. None of the above

127. Which of the following is an implication of the imposition of price ceiling below the equilibrium price?

- a. Shortages in the market
- b. Problem of allocation of limited supplies among large number of consumer.
- c. Black marketing
- d. **All of the above**

128. If a product has elastic demand, its marginal revenue (MR) will be _____. (Given that the price of the product is Rs.5/unit).

- a. **Positive**
- b. Zero
- c. Negative
- d. can't be determined

129. If the price elasticity of demand of a product is (-) 3, what should be the price of the product for its MR to be Rs. 20?

- a. Rs. 10/unit
- b. Rs. 20/unit
- c. **Rs. 30/unit**
- d. Rs. 40/unit

130. If the price of a product is Rs.10/unit and its price elasticity of demand is (-) 2.5. Its MR will be _____

- a. 10
- b. **6**
- c. -10
- d. 4

131. When the perfectly competitive firm and industry are in long run equilibrium then:

- a. $P = MR = SAC = LAC$
- b. $D = MR = SMC = LMC$
- c. $P = MR =$ Lowest point on the LAC curve
- d. **All of the above**

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

- a. **AR curve lies above the MR curve**
- b. AR curve coincides with the MR curve
- c. AR curve lies below the MR curve
- d. AR curve is parallel to the MR curve

133. Relationship between AR, MR and Price elasticity of demand is

- a. $MR = AR + [e^{-1}/e]$
- b. **$MR = AR \times [e^{-1}/e]$**
- c. $AR = MR \times [e^{-1}/e]$
- d. $MR = AR \times [e/e^{-1}]$

134. In perfect competition the firm's _____ above AVC has the identical shape of the firm's supply curve

- a. Marginal revenue curve
- b. **Marginal cost curve**
- c. Average cost curve
- d. None of the above

135. Which of the following statements about price and marginal cost in competitive and monopolized markets is true?

- a. In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost.
- b. In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost.
- c. **In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost.**
- d. In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.

136. If oligopolist engage in collusion and successfully form a cartel, the market outcome is

- a. **The same as if it were served by a monopoly**
- b. The same as if it were served by competitive firms
- c. Efficient because cooperation improves efficiency
- d. Known as Nash equilibrium

137. If a seller realizes Rs. 10,000 after selling 100 units and Rs. 14,000 after selling 120 units. What is the marginal revenue here?

- a. Rs. 4,000
- b. Rs. 450
- c. **Rs. 200**
- d. Rs. 100

138. In long run equilibrium the pure monopolist can make pure profits because of
- a. Blocked entry**
 - b. The high price he charges
 - c. The low LAC costs
 - d. Advertising
139. A perfectly competitive firm has control over
- a. Price
 - b. production as well as price
 - c. production, price and consumers
 - d. none of the above**
140. In short run, a firm in monopolistic competition
- a. always earns profits
 - b. incurs losses
 - c. earns normal profit only
 - d. may earn normal profit, supernormal profit or incur losses**
141. In the case of monopoly:
- a. MR curve cannot be defined
 - b. AR curve cannot be defined
 - c. the short run supply curve cannot be defined**
 - d. none of the above
142. Full capacity is utilized only when there is
- a. Monopoly
 - b. Perfect competition**
 - c. Price discrimination
 - d. Oligopoly
143. Which of the following statement is incorrect?
- a. Even monopolist can earn losses
 - b. Firms in a perfectly competitive market are price-takers
 - c. It is always beneficial for a firm in the perfectly competitive market to discriminate prices**
 - d. Economic laws are less exact than the laws of physical sciences
144. If a competitive firm doubles its output, its total revenue:
- a. Doubles**
 - b. more than doubles.
 - c. less than doubles.
 - d. cannot be determined because the price of the good may rise or fall
145. In the short run if a perfectly competitive firm finds itself operating at a loss, it will:
- a. Reduce the size of its plant to lower fixed costs.
 - b. Raise the price of its product.
 - c. Shutdown
 - d. Continue to operate as long as it covers its variable cost**

146. In Economics, we are concerned with:

- a. Value in use only
- b. Exchange value only**
- c. Both value in use and exchange value
- d. None of the above

147. Women primarily wear Traditional Assamese Saree in Assam & adjoining areas, is an example of:

- a. National Market
- b. Regional Market**
- c. Local Market
- d. International Market

148. Markets where goods are exchanged for money payable either immediately or within a short span of time:

- a. Forward Market
- b. Spot Market**
- c. Both (a) and (b)
- d. Neither (a) nor (b)

149. Marginal Revenue will be zero in imperfect competitive market, if the elasticity of demand is:

- a. Equal to zero
- b. Equal to 1**
- c. Greater than 1
- d. Less than 1

150. On the basis of nature of transaction, the market is classified into:

- a. Regulated & Unregulated Market
- b. Wholesale & Retail Market
- c. Spot & Future Market**
- d. None of these

151. "I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses, his behaviour in the short run is:

- a. Rational, if the firm is covering its variable cost**
- b. Rational, if the firm is covering its fixed cost
- c. Irrational, since plant closing is necessary to eliminate losses
- d. Irrational, since fixed costs are eliminated if a firm shuts down.

152. _____ is not an objective of price discrimination

- a. To secure equity through pricing
- b. To enjoy economies of scale
- c. To dispose of surplus stock
- d. To escape foreign market**

153. This type of oligopoly tends to process raw materials or produce intermediate goods that are used as inputs by other industries
- Open oligopoly
 - Collusive oligopoly
 - Pure oligopoly**
 - Full oligopoly
154. The elasticity of demand on the upper segment of a kinked demand curve will be:
- Infinite
 - Equal to one
 - Greater than one**
 - Less than one
155. _____ classified three degrees of price discrimination
- Alfred Marshall
 - Prof. Pigou**
 - Hickes & Allen
 - Adam smith
156. MR curve under Monopoly lies between AR and Y-axis because the rate of decline of MR is:
- Just half of the rate of decline of AR
 - Just equal to the rate of decline of AR
 - Just double the rate of decline of the AR**
 - None of the above
157. Aluminum industry is an example of:
- Collusive Oligopoly
 - Organized oligopoly
 - Competitive oligopoly
 - Pure Oligopoly**
158. Increase in demand and decrease in supply causes:
- Equilibrium Price uncertain, Equilibrium quantity rises
 - Equilibrium Price rises, Equilibrium quantity falls
 - Equilibrium Price rises, Equilibrium quantity uncertain**
 - Equilibrium Price falls, Equilibrium quantity uncertain
159. In which market is the price elasticity of demand infinite?
- Perfect competition**
 - Monopolistic competition
 - Oligopoly
 - Monopoly
160. The relation between AR and MR in a monopoly is stated as:
- AR can be zero, MR can be zero or negative
 - AR and MR both are upward sloping
 - AR curve lies halfway between MR and y axis
 - Slope of MR is twice that of AR**

161. In which form of market are patents and copyrights given by the government to protect intellectual property rights?
- Perfect competition
 - Monopoly**
 - Monopolistic competition
 - Oligopoly
162. Which feature of monopolistic competition differs from perfect competition?
- Large number of sellers
 - Freedom of entry and exit
 - Product differentiation**
 - No super normal profits in the long run
163. If the electricity department is charging Rs. 3 per unit to farmers and Rs. 7 per unit to industries, it is described as:
- Product differentiation
 - Price discrimination**
 - Monopoly
 - Differentiation activity
164. When a few firms in the oligopolistic market come to a common understanding with each other in fixing price and output, it is called:
- Syndicate oligopoly
 - Collusive oligopoly**
 - Perfect oligopoly
 - Open oligopoly
165. Three major smartphone manufacturers, Alpha Tech, Beta Mobile, and Gamma Gadgets, dominate the smartphone market. These companies are in constant competition for market share and innovation. Which type of the market structure has been described in this scenario?
- Monopoly
 - Oligopoly**
 - Perfect Competition
 - Monopolistic Competition
166. If Marginal Revenue (MR) for Unit 1 is 10, for Unit 2 is 5, and for Unit 3 is 3 then what will be the amount of Total Revenue (TR)?
- ₹15
 - ₹10
 - ₹8
 - ₹18**
167. Which market covers a wider area such as a few adjacent cities, parts of states, or a cluster of states?
- Regional Market**
 - National Market
 - International Market
 - Local Market

168. When should a competitive firm consider shutting down its operations?
- When the price is above Total Variable Costs (TVC).
 - When the price is below Average Variable Costs (AVC).**
 - When the price is equal to Total Revenue (TR).
 - When the price is constant.
169. In the case of demand decreasing and supply increasing, what is the expected impact on equilibrium price?
- Equilibrium price rises
 - Equilibrium price falls**
 - Equilibrium price remains constant
 - Equilibrium price remains uncertain
170. In Ricardo's view, what does "Exchange Value" represent?
- The cost of production of a commodity
 - The subjective preferences of individuals
 - Power in exchange over purchasable commodities in general**
 - The quantity of labour embodied in a commodity
171. Talcum powder market is an example of which of the following markets?
- Collusive Oligopoly
 - Imperfect Oligopoly**
 - Open Oligopoly
 - Close Oligopoly
172. A software company engages in price discrimination for its product. The company identifies different market segments and charges different prices based on perceived differences in willingness to pay. This is possible under which situation?
- Monopolistic competition
 - A Monopoly**
 - Perfect competition
 - Oligopoly competitions
173. What happens to the equilibrium price when there is a decrease in supply with no change in demand?
- Equilibrium price goes down.
 - Equilibrium price remains constant.
 - Equilibrium price goes up.**
 - Equilibrium quantity increases.
174. A market structure in which there is only a single buyer and a single seller is known as:
- Monopsony
 - Bilateral Monopoly**
 - Oligopoly
 - Duopoly

175. Monopolistic Competition is characterized by

- a. Many sellers selling identical products to many buyers.
- b. Many sellers sell differentiated products to many buyers.**
- c. Few sellers selling identical products to many buyers.
- d. Few sellers selling competing products to selective buyers.

176. Condition for equilibrium of firm under perfect competition:

- a. Where Marginal Revenue (MR) is equal to the Marginal Cost (MC).
- b. Where Average Revenue (AR) is equal to the Average Cost (AC).
- c. MC curve cuts MR curve from below.
- d. Where $MR = MC$ and also MC curve cuts MR curve from below.**

177. According to the Kinked demand curve hypothesis, why does the demand curve facing an oligopolist have a 'Kink' at the prevailing price level?

- a. To create confusion among competitors
- b. To make the demand curve visually interesting
- c. The segment above price is highly elastic, and below it is inelastic**
- d. It is a graphical error in the representation.

178. Many sellers offering differentiated products to many buyers is the characteristics of:

- a. Perfect competition
- b. Monopolistic competition**
- c. Oligopoly competition
- d. Monopoly

179. Total revenue is maximum, when elasticity is equal to

- a. 1**
- b. Less than 1
- c. Greater than 1
- d. Zero

180. Identify the correct below mentioned 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)**

181. When a perfect competition firm earns _____, its average revenues are more than its average total cost
- Supernormal profits**
 - Normal profits
 - Normal profits and supernormal profits
 - Losses
182. Market for soaps and detergents are the appropriate example of
- Monopoly
 - Oligopoly
 - Monopolistic competition**
 - Perfect competition
183. Price elasticity of demand of a firm under perfect competition will be:
- Very large
 - Infinite**
 - Large
 - Small
184. Many sellers offering differentiated products to many buyers is the characteristics of:
- Perfect competition
 - Monopolistic competition**
 - Oligopoly competition
 - Monopoly
185. Identify the correct relationship among MR, AR & e (price elasticity of demand)
- $MR = AR \times e(e-1)$
 - $AR = MR \times (e-1)/e$
 - $MR = AR \times e/(e-1)$
 - $MR = AR \times (e-1)/e$**
186. Total revenue will be maximum, where elasticity is equal to:
- 1**
 - Less than 1
 - Greater than 1
 - Zero
187. When both demand and supply increase, the equilibrium quantity _____ but the change in equilibrium price _____.
- Decreases, uncertain
 - Increases, constant
 - Increases, uncertain**
 - Decreases, constant

188. Downward sloping and highly inelastic demand curve is the feature of:

- a. **Monopoly**
- b. Oligopoly
- c. Monopolistic competition
- d. Perfect competition

189. 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**

190. 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.

191. 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

192. Under second degree discrimination, different prices are charged for _____

- a. Each individual consumer
- b. Location
- c. Customer segment
- d. **Different quantities sold**

193. 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

194. Which of the following is not a condition of 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.**

195. The oligopoly market in which few firms come to a common understanding with each other in fixing price or output or both is called:
- Pure oligopoly
 - Collusive oligopoly**
 - Partial oligopoly
 - Syndicated oligopoly

Chapter 5 – Business Cycles

- The term **business cycle** refers to
 - the ups and downs in production of commodities
 - the fluctuating levels of economic activity over a period of time
 - decline in economic activities over prolonged period of time
 - increasing unemployment rate and diminishing rate of savings
- A significant decline in general economic activity extending over a period of time is
 - business cycle
 - contraction phase

Chapter 5 – Business Cycles

1. The term **business cycle** refers to
 - a. the ups and downs in production of commodities
 - b. the fluctuating levels of economic activity over a period of time**
 - c. decline in economic activities over prolonged period of time
 - d. increasing unemployment rate and diminishing rate of savings

2. A significant decline in general economic activity extending over a period of time is
 - a. business cycle
 - b. contraction phase**
 - c. recession
 - d. recovery

3. The trough of a business cycle occurs when _____ hits its lowest point.
 - a. inflation in the economy
 - b. the money supply
 - c. aggregate economic activity**
 - d. the unemployment rate

4. The lowest point in the business cycle is referred to as the
 - a. Expansion
 - b. Boom
 - c. Peak
 - d. Trough**

5. A leading indicator is
 - a. a variable that tends to move along with the level of economic activity
 - b. a variable that tends to move in advance of aggregate economic activity**
 - c. a variable that tends to move consequent on the level of aggregate economic activity
 - d. None of the above

6. A variable that tends to move later than aggregate economic activity is called
 - a. a leading variable
 - b. a coincident variable.
 - c. a lagging variable.**
 - d. a cyclical variable

7. Industries that are extremely sensitive to the business cycle are the
 - a. Durable goods and service sectors.
 - b. Non-durable goods and service sectors.
 - c. Capital goods and non-durable goods sectors.
 - d. Capital goods and durable goods sectors.**

8. A decrease in government spending would cause
- the aggregate demand curve to shift to the right.
 - the aggregate demand curve to shift to the left**
 - a movement down and to the right along the aggregate demand curve.
 - a movement up and to the left along the aggregate demand curve.
9. Which of the following does not occur during an expansion?
- Consumer purchases of all types of goods tend to increase.
 - Employment increases as demand for labour rises.
 - Business profits and business confidence tend to increase
 - None of the above**
10. Which of the following best describes a typical business cycle?
- Economic expansions are followed by economic contractions.**
 - Inflation is followed by rising income and unemployment.
 - Economic expansions are followed by economic growth and development.
 - Stagflation is followed by inflationary economic growth
11. During recession, the unemployment rate _____ and output _____.
- Rises; falls**
 - Rises; rises
 - Falls; rises
 - Falls; falls
12. The four phases of the business cycle are
- expansion, peak, contraction and trough**
 - contraction, expansion, trough and boom
 - expansion contraction, peak, and trough
 - peak, depression, bust, and boom
13. Leading economic indicators
- are used to forecast probable shifts in economic policies
 - are generally used to forecast economic fluctuations**
 - are indicators of stock prices existing in an economy
 - are indicators of probable recession and depression
14. When aggregate economic activity is declining, the economy is said to be in
- Contraction**
 - an expansion
 - a trough
 - a turning point
15. Peaks and troughs of the business cycle are known collectively as
- Volatility
 - Turning points.**
 - Equilibrium points.
 - Real business cycle events

16. The most probable outcome of an increase in the money supply is
- interest rates to rise, investment spending to rise, and aggregate demand to rise
 - interest rates to rise, investment spending to fall, and aggregate demand to fall
 - interest rates to fall, investment spending to rise, and aggregate demand to rise**
 - interest rates to fall, investment spending to fall, and aggregate demand to fall
17. Which of the following is not a characteristic of business cycles?
- Business cycles have serious consequences on the well-being of the society.
 - Business cycles occur periodically, although they do not exhibit the same regularity.
 - Business cycles have uniform characteristics and causes**
 - Business cycles are contagious and unpredictable.
18. Economic recession shares all of these characteristics except
- Fall in the levels of investment, employment
 - Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
 - Investor confidence is adversely affected and new investments may not be forthcoming
 - Increase in the price of inputs due to increased demand for inputs**
19. The different phases of a business cycle
- do not have the same length and severity**
 - expansion phase always last more than ten years
 - last many years and are difficult to get over in short periods
 - none of the above
20. Which of the following is not an example of coincident indicator?
- Industrial production
 - Inflation
 - Retail sales
 - New orders for plant and equipment**
21. According to _____ trade cycles occur due to onset of innovations.
- Hawtrey
 - Adam Smith
 - J M Keynes
 - Schumpeter**
22. Economic indicators are –
- A one stroke solution to check the phase of economy
 - Indicators showing the movement of economy
 - Some activities which predict the direction of economy**
 - Just an illusion
23. Which economic indicator is required to predict the turning point of business cycle?
- Leading indicator
 - Lagging indicator
 - Coincident
 - All of the above**

24. Business cycle generally originate in free market economies, what is a free market economy?
- The economy where government is in possession of major assets
 - The economy where private firms control major assets**
 - The economy where decisions of productions are taken by public sector undertakings
 - The economy where price is controlled by government
25. Which of the following statements is correct?
- The business cycle largely affects the agricultural sector
 - The business cycle largely affects small employees
 - The business cycle generally affects all sectors of economy but business sector in particular**
 - The business cycle affects low wages workers
26. According to Keynes, fluctuations in Economic activities are due to-
- Fluctuation in aggregate effective demand.**
 - Innovations
 - Changes in money supply
 - Fluctuation in agricultural output
27. Which of the following is the cause of business cycles?
- Fluctuations in aggregate effective demand
 - Fluctuations in investments
 - Fluctuations in government spending
 - All of the above**
28. Economist use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called _____
- Signals
 - Indicators**
 - Barometer
 - Clues
29. If the growth rate of population is higher than the rate of economic growth, there will be _____ in the economy.
- More savings
 - No effect on savings
 - Lesser savings**
 - None of these
30. The cobweb theory was propounded by
- Hawtrey
 - Adam smith
 - J M Keynes
 - Nicholas kaldor**

31. An important indicator of a nation's well-being is _____
- Gross Domestic Product (GDP)**
 - Gross National Product (GNP)
 - Gross National Income (GNI)
 - Growth rate of GDP or GNP
32. In order to influence spending on the goods and services in the short run, monetary policy is directed at directly influencing _____.
- Unemployment rate
 - Inflation rate
 - Interest rate**
 - Economic growth rate
33. During business cycles the opposite of a trough is _____
- an inflation
 - a hyperinflation
 - a trend
 - a peak**
34. Cost of living increases when business cycle is _____
- at peak
 - contracting
 - expanding**
 - at lowest point
35. Post war reconstruction
- will push the economy to slow down because of excess external debts.
 - will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.**
 - can cause boom or recession depending upon the policies for reconstruction adopted by govt.
 - None of these
36. Suppose in an economy the population growth rate remained 6% during last 5 years while the economic growth rate during the same period was just 3%.
What will be the consequences of it? Select the right option from the options given below.
- Lesser savings → Lower investment → Low income & employment → Low effective demand → Overall slowdown in economic activities**
 - More consumption expenditure → more demand → more production → more employment & income → Overall boom in economic activities
 - Increase in labour supply → Lower wage rate → Low income → Low savings & investments → Low production → Overall slowdown in economic activities
 - None of the above

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

- a. Business cycles always affect all sectors uniformly.
- b. Business cycles may affect all sectors uniformly.
- c. **Business cycles do not affect all sectors uniformly.**
- d. None of these

38. Cyclical business refers to

- a. The business where demand fluctuates seasonally
- b. The business which keep on changing their product
- c. **The business whose fortunes are closely related to the rate of economic growth.**
- d. All of the above

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

	List I		List II
I	Leading indicator	A	Industrial production
II	Lagging indicator	B.	Changes in stock price
III.	Coincident indicator	C.	Corporate profit

- a. I-A, II-B, III-C
- b. **I-B, II-C, III-A**
- c. I-C, II-B, III-A
- d. I-A, II-C, III-B

40. According to British Economist J. M. Keynes _____ was the main cause of massive decline in income and employment during Great Depression of 1930.

- a. **Lower aggregate expenditure in the economy.**
- b. Banking crises and low money supply
- c. Overdebttness
- d. Lower profits & pessimism

41. Business cycle emerge in _____.

- a. Socialist economy
- b. **Free market economy**
- c. Mixed economic system
- d. None of the above

42. During an upturn in the business cycle the negative output gap does not become much more negative than it was. This is because of the fact that:

- a. **Capacity increases because of the rise in investment.**
- b. Expenditure decreases because of the rise in the interest rate.
- c. The government lowers the taxes during an upturn.
- d. Labour productivity decreases during upturn.

43. The government and industry try to predict the business cycle by using indicators. These are:
- Variable that can explain the growth of production capacity.
 - Variables that precede the actual movements in expenditure and production.**
 - The expenditure categories of consumption, investment and exports.
 - Domestic and foreign indications relating to the business cycle and the tendency.
44. When aggregate economic activity is increasing, the economy is said to be in
- an expansion**
 - a contraction.
 - a peak.
 - a turning point.
45. What is the term for the lowest point of economic activity in a business cycle, where unemployment is high, and production is at its lowest?
- Prosperity
 - Trough and Depression**
 - Peak
 - Expansion
46. A business whose fortune is closely linked to the rate of economic growth is referred to as:
- Cyclical Business**
 - Seasonal Business
 - Static Business
 - Dynamic Business
47. During what time, the production of weapons and arms, etc. increases and most of the resources of the country are diverted for their production?
- Post-War
 - Pre-War
 - War**
 - Peace
48. In Recovery phase of business cycle, the process of reversal is initially felt in the:
- Capital market
 - Labour market**
 - Agriculture market
 - Financial market
49. Which of the following is not a characteristic of business cycle?
- They occur periodically
 - They are recurrent
 - They occur at regular intervals**
 - They have distinct phases of expansion, peak, contraction and trough.

50. Which of the following is not an internal cause of business cycle?

- a. Fluctuations in effective demand
- b. Fluctuations in investment
- c. Variations in government spending
- d. **Technology shock**

51. 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

52. Variables that change after the real output changes are called:

- a. Leading indicators
- b. **Lagging indicators**
- c. Coincident indicators
- d. Non-economic indicators

53. During the upswing phase of business cycle, the involuntary unemployment is

- a. Highest
- b. Almost zero
- c. **Lowest**
- d. Not affected

54. 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

55. In all kinds of businesses, the different phases of business cycle generally occur 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

56. Assume that when price is Rs. 30, the quantity demanded is 19 units and when price is Rs. 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. Rs. 10
- b. **-Rs. 10**
- c. Rs. 20
- d. -Rs. 20

57. An indicator 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
 - d. **Co-incident indicator.**
58. 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 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.

Chapter 6 (Unit 1) – Determination of National Income

1. The concept of 'resident unit' involved in the definition of GDP denotes
 - a) A business enterprise which belongs to a citizen of India with production units solely situated in India
 - b) The unit having predominant economic interest territory in the country for one year or more irrespective of the nationality or legal status**
 - c) A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India
 - d) Households and business enterprises composed of citizens of India alone living in during the accounting year India

2. Read the following statements and answer the following questions.
 - I. Intermediate consumption consists of the value of the goods consumed and services as inputs by a process of production,
 - II. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital
 - a) Only I is true
 - b) Both I and II are true**
 - c) Only II is true
 - d) Neither I nor II is true

3. Non-economic activities are
 - a) those activities whose value is excluded from national income calculation as it will involve double counting
 - b) those which produce goods and services, but since these are not exchanged in a market transaction they market do not command any value**
 - c) those which do not involve production of goods and services as they are meant to provide hobbies activities and leisure time
 - d) those which result in production for self therefore consumption not included national income calculation and in

4. Which of the following does not enter into the calculation of national income?
 - a) Exchange of previously produced goods
 - b) Exchange of second hand goods
 - c) Exchange of stocks and bonds
 - d) All the above**

5. Read the following statements
 - I. 'Value added' refers to the difference between value of output and purchase of intermediate goods.
 - II. 'Value added' represents the contribution of labour and capital to the production process.
 - a) Statement I and II are incorrect
 - b) Statement I and II are correct**
 - c) Statement I is correct and II is incorrect
 - d) Statement II is correct and I is incorrect

6. **Gross Domestic Product (GDP) of any nation**
- excludes capital consumption and intermediate consumption
 - is inclusive of capital consumption or depreciation**
 - is inclusive of indirect taxes but excludes subsidies
 - None of the above
7. **Which of the following enters into the calculation of national income?**
- The value of the services that accompany the sale
 - Additions to inventory stocks of final goods and materials
 - Stocks and bonds sold during the current year
 - (a) and (b) above**
8. **Gross National Product market prices GNP MP is at**
- GDP MP + Net Factor Income from Abroad**
 - GDP MP - Net Factor Income from Abroad
 - GDP MP - Depreciation
 - GDP MP + Net Indirect Taxes
9. **Choose the correct statement**
- GNP includes earnings of Indian corporations overseas and Indian residents working overseas, but GDP does not include these**
 - $NNP_{FC} = \text{National Income} = \text{FID income (factor earned domestic territory)} - \text{NFIA}$
 - Capital goods and inventory Investment are excluded from computation of GDP
 - $NDP_{MP} = GDP_{MP} + \text{Depreciation}$
10. **The basis of distinction between market price and factor cost is**
- net factor income from abroad
 - net indirect taxes (i.e., Indirect taxes - Subsidies)**
 - net indirect taxes (i.e., Indirect taxes + Subsidies)
 - depreciation (consumption of fixed capital)
11. **If factor income from abroad is positive, then**
- national income will be greater than domestic factor incomes.**
 - national income will be less than domestic factor incomes.
 - net exports will be negative
 - domestic factor incomes will be greater than national income
12. **The GDP per capita is**
- a measure of a country's economic output per person
 - actual current income receipts of persons
 - national income population divided by
 - (a) and (c) above**
13. **Which of the following is an example of transfer payment?**
- Old age pensions and family pensions
 - Scholarships given to deserving diligent students.
 - Compensation given for loss of property due to floods
 - All the above**

14. Mixed income of the self-employed means

- a) net profits received by self-employed people
- b) outside wages received by self-employed people
- c) **combined factor payments which are not distinguishable,**
- d) wages due to non-economic activities

15. Which of the following is added to national income while calculating personal income?

- a) **Transfer payments to individuals**
 - b) Undistributed corporate profits
 - c) Transfer payments made to foreigners
 - d) Mixed income of self employed
-

Extra Questions

16. 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

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

- a) Ministry of Commerce & Industry
- b) Ministry of Social Affairs
- c) Ministry of Finance
- d) **Ministry of Statistics and Program Implementation**

18. _____ is the value of all final goods and services produced in the country within a given period.

- a) **GDPmp**
- b) GNPmp
- c) NDPfc
- d) NNPfc

19. Real GDP increase over time due to the following reason/s:

- a) **Increase in production of goods**
- b) Increase in the prices of goods
- c) Both a & b
- d) None of the above

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

- a) **GDP Deflator**
- b) GDP Inflator
- c) GDP Velocity
- d) GDP Accelerator

21. GDP at Current Prices means _____.

- a) **Nominal GDP**
- b) Real GDP
- c) GDP at constant prices
- d) None of these

22. GDP Deflator is a price index used to convert _____.

- a) **Nominal GDP to Real GDP**
- b) Nominal GDP to National GDP
- c) Real GDP to National GDP
- d) Nominal GDP in percentage

23. What is Real GDP if Nominal GDP is Rs. 5,75,000 and GDP Deflator is 143.75.

- a) **Rs. 4,00,000**
- b) Rs. 8,26,563
- c) Rs. 1,25,000
- d) None of these

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

- a) Always Zero
- b) **Always 100**
- c) Always Equal to Nominal GDP
- d) Always Equal to Real GDP

25. If the GDP deflator is greater than 100, then-

- a) Nominal GDP = Real GDP
- b) **Nominal GDP > Real GDP**
- c) Nominal GDP < Real GDP
- d) Nominal GDP 2 Real GDP

26. _____ is a measure of the market value of all final economic goods and services, produced within the domestic territory of a country by normal residents during an accounting year including net factor incomes from abroad

- a) GDPmp
- b) NDFfc
- c) **GNPmp**
- d) NNPmp

27. Choose the correct statement

- a) **GNP includes earnings of Indian corporations overseas and Indian residents working overseas, but GDP does not include these**
- b) $NNPFC = National\ Income = FID$ (factor income earned in the domestic territory) - NFIA.
- c) Capital goods and inventory investment are excluded from the computation of GDP
- d) $NDP_{MP} = GDP_{MP} + Depreciation$

28. Which of the following is correct?

- a) $NNPMP = GNPMP - \text{Depreciation}$.
- b) $NNPMP = NDPMP + \text{Net factor Income from abroad}$.
- c) $NNPMP = GDPMP + \text{Net factor Income from abroad} - \text{Depreciation}$.
- d) **All of the above.**

29. Mixed income of the self-employed means

- a) Net profits received by self-employed people
- b) Outside wages received by self-employed people
- c) **Combined factor payments which are not distinguishable**
- d) Wages due to non-economic activities

30. If net factor income from abroad is positive, then:

- a) **national income will be greater than domestic factor incomes.**
- b) national income will be less than domestic factor incomes.
- c) net exports will be negative
- d) domestic factor incomes will be greater than national income

31. ____ is a measure of the market value of all final economic goods and services, produced within the domestic territory of a country by normal residents during an accounting year including net factor incomes from abroad & excluding Depreciation

- a) GDPmp
- b) NDFfc
- c) GNPmp
- d) **NNPmp**

32. Which of the following is alternately known as the National Income?

- a) Gross National Product at factor Cost
- b) Net National Product at Market Price
- c) Gross National Product at Market Price
- d) **Net National Product at Factor Cost**

33. What is the formula for computing Operating Surplus?

- a) **Gross Value added at Factor Cost - Compensation of Employees Depreciation**
- b) Gross Value Added at Factor Cost + Compensation of Employees + Depreciation
- c) Gross Value Added at Market Price Compensation of Employees
- d) Gross Value Added at Factor Cost Compensation of Employees + Depreciation

34. Normally, NNP at market prices are higher than NNP at factor cost because

- a) **Indirect taxes exceed government subsidies.**
- b) Government subsidies exceed Indirect taxes.
- c) Indirect taxes equal to government subsidies.
- d) Depreciation is always Nil.

35. The money value of output produced within a country's domestic limits in a year, as received by the factors of production, is measured by _____
- a) GDPmp
 - b) **GDPfc**
 - c) NDPfc
 - d) NNPfc
36. The value of NDP at FC will be if the following information is given: -
GNP at MP: ₹60,000
Depreciation: ₹4,000
NFIA: ₹3200
Net Indirect Taxes: ₹6,000
- a) **46,800**
 - b) 64,000
 - c) 61,080
 - d) None of these
37. Which of the following is not a component of operating surplus?
- a) **Compensation of Employees**
 - b) Interest
 - c) Royalty
 - d) Rent
38. Which of the following is not included in Domestic Income?
- a) Wage & Salaries
 - b) Interest & Dividends
 - c) **Income earned from abroad**
 - d) None of the above
39. Which of the following will give Personal Income?
- a) **Private Income - Undistributed Corporate Profits – Taxes on Profits**
 - b) Private Income + Undistributed Corporate Profits – Taxes on Profits
 - c) Private Income + Undistributed Corporate Profits + Taxes on Profits
 - d) Private Income - Undistributed Corporate Profits - All Taxes
40. Private Income: ₹50,000
Undistributed Corporate Profits: ₹10,000
Profit Taxes: ₹2500
What is Personal Income?
- a) **₹37,500**
 - b) ₹48,000
 - c) ₹34,000
 - d) ₹40,000

41. _____ is the income received by the household sector including Non-Profit institutions serving households.
- National income
 - Private income
 - Personal income**
 - Personal disposable income
42. Personal income excludes:
- Retained earnings
 - Indirect business taxes
 - Corporate income taxes
 - All of the above**
43. Which of the following is added to national income while calculating personal income?
- Transfer payments to individuals**
 - Undistributed profits of corporate
 - Transfer payments made to foreigners
 - Mixed income of self-employed
44. What is the relationship of Disposable Personal Income (DI) and Personal Income (PI)?
- $DI = PI + \text{Personal Income Taxes} + \text{Non-Tax Payments}$
 - $DI = PI - \text{Personal Income Taxes} + \text{Non-Tax Payments}$
 - $DI = PI - \text{Personal Income Taxes} - \text{Non-Tax Payments}$**
 - None of the above
45. _____ method may be most suitable for developed economies
- Expenditure method
 - Income method**
 - Production method
 - None of the above
46. _____ is a measure of the amount of money in the hands of individuals that is available for their consumption or savings.
- Personal income
 - Private income
 - Disposable personal income**
 - Domestic income
47. Consider the following data: -
- | | |
|-------------------------------|-------|
| Compensation of Employees | 1,200 |
| Operating Surplus | 2,400 |
| Consumption of fixed capital | 480 |
| Mixed-income of Self-employed | 1,320 |
| Net Indirect Tax | 540 |
| Rent | 660 |
| Profit | 960 |
| Net factor Income from abroad | 60 |

Which of the following is incorrect?

- a) GDP at MP= 5,940 Crores.
- b) GNP at MP= 6,000 Crores.
- c) NNP at MP= 5,520 Crores.
- d) **NNP at FC= 5,940 Crores**

48. $NNP_{MP} = 15,053$ Crores; Indirect Taxes = 335; Crores; $NNP_{FC} 14,980$ Crores; what will be the amount of subsidies and Net Indirect Taxes?

- a) **₹262 crores ₹73 crores.**
- b) ₹73 crores & ₹262 crores.
- c) ₹335 crores & ₹189 crores.
- d) ₹189 crores & ₹335 crores.

49. The GDP at the market price of a Country in a particular year was Rs. 1,900 crores. The National Income and Net Factor Income from abroad were Rs. 1671 crores and Rs. 107 Crores. If the Value of Net Indirect Taxes was Rs. 210 Crores. What is the aggregate value of Depreciation?

- a) **126 Crores**
- b) 142 Crores
- c) 336 Crores
- d) None of these

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

- a) **Real Flow**
- b) Money Flow
- c) Consumption Flow
- d) Generation Flow

51. The method of national income measures the contribution of each producing enterprise in the domestic territory of the country.

- a) Income
- b) Expenditure
- c) **Product**
- d) Turnover

52. The production of goods for self-consumption is valued at _____ while calculating national income through the Product Method.

- a) Historical Prices
- b) **Prevailing Market Prices**
- c) Prevailing Cost Prices
- d) None of the above

53. "Identifying the producing enterprise and classifying them into individual sectors according to their activities", is a step followed in which of the following methods of computing national income?

- a) **Product Method**
- b) Income Method
- c) Expenditure Method
- d) Profit Method

54. Value added by each producing enterprise is also known as

- a) **GVA at market price**
- b) GVA at factor price
- c) GDP at market price
- d) GDP at factor price

55. The expenditure on goods and services which is meant for final consumption and investment is called

- a) **Final Consumption**
- b) Intermediate Consumption
- c) Basic consumption
- d) None of these

56. What is the value of output on the basis of the following information?

Sales: ₹40,000

Closing Stock: ₹2,000

Opening Stock: ₹500

- a) 42,500
- b) 42,000
- c) **41,500**
- d) 38,500

57. Under the value-added method, which of the following will be included while computing National Income?

- a) Sale and purchase of second-hand goods
- b) Intermediate goods
- c) **Production of goods for self-consumption primary**
- d) Production of services for self-consumption

58. Consider the following data:

Sales: 20,00,000

Closing Stock: 40,000

Opening Stock: 10,000

Indirect Taxes: 1,00,000

Depreciation: 60,000

Intermediate Consumption: 3,20,000

Purchase of Raw Material: 1,35,000

Rent: 25,000

The amount of Net value added at market price is _____.

- a) ₹16,30,000
- b) ₹16,50,000
- c) ₹16,80,000
- d) ₹16,90,000

59. Consider the following information:

- A. NDP at market price 77,000
- B. Net Factor Income from abroad (-) 700
- C. Depreciation 1,700
- D. Subsidies 6,600
- E. Indirect Taxes 7,700

The value of National Income is:

- a) 75,000
- b) 75,200
- c) 75,400
- d) 75,500

60. The sum total of all the factor incomes earned within the domestic territory of a country is known as:

- a) NNPFC
- b) NDPFC
- c) NNPMMP
- d) NDPMP

61. Which of the following is included while estimating National Income under 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

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

Private final consumption: 25,000

Government final consumption: 12,000

Net Domestic capital formation: 6,500

Net Export: 5,000

Net factor income from Abroad: 1000

Net Indirect Taxes: 1,500

- a) ₹49,500
- b) ₹48,000
- c) ₹47,000
- d) ₹45,500

63. Consider the following data:

Sales: 1,050

Opening Stock: 750

Intermediate Consumption: 525

Closing Stock: 600

Net factor Income from Abroad: 45

Depreciation: 225

Excise Tax: 165

Subsidies: 75

What is the amount of National Income by Value Added method?

a) 900

b) 375

c) **105**

d) None of these

64. Consider the following information-

Private Final Consumption Expenditure: 67

Gross Domestic Fixed Capital Formation: 1,575

Subsidy: 450

Net Import: 90

Change in Stock: 135

Net acquisition of Valuables: 45

Income Paid to abroad: 90

Depreciation: 135

What is the value of NNP FC (by expenditure method)?

a) **₹1,957 Crores**

b) ₹1,507 Crores

c) ₹1,462 Crores

d) None of these

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

a) Super regional sectors

b) Super sectors

c) **Supra Regional Sectors**

d) Regional sectors

66. If the GDP Deflator of a country in the year 2020 is 140.75 and in the year 2021 is 157.33, then what is the inflation rate in the year 2021?

a) 9.09%

b) 10.97%

c) **11.78%**

d) 12.34%

67. If GDP at market price is ₹6,700 crore and depreciation is 530 crores, then what will be the NDP at market price?
- a) 6,200 crore
 - b) **6,170 crore**
 - c) 7,230 crore
 - d) 6,690 crore
68. Which of the following refers to the mixed income of the self-employed?
- a) **Combined factor payments which are not distinguishable**
 - b) Wages due to non-economic activities
 - c) Net profits received by self-employed
 - d) Outside wages received by self-employed
69. What does Disposable Personal Income (DPI) represent?
- a) The total income earned by individuals before taxes
 - b) **The income individuals have for consumption or saving**
 - c) The total savings accumulated by individuals
 - d) The total income of a country's government
70. The ratio between nominal GDP and real GDP is known as:
- a) Inflation Rate
 - b) **Gross Domestic Product deflator**
 - c) Gross National Product
 - d) Net National Product
71. Which of the following is not the limitation in the computation of the national income?
- a) Issue of transfer payments
 - b) Services of durable goods
 - c) Difficulty of incorporating the distribution of income
 - d) **Quality improvements due to technological innovations**
72. Which method measures the contribution of each producing enterprise in the domestic territory of a country over an accounting year by consolidating production of each industry less intermediate purchases from all other industries?
- a) Income Disposal Method
 - b) **Value Added Method**
 - c) Income Method
 - d) Expenditure Method
73. Joseph had a shoe company in US. The profits earned from its manufacturing unit operating in India will come under
- a) **GDP of India and GNP of US**
 - b) GDP of US and GNP of India
 - c) GNP of US and GNP of India
 - d) GDP of US and GDP of India

74. 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)

75. If GDPmp is more than GNPmp 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 earn abroad is equal to the aggregate amount that foreign citizens and overseas companies earn in that country.
- d) NFIA is positive

76. Find the real GDP if nominal GDP = 720 and price index = 120

- a) 864
- b) 500
- c) **600**
- d) 700

77. 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 household
- c) **It is a measure of actual current income receipts of persons only from productive activities.**
- d) It excludes retained earnings

78. Product method or Value-added method for calculating of National income is also called:

- a) **Industrial origin method**
- b) Income Disposal method
- c) Factor payment method
- d) Distributed share method

79. 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-hand goods
- d) **Commissions and brokerages**

80. 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

81. Nominal GDP is:

- a) Same as real GDP
- b) Real GDP less depreciation
- c) **GDP at current prices**
- d) GDP at constant prices

82. Which of the following organization is responsible for the compilation of National accounts statistics?

- a) **Central Statistical Organisation (CSO)**
- b) Directorate of Economics and Statistics
- c) Ministry of Finance of Central government
- d) Reserve bank of India (RBI)

83. 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**

84. Considering the data given below 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%

85. 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 capital income
- c) **Disposable personal income**
- d) Personal income

86. 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 tax
- d) Contribution towards social security

87. 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 & transfer income) accrued to the private sector from all sources within and outside the country.**

88. 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 + NFIA
- d) Basic price = Factor cost + Production tax + Production subsidy.

89. 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

Chapter 6 (Unit 2) – The Keynesian Theory

1. In the Keynesian model, equilibrium aggregate output is determined by:
 - a) **Aggregate demand**
 - b) Consumption function
 - c) The national demand for labor
 - d) The price level
2. Keynes believed that an economy may attain equilibrium level of output:
 - a) Only at the full employment level of output
 - b) **Below the full-employment level of output**
 - c) Only if prices were inflexible
 - d) Both (a) and (c)
3. According to Keynes, consumption expenditure is determined by:
 - a) The level of interest rates
 - b) The extent of government taxes and subsidies
 - c) **Disposable income**
 - d) Autonomous investment expenditure
4. The marginal propensity to consume (MPC) can be defined as:
 - a) **A change in spending due to a change in income**
 - b) A change in income that is saved after consumption
 - c) Part of income that is spent on consumption
 - d) Part of income that is not saved
5. If the consumption function is expressed as $C = a + bY$, then b represents:
 - a) Autonomous consumer expenditure when income is zero
 - b) **The marginal propensity to consume**
 - c) The expenditure multiplier when consumption is increased
 - d) Part of disposable income
6. If the consumption function is expressed as $C = a + bY$, then a represents:
 - a) **Autonomous consumer expenditure**
 - b) The marginal propensity to consume
 - c) The consumption-income relationship
 - d) A non-linear consumption function
7. If the consumption function is $C = 20 + 0.5Y_d$, then an increase in disposable income by 100 will result in an increase in consumer expenditure by:
 - a) 25
 - b) 70
 - c) **50**
 - d) 100

8. If the autonomous consumption equals ₹2,000 and the marginal propensity to consume equals 0.8, and disposable income equals ₹10,000, then total consumption will be:
- a) ₹8,000
 - b) ₹6,000
 - c) **₹10,000**
 - d) None of the above
9. In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45-degree line indicates the:
- a) Level of full employment income
 - b) Less than full employment level of income
 - c) **Equilibrium level of income, which may or may not be full employment level of income**
 - d) Autonomous level of income, which may not be full employment level of income
10. In a closed economy, aggregate demand is the sum of:
- a) Consumer expenditure, demand for exports, and government spending
 - b) **Consumer expenditure, planned investment spending, and government spending**
 - c) Consumer expenditure, actual investment spending, government spending, and net exports
 - d) Consumer expenditure, planned investment spending, government spending, and net exports
11. Under the equation $C=a+bY$, $b=0.8$, what is the value of the two-sector expenditure multiplier?
- a) 4
 - b) 2
 - c) **5**
 - d) 1

Extra Questions

12. 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
13. In which year, did the Western world experience the Great Depression?
- a) 1928
 - b) 1929
 - c) **1930**
 - d) None of these

14. The history of modern microeconomics was revolutionized in 1936 with the publication by John Maynard Keynes, what is the name of that masterpiece?
- General Theory of Government
 - General Theory of Employment, Interest and Money**
 - General Theory of reducing unemployment.
 - None of these
15. The two-sector model breaks the economy down into two primary players namely_____.
- Households and corporations**
 - Corporation and Business
 - Business and Government
 - Government and Foreign
16. As regards "Circular Flow in a Two Sector Economy", _____refers to the flow of the actual goods or services while_____ refers to the payment for the Services (wages) or consumption payments.
- Real Flows, Money Flows**
 - Corporation and Business
 - Business and Government
 - Government and Foreign
17. Which of the following is the correct expression of the Short-run aggregate demand function?
- $AD = \bar{C} + I$
 - $AD = \bar{C} + \bar{I}$
 - $AD = C + I$
 - $AD = C + \bar{I}$**
18. Keynes believed that an economy may attain an equilibrium level of output
- only at the full-employment level of output
 - above the full-employment level of output
 - below the full-employment level of output**
 - None of these
19. As per consumption function, if the disposable income increases, consumers will_____ their planned expenditure but only by_____ than the increase in income.
- increase, less**
 - increase, more
 - decrease, less
 - decrease, more
20. The Keynesian assumption is that consumption increases with an increase in disposable income. If the increase in disposable income is 30%, then what may be the increase in consumption?
- Less than 30%**
 - Equal to 30%
 - More than 30%
 - Any of the above

21. 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) $0 < b < 1$
22. If the consumption function is $20 + 0.5 Y_d$, then an increase in disposable income by 100 will result in an increase in expenditure by consumer
- a) 25
 - b) 70
 - c) **50**
 - d) 100
23. _____ is the total supply of goods and services that 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)**
24. When income rises from 1,000 to 1,100, saving rises by 40. What are MPS and MPC?
- a) **0.40 and 0.60**
 - b) 0.60 and 0.40
 - c) 1.40 and 1.60
 - d) 1.60 and 1.40
25. If $S = -30 + 0.25 (y)$, then what will be the Consumption Function (C)?
- a) $C = 30 + 0.25 (y)$
 - b) $C = -30 + 0.75 (y)$
 - c) **$C = 30 + 0.75 (y)$**
 - d) $C = -30 + 0.25 (y)$
26. Under equation $C = a + by$, $b = 0.8$, what is the value of the 2-sector expenditure multiplier?
- a) 4
 - b) 2
 - c) **5**
 - d) 1
27. 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

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

Autonomous Consumption = 500

MPS = 0.3

Investment Expenditure = 1000

What is national income?

- a) 1,500
- b) **5,000**
- c) 150
- d) 5,650

29. Which of the following is the determinant of the value of the investment multiplier?

- a) **MPC**
- b) APC
- c) TPC
- d) None of these

30. The higher the _____ more will be the value of the multiplier, whereas, the higher the _____ lower will be the value of the multiplier.

- a) MPS, MPC
- b) **MPC, MPS**
- c) APS, APC
- d) APC, APS

31. An increase in investment by 1000 Crores leads to an increase in national income by 2500 Crores. What will be the Marginal Propensity to Consume (MPC)?

- a) 2.5
- b) **0.6**
- c) 0.4
- d) None of these

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

- a) 0
- b) 1
- c) **Infinity (∞)**
- d) -1

33. Consider the following about a simple economy:

Consumption function (C) = $50 + 0.8Y_d$

T = 100

I = 250 crores

G = 100 Crores

What will be the equilibrium level of National Income?

- a) 1200
- b) 1400
- c) **1600**
- d) None of these

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

$$C = 40 + 0.8Y_d$$

$$I = 80$$

$$G = T = 40$$

$$TR = 15$$

What will be the equilibrium level of income?

- a) **700**
- b) 610
- c) 175
- d) None of these

35. In the determination of the 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) $M = \bar{M} + mY$
- d) **All of the above**

36. In four four-sector models, which of the following formulas is used to calculate the Foreign Trade Multiplier, if b and m refer to marginal propensity to consume and Marginal propensity to import?

- a) $\frac{1}{1-b-m}$
- b) $\frac{1}{1+b-m}$
- c) $\frac{1}{1-b+m}$
- d) $\frac{1}{1+b+m}$

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

- a) Surplus (20)
- b) **Deficit (20)**
- c) Surplus (30)
- d) Deficit (30)

38. Consider the following: Consumption function (C) = $40 + 0.8Y$

$$T = 0.1Y$$

$$I = 60 \text{ crores}$$

$$G = 40 \text{ Crores}$$

$$X = 58$$

$$M = 0.05Y$$

What will be the equilibrium level of National Income?

- a) 800 crores
- b) **600 crores**
- c) 545 crores
- d) None of these.

39. $C = 60 + 0.9Y_d$

$I = 10$

$M = 10 + 0.05Y$

What is the foreign trade multiplier?

- a) 0.98
- b) 3.97
- c) **6.66**
- d) None of these.

40. Calculate the consumption of Fixed Capital consumed from the following data:

NNP at Factor Cost: 6,250

GDP at Market Price: 7,000

Net Indirect Taxes: 250

Net Factor Income from Abroad: 150

- a) 450 Crores
- b) 550 Crores
- c) **650 Crores**
- d) None of these

41. _____ refers to the ratio of consumption expenditure to the corresponding level of total income.

- a) **Average propensity to consume**
- b) Marginal propensity to consume
- c) Overall propensity to consume
- d) Moderate propensity to consume

42. What will be the value of Average Propensity to Save (APS) When $C = 300$ at $Y = 1,000$?

- a) 0.3
- b) **0.7**
- c) 1.3
- d) 3.1

43. If APS and Y are 0.375 and 1800, then what will be the value of C?

- a) 375
- b) 675
- c) **1,125**
- d) 1,425

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

- a) Export
- b) Imports
- c) Net capital Inflow
- d) **All of the above**

45. Suppose the consumption of an economy is given by $C = 30 + 0.5Y$ and investment $I = 12 + 0.15Y$. What will be the equilibrium level of National Income?
- a) **120**
 - b) 115
 - c) 105
 - d) 112
46. According to the Keynesian theory of income and employment, national income depends upon:
- a) Aggregate Effective Supply
 - b) Aggregate Effective Savings
 - c) **Aggregate Effective Demand**
 - d) Aggregate Effective Production
47. What will be the Total Income if the value of Average Propensity to Consume (APC) is 0.45 and Total Consumption = 900 crores?
- a) 2,500 crores
 - b) **2,000 crores**
 - c) 2,050 crores
 - d) 2,100 crores
48. The consumption function is a functional relationship between aggregate consumption and
- a) **Aggregate disposable income**
 - b) Aggregate demand
 - c) Aggregate supply
 - d) Savings
49. Calculate average propensity to save when $C = 300$ and $Y = 1200$
- a) 0.25
 - b) 0.50
 - c) **0.75**
 - d) 0.80
50. In a 3 sector model, suppose $C = 8 + 0.6Y_d$, $I = 60$, $G = T = 10$. Find out equilibrium level of National Income
- a) 120
 - b) 150
 - c) **180**
 - d) 200
51. In an economy investment expenditure is increased by Rs. 300 crores and marginal propensity to consume is 0.6. Calculate the total increase in income.
- a) Rs. 300 crores
 - b) Rs. 100 crores
 - c) Rs. 650 crores
 - d) **Rs. 750 crores**

52. The investment multiplier is defined as a ratio of:

- a) Change in investment due to change in savings
- 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**

53. 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

54. Under the Keynesian theory of National Income determination, which of the following term is given to the demand of money?

- a) Investment multiplier
- b) **Liquidity preference**
- c) Aggregate demand
- d) Marginal propensity

55. 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**

56. 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

57. 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

58. 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

Chapter 7 (Unit 1) – Fiscal Functions

1. **Redistribution policies are likely to have efficiency costs because**
 - a) They will reduce the efficiency of governments
 - b) They may create disincentives to work and save**
 - c) Governments have to forego taxes
 - d) They are likely to make the poor people dependent on the rich

2. **Macroeconomic stabilization may be achieved through**
 - a) Free market economy
 - b) Fiscal policy
 - c) Monetary policy
 - d) (b) and (c) above**

3. **Which of the following policies of the government fulfils the redistribution function?**
 - a) Parking the army on the northern borders of the country
 - b) Supply of food grains at subsidized prices to the poor people**
 - c) Controlling the supply of money through monetary policy
 - d) All of the above

4. **Choose the correct statement**
 - a) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of price and profit controls.
 - b) Fiscal policy involves the use of price and profit controls; while monetary policy involves the use of taxation and government spending.
 - c) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of changes in the supply of money and interest rates.**
 - d) Fiscal policy involves the use of changes in the supply of money and interest rates; while monetary policy involves the use of changes in taxation and government spending.

5. **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**

6. **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

7. When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?
- It is trying to establish stability in an economy
 - It is trying to redistribute income and wealth**
 - It is trying to allocate resources to their most efficient use
 - It is creating a source of market failure
8. Government of XYZ decides to provide most modern road infrastructure throughout the nation. This can be classified as
- Distribution function
 - Allocation function**
 - Stabilization function
 - None of the above
9. Which function does the government perform when it provides transfer payments to offer support to the underprivileged
- Allocation
 - Efficiency
 - Distribution**
 - None of the above
10. Which of the following is true in respect of centre and state government finances?
- The centre can tax agricultural income and mineral rights
 - Finance commission recommends distribution of taxes between the centre and states**
 - GST subsumes majority of direct taxes and a few indirect taxes
 - IGST is collected by the state governments
11. GST compensation is given to
- to the industries which have made losses due to the introduction of GST
 - to compensate for the lower rates of GST on essential items
 - to the states to compensate for the loss of revenue due to the introduction of GST**
 - to compensate for the loss of input tax credit in manufacturing
12. Which of the following is true in respect of the role of Finance Commissions in India?
- The distribution between the union and the states of the net proceeds of taxes
 - Allocation between the states of the respective shares of such proceeds.
 - Make Recommendations on integrated GST on inter-state movement of goods and services
 - To recommend expenditure decentralization among different states
- I and II are correct**
 - II and III are correct
 - I, II and III are correct
 - All the above are correct
13. In a federal set up, the stabilization function can be effectively performed by
- Respective state governments
 - Ministry of taxes
 - The government at the centre**
 - None of the above

14. Which of the following is concerned with division of economic responsibilities between the central and state Government of India?
- a) NITI Aayog
 - b) Central bank
 - c) Finance Commission**
 - d) Parliament
15. Fiscal Federalism refers to _____.
- a) Organizing and implementing development plans
 - b) Sharing of political power between centers and states
 - c) The management of fiscal policy by a nation
 - d) Division of economic functions and resources among different layers of the government**
16. Which one of the following taxes is levied by the state government only?
- a) Corporation tax
 - b) Wealth tax
 - c) Income tax
 - d) None of the above**
17. The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is
- a) 38 percent
 - b) 41 percent**
 - c) 42 percent
 - d) The commission has not submitted its report
18. Which of the following is not a criterion for determining distribution of central taxes among states for 2021-26 period
- a) Demographic performance
 - b) Forest and ecology
 - c) Infrastructure performance**
 - d) Tax and fiscal efforts
19. 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
20. Providing social sector services such as health and education is
- a) the responsibility of the central government
 - b) the responsibility of the respective state governments**
 - c) the responsibility of local administrative bodies
 - d) none of the above
-

21. The main macroeconomic goals of any nation are:

- a) Economic Growth
- b) High level of Employment
- c) Stable Price levels
- d) **All of the above**

22. _____ was a bold advocate of free markets and minimal governmental activity.

- a) Alfred Marshall
- b) J.M. Keynes
- c) Milton Friedman
- d) **Adam Smith**

23. 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**

24. Who gave 'the Theory of Public Finance (1959)?

- a) Adam Smith
- b) **Richard Musgrave**
- c) A.C. Pigou
- d) Alfred Marshall

25. Who introduced the three-branch taxonomy of the role of government in his book 'The Theory of Public Finance'?

- a) Keynes
- b) Buchanan
- c) **Richard Musgrave**
- d) Garrett Hardin

26. Which of the government function is considered as Microeconomic Function?

- a) Resource allocation
- b) Income redistribution
- c) **Both a & b**
- d) Macroeconomic Stabilization

27. Efficient allocation of available resources in an economy is assumed to take place only when market is:

- a) Monopoly
- b) Monopolistic competitive
- c) **Perfectly competitive**
- d) Any of the above

28. Market failures that hinder the efficient allocation of resources occur due to

- a) Imperfect competition and the presence of monopoly power
- b) Incomplete Markets
- c) Externalities
- d) **All of the above**

29. Which one is the Allocation instrument that the government can use to influence resource allocation?

- a) The government may directly produce an economic good
- b) The Government may use the price mechanism
- c) The Government may influence allocation through legislation and force.
- d) **All of the above**

30. Allocation Function in Government Budgeting determines_____.

- a) who and what will be taxed
- b) how and on what the government revenue will be spent
- c) Level of involvement of the public sector in the economy
- d) **All of the above**

31. Government Redistribution policies are likely to have efficiency costs because

- a) Resources will be inefficiently utilized
- b) **Progressive taxation policies may create disincentive to work and save**
- c) Tax Revenue will be increases
- d) All of the above.

32. The stabilization function is concerned with the performance of the aggregate economy in terms of-

- a) Labour employment and capital utilization
- b) Overall output & income
- c) General price level
- d) **All of the above**

33. Macroeconomic stability is said to exist when:

- a) Economy's output = production capacity
- b) Economy's total spending = total output
- c) The economy's labour resources are fully employed and inflation is low and stable.
- d) **All of the above**

34. Using the proceeds from progressive taxes and using it for financing public services that benefit low-income households, is an example of_____.

- a) Allocation Function
- b) **Redistribution Function**
- c) Stabilization Function
- d) None & the above

35. Aim of Redistribution Function is _____.

- a) Achieve an equitable distribution of societal output among households.
- b) Advancing the well-being of those members of the society who suffer from deprivations
- c) Providing equality in income, wealth, and opportunities
- d) **All of the above**

36. Recently, in this year's budget, the Government increased the Tax on Cigarettes. This is an example of which function of public finance?

- a) **Allocation Function**
- b) Redistribution Function
- c) Stabilization Function
- d) All of the above

37. The Government adopting a Progressive taxation System to tax people on the level of their income is an example of which function of public finance?

- a) **Redistribution Function**
- b) Allocation Function
- c) Stabilization Function
- d) All of the above

38. Macroeconomic stabilization may be achieved through

- a) Education policy
- b) Fiscal policy
- c) Monetary policy
- d) **(b) and (c) above**

39. Contractionary fiscal policy can involve:

- a) Increasing the interest rates and decreasing money supply
- b) **Decreasing government spending and increasing taxes.**
- c) Increasing government spending & increasing taxes.
- d) Decreasing the interest rates and increasing money supply

40. Fiscal policy is the deliberate policy of govt. where it uses

- a) Instruments of taxation,
- b) Public expenditure
- c) Public borrowing
- d) **All of the above**

41. What is the primary goal of countercyclical fiscal policy in budgeting?

- a) Increasing government expenditure
- b) **Stabilizing the economy during economic downturns.**
- c) Minimizing Taxation.
- d) Reducing public debt.

42. India is a federation of _____.
- a) 28 states and 7 union territories.
 - b) 28 states and 8 union territories.**
 - c) 27 states and 7 union territories.
 - d) 27 states and 8 union territories.
43. _____ deals with the division of governmental functions and financial relations among the different levels of government.
- a) Vertical Equity
 - b) Horizontal Equity
 - c) Fiscal Federalism**
 - d) Either a) or b)
44. Economic stabilization and income redistribution is the responsibility of:
- a) State & local governments
 - b) Central government**
 - c) Both
 - d) None of the above
45. Article _____ of the Constitution demarcates powers of union & state by classifying their powers into three lists
- a) 268
 - b) 269
 - c) 246**
 - d) 275
46. Federalism is an institutional arrangement to accommodate two sets of government - one at the national level and the other at _____.
- a) Regional level**
 - b) State Level
 - c) International level
 - d) District level
47. In order to control high inflation, the government may
- a) Decrease expenditure & raise tax**
 - b) Increase expenditure & raise tax
 - c) Decrease expenditure & reduce tax
 - d) Increase expenditure & reduce tax
48. The Finance Commission is responsible for
- a) Evaluating the state of finances of union and state Government
 - b) Recommending the sharing of taxes between them.
 - c) Laying down the principles determining the distribution of these taxes among states
 - d) All of the above**

49. The 15th Finance Commission was constituted on

- a) 24th Nov 2017
- b) 21st Nov 2017
- c) **27th Nov 2017**
- d) 23th Nov 2017

50. GST accounts for_____.

- a) **35% of the gross tax revenue of the union & 44% tax revenue of the state**
- b) 40% of the gross tax revenue of the union & 60% tax revenue of the state
- c) 25% of the gross tax revenue of the union & 24% tax revenue of the state
- d) 55% of the gross tax revenue of the union & 35% tax revenue of the state

51. How can the government perform a redistribution function on the expenditure side of the budget?

- a) **By providing free or subsidized education, healthcare, etc to deserving people**
- b) Through progressive taxation
- c) Both a & b
- d) None of the above

52. Who can levy taxes on agricultural income?

- a) **State Government**
- b) Central Government
- c) Both a & b
- d) None of the above

53. The Finance Commission recommended share of states in the central taxes (vertical devolution) for the year 2021-26 be_____.

- a) 35%
- b) 44%
- c) 42%
- d) **41%**

54. Borrowing by the government of India and borrowing by states are defined under_____ of the Constitution of India

- a) Article 246 & 247
- b) Article 268 & 269
- c) **Article 292 & 293**
- d) Article 255 & 256

55. _____ is entrusted with providing social sector services such as health and education, and police protection.

- a) Central Government
- b) **State Government**
- c) Local self-government
- d) All of the above

56. In the event of conflicting legislation in the concurrent list, the law passed by the prevails
- State Government
 - Central Government**
 - Chief Minister of State
 - Both a & c
57. _____ is entrusted with providing public utility services such as water supply and sanitation.
- Central Government
 - State Government
 - Local self-government**
 - All of the above
58. While recommending transfers, the Finance Commission considers issues related to _____, which deals with deciding about the share of all states in the revenue collected by center and _____ which deals with allocation among states their share of central revenue.
- Horizontal equity; Vertical Equity
 - Vertical Equity; Horizontal Equity**
 - Both a & b
 - None of the above
59. GST was rolled out in India on _____.
- 1st April 2014
 - 1st April 2017
 - 1st July 2014
 - 1st July 2017**
60. GST Compensation cess amount was given to
- The manufacturing states for loss of revenue arising on account of implementation of GST**
 - The States who collect less GST than expected
 - Compensate the loss suffered by the states in their service sector
 - All of the above
61. _____ is applied to the inter-state movement of goods and services and to imports and exports
- CGST
 - SGST
 - IGST**
 - UTGST
62. Which Articles of the Indian Constitution contain specific provisions regarding the distribution of finances among states?
- Articles 356 to 369
 - Articles 248 to 257
 - Articles 268 to 281**
 - Articles 292 to 304

63. Richard Musgrave introduced a three-branch taxonomy describing the role of government in a market economy. What are these branches?
- a) Resource allocation, income generation, and price stability
 - b) Resource allocation, income redistribution, and macro-economic stabilization**
 - c) Production efficiency, income equality, and fiscal sustainability
 - d) Price regulation, employment generation, and fiscal responsibility
64. Under which Supreme Court verdict do the Union and State Legislatures have "equal, simultaneous and unique powers" to make laws on Goods and Services Tax (GST)?
- a) June 2020 verdict
 - b) July 2021 verdict
 - c) Feb. 2022 verdict**
 - d) May 2022 verdict
65. 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
66. 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
67. 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
68. Which constitutional body maintains fiscal federalism in India?
- a) Central government
 - b) Parliament
 - c) Reserve Bank of India
 - d) Finance Commission**
69. 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

Chapter 7 (Unit 2) – Market Failure

1. '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 fails to form or they allocate resources efficiently**
 - d) (b) and (c) above
2. 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 a fall in profits and the closure of firms
 - d) None of the above
3. Which of the following is an outcome of market power?
 - a) makes price equal to marginal cost and produces a positive external benefit on others
 - b) can cause markets to be efficient due to a reduction in costs
 - c) makes the firms price makers and restrict output so as to make allocation inefficient**
 - d) (b) and(c) above
4. 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
5. Which of the following is the right argument for the provision of public good by the government?
 - a) Governments have huge resources at their disposal
 - b) Public goods will never cause any type of externality
 - c) Markets are unlikely to produce a sufficient quantity of public goods**
 - d) Provision of public goods is very profitable for any government
6. An adequate amount of a pure public good will not be provided by the private market because of
 - a) the possibility of free-riding**
 - b) the existence of very low prices and low profits
 - c) governments would any way produce them, so there will be overproduction
 - d) there are restrictions as well as taxes on the production of public goods
7. 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 the externalities present
 - c) the good or service is non-excludable**
 - d) general poverty and unemployment among people

8. A chemical factory has full information regarding the risks of a product but continues to sell it. This is possible because of
- a) **asymmetric information**
 - b) moral hazard
 - c) free riding
 - d) (a) and (c) above
9. If an individual tends to drive his car in a dangerously high speed because he has a comprehensive insurance cover, it is a case of
- a) free riding
 - b) **moral hazard**
 - c) poor upbringing
 - d) Inefficiency
10. Smoking in public is a case of
- a) **Negative consumption externality**
 - b) Negative production externality
 - c) Internalising externality
 - d) None of the above
11. Read the following statements
- I. The market-based approaches to control externalities operate through price mechanism
 - II. When externalities are present, the welfare loss would be eliminated
 - III. The key is to internalizing an externality is to ensure that those who create the externalities include them while making decisions
- Of the above statements**
- a) II and III are correct
 - b) I only is correct
 - c) I only is correct
 - d) **I and III are correct**
12. Which of the following statements is false?
- a) Tradable permits provide incentive to innovate and reduce negative externalities
 - b) A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower
 - c) **Substantial negative externalities are involved in the consumption of merit goods.**
 - d) Merit goods are likely to be under-produced and under consumed through the market mechanism
13. 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

14. 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**

15. If governments make it compulsory to avail insurance protection, it is because

- a) Insurance companies need to be running profitably
- b) Insurance will generate moral hazard and adverse selection
- c) Insurance is a merit good and government wants people to consume it**
- d) None of the above

16. The Competition Act, 2002 aims to -

- a) protect monopoly positions of firms that have developed unique innovations
- b) to promote and sustain competition in markets**
- c) to determine pricing under natural monopoly.
- d) None of the above

17. Rules regarding product labeling

- a) Seeks to correct market failure due to externalities
- b) It is a method of solving the problem of public good
- c) It may help solve market failure due to information failure**
- d) Reduce the problem of monopolies in the product market

18. Identify the incorrect statement

- a) A minimum support price for agricultural goods is a market intervention method to guarantee steady and assured incomes to farmers.
- b) An externality is internalized if the ones that generated the externality incorporate them into their private cost-benefit analysis
- c) The production and consumption of demerit goods are likely to be less than optimal under free markets**
- d) Compared to pollution taxes, the cap and trade method is administratively cheap and simple to implement and ensures that pollution is minimized in the most cost-effective way.

19. The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual

- a) Is a case of negative externality
- b) Is a case of market efficiency
- c) Is a case of free-riding**
- d) Is inappropriate and warrant action

20. A government subsidy

- a) is a market-based policy
- b) involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities
- c) is generally provided for merit goods
- d) all the above**

21. The production and consumption of demerit goods are
- a) likely to be more than optimal under free markets.
 - b) likely to be less than optimal under free markets
 - c) likely to be subjected to price intervention by government
 - d) **a) and c) above**

22. The argument for education subsidy is based on
- a) Education is costly
 - b) the ground that education is merit good
 - c) education creates positive externalities
 - d) **b) and c) above**

23. Read the following statements

- I. Social costs are the total costs incurred by the society when a good is consumed or produced.
- II. The external costs are not included in firms' income statements or consumers' decisions
- III. Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs
- IV. Production and consumption decisions are efficient only when private costs are considered

Of the above

- a) Statements I and III are correct
- b) **Statements I, II and III are correct**
- c) Statement I only is correct
- d) All the above are correct

24. Government failure occurs when

- a) Government fails to implement its election promises on policies
- b) A government is unable to get reelected
- c) **Government intervention is ineffective and produces fresh and more serious problems**
- d) None of the above

25. Which of the following is not a reason for market failure?

- a) Market Power
- b) Externalities
- c) Public goods
- d) **Complete Information**

26. Complete Market failure occurs when _____.

- a) **The market does not supply products at all despite the fact that such products and services are wanted by people.**
- b) The market does actually function but it produces the wrong quantity or at the wrong price.
- c) The whole market fails
- d) None of the above

27. Externalities are also referred to as

- a) Spillover effects
- b) Neighborhood effects
- c) Third-party effects or side effects
- d) **All of the above**

28. _____ is initiated in production and imposes an external cost on others?

- a) Negative Consumption Externality
- b) **Negative Production Externality**
- c) Positive Production Externality
- d) Positive Consumption Externality

29. Which of the below is initiated in Consumption and confers external benefits on others?

- a) Negative Externality Consumption
- b) Positive Production Externality
- c) Negative Production Externality
- d) **Positive Consumption Externality**

30. Which of the following is true?

Social Costs are _____

- a) Social Costs are costs borne by business in a transaction
- b) Social Costs are external costs borne by third parties not directly involved in the transaction.
- c) **Social Cost = Private Cost + External Cost**
- d) All of the above

31. 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

32. Public goods are characterized by:

- a) **Non-excludability and non-rivalry**
- b) Excludability and rivalry
- c) Excludability and non-rivalry
- d) Non-excludability and rivalry

33. Though public goods are extremely valuable for the well-being of the society, left to the market, they will be _____

- a) Not be produced at all
- b) Under-produced
- c) **Both a & b**
- d) Over produced

34. Smoking cigarettes in public places causes passive smoking by others. This is an example of _____
- a) negative production externality is received in consumption
 - b) negative production externality is received in production
 - c) negative consumption externality is received in production
 - d) **negative consumption externality is received in consumption**
35. A firm that offers training to its employees to increase their skills generates benefits for other firms when they hire such workers as they change their jobs. This is an example of _____
- a) Positive production externality is received in consumption
 - b) **Positive production externality is received in production**
 - c) Positive consumption externality is received in production
 - d) Positive consumption externality is received in consumption
36. Excessive consumption of alcohol causes impairment in efficiency for work. This is an example of _____.
- a) negative production externality is received in consumption
 - b) **negative consumption externality is received in production**
 - c) negative production externality is received in production
 - d) negative consumption externality is received in consumption
37. _____ occurs when there is an imbalance in information between the buyer and the seller i.e. when the buyer knows more than the seller or the seller knows more than the buyer
- a) **Asymmetric information**
 - b) Symmetric information
 - c) Complete information
 - d) Imperfect information
38. _____ is about an informed person's taking advantage of a less-informed person through an unobserved action.
- a) Adverse Selection
 - b) Asymmetric Information
 - c) **Moral Hazard**
 - d) None of the above
39. The concept of the Lemons Problem was given by _____.
- a) Paul Samuelson
 - b) **George Akerlof**
 - c) JM Keynes
 - d) Adam Smith
40. _____ is also known as command solutions, prohibit specific activities that explicitly create negative externalities.
- a) Market based initiatives
 - b) **Direct controls**
 - c) Both a & b
 - d) None of the above

41. The concept of Pollution Tax was given by_____.
- a) **AC Pigou**
 - b) JM Keynes
 - c) Adam Smith
 - d) George Akerlof
42. Problems in administering an efficient pollution tax:
- a) Easy to determine and administer
 - b) **If the demand for the good is inelastic, the tax may have only an insignificant effect in reducing demand**
 - c) Potential positive consequences on employment and investment
 - d) None of the above
43. _____ are goods that have substantial positive externalities and hence they are socially desirable.
- a) Private goods
 - b) Public goods
 - c) **Merit goods**
 - d) Demerit goods
44. Which of these goods are produced and consumed as public goods and services despite the fact that they can be produced or consumed as private goods which may prove dangerous to society.
- a) Scientific approval of drugs,
 - b) Production of strategic products such as atomic energy,
 - c) Provision of security at airports etc.
 - d) **All of the above**
45. _____ is the maximum price sellers are allowed to charge for a good or service.
- a) Price floor
 - b) **Price ceiling**
 - c) Both a & b
 - d) None of the above
46. _____ is the minimum price buyers are required to pay
- a) **Price floor**
 - b) Price ceiling
 - c) Both a & b
 - d) None of the above
47. When prices of certain essential commodities rise excessively, government may resort to control in the form of:
- a) Price Floor
 - b) **Price ceiling**
 - c) Both a & b
 - d) None of the above

48. Sarah is considering purchasing a used car from a private seller named John. John claims that the car is in excellent condition and has never been in an accident. However, John is aware that the car had significant damage in the past due to an accident, but he has repaired it without disclosing this information to Sarah. Based on the case described, what concept of economics does this scenario illustrate?
- a) Moral Hazard
 - b) Lemons Problem**
 - c) Market Power
 - d) Government Interventions
49. 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
50. 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
51. The statutory disclaimer that “Mutual Fund investments are subject to market risk, 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
52. What does the term ‘lemon’ means in the model of “Lemons problem” developed by ‘George Akerlof’ in relation to used car market:
- a) Only good quality used cars
 - b) Both poor and good quality used cars
 - c) Average quality used cars
 - d) Scrapped used cars**

Chapter 7 (Unit 3) – The Process of Budget Making

1. The difference between the fiscal deficit of a government and its debt service payment is
 - a) Fiscal deficit
 - b) Budget deficit
 - c) Primary deficit**
 - d) None of the above

Question -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

2. The revenue deficit for country A is
 - a) 5,000
 - b) 24,000
 - c) 4,500**
 - d) None of the above
3. The fiscal deficit of country A is
 - a) 14,000
 - b) 24,000**
 - c) 23,500
 - d) None of the above
4. The primary deficit of Country A is
 - a) 26,000
 - b) 26,500
 - c) 22,000**
 - d) 24,500
5. In NITI Aayog, NITI stands for
 - a) National Initiative for Transforming India
 - b) National Institution for Transforming India**
 - c) National Institute for Technology and Innovation
 - d) None of the above

6. The Appropriation Bill is intended to

- a) reduce unnecessary expenditure on the part of the government
- b) give authority to the government to incur expenditures from and out of the Consolidated Fund of India**
- c) give authority to the government to incur expenditure from the revenue receipts only
- d) be passed before the budget is taken for discussion

7. Public debt management aims at

- a) An efficient budgetary policy to avail of domestic debt facilities
- b) Raising loans from international agencies at lower rates of interest
- c) Raising the required amount of funding at the desired risk and cost levels**
- d) Management of public expenditure to reduce public debt

8. The railway budget is

- a) Part of the general budget, but is presented by the railway minister
- b) Part of the general budget for the budget for financial year 2017-18.**
- c) Part of the general budget for the budget for financial year 2021-22
- d) Part of the general budget but presented on the next day of the general budget

9. Outcome budgeting

- a) shares information about the money allocated for various purposes in a budget
- b) establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators**
- c) establishes a direct link between budgetary performance targets and public account disbursements
- d) shares information about public policies and programs under the budget

10. Corporate tax

- a) is collected by the union government and can be a capital receipt or revenue receipt
- b) maybe collected by the respective states and fall under revenue receipts
- c) maybe collected either by the centre or states and fall under revenue receipts
- d) is collected by the union government and is a revenue receipt**

11. Government borrowings from foreign governments and institutions

- a) Capital receipt**
- b) Revenue receipt
- c) Accounts for fiscal deficit
- d) Any of the above depending on the purpose of borrowing

Question: The following table relates to the revenue and expenditure figures of a hypothetical economy

Recovery of loans	5.1
Salaries of govt. servants	41.1
Capital expenditure	45.0
Interest payments	1.3
Payments towards subsidies	3.2
Other receipts (mainly from dis-investment)	11.6
Tax revenue (net of states' share)	26.3
Non-tax revenue	12.3
Borrowings & other liabilities	6.8
States' share in tax revenue	11.9

12. The capital receipts are

- a) **23.5**
- b) 19.7
- c) 11.3
- d) None of the above

13. Revenue deficit is

- a) 23.6
- b) 13.0
- c) **7.0**
- d) 2.6

14. The non-debt capital receipts of this country is

- a) 45.1
- b) **16.7**
- c) 15.8
- d) None of the above

15. A budget is said to be unbalanced when

- a) when the government's revenue exceeds the government's expenditure
- b) when the government's expenditure exceeds the government's revenue
- c) either budget surplus or budget deficit occurs
- d) **All the above**

16. Fiscal deficit refers to

- a) the excess of government's revenue expenditure over revenue receipts
- b) **The excess of total expenditure over total receipts excluding borrowings**
- c) Primary deficit - interest payments
- d) None of these

17. The budget of the government generally impacts

- a) the resource allocation in the economy
- b) redistribution of income and enhance equity
- c) stability in the economy by measures to control price fluctuations
- d) **all the above**

18. 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) **(b) and (c) above**

19. Government borrowing is treated as capital receipt because

- a) It is mainly used for creating assets by the government
- b) **It creates a liability for the government**
- c) Both a) and b) above are correct
- d) None of the above is correct

20. The 'Retail Direct' scheme is

- a) Initiated by the Reserve Bank of India
- b) facilitates investment in government securities by individual investors.
- c) Direct sale of goods and services by government departments
- d) **Both (a) and (b) are correct**

21. 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

22. Which of the following is a capital receipt?

- a) License fee received
- b) **Sale proceeds from disinvestment**
- c) Assistance from Japan for COVID-19 vaccine
- d) Dividend from a public sector enterprise

23. 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 create any asset nor reduces any liability of the government**
- c) A capital expenditure because it increases the capital base of the states
- d) It is a grant and so does not come under revenue expenditure or capital expenditure

24. Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as
- a) RBI credit to states
 - b) Commercial credit of RBI
 - c) **Ways and Means Advances (WMA)**
 - d) Short term facility
-

Extra Questions

25. A _____ is a statement that presents the details of where the money comes from and where the money goes to
- a) **Budget**
 - b) Demand for grant
 - c) Appropriation bill
 - d) Fiscal bill
26. The budget is prepared by the Ministry of Finance in consultation with _____.
- a) The President
 - b) **NITI Aayog and other relevant ministries**
 - c) The Prime Minister
 - d) Public
27. The budget process mainly consists of
- a) The administrative process, wherein the budget along with the accompanying documents are prepared in consultation with various stakeholders;
 - b) The legislative process wherein the budget is passed by the parliament after discussions.
 - c) **Both a and b**
 - d) None of the above
28. The budgetary procedures are-
- a) Preparation of the budget
 - b) Presentation and enactment of the budget
 - c) Execution of the budget
 - d) **All of the above**
29. Which Article of the constitution provides that in respect of every financial year, the 'president shall cause to be laid before both the houses of parliament the "Annual Financial Statement"
- a) Article 111
 - b) **Article 112**
 - c) Article 113
 - d) Article 114

30. The budget documents depict information relating to receipts and expenditures for two years. They are:
- a) Budget estimates (BE) of receipts and expenditures in respect of current and ensuing financial
 - b) For the current year through Revised Estimates (RE); and
 - c) Actuals of the year preceding the current year
 - d) **All of the above**
31. The finance minister makes a detailed budget speech at the time of presenting the budget before the
- a) **Lok Sabha**
 - b) Rajya Sabha
 - c) Vidhan Sabha
 - d) All of the above
32. Part A of the budget speech gives an outline of _____.
- a) the progress the government has made on various developmental measures, the direction of future policies, and the government's tax proposals
 - b) **the prevailing macroeconomic situation of the country and the budget estimates for the next financial year.**
 - c) Government's tax proposals
 - d) All of the above
33. By convention in an election year, the budget may be presented
- a) Once
 - b) **Twice**
 - c) Thrice
 - d) Four times
34. All revenues received, loans raised and all money received by the government in repayment of loans are credited to _____.
- a) **Consolidated Fund of India**
 - b) Contingency Fund of India
 - c) Contingency Fund of State
 - d) Public Account
35. _____ is a fund placed at the disposal of the President to enable him/her to make advances to the executive/Government to meet urgent unforeseen expenditures.
- a) Consolidated Fund of India
 - b) **Contingency Fund of India**
 - c) Contingency Fund of State
 - d) Public Account

36. Under Article 266(1) of the Constitution of India, _____ is used in relation to all the fund flows where government is acting as a banker. The expenditure from this fund need not be approved by the parliament.
- a) Consolidated Fund of India
 - b) Contingency Fund of India
 - c) Contingency Fund of State
 - d) **Public Account**
37. Motions for reduction to various demands for grants are made in the form of _____ seeking to reduce sums sought by government.
- a) **Cut Motions**
 - b) Reduce Motion
 - c) Guillotine Motion
 - d) None of the above
38. _____ is intended to give authority to the government to incur expenditure from and out of the Consolidated Fund of India
- a) Finance Bill
 - b) **Appropriation Bill**
 - c) Cut Motion
 - d) None of the above
39. On the last day of the days allotted for discussion on the demand for grants, the speaker puts all the outstanding demands for grants to the vote of the house. This process is known as ____
- a) Cut Motion
 - b) **Guillotine**
 - c) Discussion Bill
 - d) Appropriation Bill
40. The Finance Bill is introduced in the Lok Sabha _____ the presentation of the general budget.
- a. **After**
 - b. Before
 - c. Either a or b
 - d. None of the above
41. The Parliament has to pass the Finance Bill within _____ of its introduction.
- a) 60 days
 - b) 90 Days
 - c) 45 Days
 - d) **75 Days**
42. Department of Revenue exercises control for matters relating to direct & indirect union taxes through _____.
- a) Central Board of Direct Taxes (CBDT) and
 - b) Central Board of Indirect Taxes and Customs (CBIC)
 - c) **Both a & b**
 - d) None of the above

43. _____ receipts are those receipts that lead to a reduction in the assets or an increase in the liabilities of the government
- Capital Receipts**
 - Revenue Receipts
 - Tax Receipts
 - None of the above
44. Centre's net tax revenue is calculated after deduction of _____ from Total Tax Revenue.
- States' share
 - National Calamity Contingent Duty (NCCD)
 - Both a and b**
 - None of the above
45. The institutions responsible for public debt management are:
- Reserve Bank of India
 - Ministry of Finance (MOF)
 - Both b and c**
 - None of the above
46. Recoveries of loan advances are an example of _____.
- Debt capital receipts
 - Non-debt capital receipts**
 - Revenue Receipts
 - Non-Tax Revenue receipts
47. Disinvestment by government is classified under which category:
- Revenue Receipts
 - Debt capital Receipts
 - Non-Debt capital receipts**
 - Non-Tax Revenue
48. _____ is nodal department for overseeing the public financial management system in the central government and matters connected with state finances.
- Department of Revenue
 - Department of Expenditure**
 - Public Debt Management
 - Department of Financial Management
49. The risk associated with external debt is the _____ visà-vis the currency of denomination of external loans leading to _____ in the government's debt servicing cost.
- appreciation in the value of domestic currency, increase
 - depreciation in the value of foreign currency, increase
 - appreciation in the value of domestic currency, decrease
 - depreciation in the value of domestic currency, increase**

50. The broad pillars of debt management strategy:

- a. Low cost of borrowings
- b. Risk Mitigation
- c. Market development
- d. **All of the above**

51. Which institutions is responsible for managing domestic marketable debt?

- a) Ministry of Finance
- b) Department of Economic Affairs
- c) **RBI**
- d) Budget division

52. External debt (bilateral and multilateral loans) is managed by _____.

- a) Internal debt management department
- b) **Department of Economic Affairs in the Ministry of Finance**
- c) RBI
- d) Budget Division

53. Interest payments on debt are an example of _____.

- a) **Revenue Expenditure**
- b) Capital Expenditure
- c) Revenue Receipts
- d) Capital Receipts

54. _____ shows the government revenue is insufficient to meet the regular expenditures in connection with the normal functioning of the government.

- a) **Revenue Deficit**
- b) Budgetary Deficit
- c) Fiscal Deficit
- d) Primary Deficit

55. The excess of total expenditure over total receipts excluding borrowings during a given fiscal year is called the _____.

- a) Revenue Deficit
- b) Budgetary Deficit
- c) **Fiscal Deficit**
- d) Primary Deficit

56. _____ shows the total borrowing requirements of the government from all sources.

- a) Revenue Deficit
- b) Budgetary Deficit
- c) **Fiscal Deficit**
- d) Primary Deficit

57. _____ tells how much of the government's borrowings are going towards meeting expenses other than interest payments.

- a) Revenue Deficit
- b) Budgetary Deficit
- c) Fiscal Deficit
- d) **Primary Deficit**

58. _____ is a progress card on what various ministries and departments have done with the outlays in the previous annual budget.

- a) Cut Motions
- b) Guillotine
- c) **Outcome budget**
- d) None of the above

59. If the primary deficit is 20,500 crores and the net interest liabilities of a country are 3,500 crores, then what will be the fiscal deficit?

- a. ₹17,000 crores
- b. ₹21,500 crores
- c. 19,500 crores
- d. **24,000 crores**

60. The following figures relate to country for a particular financial year:

Particulars	Amount (₹ in crores)
Revenue Deficit	10,000
Fiscal Deficit	24,000
Net Interest Liability	2,000
Borrowing	6,000
Expenditure on Revenue Account	3,000

What will be the primary deficit of country 'A'?

- a. 8,000 crores
- b. **22,000 crores**
- c. 18,000 crores
- d. 21,000 crores

61. All revenues received, loans raised and all moneys received by the government in repayment of loans are credited to the:

- a. **Consolidated fund of India**
- b. Contingency fund of India
- c. Public provident fund of India
- d. Public Account

62. 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**

63. The excess of 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

64. 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

65. Which of the following information regarding the receipts and expenditure of the government is not presented in the budget documents?

- 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

66. 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

67. Article 112 of Indian constitution provides that in respect of every financial year the President shall cause to be laid before both the houses of parliament a statement of the 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

68. 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

Chapter 7 (Unit 4) – Fiscal Policy

1. Fiscal policy refers to the
 - a) **use of government spending, taxation, and borrowing to influence the level of economic activity**
 - b) government activities related to the use of government spending for the supply of essential goods
 - c) use of government spending, taxation, and borrowing to reduce fiscal deficits
 - d) (a) and (b) above
2. If real GDP is continuously declining and the rate of unemployment in the economy is increasing, the appropriate policy should be to
 - a) Increase taxes and decrease government spending
 - b) Decrease both taxes and government spending
 - c) **Decrease taxes and increase government spending**
 - d) Either (a) or (c)
3. Which of the following are likely to occur when an economy is in an expansionary phase of a business cycle?
 - (A) Rising unemployment rate
 - (B) Falling unemployment rate
 - (C) Rising inflation rate
 - (D) Deflation
 - (E) Falling or stagnant wage for workers
 - (F) Increasing tax revenue
 - (G) Falling tax revenue
 - a) A, B and F are most likely to occur
 - b) **B, C and F are most likely to occur**
 - c) D, E and F are most likely to occur
 - d) A, E and G are most likely to occur
4. 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
5. According to Keynesian economics, when we have inflation an effective fiscal policy should not include
 - a) increase corporate taxes.
 - b) decrease aggregate demand.
 - c) **Increase government purchases.**
 - d) None of the above is correct

6. Keynesian economists believe that
- a) Fiscal policy can have very powerful effects in altering aggregate demand, employment and output in an economy
 - b) When the economy is operating at less than full employment levels and when there is a need to offer stimulus to demand, fiscal policy is of great use.
 - c) Wages are flexible and therefore business fluctuations would be automatically adjusted
 - d) **(a) and (b) above**
7. Which of the following may ensure a decrease in aggregate demand during inflation?
- a) **decrease in all types of government spending and/ or an increase in taxes**
 - b) increase in government spending and/ or a decrease in taxes
 - c) decrease in government spending and/ or a decrease in taxes
 - d) All the above
8. A recession is characterized by
- a) Declining prices and rising employment
 - b) Declining unemployment and rising prices
 - c) **Declining real income and rising unemployment.**
 - d) Rising real income and rising prices
9. Which one of the following is an example of fiscal policy?
- a) A tax cut aimed at increasing disposable income and spending
 - b) A reduction in government expenditure to contain inflation
 - c) An increase in taxes and a decrease in government expenditure to control inflation
 - d) **All the above**
10. 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
11. An expansionary fiscal policy, taking everything else constant, would in the short --run have the effect of
- a) **a relatively large increase in GDP and a smaller increase in price**
 - b) a relatively large increase in price, a relatively smaller increase in GDP
 - c) both GDP and price will be increasing in the same proportion
 - d) both GDP and price will be increasing in a smaller proportion
12. Which statement (s) is (are) correct about crowding out?
- I. A decline in private spending may be partially or completely offset by the expansion of demand resulting from an increase in government expenditure.
 - II. Crowding out effect is the negative effect fiscal policy may generate, when money from the private sector is 'crowded out' to the public sector.
 - III. When spending by the government in an economy increases government spending would be crowded out.

IV. Private investments, especially the ones that are interest-sensitive, will be reduced if interest rates rise due to increased spending by the government

- a) I and III only
- b) I, II, and III
- c) I, II, and IV**
- d) III only

13. Which of the following policies is likely to shift an economy's aggregate demand curve to the right?

- a) Increase in government spending
- b) Decrease in taxes
- c) A tax cut along with an increase in public expenditure
- d) All the above**

14. Identify the incorrect statement

- a) A progressive direct tax system ensures economic growth with stability because it distributes the burden of taxes unequally**
- b) A carefully planned policy of public expenditure helps in redistributing income from the rich to the poorer sections of the society. There are possible conflicts
- c) Between different objectives of fiscal policy such that a policy designed to achieve one goal may adversely affect another
- d) An increase in the size of government spending during recessions may possibly 'crowd-out' private spending in an economy.

15. Read the following statements

I. Fiscal policy is said to be contractionary when revenue is higher than spending i.e., the government budget is in surplus

II. Other things constant, a fiscal expansion will raise interest rates and "crowd out" some private investment

III. During inflation new taxes can be levied and the rates of existing taxes are raised to reduce disposable incomes

IV. Classical economists advocated contractionary fiscal policy to solve the problem of inflation

of the above statements

- a) I and II are correct
- b) I, II and III are correct**
- c) Only III is correct
- d) All are correct

16. 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

17. Contractionary fiscal policy

- a) is resorted to when government expenditure is greater than tax revenues of any particular year
- b) increase the aggregate demand to sustain the economy
- c) to increase the disposable income of people through tax cuts and to enable greater demand
- d) **is designed to restrain the levels of economic activity of the economy during an inflationary phase**

18. When government spending is deliberately reduced to bring in stability

- a) the government is resorting to contractionary fiscal policy
- b) the government is resorting to expansionary fiscal policy
- c) trying to limit aggregate demand to sustainable levels
- d) **(a) and c) above**

19. 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 is 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**

20. While the government resorts to deliberate fiscal policy it may not attempt to manipulate

- a) Government expenditures on public works
- b) The rates of personal income taxes and corporate taxes
- c) Government expenditures on goods and services purchased by the government
- d) **The rate of interest prevailing in the economy**

21. Which of the following fiscal remedies would you advise when an economy is facing a recession?

- a) the government may cut interest rates to encourage consumption and investment
- b) **the government may cut taxes to increase aggregate demand**
- c) the government may follow a policy of balancing the budget.
- d) None of the above will work

22. If governments compete with the private sector to borrow money to secure resources for expansionary fiscal policy

- a) it is likely that interest rates will go up and firms may not be willing to invest
 - b) it is likely that interest rates will go up and individuals too may be reluctant to borrow and spend
 - c) it is likely that interest rates will go up and the desired increase in aggregate demand may not be realized
 - d) **All the above are possible.**
-

Extra Questions

23. Choose the correct statement

- a) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of price and profit controls.
- b) Fiscal policy involves the use of price and profit controls; while monetary policy involves the use of taxation and government spending.
- c) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of changes in the supply of money and interest rates.**
- d) Fiscal policy involves the use of changes in the supply of money and interest rates; while monetary policy involves the use of changes in taxation and government spending.

24. When spending by government in an economy replaces the private spending, it is known as:

- a) Crowding out**
- b) Government spending
- c) Inflationary policy
- d) None of the above

25. Which of the following is a recognition lag?

- a) Delay in recognizing the need for a policy change**
- b) Delay in making a decision on the most appropriate policy
- c) Delay in bringing in legislation and implementing them on account of bureaucracy
- d) When outcomes of a policy are not visible for some time

26. Contractionary fiscal policy can involve:

- a) Increasing consumption investment and taxes. And
- b) Decreasing government spending and increasing taxes.**
- c) Increasing government spending and increasing taxes.
- d) None of the above

27. An expansionary fiscal policy is used for:

- a) Reduction in inflation
- b) Increase in exports
- c) Appreciation of currency
- d) Close the recessionary gap**

28. Which lag involves delays in bringing in legislation and implementing them?

- a) Decision lag
- b) Impact lag
- c) Implementation lag**
- d) Recognition lag

29. Fiscal policy is in the nature of a _____.

- a) Supply-side policy
- b) Demand-side policy**
- c) Revenue-side policy
- d) Expenditure-side policy

30. In which type of budget, fiscal policy will be unnecessary

- a) Surplus Budget
- b) Deficit Budget
- c) Balanced Budget**
- d) None of the above

31. The most common objectives of Fiscal Policy are:

- a) Achievement and maintenance of full employment
- b) Maintenance of price stability,
- c) Acceleration of rate of economic development
- d) All of the above**

32. _____ may get higher priority in developing countries as objectives of fiscal policy.

- a) Stability and equality
- b) Economic growth, employment, and equity**
- c) Equity & Economic Growth
- d) Economic growth & Stability

33. The policy measure used to close a recessionary gap is _____.

- a) Contractionary fiscal policy
- b) Expansionary fiscal Policy**
- c) Recessionary fiscal policy
- d) None of the above

34. In the expansionary fiscal policy, governments budgets are normally:

- a) Deficit**
- b) Surplus
- c) Balanced
- d) None of the above

35. Contractionary fiscal policy works through:

- a) Decrease in government spending**
- b) Increase in government spending
- c) Increase in personal taxes
- d) Both b & c

36. _____ means when there are possible delays in bringing in legislation and implementing them on account of bureaucracy.

- a) Recognition Lag
- b) Decision Lag
- c) Implementation Lag**
- d) Impact Lag

37. Decrease in government spending & increase in taxes is an example of _____.

- a) Anti-inflationary monetary policy
- b) Contractionary fiscal policy**
- c) Expansionary fiscal Policy
- d) Recessionary monetary policy

38. Contractionary fiscal policy should ideally lead to a _____ government budget deficit or a _____ budget surplus.
- a) Smaller, smaller
 - b) Smaller, larger**
 - c) Larger, larger
 - d) Larger, smaller
39. Government expenditure is _____ when there is a fear of inflationary rise in prices.
- a) Increased
 - b) Decreased**
 - c) Remains the same
 - d) None of the above
40. During a recession and depression, government can
- a) Levy new taxes
 - b) Increase the rates of existing taxes
 - c) Lower the tax rates**
 - d) Both a & b
41. During inflation, the government can
- a) Levy new taxes
 - b) Decrease government spending
 - c) Lower the tax rates
 - d) Both a & b**
42. _____ has a negative net effect on aggregate demand since leakages will be greater than injections.
- a) Balanced Budget
 - b) Budget Surplus**
 - c) Budget Deficit
 - d) Both b & c
43. What actions can be taken during Inflation?
- a) Introduce subsidies and reduce tax rates.
 - b) Implement austerity measures and reduce government spending.
 - c) Levy new taxes and raise the rates of existing taxes.**
 - d) Increase government borrowing and stimulate demand.
44. Which of the following are considered tools of fiscal policy?
- a) Taxes, subsidies and tariffs
 - b) Taxes, government expenditure, public debt and the budget**
 - c) Monetary policy, interest rates and inflation targeting
 - d) Exchange rates, capital controls and quantitative easing

Chapter 8 (Unit 1) – The Concept of Money Demand

1. Choose the incorrect statement

- a) **Anything that would act as a medium of exchange is money**
- b) Money has generalized purchasing power and is generally acceptable in the settlement of all transactions
- c) Money is a totally liquid asset and provides us with means to access goods and services
- d) Currency which represents money does not necessarily have intrinsic value.

2. Money performs all of the three functions mentioned below, namely

- a) medium of exchange, price control, store of value
- b) unit of account, store of value, provide yields
- c) **medium of exchange, unit of account, store of value**
- d) medium of exchange, unit of account, income distribution

3. Demand for money is

- a) **Derived demand**
- b) Direct demand
- c) Real income demand
- d) Inverse demand

4. 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**

5. The quantity theory of money holds that

- a) changes in the general level of commodity prices are caused by changes in the quantity of money
- b) there is strong relationship between money and price level and the quantity of money is the main determinant of the price
- c) changes in the value of money or purchasing power of money are determined first and foremost, by changes in the quantity of money in circulation
- d) **All the above**

6. The Cambridge approach to quantity theory is also known as

- a) **Cash balance approach**
- b) Fisher's theory of money
- c) Classical approach
- d) Keynesian Approach

7. Fisher's approach and the Cambridge approach to the demand for money consider
- a) money's role in acting as a store of value and therefore, demand for money is for storing value temporarily.
 - b) money as a means of exchange and therefore demand for money is termed as liquidity preference
 - c) money as a means of transactions and therefore, demand for money is only transaction demand for money.**
 - d) None of the above
8. Real money is
- a) nominal money adjusted to the price level**
 - b) real national income
 - c) money demanded at given rate of interest
 - d) nominal GNP divided by price level
9. The precautionary money balances people want to hold
- a) as income elastic and not very sensitive to rate of interest**
 - b) as income inelastic and very sensitive to rate of interest
 - c) are determined primarily by the level of transactions they expect to make in the future.
 - d) are determined primarily by the current level of transactions
10. 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
11. According to Keynes, if the current interest rate is high
- a) people will demand more money because the capital gain on bonds would be less than return on money
 - b) people will expect the interest rate to rise and bond price to fall in the future.
 - c) people will expect the interest rate to fall and bond price to rise in the future.**
 - d) Either a) or b) will happen
12. The inventory-theoretic approach to the transactions demand for money
- a) explains the negative relationship between money demand and the interest rate.**
 - b) explains the positive relationship between money demand and the interest rate.
 - c) explains the positive relationship between money demand and general price level
 - d) explains the nature of expectations of people with respect to interest rates and bond prices
13. According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:
- a) a positive function of income Y and the price level P
 - b) a positive function of transactions costs c ,
 - c) a negative function of the nominal interest rate i
 - d) All the above**

14. _____ considered demand for money is as an application of a more general theory of demand for capital assets
- a) Baumol
 - b) James Tobin
 - c) J M Keynes
 - d) **Milton Friedman**
15. The nominal demand for money rises if
- a) **the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively- decline and vice versa**
 - b) the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively- rises and vice versa
 - c) the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively remain constant
 - d) b) and c) above
-
16. Money can be anything that can serve as:
- a) Store of value
 - b) Unit of account
 - c) Medium of exchange
 - d) **All of the above**
17. Following are the characteristics of 'Fiat Money' except?
- a) It is materially worthless, i.e. no intrinsic value
 - b) It has value because a nation collectively agrees to ascribe a value to it, as government made it legal tender
 - c) It works because people believe it will
 - d) **It is not durable**
18. Which of the following is not the characteristic of Money?
- a) It should be generally accepted
 - b) It should be recognizable
 - c) **It should not be difficult to counterfeit**
 - d) It should possess uniformity
19. Demand for money is in the nature of _____ demand
- a) Autonomous
 - b) **Derived**
 - c) Both a. and b.
 - d) None of the above
20. Demand for money is
- a) Demand for real balances
 - b) Actually demand for liquidity and demand to store value
 - c) a decision about how much of one's given stock of wealth should be held in the form of money rather than as other assets such as bonds
 - d) **All of the above**

21. Demand for money depends on:

- a) Income of individuals
- b) General price level
- c) Rate of Interest
- d) **All of the above**

22. The quantity which people desire to hold is _____ proportional to the prevailing price level.

- a) **Directly**
- b) Inversely
- c) Depends on the situation
- d) None of the above

23. Higher the interest rate in the market _____ the demand of money

- a) Higher
- b) **Lower**
- c) No change in
- d) None of the above

24. Innovations such as Internet banking, application-based transfers & ATMs _____ the need for holding liquid money.

- a) Increase
- b) **Reduce**
- c) Does not affect
- d) None of the above

25. The Quantity theory of money was propounded by _____ of Yale University in his book _____ published in _____.

- a) Irving Fisher; The Purchasing Power of Money; 1991
- b) **Irving Fisher; The Purchasing Power of Money; 1911**
- c) Adam Smith; Wealth of Nations; 1931
- d) None of the above

26. Fisher's version is also termed as:

- a) Equation of exchange
- b) Transaction approach
- c) Cash Balance approach
- d) **Both a. and b.**

27. Calculate the value of Money supply as per Quantity theory of money, using the following data:

$$V = 24, P = 12, T = 40$$

- a) 20
- b) **480**
- c) 240
- d) 200

28. In the equation, $MV = PT$, Demand for money is denoted by_____.

- a) MV
- b) M
- c) **PT**
- d) T

29. The expanded form of the Quantity Theory of Money is_____.

- a) $MV + MV' = PT$
- b) $M'V' = PT$
- c) **$MV + M'V' = PT$**
- d) None of the above

30. As per the quantity theory of money, change in general level of commodity prices are determined first and foremost by changes in_____

- a) **Quantity of money in circulation**
- b) Total number of transactions
- c) Velocity of money in circulation
- d) All of the above

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

- a) enabling the possibility of splitting of sale and purchase to two different points of time rather than being simultaneous
- b) being an uncertainty hedge against uncertainty
- c) **Both a & b**
- d) None of the above

32. Cambridge Approach is also known as_____

- a) Transaction approach
- b) **Cash balance approach**
- c) Inventory approach
- d) None of the above

33. Cambridge money demand function is stated as:

- a) $M_d = k Y$
- b) $M_d = KP$
- c) **$M_d = k PY$**
- d) $M_d = k Y$

34. In the Cambridge money demand function, what does 'k' represents:

- a) Real national income
- b) **proportion of income that people want to hold as cash balances**
- c) Investment multiplier
- d) Money multiplier

35. Keynesian theory of Demand for Money is also known as _____.
- a) Equation of exchange
 - b) Liquidity Preference Theory**
 - c) Transaction approach
 - d) Classical Approach
36. According to Keynes, people hold money in cash for:
- a) Transaction motive
 - b) Precautionary motive
 - c) Speculative motive
 - d) All of the above**
37. _____ motive for holding cash relates to 'the need for cash for current transactions for personal and business exchange'
- a) Transaction motive**
 - b) Precautionary motive
 - c) Speculative motive
 - d) All of the above
38. Money is demanded to bridge the time gap between the receipt of income planned and expenditures. Which motive is referred in the statement?
- a) Transaction demand for money**
 - b) Precautionary demand for money
 - c) Speculative demand for money
 - d) All of the above
39. As per Keynesian theory, the transaction demand for money is _____ related to the interest rate.
- a) Directly
 - b) Indirectly
 - c) Not**
 - d) Positively
40. Individuals as well as businesses keep a portion of their income to finance such unanticipated expenditure. This shows _____.
- a) Transaction demand for money
 - b) Precautionary demand for money**
 - c) Speculative demand for money
 - d) All of the above
41. People demand to hold money balances to take advantage of future changes in the rate of interest. This shows _____.
- a) Transaction demand for money
 - b) Precautionary demand for money
 - c) Speculative demand for money**
 - d) All of the above

42. The market value of bonds & market rate of interest are:

- a) Directly related
- b) Inversely related**
- c) Not related
- d) None of the above

43. As per the speculative motive of holding money, If the wealth holders consider that current rate of interest is high compared to the normal rate of interest,

- a) They expect bond prices to fall
- b) They will hold the cash balance
- c) They will convert their cash balances into bonds**
- d) They expect the rate of interest to rise in future

44. As per the speculative motive of holding money, if the wealth holders consider the current interest rate as low, compared to the 'critical rate of interest', then-

- a) They expect the rate of interest to rise in the future
- b) They expect a fall in bond prices
- c) They would have an incentive to hold their wealth in the form of liquid cash rather than bonds
- d) All of the above**

45. Speculative demand for money and interest are:

- a) Directly related
- b) Inversely related**
- c) Not related
- d) None of the above

46. _____ is a situation when expansionary monetary policy does not increase interest rate, or income & hence does not stimulate economic growth.

- a) Expansion
- b) Liquidity Trap**
- c) Crowding out
- d) None of the above

47. The liquidity trap is synonymous with _____

- a) Effective Monetary policy
- b) Ineffective monetary policy**
- c) Ineffective fiscal policy
- d) None of the above

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

- a) Perfectly elastic**
- b) Perfectly inelastic
- c) Parallel to y-axis
- d) None of the above

49. Inventory Theoretic Approach was given by _____.

- a) JM Keynes
- b) Milton Friedman
- c) Irving Fisher
- d) **Baumol & Tobin**

50. As per Baumol, people hold money for _____

- a) **Transaction purpose**
- b) Precautionary purpose
- c) Speculative purpose
- d) All of the above

51. As per Baumol & Tobin, higher the brokerage fees, _____ the transaction demand for money

- a) Lower
- b) **Higher**
- c) Can't say
- d) No change in

52. As per _____, demand for money is determined by the permanent income and not the current income

- a) Irving Fisher
- b) JM Keynes
- c) Baumol
- d) **Friedman**

53. As per Friedman, if the opportunity cost of money holdings rises, demand for money _____

- a) **Decreases**
- b) Increases
- c) No change
- d) Either a) or b)

54. As per Tobin's liquidity preference function, the demand for holding money will be less at _____ rate of interest

- a) Lower
- b) **Higher rate**
- c) Any
- d) Zero

55. Mr. A, who is self-employed decided to keep more money in his savings account, considering the prevailing economic and political conditions. What is the motive for such a move by A?

- a) Transactions Motive
- b) Speculative Motive
- c) **Precautionary Motive**
- d) Conservative Motive

56. As per Keynes, the expected rate of return on money is:

- a) Nominal interest rate
- b) Rate of inflation
- c) **Zero**
- d) Real Interest rate

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

- a) Average return on five asset classes
- b) Price level in the economy
- c) Inflation Rate
- d) **Forex Trade**

58. Which of the following is NOT a function of money?

- a) Providing a common measure of value
- b) Acting as a medium of exchange
- c) Serving as a unit of account
- d) **Easily reproducible by people**

59. The concept of "aversion of risk" is propounded by:

- a) **James Tobin**
- b) Milton Friedman
- c) John Maynard Keynes
- d) Alfred Marshall

60. What type of currency is issued by the central bank?

- a) Commodity money
- b) Digital money
- c) **Fiat money**
- d) Representative money

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

- a) 25 thousand
- b) **25 lakhs**
- c) 50 lakhs
- d) 50 thousand

62. Which one of the following is not a characteristic of money?

- a) Generally acceptable
- b) Effortlessly recognizable
- c) Easily transportable
- d) **Easily reproducible by people**

63. Which one 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 opportunity costs of money holding declines**
 - d) Nominal demand for money is influenced by inflation
64. What is the term Y represent in the expression $M_d = KPY$?
- a) **Real National Income**
 - b) Price Level
 - c) Money Supply
 - d) Interest rate
65. 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
66. Mr. A, who is self-employed decided to keep more money in his savings account, considering the prevailing economic and political conditions. What is the motive for such a move by A?
- a) Transactions Motive
 - b) Speculative Motive
 - c) **Precautionary Motive**
 - d) Conservative Motive
67. As per Keynes, the expected rate of return on money is:
- a) Nominal interest rate
 - b) Rate of inflation
 - c) **Zero**
 - d) Real Interest rate
68. Among the following identified by Friedman, which one is not one of the four determinants of demand for money?
- a) Average return on five asset classes
 - b) Price level in the economy
 - c) Inflation Rate
 - d) **Forex Trade**
69. Which of the following is true with regard to the Liquidity Trap?
- a) Speculative Demand is parallel to X-Axis
 - b) The desire to hold a bond is infinity
 - c) Ineffective Monetary Policy
 - d) **Both A & C**

Chapter 8 (Unit 2) – The Concept of Money Supply

1. Reserve money is also known as
 - a) Central bank money
 - b) Base money
 - c) High powered money
 - d) **All the above**

2. Choose the correct statement from the following
 - a) Money is deemed as something held by the public and therefore only currency held by the public is included in money supply.
 - b) Money is deemed as something held by the public and therefore inter -bank deposits are included in money supply.
 - c) **Since inter-bank deposits are not held by the public, therefore inter-bank deposits are excluded from the measure of money supply.**
 - d) Both (a) and (c) above.

3. 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.

4. M1 is the sum of
 - a) **Currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.**
 - b) Currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.
 - c) Currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI
 - d) none of the above

5. 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 Rs. 350 crores

6. The primary source of money supply in all countries is
- The Reserve Bank of India
 - The Central bank of the country**
 - The Bank of England
 - The Federal Reserve
7. The supply of money in an economy depends on
- The decision of the central bank based on the authority conferred on it.
 - The decision of the central bank and the supply responses of the commercial banking system.**
 - The decision of the central bank in respect of high powered money.
 - Both a) and c) above.
8. Banks in the country are required to maintain deposits with the central bank
- to provide the necessary reserves for the functioning of the central bank
 - to meet the demand for money by the banking system
 - to meet the central bank prescribed reserve requirements and to meet settlement obligations.**
 - to meet the money needs for the day to day working of the commercial banks
9. If the behaviour of the public and the commercial banks is constant, then
- the total supply of nominal money in the economy will vary directly with supply of High powered money.**
 - the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money
 - the total supply of nominal money in the economy will vary inversely with the supply of high powered money
 - all the above are possible
10. Under the fractional reserve system
- the money supply is an increasing function of reserve money (or high powered money) and the money multiplier.**
 - the money supply is a decreasing function of reserve money (or high powered money) and the money multiplier.
 - the money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier.
 - none of the above as the determinants of money supply are different
11. The money multiplier and the money supply are
- positively related to the excess reserves ratio e.
 - negatively related to the excess reserves ratio e.**
 - not related to the excess reserves ratio e.
 - proportional to the excess reserves ratio e.

12. The currency ratio represents

- a) the behaviour of central bank in the issue of currency.
- b) the behaviour of central bank in respect cash reserve ratio.
- c) the behaviour of the public.**
- d) the behaviour of commercial banks in the country.

13. The size of the money multiplier is determined by

- a) the currency ratio (c) of the public,
- b) the required reserve ratio (r) at the central bank, and
- c) the excess reserve ratio (e) of commercial banks.
- d) all the above**

14. _____ 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)

15. The money multiplier will be large

- a) for higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
- b) for constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)
- c) for lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)**
- d) None of the above

16. The ratio that relates the change in the money supply to a given change in the monetary base is called the

- a) required reserve ratio.
- b) money multiplier.**
- c) deposit ratio.
- d) discount rate.

17. 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

18. 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

19. 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.
-

Extra Questions

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

- a) Money Demand
- b) Money Supply**
- c) Demand deposits
- d) High powered money

21. 'Supply of money' excludes-

- a) interbank deposits
- b) money held by the government
- c) money held by the banking system
- d) All of the above**

22. Empirical analysis of money supply is important because-

- a) It is essential from a monetary policy perspective
- b) It facilitates analysis of monetary developments to provide an understanding of causes of money growth
- c) Both a & b**
- d) None of the above

23. Supply of money depends on:

- a) Decision of the central bank & response of the commercial banks**
- b) Decision of the central bank & habits of the individuals
- c) Commercial banks & Government
- d) All of the above

24. Most common measure of money supply are-

- a) High Powered Money by Central bank
- b) Credit Money by commercial bank
- c) Both a & b**
- d) Money issued by Government

25. _____ is the primary source of money supply in all countries

- a) Commercial banks
- b) Government
- c) Central bank**
- d) All of the above

26. Calculate narrow money from the following data:

Currency with the public – Rs. 10,000 crore
Demand deposits with the banking system – Rs. 12,000 crore
Time deposit with the banking system – Rs. 11,000 crore
Other deposits with RBI – Rs. 8,000 crore
Demand deposits of post office saving banks – Rs. 2,000 crore

- a) Rs. 42,000 crore
- b) Rs. 44,000 crore
- c) **Rs. 30,000 crore**
- d) Rs. 22,000 crore

27. Calculate Currency with Public respectively-

Notes in Circulation - Rs. 43,22,288
Circulation of Rupee Coins - Rs. 26,422
Circulation of Small Coins - Rs. 2345
Cash on hand with Banks – Rs. 12345

- a) **Rs. 43,38,710**
- b) Rs. 43,51,055
- c) Rs. 43,63,400
- d) None of the above

28. Calculate Narrow Money (M1)

Currency with the public - Rs. 222,525
Demand Deposits with Banks – Rs. 1,34,440
Time Deposits with Banks – Rs. 2,80,556
Post office Demand Deposits – Rs. 3,233
Other Deposits with RBI: Rs. 55,655
Time deposits with post office – Rs. 2,345

- a) Rs. 4,12,600
- b) **Rs. 4,12,620**
- c) Rs. 4,15,853
- d) None of the above

29. Money created by RBI is

- a) Monetary Base
- b) High powered Money
- c) Reserve money
- d) **All of the above**

30. If Money supply in the economy is Rs. 100 and monetary base is Rs. 20, then money multiplier is:

- a) 2000
- b) 0.2
- c) **5**
- d) None of the above

31. _____ is defined as a ratio that relates the changes in the money supply to a given change in the monetary base
- a) Required reserve ratio
 - b) Excess reserve ratio
 - c) **Money Multiplier**
 - d) Deposit ratio
32. If required reserve ratio is 10%, then money multiplier will be?
- a) 1
 - b) 0.1
 - c) **10**
 - d) 2
33. Reserve ratio & money multiplier is
- a) Directly related
 - b) **Inversely related**
 - c) Positively related
 - d) Not related
34. Relationship between excess reserve & Money multiplier is:
- a) Directly related
 - b) **Inversely related**
 - c) Not related
 - d) Positively related
35. Excess reserve ratio is _____ related to the market interest rate
- a) Directly
 - b) **Inversely**
 - c) Not
 - d) Positively
36. Whether money multiplier and credit multiplier always equal?
- a) Yes
 - b) **No, they are equal only when we assume banks do not hold excess reserves & public does not hold currency and deposit whole money in bank**
 - c) No, they are never equal
 - d) None of the above
37. As per Milton Friedman & Anna Schwartz which of the following factors are the determinants of money supply:
- a) Stock of high-powered money
 - b) Reserve-ratio
 - c) Currency Deposit Ratio
 - d) **All of the above**

38. If public decides to keep more money in their pocket and less money in bank. It leads to an _____ in currency ratio & _____ in money multiplier.
- Increase, rise
 - Increase, fall**
 - decrease, rise
 - decrease, fall
39. Fearing shortage of money in ATMs, people decide to withdraw the money from the bank & hold with themselves. This will lead to _____.
- Decrease in currency ratio & decrease in money multiplier
 - decrease in currency ratio & increase in money multiplier
 - Increase in currency ratio & decrease in money multiplier**
 - Increase in currency ratio & increase in money multiplier
40. _____ represents degree of adoption of banking habits by people.
- Required reserve ratio
 - Excess reserve ratio
 - Currency deposit ratio**
 - Time deposit-demand deposit ratio
41. Banks open large number ATMs all over the country. This will lead to _____.
- Decrease in currency ratio & decrease in money multiplier
 - Decrease in currency ratio & increase in money multiplier**
 - Increase in currency ratio & decrease in money multiplier
 - Increase in currency ratio & increase in money multiplier
42. An _____ in time deposit- demand deposit ratio means that greater availability of free reserves & _____ in money multiplier
- Increase, increase**
 - Decrease, increase
 - Increase, decrease
 - Decrease, decrease
43. Money supply varies _____ with changes in monetary base & _____ with the currency & reserve ratios
- Directly; directly
 - Inversely; directly
 - Directly; inversely**
 - Inversely; inversely
44. If Required Reserve Ratio = 0.2
 Excess Reserve Ratio = 0.10
 Currency Deposit Ratio = 0.3
 Calculate Money multiplier
- 2.17**
 - 2
 - 1.67
 - None of the above

45. Calculate Money Multiplier, if:

Reserve Ratio (r) = 10%

Currency = Rs 500 crores

Deposits = Rs 800 crores

Excess Reserve = Rs 4 crores

- a) 2.08
- b) **2.22**
- c) 1.99
- d) None of the above

46. _____ of government securities by central bank will reduce the money supply

- a) Purchase
- b) **Sale**
- c) Both a. and b.
- d) None of the above

47. Can Multiplier be zero?

- a) **Yes, when interest rates are too low**
- b) Yes, when interest rates are too high
- c) No, it can never be zero
- d) None of the above

48. If the reserve ratio (R) is 0.10 and there is an increase in the reserves by ₹1,000, what will be the change in the money supply?

- a) **₹10,000**
- b) ₹1,000
- c) ₹100
- d) ₹10

49. If the monetary base in an economy is 250 crores through an open market operation by the central bank, and the money supply is ₹1,000 crores, calculate the money multiplier.

- a) 0.25
- b) 1
- c) **4**
- d) 0.40

50. Compute the total credit money created by the banking system if the required reserve ratio is 15% for every Rs. 12,00,000 deposited in the banking system?

- a) Rs. 1,00,00,000
- b) **Rs. 80,00,000**
- c) Rs. 1,25,00,000
- d) Rs. 1,50,00,000

51. Under the concept of money supply, the term 'public' do not include _____

- a) Households
- b) Institutions
- c) **Government and banking system**
- d) Firms

52. Money created by the commercial bank is called

- a) Real money
- b) High powered money
- c) **Fiat money**
- d) Credit money

53. Calculate Currency with Public respectively-

Notes in Circulation - Rs. 45,000 cr

Circulation of Rupee Coins - Rs. 1,500 cr

Circulation of Small Coins - Rs. 750 cr

Cash on hand with Banks – Rs. 27,500 cr

- a) Rs. 74,750 cr
- b) **Rs. 19,750 cr**
- c) Rs. 73,250 cr
- d) Rs. 29,750 cr

54. Calculate Narrow Money M1 from the following data

Currency with public – Rs. 88,000 cr

Demand deposits with the banking system – Rs. 2,20,000 cr

Time deposit with the banking system – Rs. 2,40,000 cr

Other deposits with the RBI – Rs. 2,60,000 cr

Saving deposits with Post Office Saving Bank – Rs. 50,000 cr

- a) **Rs. 5,68,000 cr**
- b) Rs. 6,18,000 cr
- c) Rs. 5,98,000 cr
- d) Rs. 6,38,000 cr

55. The currency issued by 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

56. Calculate Currency with Public from the following data-

Notes in circulation - Rs. 2,59,121

Coins in circulation - Rs. 23,345

Cash on hand with Banks – Rs. 19,009

Coin on hands with Banks – Rs. 909

- a) Rs. 3,02,384
- b) **Rs. 2,62,548**
- c) Rs. 2,53,876
- d) Rs. 2,15,858

57. Which of the following is NOT included in M1?

- a) Currency with the public
- b) Demand deposits with Banks
- c) **Time (term) deposits with Banks**
- d) Other deposits with RBI

58. 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 on 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

59. Considering that with a money multiplier of 1.5, there has been an increment of Rs. 600 cr of money supply. Find out the monetary base

- a) Rs. 800 cr
- b) Rs. 200 cr
- c) **Rs. 400 cr**
- d) Rs. 900 cr

60. When the central bank conducts open market operations to purchase government securities, what happens to the monetary base and the money supply?

- a) **Monetary base increases, money supply increases**
- b) Monetary base increases, money supply decreases
- c) Monetary base decreases, money supply increases
- d) Monetary base decreases, money supply decreases

61. If the monetary base in an economy is 250 crores through an open market operation by the central bank, and the money supply is ₹ 1,000 crores, calculate the money multiplier.

- a) 0.25
- b) 1
- c) **4**
- d) 0.40

62. If the reserve ratio (R) is 0.10 and there is an increase in the reserves by ₹1,000, what will be the change in the money supply?

- a) **₹10,000**
- b) ₹1,000
- c) ₹100
- d) ₹10

Chapter 8 (Unit 3) – Monetary Policy

1. Which of the following is the function of monetary policy?
 - (a) regulate the exchange rate and keep it stable
 - (b) regulate the movement of credit to the corporate sector
 - (c) regulate the level of production and prices
 - (d) regulate the availability, cost and use of money and credit**
2. 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
3. The monetary transmission mechanism refers to
 - (a) how money gets circulated in different sectors of the economy post monetary policy
 - (b) the ratio of nominal interest and real interest rates consequent on a monetary policy
 - (c) the process or channels through which the evolution of monetary aggregates affects the level of product and prices**
 - (d) none of the above
4. 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
5. During deflation
 - (a) the RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy**
 - (b) the RBI increases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
 - (c) the RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy
 - (d) the RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy
6. 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

7. 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)
8. _____ 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**
9. In India, the term 'Policy rate' refers to
- (a) The bank rate prescribed by the RBI in its half yearly monetary policy statement
 - (b) The CRR and SLR prescribed by RBI in its monetary policy statement
 - (c) the fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)**
 - (d) the fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)
10. Reverse repo operation takes place when
- (a) RBI borrows money from banks by giving them securities**
 - (b) banks borrow money from RBI by giving them securities
 - (c) banks borrow money in the overnight segment of the money market
 - (d) RBI borrows money from the central government
11. The Monetary Policy Framework Agreement is on
- (a) the maximum repo rate that RBI can charge from government
 - (b) the maximum tolerable inflation rate that RBI should target to achieve price stability.**
 - (c) the maximum repo rate that RBI can charge from the commercial banks
 - (d) the maximum reverse repo rate that RBI can charge from the commercial banks
12. An open market operation is an instrument of monetary policy which involves buying or selling of _____ from or to the public and banks
- (a) bonds and bills of exchange
 - (b) debentures and shares
 - (c) government securities**
 - (d) none of these

13. Which statement (s) is (are) true about the Monetary Policy Committee?

- I. The Reserve Bank of India (RBI) Act, 1934 was amended on June 27, 2016, to give a statutory backing to the Monetary Policy
 - II. The Monetary Policy Committee shall determine the policy rate through debate and a majority vote by a panel of experts required to achieve the inflation target.
 - III. The Monetary Policy Committee shall determine the policy rate through consensus from the governor of the RBI
 - IV. The Monetary Policy Committee shall determine the policy rate through debate and a majority vote by a panel of bankers chosen for the purpose
- (a) I only
 - (b) I and II only**
 - (c) III and IV
 - (d) III only
-

Extra Questions

14. The Central Bank in its execution of Monetary policy, functions within a framework which has the following basic components-

- a) The Objectives of monetary policy,
- b) The Analytics of monetary policy which focus on Transmission mechanisms
- c) The Operating procedure which focuses on operating targets & instruments
- d) All of the above**

15. The primary objective of monetary policy has been: _____.

- a) Price stability
- b) Economic growth
- c) Both a & b**
- d) None of the above

16. As per savings and investment channel, _____ interest rates on bank deposits reduce the incentives of households to save their money.

- a) Lower**
- b) Higher
- c) Moderate
- d) None of the above

17. _____ lending rates can increase investment spending by business.

- a) Lower**
- b) Higher
- c) Moderate
- d) None of the above

18. As per cash flow channel, reduction in interest rates can be expected to _____ spending in the Indian economy.
- a) Decrease
 - b) **Increase**
 - c) Have not effect on
 - d) None of the above
19. As per Asset Prices & wealth channel, _____ interest rates support asset prices by encouraging demand for assets.
- a) **Lower**
 - b) Higher
 - c) Moderate
 - d) None of the above
20. As per Asset Price & Wealth Channel, an increase in asset prices _____ people's wealth. This can lead to _____ consumption and housing investment as households generally spend some share of any increase in their wealth.
- a) Decrease, lower
 - b) **Increase, higher**
 - c) Decrease, higher
 - d) Increase, lower
21. As per Exchange Rate Channel, a reduction in interest rates in India (compared with rest of world) results in a _____ exchange rate, making foreign goods and services more _____ compared with those produced in India.
- a) Higher, affordable
 - b) **Lower, expensive**
 - c) Higher, expensive
 - d) Lower, affordable
22. Amount set aside, which banks can neither lend it to anyone nor can it earn any interest rate or profit.
- a) Statutory Liquidity Ratio
 - b) Excess Reserve Ratio
 - c) **Cash Reserve Ratio**
 - d) All of the above
23. Banks are required to set aside this portion in liquid assets such as cash, gold or RBI approved securities.
- a) Cash Reserve ratio
 - b) Excess Reserve Ratio
 - c) **Statutory Liquid Ratio**
 - d) None of the above

24. When the RBI _____ government securities, the liquidity sucked from the market.
- a) Purchases
 - b) Sells**
 - c) Either a or b
 - d) None of the above
25. _____ tools are selective tools that have an effect on a specific sector of the economy
- a) Quantitative tools
 - b) Qualitative tools**
 - c) Both a. and b.
 - d) None of the above
26. 'Controlling credit by not lending to selective industries or speculative businesses'. Which qualitative tool is referred in the statement?
- a) Selective credit control**
 - b) Moral suasion
 - c) Margin requirement
 - d) All of the above
27. Which of the following is not a quantitative tool of monetary policy?
- a) Cash Reserve Ratio
 - b) Statutory Liquidity Ratio
 - c) Repo Rate
 - d) Margin Requirements**
28. RBI convinces banks to keep money in government securities, rather than certain sectors. This is an example of _____.
- a) Selective credit control
 - b) Market stabilization scheme
 - c) Margin Requirement
 - d) Moral Suasion**
29. The interest rate at which RBI lends long term funds to banks is referred to as the _____.
- a) Repo Rate
 - b) Reverse-Repo Rate
 - c) Interest rate
 - d) Bank Rate**
30. _____ is used to prescribe penalty to the bank if it does not maintain the prescribed SLR or CRR
- a) Repo Rate
 - b) Reverse-Repo Rate
 - c) Interest rate
 - d) Bank Rate**

31. ___ is the rate at which banks borrow from RBI on a short- term basis against a repurchase agreement.
- a) **Repo Rate**
 - b) Reverse-Repo Rate
 - c) Bank Rate
 - d) None of the above
32. If Repo rate is 4%, then reverse repo rate will be:
- a) 5%
 - b) **3%**
 - c) 4%
 - d) Reverse repo rate is not linked to repo rate.
33. _____ rate is the penal rate at which the Central Bank lends money to banks, over the rate available under the repo policy.
- a) Repo Rate
 - b) **MSF Rate**
 - c) Reverse-Repo rate
 - d) Bank Rate
34. Banks availing MSF Rate can use a maximum of _____ of SLR securities.
- a) 2%
 - b) **1%**
 - c) 5%
 - d) 10%
35. The Monetary policy framework is an agreement reached between Government of India and Reserve Bank of India on the _____ tolerable inflation rate that RBI should target to achieve price stability.
- a) Minimum
 - b) **Maximum**
 - c) Desired
 - d) Any of the above
36. Inflation target is set by Govt. of India, in consultation with RBI, once in every ___ years.
- a) 2
 - b) **5**
 - c) 3
 - d) 4
37. RBI is mandated to publish a Monetary policy report every _____ months, explaining the source of inflation and the forecast of inflation for the coming period of six to eighteen months.
- a) 12
 - b) **6**
 - c) 18
 - d) 2

38. The following factors are notified by central government as constituting a failure to achieve the inflation target.

- a) Average inflation is more than upper tolerance level of the inflation target for any three consecutive quarters
- b) Average inflation is less than lower tolerance level for any three consecutive quarters
- c) **Both a and b**
- d) None of the above

39. Open Market Operation implies

- a) **Buying and selling securities by RBI**
- b) Buying and selling securities by commercial banks
- c) Buying and selling securities by Investors
- d) Buying and selling securities by the government

40. The targeted inflation rate for RBI:

- a) **4%**
- b) 2%
- c) 6%
- d) 5%

41. Reverse repo rate is:

- a) Equal to CRR
- b) Equal to Bank rate
- c) Equal to MSF
- d) **lower than the Repo rate**

42. Reverse Repo rate is linked to repo rate in the following way:

- a) $\text{Reverse Repo Rate} = \text{Repo Rate} + 1$
- b) **$\text{Reverse Repo Rate} = \text{Repo Rate} - 1$**
- c) $\text{Reverse Repo Rate} = \text{Repo Rate} \times 0.1\%$
- d) $\text{Reverse Repo Rate} = \text{Repo Rate} \times 0.01\%$

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

- a) Economic Outlook Report
- b) Financial Stability Report
- c) **Monetary Policy Report**
- d) Inflation Targeting Framework

44. 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

45. _____ is a penal rate at which RBI lends money to banks, above the rate available under the rep policy

- a) **Marginal standing facility rate**
- b) Bank rate
- c) Repo rate
- d) Reverse repo rate

46. 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%

47. Which of the following is NOT a quantitative tool of monetary policy?

- a) Cash Reverse Ratio (CRR)
- b) Statutory Liquidity Ratio (SLR)
- c) Open market operations (OMO)
- d) **Liquidity Adjustment Facility (LAF)**

Chapter 9 (Unit 1) – Theories of International Trade

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
2. The theory of absolute advantage states that
 - a) national wealth and power are best served by increasing exports and decreasing imports
 - b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.**
 - c) that the value or price of a commodity depends exclusively on the amount of labour going into its production and therefore factor prices will be the same
 - d) differences in absolute advantage explains differences in factor endowments in different countries
3. 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**
4. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports?
 - a) Capitalism
 - b) Socialism
 - c) Mercantilism**
 - d) Laissez faire
5. 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

6. According to the theory of comparative advantage

- a) trade is a zero-sum game so the net change in wealth or benefits among the participants is zero.
- b) trade is not a zero-sum game so 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 utilization

7. Given the number of labour hours to produce wheat and rice in two countries and that these countries specialize and engage in trade at a relative price of 1:1 what will be the gain of country X?

Labour cost (hours) for the 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

8. 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 the 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**

9. Comparative advantage refers to

- a) a country's ability to produce some good or service at the lowest possible cost compared to other countries
- b) a country's ability to produce some good or service at a lower opportunity cost than other countries.**
- c) Choosing a productive method that uses minimum of the abundant factor
- d) (a) and (b) above

10. 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**

Extra Questions

11. _____ is the exchange of goods and services as well as resources between countries and involves transactions between residents of different countries.

- a) National Trade
- b) **International Trade**
- c) Domestic Trade
- d) None of the above

12. Which of the following is not the benefit of International trade?

- a) International trade is a powerful stimulus to economic efficiency
- b) International trade is beneficial to the community since it tends to decrease the likelihood of domestic monopolies.
- c) International trade provides greater stimulus to innovative services like banking, etc.
- d) **Trade cycles and the economic crisis occurring in different countries are likely to get transmitted rapidly to other countries.**

13. Which theory of international trade advocated maximizing exports to accumulate wealth and minimizing imports by imposing high tariff.

- a) Theory of Absolute Advantage
- b) **Mercantilists' View of International Trade**
- c) Theory of Comparative Advantage
- d) None of the above

14. Which theory of International trade argues that trade is a Zero-sum game?

- a) Theory of Absolute Advantage
- b) **Mercantilists' View of International Trade**
- c) Theory of Comparative Advantage
- d) None of the above

15. _____ was the first one to put across the possibility that international trade is not a zero sum game and international trade was absolute cost advantage?

- a) David Ricardo
- b) **Adam Smith**
- c) Eli Heckscher
- d) Paul Krugman

16. According to which theory, trade between two countries would be mutually beneficial if each national can produce one good with less expenditure than the other.
- a) The Mercantilists' International Trade
 - b) Theory of Comparative Advantage
 - c) Theory of Absolute Advantage**
 - d) Heckscher-Ohlin Theory of Trade
17. Who observed that trade was driven by comparative rather than absolute costs of producing a good?
- a) David Ricardo**
 - b) Adam Smith
 - c) Eli Heckscher
 - d) Paul Krugman
18. As per which theory of International trade, one country who is more productive than others in all the goods should still import goods?
- a) The Mercantilists' International Trade
 - b) Theory of Comparative Advantage**
 - c) Theory of Absolute Advantage
 - d) Heckscher-Ohlin Theory of Trade
19. "Countries well-endowed with capital such as factories and machinery should export capital intensive products while those endowed with labour should export labour intensive products" Which international trade theory is referred here?
- a) Mercantilists' View of International Trade
 - b) Theory of Absolute Advantage
 - c) Theory of Comparative Advantage
 - d) Heckscher-Ohlin Theory of Trade**
20. As per which theory, International trade is only a special case of inter-regional trade?
- a) Mercantilists' View of International Trade
 - b) Theory of Absolute Advantage
 - c) Theory of Comparative Advantage
 - d) Heckscher-Ohlin or Modern Theory of Trade**
21. Which theory considers labour as the sole factor of production?
- a) Theory of Absolute Advantage
 - b) Theory of Comparative Advantage
 - c) Both a & b**
 - d) Heckscher-Ohlin Theory of Trade
22. Which theory does not take into account the factor price differences?
- a) Mercantilists' view of international trade
 - b) Theory of Comparative Advantage**
 - c) Heckscher-Ohlin Theory of Trade
 - d) None of the above

23. Who introduced the New International Trade Theory?

- a) David Ricardo
- b) Adam Smith
- c) Eli Heckscher
- d) **Paul Krugman**

24. According to NTT, two key concepts that give advantages to countries that import goods to compete with products from the home country are:

- a) Economies of Scale
- b) Network Effects
- c) **Both a & b**
- d) None of the above

25. _____ refers to the way one person's value for a good or service is affected by its value to others.

- a) Bandwagon effect
- b) **Network Effects**
- c) Economies of scale
- d) Both a & b

26. According to which theory, value or price of a commodity depends exclusively on the amount of labour going on its production and therefore factor prices will be the same

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) **Theory of Comparative Advantage**
- d) Heckscher-Ohlin theory of Trade

27. Which of the following theory is also known as factor endowment theory?

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Advantage
- d) **Heckscher-Ohlin or Modern Theory of Trade**

28. Which theory described international trade as only a special case of inter-regional trade?

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Advantage
- d) **Heckscher-Ohlin or Modern Theory of Trade**

29. What does the principle of Absolute Advantage refer to?

- a) The ability to produce a greater quantity of a good using fewer resources
- b) **The ability to produce a greater quantity of a good using the same amount of resources as competitors**
- c) The ability to produce a lesser quantity of a good using the same amount of resources as competitors
- d) The ability to produce a greater variety of goods than competitors

30. 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 Equilisation Theory

31. 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

Chapter 9 (Unit 2) – Instruments of Trade Policy

1. A specific tariff is
 - a) a tax on a set of specified imported good
 - b) an import tax that is common to all goods imported during a given period
 - c) a specified fraction of the economic value of an imported good
 - d) **a tax on imports defined as an amount of currency per unit of the good**

2. A tariff on imports is beneficial to domestic producers of the imported good because
 - a) they get a part of the tariff revenue
 - b) **it raises the price for which they can sell their product in the domestic market**
 - c) it determines the quantity that can be imported to the country
 - d) it reduces their producer surplus, making them more efficient

3. A tax applied as a percentage of the value of an imported good is known as
 - a) preferential tariff
 - b) **ad valorem tariff**
 - c) specific tariff
 - d) mixed or compound tariff

4. 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 of raw materials**
 - c) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries
 - d) none of the above

5. Voluntary export restraints involve:
 - a) an importing country voluntarily restraining the quantity of goods that can be exported into the country during a specified period of time
 - b) domestic firms agreeing to limit the quantity foreign products sold in their domestic markets
 - c) **an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time**
 - d) quantitative restrictions imposed by the importing country's government.

6. Anti-dumping duties are
 - a) additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.
 - b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government
 - c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market
 - d) **Both (a) and (c) above**

7. A countervailing duty is

- a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country
- b) charged by importing countries to ensure fair and market-oriented pricing of imported products
- c) charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies
- d) All the above**

8. Which of the following is an outcome of tariff?

- a) create obstacles to trade and increase the volume of imports and exports
- b) domestic consumers enjoy consumer surplus because consumers must now pay only a lower price for the good
- c) discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes**
- d) increase government revenues of the importing country by more than value of the total tariff it charges

9. SPS measures and TBTs are

- a) permissible under the WTO to protect the interests of countries
- b) may result in the loss of competitive advantage of developing countries
- c) Countries increases the costs of compliance to the exporting countries
- d) All the above**

10. Which of the following is not a non-tariff barrier?

- a) Complex documentation requirements
- b) Import quotas on specific goods
- c) Countervailing duties charged by importing country**
- d) Pre shipment product inspection and certification requirements

11. Under tariff rate quota

- a) countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement
- b) a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate
- c) lower tariff is charged for goods imported from a country that is given preferential treatment
- d) none of the above**

12. Non-tariff barriers (NTBs) include all of the following except:

- a) import quotas
 - b) Tariffs**
 - c) export subsidies
 - d) technical standards of products
-

Extra Questions

13. _____ is a state policy aimed at protecting domestic producers against foreign competition through the use of tariffs, quotas and non-tariff trade policy instruments.
- a) Trade Policy
 - b) Protectionism**
 - c) Trade Liberalization
 - d) Free Trade
14. _____ refers to opening up of domestic markets to goods and services from the rest of the world by bringing down trade barriers
- a) Trade Policy
 - b) Protectionism
 - c) Trade Liberalization**
 - d) None of the above
15. _____ encompasses all instruments that governments may use to promote or restrict imports and exports
- a) Trade Policy**
 - b) Protectionism
 - c) Trade Liberalization
 - d) None of the above
16. _____ is a fixed amount of money per physical unit or according to the weight or measurement of the commodity imported or exported.
- a) Ad Valorem Tariff
 - b) Specific Tariff**
 - c) Compound Tariff
 - d) Mixed Tariff
17. _____ is a tariff where duty is levied a fixed percentage of the value of the traded commodity.
- a) Ad Valorem Tariff**
 - b) Specific Tariff
 - c) Compound Tariff
 - d) Mixed Tariff
18. _____ is a combination of an ad valorem and a specific tariff
- a) Ad Valorem Tariff
 - b) Specific Tariff
 - c) Compound Tariff**
 - d) Mixed Tariff
19. _____ is calculated on the basis of the specific contents of the imported goods i.e., the duties are payable by its components or related items
- a) Technical Tariff**
 - b) Compound Tariff
 - c) Mixed Tariff

d) Variable Tariff

20. A duty typically fixed to bring the price of an imported commodity up to the level of the domestic support price for the commodity.

- a) Tariff Rate quota
- b) Variable Tariff**
- c) Technical Tariff
- d) Bound Tariff

21. _____ refer to the import tariff which countries promise to impose to imports from other members of the WTO

- a) MFN Tariffs**
- b) Bound Tariffs
- c) Applied Tariffs
- d) Technical Tariffs

22. Which of the following is not true about Bound Tariff?

- a) It represents the maximum level of import duty that can be levied on a product imported by WTO member
- b) WTO member is always free to impose a tariff that is lower than the bound level
- c) Once Bound, a tariff rate becomes permanent and can never be increased in any situation.**
- d) None of the above

23. The tariff on a product increase as that product moves through the value-added chain

- a) Preferential Tariff
- b) Escalated Tariff**
- c) Applied Tariff
- d) Technical Tariff

24. _____ is a protectionist tariff that a domestic government imposes on foreign imports when it is confirmed that goods are priced below fair market value.

- a) Escalated Tariff
- b) Anti-Dumping duties**
- c) Countervailing Duties
- d) All of the above

25. The tariff which are imposed to offset the artificially low prices charged by exporters who enjoy export subsidies and tax concessions from their government in their home country

- a) Anti-Dumping duties
- b) Countervailing Duties**
- c) Bound Tariff
- d) None of the above

26. _____ are the subset of _____ that have a 'protectionist or discriminatory intent'
- a) **Non-Tariff Barriers; Non-Tariff Measures**
 - b) Non-Tariff Measures; Non-Tariff Barriers
 - c) Trade barriers; Non-Trade Measures
 - d) None of the above
27. _____ measures are applied to protect human, animal or plant life from risks arising from additives, pests, etc.
- a) Technical Barriers to Trade
 - b) **Sanitary & Phytosanitary measures**
 - c) Non-Technical Measures
 - d) None of the above
28. What is the purpose of a voluntary export restraint (VER)?
- a) **To limit the quantity of exports.**
 - b) To encourage foreign producers to export more
 - c) To reduce the cost of imports.
 - d) To comply with international trade agreements.
29. _____ is a total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period.
- a) Safeguard measures
 - b) **Embargos**
 - c) Administrative procedures
 - d) None of the above
32. A 5% tariff on the import of Raw material and a 10% tariff on the import of finished goods, is an example of-
- a) Specific Tariff
 - b) Technical Tariff
 - c) **Escalated Tariff**
 - d) Bound Tariff
33. _____ combines two policy instruments: quotas and tariffs. Imports entering under specified quota portions are subject to lower Imports or zero tariff rates. Imports above the quantitative threshold face a higher tariff.
- a) Technical Tariff
 - b) **Tariff Rate Quota**
 - c) Mixed Tariff
 - d) Escalated Tariff
34. Which of the following is not an effect of tariff?
- a) Create obstacles to trade, decrease imports & exports
 - b) Discourages domestic consumers from buying imported goods
 - c) **Tariffs decrease government revenues of importing country**
 - d) Domestic consumers get more consumer surplus

35. Food laws, quality standards, industrial standards, organic certification, eco-labelling, and marketing and label requirements- are examples of-
- a) **Technical Barriers to Trade**
 - b) Sanitary & Phytosanitary (SPS) Measures
 - c) Non-technical Measures
 - d) None of the above
36. _____ are set below the free trade level of imports and are usually enforced by issuing licenses.
- a) **Binding Quota**
 - b) Non-binding Quota
 - c) Absolute quota
 - d) None of the above
37. _____ is refers to a type of informal quota administered by an exporting country voluntarily restraining the number of goods that can be exported out of that country during a specified period of time.
- a) Ban on exports
 - b) **Voluntary Export Restraint**
 - c) Export Taxes
 - d) Export Subsidies & Incentive
38. A tariff which a WTO member binds itself with a legal commitment not to raise tariff rate above a certain level is known as:
- a) Applied tariff
 - b) **Bound tariff**
 - c) Specific tariff
 - d) Most-favoured nation tariffs
39. 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.**
40. 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**

41. Which tariff is expressed either on 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
42. 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
43. 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 tariff**
 - c) Technical barriers to trade
 - d) Anti-dumping duties
44. A tariff is set so high that no imports can enter is known as
- a) Prohibitive tariff**
 - b) Bound tariff
 - c) Escalated tariff
 - d) Variable tariff
45. 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

Chapter 9 (Unit 3) – Trade Negotiations

1. Which of the following culminated in the establishment of the World Trade Organization?
 - (a) The Doha Round
 - (b) The Tokyo Round
 - (c) The Uruguay Round**
 - (d) The Kennedy Round
2. Choose the correct statement
 - (a) The GATT was meant to prevent exploitation of poor countries by richer countries
 - (b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.**
 - (c) All members of the World Trade Organization are required to avoid tariffs of all types
 - (d) All the above
3. 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
4. 'Bound tariff' refers to
 - (a) clubbing of tariffs of different commodities into one common measure
 - (b) the lower limit of the tariff below which a nation cannot be taxing its imports
 - (c) the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.**
 - (d) the limit within which the country's export duty should fall so that there are cheaper exports
5. The essence of 'MFN principle' is
 - (a) equality of treatment of all member countries of WTO in respect of matters related to trade
 - (b) favour one, country, you need to favour all in the same manner
 - (c) every WTO member will treat all its trading partners equally without any prejudice and discrimination
 - (d) all the above**
6. The World Trade Organization (WTO)
 - (a) has now been replaced by the GATT
 - (b) has an inbuilt mechanism to settle disputes among members
 - (c) was established to ensure free and fair trade internationally.
 - (d) (b) and c) above**

7. The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments
- (a) on increasing agricultural productivity and rural development
 - (b) market access and agricultural credit support
 - (c) market access, domestic support and export subsidies**
 - (d) market access, import subsidies and export subsidies
8. The Agreement on Textiles and Clothing
- (a) provides that textile trade should be deregulated gradually and the tariffs should be increased
 - (b) replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974**
 - (c) granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries
 - (d) stipulated that tariffs in all countries should be the same
9. The Agreement on Trade-Related Aspects of Intellectual Property Rights
- (a) stipulates to administer a system of enforcement of intellectual property rights.
 - (b) provides for most-favoured-nation treatment and national treatment for intellectual properties
 - (c) mandates to maintain high levels of intellectual property protection by all members
 - (d) all the above**
10. The most controversial topic in the yet to conclude Doha Agenda is
- (a) trade in manufactured goods
 - (b) trade in intellectual property rights-based goods
 - (c) trade in agricultural goods**
 - (d) market access to goods from developed countries
11. The WTO commitments
- (a) affect developed countries adversely because they have comparatively less agricultural goods
 - (b) affect developing countries more because they need to make radical adjustments**
 - (c) affect both developed and developing countries equally
 - (d) affect none as they increase world trade and ensure prosperity to all.

Extra Questions

12. Generalized System of Preferences is an example of-
- a) Unilateral trade agreements**
 - b) Customs union
 - c) Regional Preferential Trade Agreements
 - d) Bilateral Agreements
13. _____ is a group of countries that eliminate all tariffs on trade among themselves but maintain a common external tariff on trade with countries outside the union.
- a) Common Market
 - b) Customs union**
 - c) Free-trade area

d) None of the above

14. _____ is a group of countries that have a free trade agreement between themselves and the members maintain their own distinct external tariff

- a) Trading Bloc
- b) Free-Trade area**
- c) Custom Union
- d) Common Market

15. _____ is a type of RTA which provides for the free flow of output and of factors of production by reducing or eliminating internal tariffs on goods and by creating a common set of external tariffs.

- a) Trading Bloc
- b) Free-Trade area
- c) Custom Union
- d) Common Market**

16. GATT lost its relevance by the 1980s because-

- a) international investments had expanded substantially
- b) intellectual property rights and trade-in services were covered not
- c) world merchandise trade increased by leaps and bounds and was beyond its scope
- d) All of the above**

17. _____ marked the birth of the Trade Organization (WTO)

- a) July 1, 1996
- b) July 1, 1994
- c) July 1, 1995**
- d) None of the above

18. The WTO's top-level decision-making body is the _____ which can make decisions on all matters under any of the multilateral trade agreements

- a) Ministerial Conference**
- b) General Council
- c) Goods Council, Services. Council and Intellectual Property (TRIPS) Council
- d) None of the above

19. The total member countries under WTO currently:

- a) 164**
- b) 171
- c) 169
- d) 161

20. The secretariat of WTO is based in:

- a) Geneva**
- b) Italy
- c) London
- d) India

21. The Ministerial Conference meets at least once every _____ years.

- a) 1
- b) 2**
- c) 3
- d) 4

22. As per _____, imported and locally produced goods should be treated equally - at least after the foreign goods have entered the market.

- a) Most-favored-nation Principle
- b) National Treatment Principle**
- c) Principle of Freer trade
- d) None of the above

23. As per which guiding principle of WTO, if a country grants someone a special favor then that country has to do the same for all other WTO members.

- a) Most-favored-nation Principle**
- b) National Treatment Principle
- c) Principle of Freer trade
- d) None of the above

24. The most controversial topic in the Doha Agenda is:

- a) Trade in intellectual property rights-based goods
- b) Trade in agriculture goods**
- c) Trade in manufactured goods
- d) All of the above

25. 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

26. The North American Free Trade Agreement (NAFTA), is a trade agreement signed between

- a) United States of America and Canada
- b) United States of America, Canada, and Mexico**
- c) United States of America and Mexico
- d) Canada and Mexico

27. What does TRIPS stand for?

- a) Trade-Related Agreements on Investment Policies
- b) Trade-Related Aspects of Intellectual Property Rights**
- c) Transnational Regulations for International Product Standards
- d) Trade Regulations for International Patent Systems

28. With regards to international trade, the European Union can be categorized as a

- a) Trading bloc
- b) Free trade area
- c) Bilateral agreement
- d) **Custom union**

29. The most controversial topic for Doha Development Agenda was

- a) The labour welfare
- b) World peace
- c) Globalization
- d) **Agriculture Trade**

30. Which one of these is the main reason why GATT lost its relevance by 1980?

- a) Efforts at liberalizing agriculture trade was successful
- b) International investments did not expand substantially
- c) GATT was a treaty
- d) **There were inadequacies in institutional structure and dispute settlement system.**

Chapter 9 (Unit 4) – Exchange Rate and its Economic Effects

- Based on the supply and demand model of determination of exchange rate, which of the following ought to cause the domestic currency of Country X to appreciate against dollar?
 - The US decides not to import from Country X
 - An increase in remittances from the employees who are employed abroad to their families in the home country**
 - Increased imports by consumers of Country X
 - Repayment of foreign debts by Country X
- All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?
 - The demand curve for dollars shifts to the right and Indian Rupee appreciates
 - The supply of US dollars shrinks and, therefore, import prices decrease
 - The demand curve for dollars shifts to the right and Indian Rupee depreciates**
 - The demand curve for dollars shifts to the left and leads to an increase in exchange rate
- 'The nominal exchange rate is expressed in units of one currency per unit of the other currency. A real exchange rate adjusts this for changes in price levels'. The statements are
 - wholly correct**
 - partially correct
 - wholly incorrect
 - None of the above
- Match the following by choosing the term which has the same meaning

i) floating exchange rate	a. fixed exchange rate
ii) pegged exchange rate	b. depreciation
iii) devaluation	c. revaluation
iv) appreciation	d. flexible exchange rate

 - (i c); (ii d); (iii b); (iv a))
 - (i b); (ii a); (iii d); (iv c)
 - (i a); (ii d) ; (iii b); (iv c)
 - (i d); (ii a); (iii b); (iv c)**
- Choose the correct statement
 - An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency
 - the fixed exchange rate regime is said to be efficient and highly transparent.
 - A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency**
 - Exchange rates are generally fixed by the central bank of the country

6. 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 the above**

7. An increase in the supply of foreign exchange

- a) **shifts the supply curve to the right and as a consequence, the exchange rate declines**
- b) shifts the supply curve to the right and as a consequence, the exchange rate increases
- c) more units of domestic currency are required to buy a unit of foreign exchange
- d) the domestic currency depreciates and the foreign currency appreciates

8. 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

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

- a) Hedging
- b) Speculation
- c) **Arbitrage**
- d) Currency futures

10. 'Vehicle Currency' refers to

- a) a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties
- b) a currency that is traded internationally and, therefore, is in high demand
- c) a type of currency used in euro area for synchronization of exchange rates
- d) **a currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties**

Extra Questions

11. In which of the exchange rate system, government and central banks do not participate in the market for foreign exchange

- a) **Free-floating exchange rate system**
- b) Managed float system
- c) Fixed exchange rate system
- d) Both a & b

12. Which of the following is not an advantage of free floating exchange rate system?
- It is self-regulating, no need of government intervention
 - Market forces also restrain large swings in demand or supply
 - The central bank is not required to maintain a huge foreign exchange reserves
 - It is unpredictable**
13. Which exchange rate system avoids current fluctuations and eliminates exchange rate risks?
- Free-floating exchange rate system
 - Managed float system
 - Fixed exchange rate system**
 - None of the above
14. ____ beings in more currency and monetary stability and credibility but lacks flexibility. On the contrary, _____ has greater policy flexibility but lacks stability.
- Fixed rate; floating rate**
 - Floating rate; fixed rate
 - Free floating; managed floating
 - Managed floating; free floating
15. _____ refers to the rate at which a person can trade the currency of one country for the currency of another country
- Real exchange rate
 - Nominal exchange rate**
 - Real effective exchange rate
 - Nominal effective exchange rate
16. _____ is argued to be efficient and highly transparent as the exchange rate is free to fluctuate in response to the supply and demand without any government intervention
- Fixed exchange rate regime
 - Flexible exchange rate regime**
 - Managed floating exchange rate regime
 - None of the above
17. ____ is the rate at which a persona can trade the goods and services of one country for the goods and services of another
- Real Exchange Rate**
 - Nominal Exchange Rate
 - Real effective exchange rate
 - Nominal effective exchange rate
18. Real exchange rate=
- Nominal exchange rate x [Foreign price / Domestic price]**
 - Nominal exchange rate X [Domestic price / Foreign price]
 - Nominal exchange rate X [Foreign price / Foreign price index]
 - Nominal exchange rate X [Domestic price index / Foreign price]

19. The Nominal Exchange rate of India is Rs 75/\$, the Price Index in India is 120 and the Price Index in the USA is 40\$. What will be the Real Exchange Rate of India?
- a) 30
 - b) 25**
 - c) 28
 - d) 35
20. _____ are transaction wherein contracts are agreed upon to buy or sell currencies for future delivery which are carried out in forward and/or futures markets
- a) Current Transactions
 - b) Future transactions**
 - c) Both a & b
 - d) None of the above
21. _____ is considered a vehicle currency
- a) Indian Rupee
 - b) US Dollars**
 - c) Pounds
 - d) Japanese Yen
- 22.) If spot exchange rate is Rs. 80/\$ and forward exchange rate is Rs. 85/\$ then it is
- a) Forward premium**
 - b) Forward discount
 - c) Spot premium
 - d) None of the above
23. On the demand side, people desire foreign currency to
- a) To purchase goods and services from another country
 - b) for unilateral transfers such as gifts, awards, grants donations or endowments
 - c) to make investment abroad
 - d) All of the above**
24. _____ takes place when there is a decrease in the home currency price of the foreign currency (or, alternatively, an increase in the foreign currency price of the home currency)
- a) Home-currency appreciation**
 - b) Foreign-currency appreciation
 - c) Home-currency depreciation
 - d) Both b & c
25. _____ is a deliberate downward adjustment in the value of a country's currency relative to another country's currency or group of currencies or standards.
- a) Devaluation**
 - b) Appreciation
 - c) Revaluation
 - d) Depreciation

26. _____ of a country's currency raises the relative price of its exports and lowers the relative price of its imports
- a) **Appreciation**
 - b) Depreciation
 - c) Both a & b
 - d) None of the above
27. Outcome of exchange rate depreciation is an _____ impact on the economy at an aggregate level
- a) Contractionary
 - b) **Expansionary**
 - c) Both
 - d) None of the above
28. Explain the implications of the following on the exchange rate- Investors in India perceive that the returns on investments in the US would be much more lucrative than elsewhere. As a result, there is a huge increase in demand for investments in US dollar-denominated financial investments.
- a) INR will appreciate, and USD will appreciate
 - b) **INR will depreciate, and USD will appreciate**
 - c) INR will depreciate, and USD will depreciate
 - d) INR will appreciate, and USD will depreciate
29. Suppose the exchange rate between INR and EUR changes from 1 EUR = 80 INR to 1 EUR = 85 INR. What can be said about the change in the value of the INR relative terms to the EUR?
- a) INR has appreciated against EUR. 7
 - b) **INR has depreciated against the EUR.**
 - c) EUR has no effect against INR.
 - d) EUR has depreciated against INR.
30. What term is used for the rate between currencies Y and Z, which is derived from the given rates of another set of two pairs of currency (say, X and Y, and, X and Z)?
- a) Bid rate
 - b) Ask rate
 - c) Spot rate
 - d) **Cross rate**
31. From which year onwards, India followed the managed floating exchange rate system?
- a) 1990
 - b) 1991
 - c) 1995
 - d) **1993**

32. 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

Chapter 9 (Unit 5) – International Capital Movements

1. Which of the following statements is incorrect?
 - (a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.
 - (b) Foreign portfolio investments involve flow of 'financial capital'.
 - (c) Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services.**
 - (d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.
2. Which of the following is a component of foreign capital?
 - (a) Direct inter government loans
 - (b) Loans from international institutions (e.g. World Bank, IMF, ADB)
 - (c) Soft loans for e.g. from affiliates of World Bank such as IDA
 - (d) All the above**
3. Which of the following would be an example of foreign direct investment from Country X?
 - (a) A firm in Country X buys bonds issued by a Chinese computer manufacturer.
 - (b) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors
 - (c) Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm**
 - (d) None of the above
4. Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?
 - (a) Brownfield investment
 - (b) Merger and acquisition
 - (c) Greenfield investment**
 - (d) Strategic alliances
5. Which is the leading country in respect of inflow of FDI to India?
 - (a) Mauritius**
 - (b) USA
 - (c) Japan
 - (d) USA
6. 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

7. Which of the following is a reason for foreign direct investment?
- (a) secure access to minerals or raw materials
 - (b) desire to capture of large and rapidly growing emerging markets
 - (c) desire to influence home country industries
 - (d) (a) and (b) above**
8. A foreign direct investor
- (a) May enter India only through automatic route
 - (b) May enter India only through government route
 - (c) May enter India only through equity in domestic enterprises
 - (d) Any of the above**
9. Foreign investments are prohibited in
- (a) Power generation and distribution
 - (b) Highways and waterways
 - (c) Chit funds and Nidhi company**
 - (d) Airports and air transport
10. Which of the following statement is false in respect of FPI?
- (a) portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments
 - (b) is effected largely by individuals and institutions through the mechanism of capital market
 - (c) is difficult to recover as it involves purely long-term investments and the investors have controlling interest**
 - (d) investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.
11. _____ are "all investments involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the direct investor
- a) Foreign Portfolio Investment (FPI)
 - b) Foreign Direct Investment (FDI)**
 - c) Both a & b
 - d) None of the above
12. As per the IMF manual on 'Balance of payments', FDI occurs through the acquisition of more than _____ of the shares of the target asset
- a) 5%
 - b) 10%**
 - c) 50%
 - d) 51%
13. The components of FDI are _____.
- a) Equity capital
 - b) Reinvested earnings
 - c) Other direct capital in the form of intra-company loans
 - d) All of the above**

14. The modes of FDI are _____.
- a) opening of overseas companies,
 - b) including the establishment of Subsidiaries or branches,
 - c) creation of joint ventures on a contract basis
 - d) **All of the above**
15. A cell phone service provider based in the USA, moving to India to provide the same service. This is an example of-
- a) **Horizontal FDI**
 - b) Vertical FDI
 - c) Conglomerate FDI
 - d) All of the above
16. An automobile manufacturing company may acquire an interest in a foreign company that supplies parts or raw materials required for the company. This is an example of-
- a) Horizontal FDI
 - b) **Vertical FDI**
 - c) Conglomerate FDI
 - d) Reciprocal FDI
17. _____ is one where an investor makes a foreign investment in a business unrelated to an existing business in the home country.
- a) Horizontal FDI
 - b) Vertical FDI
 - c) **Conglomerate FDI**
 - d) Reciprocal FDI
18. The purchase of a bond (certificate of indebtedness) of a Swiss company or the Swiss government by a citizen or company based in France. is an example of-
- a) Foreign Direct Investment
 - b) **Foreign Portfolio Investment**
 - c) Reciprocal FDI
 - d) All of the above
19. _____ is not concerned with either the manufacture of goods or with the provision of services
- a) Foreign Direct Investment
 - b) **Foreign Portfolio Investment**
 - c) Reciprocal FDI
 - d) All of the above
20. _____ is only short-term interest and generally remains invested for short periods.
- a) Foreign Direct Investment
 - b) **Foreign Portfolio Investment**
 - c) Reciprocal FDI
 - d) All of the above

21. _____ is not a reason for foreign direct investment
- a) Infrastructure lags
 - b) High rates of inflation
 - c) Unskilled Labour & low literary rate
 - d) **All of the above**
22. _____ is a form of FDI which makes use of the existing infrastructure by merging, acquiring or leasing, instead of developing a completely new one
- a) Greenfield investment
 - b) **Brownfield investment**
 - c) Both a & b
 - d) None of the above
23. Establishment of a new overseas affiliate for freshly starting production by a parent company is _____ FDI
- a) **Greenfield investment**
 - b) Brownfield investment
 - c) Both a & b
 - d) None of the above
24. What is the main difference between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)?
- a) **FDI creates physical assets, while FPI involves only financial assets.**
 - b) FDI involves financial assets, while FPI creates physical assets.
 - c) Both FDI and FPI create physical assets.
 - d) Both FDI and FPI involve only financial assets.
25. Foreign corporations invest in India to benefit from the country's particular investment privileges such as tax breaks and comparatively lower salaries. This type of investment is an example of:
- a) Foreign Portfolio Investment
 - b) Joint Venture
 - c) **Foreign Direct Investment**
 - d) Strategic Alliance
26. 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

27. 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

28. 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 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) – (i), B) – (ii), C) – (iii), D) – (iv)

Chapter 10 – Indian Economy

1. The Indian industry stagnated under the colonial rule because
 - a) Indians were keen on building huge structures and monuments only
 - b) Deterioration was caused by high prices of inputs due to draught
 - c) **The Indian manufactures could not compete with the imports of cheap machine made goods**
 - d) None of the above

2. The first wave of liberalization starts in India
 - a) In 1951
 - b) **In 1980's**
 - c) In 1990
 - d) In 1966

3. The sequence of growth and structural change in Indian economy is characterized by
 - a) The historical pattern of prominence of sectors as agriculture, industry, services
 - b) The historical pattern of prominence of sectors as industry, services, agriculture
 - c) **Unique experience of the sequence as agriculture, services, industry**
 - d) All the above are correct

4. 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

5. The Foreign Investment Promotion Board (FIPB)
 - a) a government entity through which inward investment proposals were routed to obtain required government approvals
 - b) **no more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal**
 - c) no more exists as all inward investments are through automatic route and need no approval
 - d) is the body which connects different ministries in respect of foreign portfolio investments

6. FAME-India Scheme aims to
 - a) Enhance faster industrialization through private participation
 - b) **to promote manufacturing of electric and hybrid vehicle technology**
 - c) to spread India's fame among its trading partners
 - d) None of the above

7. In terms of Ease of Doing Business in 2020 India ranks

- a) 63
- b) 77
- c) 45
- d) None of the above

8. 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) b) and c) above

9. Which of the following is not a policy reform included in the new economic policy of 1991 -

- a) removing licensing requirements for all industries
- b) Foreign investment was liberalized
- c) Liberalization of international trade
- d) The disinvestment of government holdings of equity share capital of public sector enterprises

10. Imports of foreign goods and entry of foreign investments were restricted in India because -

- a) The government wanted people to follow the policy of 'Be Indian; Buy Indian'
- b) Because foreign goods were costly and meant loss of precious foreign exchange
- c) Government policy was directed towards protection of domestic industries from foreign competition
- d) Government wanted to preserve Indian culture and to avoid influence of foreign culture

11. 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 British period marked by an average of 3.5 percent
- d) the growth rate of the country because India is referred to as 'Hindustan'

12. In the context of the new economic policy of 1991, the term 'disinvestment' stands for -

- a) A policy whereby government investments are reduced to correct fiscal deficit
- b) The policy of sale of portion of the government shareholding of a public sector enterprise
- c) The policy of public partnership in private enterprise
- d) A policy of opening up government monopoly to the private sector

13. The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -

- a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few
- b) to provide for the control of monopolies
- c) to prohibit monopolistic and restrictive trade practice
- d) all the above

14. Which one of the following is a feature of green revolution
- a) use of soil friendly green manure to preserve fertility of soil
 - b) grow more crops by redistributing land to landless people
 - c) High yielding varieties of seeds and scientific cultivation**
 - d) Diversification to horticulture
15. The strategy of agricultural development in India before green revolution was -
- a) High yielding varieties of seeds and chemical fertilizers to boost productivity
 - b) Institutional reforms such as land reforms**
 - c) Technological up gradation of agriculture
 - d) All the above
16. The Industrial Policy Resolution (1948) aimed at -
- a) Market oriented economic reforms and opening up of economy
 - b) A shift from state led industrialization to private sector led industrialization
 - c) an expanded role for the public sector and licensing to the private sector**
 - d) an expanded role of private sector a limited role of public sector
17. The new economic policy of 1991 manifest in -
- a) State led industrialization and import substitution
 - b) Rethinking the role of markets versus the state**
 - c) Emphasized the role of good governance
 - d) Bringing about reduction in poverty and redistributive justice
18. The post-independence economic policy was rooted in -
- a) A capitalist mode of production with heavy industrialization
 - b) social and economic redistribution and industrialization directed by the state**
 - c) social and economic redistribution through private sector initiatives
 - d) Industrialization led by private entrepreneurs and redistribution by state

Extra Questions

19. Between the first and the _____, India is believed to have had the largest economy of the ancient and the medieval world.
- a) The seventeenth century BC
 - b) The eighteenth century AD
 - c) The nineteenth century BC
 - d) The seventeenth century AD**
20. India is believed to have controlled between _____ and _____ of the world's wealth.
- a) One fourth; one fifth
 - b) One third; one fourth**
 - c) One fifth; one sixth
 - d) None of the above

21. _____ was the dominant occupation and the main source occupation of livelihood for the majority of people.
- a) Manufacturing
 - b) Agriculture**
 - c) Service Sector
 - d) None of the above
22. _____ is believed to be a kind of handbook for King Chandragupta Maurya
- a) Karmashastra
 - b) Yuddhashastra
 - c) Arthashastra**
 - d) None of the above
23. The rule of East India company was from
- a) 1858 to 1947
 - b) 1757 to 1858**
 - c) 1757 to 1858
 - d) 1750 to 1850
24. British government in India ruled from
- a) 1858 to 1947**
 - b) 1757 to 1947
 - c) 1850 to 1947
 - d) None of the above
25. _____ led to the virtual reversal of India's foreign trade from an exporter of manufactured goods to an exporter of raw materials.
- a) Industrial revolution in India
 - b) Industrial Revolution in Britain**
 - c) Both a and b
 - d) Poor quality of Manufactured goods
26. During latter half 18th century, Indian exports of finished goods were subject to _____ tariffs and imports were charged to _____ tariffs under discriminatory tariffs
- a) Lower; Higher
 - b) Higher; Higher
 - c) Higher; Lower**
 - d) Lower; Lower
27. The cotton mill industry in India had _____ million spindles in the 1930s
- a) 10
 - b) 9**
 - c) 8
 - d) 12

28. The cotton milling business grew steadily throughout the second half of the _____ and achieved high international competitiveness.
- a) **19th century**
 - b) 18th century
 - c) 17th century
 - d) 20th century
29. At the end of 19th century, the Indian jute mill industry was the _____ in the world in terms of the amount of raw jute consumed in production.
- a) 2nd largest
 - b) 8th largest
 - c) **Largest**
 - d) 3rd Largest
30. India's iron industry was ranked _____ in the world in terms of output in 1930s
- a) 5th
 - b) **8th**
 - c) 2nd
 - d) 3rd
31. Just before the Great Depression, India was ranked as the _____ largest industrialized country measure by the value of Manufactured products
- a) 2nd
 - b) **12th**
 - c) 8th
 - d) 5th
32. The literacy rate was just above _____ percent and barely _____ years of life expectancy in 1951.
- a) 20, 35
 - b) **18, 32**
 - c) 18, 30
 - d) 20, 32
33. At the time of independence, all the economic policies were formulated in line with the _____ strategy
- a) Capitalistic
 - b) **Socialistic**
 - c) Both a and b
 - d) None of the above
34. _____ was the cornerstone of Nehru's development strategy
- a) Agriculture
 - b) **Rapid Industrialization**
 - c) Privatization
 - d) All of the above

35. Industrial Policy Resolution (1948) envisaged an expanded role of ____ sector
- a) Private
 - b) **Public**
 - c) Both a and b
 - d) Foreign
36. Which of the following is not related to Industrial Policy Resolution 1956?
- a) Expansion of the scope of the public sector
 - b) Focus on Industrial development
 - c) Dampening of private initiative and enterprise
 - d) **Private investments were encouraged**
37. During 1950-80, Hindu growth rate was around _____
- a) 5%
 - b) 3.8%
 - c) **3.5%**
 - d) 3%
38. The strategy for agriculture development till mid 1960s was reliance on:
- a) **Land reforms**
 - b) Innovative farm technologies
 - c) High yield varieties
 - d) All of the above
39. With continuous failures of monsoon, two severe and consecutive droughts struck India in _____ and _____.
- a) 1965; 1966
 - b) **1966; 1967**
 - c) 1967; 1968
 - d) 1968; 1969
40. The green revolution was materialized by
- a) Innovative farm technologies
 - b) High yielding seed varieties
 - c) Fertilizers and pesticides
 - d) **All of the above**
41. The economic performance during the period of _____ is the worst in independent India's history
- a) 1950-1965
 - b) **1965-1981**
 - c) 1980-1990
 - d) 1960-1965

42. The initiatives from _____ to _____ practically referred to as 'early liberalization'.
- 1991 to 1995
 - 1981 to 1989**
 - 1965 to 1981
 - 1981 to 1999
43. These initiatives, spanning 1981 to 1989, were practically referred to as _____.
- 'early liberalization'
 - 'reforms by stealth'
 - Both a and b**
 - None of the above
44. During 1980s, the facility of _____ was accorded for industry groups to allow flexibility and rapid changes in their product mix without going in for fresh licensing.
- Broad-banding**
 - Free licenses
 - Government approval
 - None of the above
45. The following steps are taken in 1980s Reforms, except:
- Delicensing of 25 broad categories of industries was done
 - Multipoint excise duties were converted into MODVAT
 - Price and distribution controls on all the industries were entirely abolished**
 - Open general license was steadily expanded.
46. India embarked on a bold set of immediate reforms in 1991 under ___ government
- Jawaharlal Nehru
 - Indira Gandhi
 - Narsimha Rao**
 - Manmohan Singh
47. Before the 1991 reforms, the foreign exchange reforms touched the lowest point with a reserve on only _____ which was barely sufficient for _____ of imports
- \$1.5 billion; 4 weeks
 - \$1.2 billion; 2 weeks**
 - \$1.2 billion; 4 weeks
 - \$1.5 billion; 2 weeks
48. The reforms, popularly known as liberalization, privatization, and globalization, spelt a major shift in economic philosophy and fundamental change in approach and had the following objectives:
- Industrial development & macroeconomic stabilization.
 - Reorientation of the economy & macroeconomic stabilization**
 - Price stability & expansion of foreign exchange reserves
 - None of the above

49. Drastic monetary and financial sector reforms were introduced with the objective of making the financial system more efficient and transparent. These included many measures, which is among them?

- a) Interest rate liberalization and reduction in controls on banks by the RBI
- b) Opening of new private sector banks
- c) Liberalization of bank branch licensing policy
- d) **All of the above**

50. New Economic policy focused on Stabilization measure which were _____ measures & structural reforms measures which were _____

- a) Long term; short term
- b) **Short term; long term**
- c) Long term; long term
- d) Short term; short term

51. Monetary policy reforms during 1990s were focused on:

- a) Reducing the burden on non-performing assets
- b) Reduction in control on banks by RBI
- c) Opening of new private sector banks
- d) **All of the above**

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

- a) 1990
- b) 1991
- c) **1992**
- d) 1988

53. The New Industrial Policy' was announced by the government on

- a) 24 Aug 1991
- b) 24 July 1990
- c) **24 July 1991**
- d) 22 July 1991

54. Following are the reforms of New Economic policy, except:

- a) End to the 'License Raj'
- b) MRTP Act was restructured and provisions related to Mergers, Amalgamations and takeover was repealed
- c) **Foreign investment was liberalized and automatic approval was introduced for FDI in all the industries.**
- d) Many goods produced by small scale industries have been de reserved.

55. In 1990-921, highest tariff rate was

- a) 85%
- b) 300%
- c) **355%**
- d) 400%

56. The trade policy reforms aimed at:

- a) dismantling of quantitative restrictions on imports and exports.
- b) focusing on a more outward-oriented regime with phased reduction and simplification of tariffs
- c) removal of licensing procedures for imports.
- d) **All of the above**

57. In July 1991, the Indian government devalued the rupee by

- a) 15%
- b) 10%
- c) **18%**
- d) 20%

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

- a) Fixed
- b) Free Floating
- c) **Managed floating**
- d) None of the above

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

- a) 1st January 1991
- b) **1st January 2015**
- c) 31st Jan 2015
- d) 1st Feb 2010

60. _____ is expected to serve as a 'Think Tank' of the government.

- a) Planning Commission
- b) **NITI Aayog**
- c) Finance Ministry
- d) All of the above

61. NITI Aayog will work towards which of the objectives?

- a) To evolve a shared vision of national development priorities, sectors, and strategies with the active involvement of states.
- b) To foster cooperative federalism
- c) To pay special attention to the sections of our society that may be at risk of not benefiting from adequate progress. from economic
- d) **All of the above**

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

- a) India Policy Insights (IPI)
- b) E-Amrit
- c) **NDAP**
- d) Shoonya

63. _____ campaign aims to improve air quality in India by accelerating the development of electric vehicles
- a) Methanol Economy
 - b) 'LiFE'
 - c) **Shoonya**
 - d) E-Amrit
64. India has emerged as the world's largest producer of:
- a) Vegetables
 - b) Cotton
 - c) **Pulses**
 - d) All of the above
65. Gross value added by the agriculture and allied sector was ___ in 2021-22
- a) 30%
 - b) 52.3%
 - c) **18.8%**
 - d) 49%
66. The minimum support price of all 23 mandated crops is fixed at _____ times of average cost of production
- a) 2
 - b) **1.5**
 - c) 3
 - d) 2.5
67. The government of India has allowed _____ % FDI in marketing of food products under the automatic route
- a) 49%
 - b) 26%
 - c) 74%
 - d) **100%**
68. _____ is a novel insurance scheme for financial support to farmers suffering crop loss/damage
- a) **Pradhan Mantri Fasal Bima Yojana (PMFBY)**
 - b) Paramparagat Krishi Vikas Yojana (PKVY)
 - c) Both
 - d) None of the above
69. The Indian industry holds a significant position in the Indian economy contributing about _____ of total gross value added in the country and employing over 12.1 crores of people.
- a) 25%
 - b) **30%**
 - c) 35%
 - d) 40%

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

- a) 55
- b) **55.4**
- c) 54.5
- d) 54.4

71. India's rank in Global innovation index (GII) improved to _____ in 2022 from ____ in 2015

- a) 40th; 82nd
- b) 41st; 82nd
- c) **40th; 81st**
- d) None of the above

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

- a) FAME India scheme
- b) Udyami Bharat
- c) **National single window system**
- d) PM Gati Shakti national master plan

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

- a) Udyami Bharat
- b) **FAME-India**
- c) PLI Scheme
- d) PM Gati Shakti national master plan

74. The service sector is the largest sector of India and accounts for __ of total India's GVA

- a) 18.8%
- b) 30%
- c) **53.89%**
- d) 58.3%

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

- a) Primary
- b) Secondary
- c) **Tertiary**
- d) Foreign sector

76. _____ sector is the largest recipient of FDI inflows in India

- a) Agriculture
- b) Industrial
- c) **Service**
- d) Secondary

77. The real GDP of India grew by _____ in July-September of 2022-23 driven by strong private consumption and investment.
- a) **6.3%**
 - b) 6.6%
 - c) 7.3%
 - d) 7.6 %
78. In Monetary & Financial Sector reforms, what steps were taken regarding reserve requirements?
- a) **Decrease in both SLR and CRR**
 - b) Increase in both SLR and CRR
 - c) Increase in SLR & Decrease in CRR
 - d) Decrease in SLR & Increase in CRR
79. The Foreign Investment Promotion Board (FIPB) was abolished in May 2017, and a new regime namely _____ has been put in place.
- a) Foreign Investment Facilitation Board
 - b) **Foreign Investment Facilitation Portal**
 - c) Domestic Investment Promotion Portal
 - d) Foreign Investment Promotion Portal
80. _____ FDI under automatic route is permitted for the sale of coal, and coal mining activities, including associated processing infrastructure and for insurance intermediaries
- a) 20%
 - b) 49%
 - c) 51%
 - d) **100%**
81. India is among the top _____ World Trade Organization (WTO) members in service exports and imports
- a) 2
 - b) 3
 - c) 5
 - d) **10**
82. India is the world's _____ producer of fruits, vegetables, farmed fish, tea, cotton, sugarcane, wheat, rice, cotton and sugar.
- a) Largest
 - b) **Second Largest**
 - c) Third Largest
 - d) Fifth
83. The Indian industry stagnated under the colonial rule because
- a) Indians were keen on building huge structures and monuments only
 - b) Deterioration was caused by high prices of inputs due to draught
 - c) **The Indian manufacturers could not compete with the imports of cheap machine-made goods**
 - d) None of the above

84. The sequence of growth and structural change in the Indian economy is characterized by

- a) The historical prominence of pattern sectors agriculture, industry, services as
- b) The historical prominence of pattern sectors industry, services, agriculture as
- c) **The unique experience of the sequence as agriculture, and services. Industry**
- d) All the above are correct

85. 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

86. FAME-India Scheme aims to

- a) Enhance faster industrialization through private participation
- b) **to promote manufacturing of electric and technology hybrid vehicle**
- c) to spread India's fame among its trading partners
- d) None of the above

87. In terms of Ease of Doing Business in 2020, India ranks

- a) **63**
- b) 77
- c) 45
- d) None of the above

88. E-NAM is -

- a) An electronic name card given to citizens of India
- b) National Agriculture Market with the objective of creating unified national a market for agricultural commodities.
- c) a pan-India electronic trading portal which network existing APMC mandis
- d) **b) and c) above**

89. Which of the following is not a policy reform included in the new economic policy of 1991-

- a) **Removing licensing requirements for all industries**
- b) Abolition of industrial licensing requirements for all industries, except for a small list of industries related to security, strategic and environmental concerns
- c) Liberalization of international trade
- d) The disinvestment of government holdings of equity share capital of public sector enterprises

90. On which date was the 'New Industrial Policy' announced by Government of India?

- a) 15th August 1947
- b) **24th July 1991**
- c) 26th January 1950
- d) 5th September 1992

91. On which date was the apex policy-making body, the Planning Commission, replaced by the National Institution for Transforming India (NITI) Aayog?
- a) 1 April 2015
 - b) 1 July 2015
 - c) **1 January 2015**
 - d) 1 July 2016
92. Which government scheme supports and promotes organic farming, as well as the improvement of soil health?
- a) National Rural Employment Guarantee Act (NREGA)
 - b) Rashtriya Krishi Vikas Yojana (RKVY)
 - c) Pradhan Mantri Fasal Bima Yojana (PMFBY)
 - d) **Paramparagat Krishi Vikas Yojana (PKVY)**
93. Which initiative aims at the empowerment of Micro Small and Medium Enterprises (MSMEs)?
- a) **Udyami Bharat**
 - b) Start-up India
 - c) Make in India
 - d) Digital India
94. Transportation and storage, real estate service, public administration and education are the activities in India which are covered by:
- a) Primary sector
 - b) Secondary sector
 - c) **Tertiary sector**
 - d) Private sector
95. What is the full form of DPIIT?
- a) Department for Promotion of Industry and International Trade
 - b) Department for Promotion of Industrial and Internal Trade
 - c) Directorate for Promotion of Industry and Internal Trade
 - d) **Department for Promotion of Industry and Internal Trade**
96. Which of the following is not the aim of the 'Methanol Economy' programme?
- a) Converting coal reserves and municipal solid waste into methanol.
 - b) Reducing Greenhouse gas (GHG) emissions.
 - c) Reducing India's oil import bill
 - d) **Converting industrial waste into methanol.**
97. Which of the following statements is true in relation to the object of The National Data and Analytics Platform (NDAP)?
- a) To ensure data security.
 - b) **To facilitate and improve access to Indian government data.**
 - c) To convert all government data in electronic form.
 - d) To formulate a national cyber security law.

98. The India Development Update (IDU) report published by ____ in November 2022:

- a) United Nations Development Programme (UNDP)
- b) International Monetary Fund (IMF)
- c) **World Bank**
- d) Asian Development Bank (ADB)

99. ____ facilitates and improves access to Indian Government data

- a) E-Amrit
- b) E-NAM
- c) **NDAP**
- d) MIDH

100. 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

101. Which act was initially aimed for regulation of large firms which had relatively large market power?

- a) RBI Act
- b) FEMA
- c) RERA
- d) **MRTTP Act, 1969**

102. From which year onwards, India followed the managed floating exchange rate system?

- a) 1990
- b) 1991
- c) 1995
- d) **1993**

103. 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

104. 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 Scheme

105. 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
106. 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
107. In which of the following sector FDI is not permissible?
- a) Telecom
 - b) Aviation
 - c) **Atomic energy**
 - d) Defence
108. Production of milk is included in which sector?
- a) Tertiary sector
 - b) Service sector
 - c) **Primary sector**
 - d) Secondary sector
109. Which of the following best describes the pre-British Indian economy?
- a) Dependent on import of goods
 - b) **Self-sufficient villages and cities which were centers of commerce**
 - c) Focus on industrial production
 - d) Dominated by foreign trade
110. 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
111. 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)

112. 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 and iii
 - c) **Only i, iii, iv**
 - d) Only i, ii, iv

113. Which government scheme focuses on providing financial supports 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 (PMVY)

114. Which regime replaced the Foreign Investment Promotion Board (FIPB)

- a) SEBI
- b) FIF Portal
- c) NITI Aayog
- d) **DPIIT**

115. What was India's rank in 2022 as per Global Innovation Index?

- a) 81st
- b) **40th**
- c) 63rd
- d) 25th

116. Which policy replaced the Merchandise Exports from India Scheme (MEIS) in 2021?

- a) NDAP
- b) GST
- c) PLI Scheme
- d) **RoDTEP**

117. The early liberalization and reforms started in India in _____

- a) **1980s**
- b) 1970s
- c) 1960s
- d) 1990s

118. What percentage of India's population depends on agriculture for livelihood as per latest estimates?

- a) 18%
- b) 25%
- c) **47%**
- d) 60%