

QUESTIONS FOR PRACTICE



CHAPTER – 1

QUESTIONS

1. The definition of economics with the narrow focus on using the relatively scarce resources to satisfy human wants is the domain of _____ micro economics analysis.
 - (a) Classical
 - (b) Modern
 - (c) Modern neo classical
 - (d) Neo classical
2. Which of the following matters is/are fundamentally connected to economic analysis?
 - (a) Economic prosperity
 - (b) Higher standard of living
 - (c) Changes in price of a commodity
 - (d) All of the above
3. Most of the economic problems are of _____ nature and are affected by _____.
 - (a) Complex, Several forces
 - (b) Simple, Several forces
 - (c) Simple, single factor
 - (d) Complex, Single factor
4. Which of the following statements is true?
 - (a) The study of economics ensures that all problems will be appropriately tackled.

- (b) The study of economics cannot ensure that all problems will be appropriately tackled.
 - (c) The study of economics does not enable a student to examine a problem in its right perspective.
 - (d) None of these
5. The survival and success of any business depends on sound_____.
- (a) Mind
 - (b) Environment
 - (c) Decisions
 - (d) None of these
6. Business economics has close connection with _____ economic theory.
- (a) Micro
 - (b) Macro
 - (c) Micro as well as macro
 - (d) None of these
7. Which one of the following statements about business economics is true?
- (a) Business economics is only useful and valuable to business decision makers.
 - (b) Business economics is not only valuable to business decision makers but also for managers of 'Not for Profit' organizations.
 - (c) Business economics is only valuable for managers of 'Not for Profit' organizations.
 - (d) None of these
8. Who defined Business economics in terms of the use of economic analysis in the formulation of business policies?
- (a) Adam Smith
 - (b) Robbins
 - (c) Joel Dean
 - (d) Alfred Marshall
9. Business economics is_____
- (a) A science

- (b) An art
 - (c) Both science and art
 - (d) None of these
10. Management of the firm _____ control over macro economic factors.
- (a) has
 - (b) has no
 - (c) has partial
 - (d) None of these
11. An economy succeeds in using resources efficiently when_____
- (a) Goods and services are produced without resources being wasted.
 - (b) The total production of goods is high.
 - (c) The resources of production are best.
 - (d) The resources employed for highly valued uses.
12. The central problem of an economy is-
- (a) Allocating scarce resources such that unlimited human wants of the society can be satisfied.
 - (b) Ensuring a minimum income for each citizen
 - (c) Assuring that production happens in the most effective way.
 - (d) Analyzing the demand with market economies.
13. Which branch of economic theory is associated with the difficulty of resources allocation?
- (a) Econometrics
 - (b) Micro economic theory
 - (c) Macro economic theory
 - (d) None of these
14. A rational person does not act unless___
- (a) The action is ethical.
 - (b) The action produces marginal cost that exceeds marginal revenue.

- (c) The action produces marginal benefits that exceed marginal costs.
 - (d) The action makes money for the person.
15. Economics is a _____ science which deals with human wants and their satisfaction.
- (a) Social
 - (b) Political
 - (c) Natural
 - (d) Physical
16. Opportunity cost is _____.
- (a) A cost that cannot be avoided.
 - (b) The cost incurred in the past before we make a decision about what to do in the future.
 - (c) That which we forgo, or give up when we make a choice or a decision.
 - (d) The additional benefit of buying an additional unit of a product.
17. In a planned or command economy all the economic decisions are taken by the _____.
- (a) Workers
 - (b) Consumers
 - (c) Voters
 - (d) Government
18. Which one of the following is a normative statement?
- (a) The richest 10% of the population has had a bigger percentage increase in incomes over the past 10 years than the poorest 10%.
 - (b) 'Gross GST collections for January, 2022 at record high of Rs. 1.4 lakh crore.' [Finance Minister of India_ Union Budget 2022-23]
 - (c) Inflation is rising
 - (d) Inequality in the distribution of income is more serious problem than unemployment.
19. Business Economics is also known as _____
- (a) Managerial Economics

- (b) Economics for executives
 - (c) Economic analysis for business decisions
 - (d) All of the above
20. Economics is-
- (a) A positive science
 - (b) Neither positive nor normative science
 - (c) A science but not art
 - (d) A science or an art depending on who uses economics and for what purpose.
21. The regulatory mechanism of the market system is-
- (a) Self interest
 - (b) Private property
 - (c) Competition
 - (d) Specialization
22. In economics the central problem is-
- (a) Money
 - (b) Scarcity
 - (c) Allocation
 - (d) Production
23. Micro economics is not concerned with the behavior of -
- (a) Consumers
 - (b) Aggregate demand
 - (c) Firms
 - (d) Industries
24. Which one of the following countries does not follow Capitalist economic system?
- (a) USA
 - (b) UK
 - (c) Germany
 - (d) India

25. Which of the following statements is/are correct about mixed economic system?
- (a) Mixed economic system depends on both markets and governments for allocation of resources
 - (b) Mixed economy is not always a golden path between capitalism and socialism.
 - (c) It is very difficult to maintain a proper balance between private and public sectors.
 - (d) All of the above

CHAPTER-2

26. The economically relevant range of the total utility curve is the portion over which
- (a) The total utility curve is rising at a declining rate.
 - (b) The total utility curve is rising at an increasing rate.
 - (c) The total utility is maximum and constant.
 - (d) The total utility is declining.
27. 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.
28. 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
29. Match the following
- LIST-I**
- a. Various combinations that a consumer can purchase.

- b. Various combinations of two commodities that give consumer equal satisfaction.
- c. A set of indifference curves.
- d. Point of tangency of a budget line and an indifference curve.

LIST-II

- 1. Indifference map
- 2. Indifference curve
- 3. Budget line
- 4. Consumer's equilibrium

Codes:

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

30. The substitution effect works to encourage a consumer to purchase more of a product when the price of that product is falling because-
- (a) The consumer's real income has increased.
 - (b) The consumer's real income has decreased.
 - (c) The product is now relatively less expensive than before.
 - (d) Other products are now less expensive than before.

31. Match the following

LIST-I

- a. Responsiveness of demand to change in price.
- b. Responsiveness of demand to change in tastes.
- c. Responsiveness of demand to change in income.
- d. Responsiveness of demand to change in price of related goods.

LIST-II

- 1. Income elasticity of demand

2. Price elasticity of demand
3. Cross elasticity of demand
4. Taste elasticity of demand

Codes:

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

32. Which of the following statements is correct?

- (a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero.
- (b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite.
- (c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity.
- (d) None of these

33. Match the following

LIST-I

- a. Expansion in demand
- b. Contraction in demand
- c. Increase in demand
- d. Decrease in demand

LIST-II

1. Movement on the same demand curve from left to right
2. Movement on the same demand curve from right to left
3. Shift in demand curve to the right
4. Shift in demand curve to the left

Codes:

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

34. 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.
35. In economics the term 'marginal utility' is defined as the
- (a) Average utility of each unit of a good consumed.
 - (b) Inverse of the measure of total utility
 - (c) Inverse of average utility
 - (d) Change in total satisfaction caused by consumption of an additional unit of a commodity.
36. The law of diminishing marginal utility states that
- (a) total utility is maximized when a consumer obtain 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.
37. Marginal utility is the
- (a) sensitivity of consumer purchases of a good to change in the price of that good.

- (b) change in total utility realized by consuming one more unit of a good.
 - (c) total utility associated with the consumption of a certain number of units of a good divided by the number of units consumed.
 - (d) change in total utility realized by consuming another unit of a good divided by the change in price of that good.
38. Marshallian theory of consumer's behavior is based on
- (a) Hypothesis of additive utilities.
 - (b) Hypothesis of independent utilities.
 - (c) Both (A) and (B)
 - (d) Weak ordering
39. Consider the following statements:
- (i) Income effect is positive in case of normal goods.
 - (ii) Income effect is zero in case of superior goods.
 - (iii) Income effect is positive in case of inferior goods
 - (iv) All Giffen goods are inferior goods but not all inferior goods are Giffen goods.
 - (v) Income effect is negative in case of inferior goods.
- Which of the above statements is/are correct?
- (a) (i) only
 - (b) (ii) & (v)
 - (c) (iii) & (iv)
 - (d) (i), (iv) & (v)
40. Demand and _____ are the forces that make market economies work.
- (a) Elasticity of demand
 - (b) Quantity demanded
 - (c) Supply
 - (d) Quantity supplied
41. The buyers in the market include
- (a) Consumers
 - (b) Businesses

- (c) Government
 - (d) All of the above
42. Computers and computer software are_____
- (a) Substitute goods
 - (b) Complementary goods
 - (c) Independent goods
 - (d) Normal goods
43. The _____ of a buyer is determined by the level of his _____.
- (a) Purchasing power, disposable income
 - (b) Disposable income, purchasing power
 - (c) Purchasing power, desire
 - (d) desire, purchasing power
44. Let slope of supply curve is 0.6, calculate elasticity of demand when initial price is \$ 30 per unit and initial quantity is 100 units of the commodity.
- (a) 0.5
 - (b) 5.55
 - (c) (-) 0.5
 - (d) (-) 0.18
45. Related goods are of _____ types.
- (a) two
 - (b) three
 - (c) four
 - (d) five
46. "If the price of oranges falls due to good crop from Rs. 20 per dozen to Rs.10 per dozen, the household that was purchasing 3 dozen oranges may now afford to purchase 6 dozen oranges by spending the same amount of money."
- The above statement is depicting -
- (a) Income effect
 - (b) Substitution effect

- (c) Price effect
 - (d) Both (A) and (C)
47. Demonstration effect, a term coined by _____
- (a) Adam Smith
 - (b) James Duesenberry
 - (c) Alfred Marshall
 - (d) None of these
48. "The increase in demand of a commodity due to the fact that others are also consuming the same commodity" is known as _____
- (a) Veblen effect
 - (b) Bandwagon effect
 - (c) Snob effect
 - (d) Demonstration effect
49. Consider the following statements and select the correct answer from the given options.
- Assertion (A):** Demand curve is vertical when elasticity of demand is zero.
- Reason (R):** Marginal utility of a product is increasing
- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 - (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 - (c) (A) is true but (R) is false
 - (d) (A) is false but (R) is true
50. Match the following
- LIST-I**
- a. Bandwagon effect
 - b. Demonstration effect
 - c. Snob effect
 - d. Veblen effect
- LIST-II**
- 1. James Duesenberry

2. Demand of a good decreased due to the fact that others are also consuming the same.
3. Demand of a good increased due to the fact that others are also consuming the same.
4. Highly priced goods are consumed by status seeking rich people.

Codes:

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

51. Consider the following statements and select the correct answer from the given options.

Assertion (A): Utility is relative in nature.

Reason (R): Utility derived from the same commodity may vary from person to person, time to time and place to place.

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

52. A rise in price of a good _____ consumer surplus.

- (a) Reduces
- (b) Increases
- (c) Either (A) and (B)
- (d) Doesn't effect

53. Consider the following statements and select the correct answer from the given options.

Assertion (A): Utility is a psychological concept.

Reason (R): Utility depends upon the mental attitude of people.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)

- (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 - (c) (A) is true but (R) is false
 - (d) (A) is false but (R) is true
54. All desires, tastes and motives of human beings are called _____ in economics.
- (a) Willingness
 - (b) Demand
 - (c) Wants
 - (d) None of these
55. Which of the following statement(s) is/are true about the slope of budget line?
- (a) The slope of budget line is determined by the relative prices of two goods.
 - (b) The slope of budget line is equal to price ratio of two goods.
 - (c) The slope of budget line measures the rate at which the consumer can trade one good for the other.
 - (d) All of the above
56. 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
57. The elasticity of supply at any point on a given supply curve passing through the origin point making angle of 35 degree with X-axis is _____
- (a) Greater than one
 - (b) Less than one
 - (c) Equal to one
 - (d) Any of the above
58. If both labour and capital are occupationally mobile and can be easily switched then the elasticity of supply for a product is _____
- (a) relatively high

- (b) relatively low
 (c) equal to one
 (d) Any of the above
59. Which one of the following statements is true regarding Indifference Curve?
- (a) Two ICs can never be parallel to each other
 (b) Two ICs are always parallel to each other
 (c) Two ICs may not intersect each other
 (d) Two ICs may be parallel to each other

60. Match the following

LIST-I

- a. Two perfect substitute goods
 b. Two perfect complementary goods
 c. Indifference curve is always
 d. Higher IC gives higher level of satisfaction

LIST- II

1. Linear Indifference Curve
 2. Monotonic Preference
 3. L-Shape Indifference Curve
 4. Convex to the origin

Codes:

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

61. Law of Equi-marginal Utility can be expressed as-

- (a) $MU_X/P_X = Q_X$
 (b) $P_X Q_X = MU_M$
 (c) $MU_X/P_X = MU_Y/P_Y = MU_M$
 (d) $MU_X = MU_M$

62. Match the following

LIST-I

- a. Tea and Coffee

LIST- II

1. Veblen goods

- | | | | |
|----|-----------------|----|---------------|
| b. | Car and Petrol | 2. | Substitutes |
| c. | Gold & Diamond | 3. | Giffen goods |
| d. | Ragi and Bajara | 4. | Complementary |

Codes:

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

63. Consider the following statements and select the correct answer from the given options.

Assertion (A): Compared to individual supply curve, the market supply is more elastic.

Reason (R): At each price market supply is the sum of individual supplies.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 (c) (A) is true but (R) is false
 (d) (A) is false but (R) is true
64. Consider the following statements and select the correct answer from the given options.

Assertion (A): Consumer surplus is the difference between the potential price and actual price.

Reason (R): There exists an inverse relationship between the price and consumer surplus.

- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 (c) (A) is true but (R) is false
 (d) (A) is false but (R) is true
65. Which of the following is true?
- a. Indifference curves slope downward from left to right.

- b. Indifference curves slope downward from right to left.
- c. Indifference curves are convex to the point of origin of the two axes.
- d. Indifference curves never intersect each other.

Of these statements:

- (a) a, b and c are true
 - (b) b, c and d are true
 - (c) a, c and d are true
 - (d) a and d are true
66. For substitutes, cross elasticity of demand is-
- (a) Positive
 - (b) Negative
 - (c) Zero
 - (d) Always less than one
67. A demand curve, which is parallel to the vertical axis, showing price, has the price elasticity equal to
- (a) Zero
 - (b) Infinity
 - (c) Less than one
 - (d) One
68. Traditional approach of law of demand was propounded by_____
- (a) Giffen
 - (b) Paul A Samuelson
 - (c) Alfred Marshall
 - (d) Pique
69. The oldest approach to the theory of demand is _____.
- (a) the total utility approach
 - (b) the cardinal utility approach
 - (c) the ordinal utility approach
 - (d) None of these

70. When we know the quantity of a product that sellers wish to sell at each possible price, we know _____.
- (a) Demand
 - (b) Supply
 - (c) Excess demand
 - (d) Excess supply

CHAPTER – 3

71. "Returns to a factor" refers to the effect on total output of changes in
- (a) One factor only
 - (b) Various inputs separately
 - (c) All the inputs simultaneously
 - (d) None of the above
72. Which of the following is not true about the relationship between average product (AP) and marginal product (MP)?
- (a) When $MP > AP$, AP increases.
 - (b) When $MP = AP$, AP reaches its maximum.
 - (c) MP reaches its maximum point earlier than AP reaches its own.
 - (d) After reaching the maximum point, AP decreases while MP increases.
73. In Cobb-Douglas function, the sum of the exponents shows degree of returns to scale in production.

Match the following with reference to Cobb-Douglas function

- | | |
|----------------|---------------------------------|
| a. $k + j > 1$ | I. Decreasing returns to scale |
| b. $k + j = 1$ | II. Increasing returns to scale |
| c. $k + j < 1$ | III. Constant returns to scale |

Where, k & j are exponents of labour and capital.

Codes:

- | | a | b | c |
|-----|----------|----------|----------|
| (a) | II | I | III |

- (b) I II III
- (c) III I II
- (d) II III I
74. A factor of production is said to be superior if its expenditure elasticity
- is negative
 - lies in unit interval
 - exceeds unity
 - is zero
75. In the Cobb-Douglas production function given as: $Q = AL^a K^{1-a}$ the share of labour in total production is
- a
 - $1 - a$
 - A
 - a .L
76. Which of the following is not the reason for increasing returns to scale?
- Indivisibility of the factors
 - Fuller utilization of fixed factors
 - Greater specialization of factors
 - Dimensional economies
77. Which of the following is correct regarding long run cost?
- It is least cost of producing each level of output
 - LAC curve is envelope of SAC curves.
 - LAC is U-shaped
- 1 & 2 only
 - 2 & 3 only
 - 1 & 3 only
 - 1, 2 & 3

78. Under the law of variable proportion, stage I is known as the stage of increasing returns because-
- (a) Marginal product of the variable factor increases throughout this stage
 - (b) Average product of the variable factor increases throughout this stage
 - (c) Marginal product increases at increasing rate throughout this stage
 - (d) Total increases at increasing rate throughout this stage
79. In the second stage of the law of variable proportion
- (a) Marginal product of diminishes and average product increases
 - (b) Average product of diminishes but marginal product increases
 - (c) Both marginal product and average product diminish
 - (d) Both marginal product and average product increase
80. The law of diminishing returns only applies in cases where
- (a) There is increasing scarcity of factors of production
 - (b) The price of extra unit of a factor is increasing
 - (c) There is atleast one fixed factor of production
 - (d) Capital is a variable input
81. The law of diminishing returns states that
- (a) As a firm uses more of a variable input, given the quantity of fixed inputs, marginal product of the firm will eventually decrease.
 - (b) As a firm uses more of a variable input, given the quantity of fixed inputs, the average product of the firm will increase.
 - (c) In short run, the average total cost of the firm eventually diminishes.
 - (d) In long run, the average total cost of the firm eventually diminishes.
82. Economies and diseconomies of scale explain why the
- (a) short run average fixed cost curve declines so long as output increases.
 - (b) marginal cost curve must intersect the minimum point the firm's average variable cost curve.
 - (c) long run average cost curve is typically U-shaped.
 - (d) short run average total cost curve is U-shaped.

83. Consider the following statements when answering this question;
- I. A firm's marginal cost curve does not depend on the level of fixed cost.
 - II. As output increases the difference between a firm's average total cost and average variable cost curves cannot rise.
- (a) I is false and II is true.
 - (b) Both I and II are false
 - (c) Both I and II are true
 - (d) I is true and II is false
84. Production function: $Q = 4L^{1/2}K^{2/3}$ exhibits-
- (a) increasing returns to scale
 - (b) decreasing returns to scale
 - (c) constant returns to scale
 - (d) increasing returns to a factor
85. Law of diminishing returns to scale is relevant to-
- (a) short period
 - (b) long period
 - (c) market period
 - (d) None of these
86. **Assertion (A):** Investment has also a supply effect.
Reason (R): Because it raises capacity to produce.
- (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
87. Given the following production function, match the items in list I and II:
- $$Y = AL^bK^a, a, b > 0$$
- | List-I | List- II |
|---------------------------------|----------------|
| I. Decreasing returns to scale | 1. $a + b > 1$ |
| II. Increasing returns to scale | 2. a |

- III. Output elasticity with respect to labour 3. $a + b < 1$
 IV. Output elasticity with respect to capital 4. b

Codes:

- | | I | II | III | IV |
|-----|---|----|-----|----|
| (a) | 3 | 1 | 4 | 2 |
| (b) | 1 | 2 | 4 | 3 |
| (c) | 4 | 1 | 3 | 2 |
| (d) | 3 | 1 | 2 | 4 |
88. Decrease in the factor price causes _____ shift and increase in the factor price causes _____ shift in the iso-cost line.
- (a) leftward, rightward
 (b) rightward, leftward
 (c) rightward, no
 (d) no, leftward
89. Which of the following is correct regarding the slope of iso-cost line?
- Slope of iso-cost line can change due to
1. Change in factor(s) price(s)
 2. Change in total outlay or total cost.
- (a) 1 only
 (b) 2 only
 (c) 1 & 2 both
 (d) None of these
90. The slope of iso-cost line is given by-
- (a) P_L/P_K
 (b) $- P_L/P_K$
 (c) P_K/P_L
 (d) $- P_K/P_L$

[Where, P_L & P_K are prices of labour and capital respectively. Given that capital taken on X-axis while labour on Y-axis]

91. A firm realizes internal and external economies of scale_____.
- Simultaneously
 - Alternatively
 - One by one
 - None of these
92. Which one of the following is not an internal economies of scale?
- Technical economies
 - Financial economies
 - Economies due to localization of industries
 - Marketing economies
93. The schedule given below representing the combinations of two variable inputs (Labour & Capital) for an Isoquant curve of output 100.

Combinations	Output	Capital	Labour
I	100	90	10
II	100	60	20
III	100	40	30
IV	100	30	40

- On the basis of above schedule, What is the MRTS between labour and capital for III combination?
- 3:1
 - 2:1
 - 1:3
 - 1:2
94. Isoquant word is made up of two words i.e., Iso & Quant. Where Iso means equal then Quant means-
- Quantity sold
 - Output
 - Quantity demanded
 - Quantity supplied
95. The law of diminishing returns _____ avoided.
- can be

- (b) may be
 - (c) must be
 - (d) cannot be
96. Which one of the following cost curve is not in U-shape?
- (a) AC
 - (b) MC
 - (c) AFC
 - (d) AVC
97. Normal profits are the _____ of an entrepreneur and hence form a part of _____.
- (a) Opportunity cost, explicit cost
 - (b) Opportunity cost, implicit cost
 - (c) Real cost, implicit cost
 - (d) None of these
98. The firm can attain its equilibrium in _____ stage of the law of variable proportion.
- (a) 1st
 - (b) 2nd
 - (c) 3rd
 - (d) Any of the above
99. Given $TC = 2000 + 15Q - 6Q^2 + Q^3$, How much is TFC at $Q = 2000$?
- (a) 2000
 - (b) 975
 - (c) 30,000
 - (d) Can't be determined
100. A mathematical relationship showing the maximum output that can be produced by each and every combination of inputs is called _____.
- (a) Production equation
 - (b) Production function

- (c) Production schedule
- (d) Production identity

CHAPTER – 4

101. Marginal Revenue of a monopoly firm is less than the price because
- (a) Demand curve has a positive slope.
 - (b) Demand curve has a negative slope.
 - (c) Monopolist incurs losses.
 - (d) Monopolist is in equilibrium.

102. A point of 'Kink' in the kinked demand curve indicates
- I. Price rigidity
 - II. Quantity rigidity
 - III. Price flexibility
 - IV. Quantity flexibility

Codes:

- (a) I & II are correct
 - (b) II & III are correct
 - (c) III & IV are correct
 - (d) I & IV are correct
103. Consider the following statements and select the correct answer from the given options.

Assertion (A): Although a monopolist can charge any price he likes, but does not charge a higher price than his equilibrium price.

Reason (R): Higher price means fall in total revenue.

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

104. Which of the following is not relevant in case of Sweezy's oligopoly model?
- A price cut by a firm is followed by the price cut by the rival firms.
 - Price hike is not followed by the rival firms.
 - Firms do not react to price change made by one of the firms
 - Firms react to all kinds of price changes made by the rival.
105. The share of the tax borne by seller will be larger
- If the demand for the product is less elastic.
 - If the demand for the product is inelastic.
 - If the demand for the product has greater elasticity.
 - If the elasticity of supply of the product is larger.
106. Consider the following statements and select the correct answer from the given options.

Assertion (A): In the short run under perfect competition, given the market demand and market supply the industry is in equilibrium at that price which clears the market.

Reason (R): In the long run all the firms in the industry earns profit.

- Both (A) and (R) are true and (R) is the correct explanation of (A)
 - Both (A) and (R) are true and (R) is not the correct explanation of (A)
 - (A) is true but (R) is false
 - (A) is false but (R) is true
107. Match List I with List II and choose the correct answer using the codes given below.

List I

- Food grains
- Electricity
- Television
- Tyres

List II

- Oligopoly
- Perfect competition
- Monopolistic competition
- Monopoly

Codes:

- | | i | ii | iii | iv |
|-----|----------|-----------|------------|-----------|
| (a) | b | d | c | a |
| (b) | d | b | a | c |

- (c) d c b a
(d) b c d a
108. Oligopolistic industries
- (a) are characterized by a relatively large number of small firms.
 - (b) may produce either standardized or differentiated products.
 - (c) always produce differentiated products.
 - (d) always produce stan products.
109. The price elasticity of a monopolistically competitive firm's demand curve varies
- (a) Inversely with the number of competitors and the degree of product differentiation.
 - (b) Directly with the number of competitors and the degree of product differentiation.
 - (c) Directly with the number of competitors but inversely with the degree of product differentiation.
 - (d) Inversely with the number of competitors but directly with the degree of product differentiation.
110. When total revenue is increasing
- (a) Marginal revenue may be either positive or negative.
 - (b) The demand curve is relatively inelastic.
 - (c) Marginal revenue is positive.
 - (d) Marginal revenue is negative.
111. In which of the following industry structures entry of new firms is most difficult?
- (a) Pure monopoly
 - (b) Oligopoly
 - (c) Monopolistic competition
 - (d) Pure competition
112. Total revenue along with Total cost helps to determine
- (a) Profit maximizing output
 - (b) Profit/unit

- (c) Price/unit
 - (d) Total revenue
113. Value in exchange is also known as
- (a) Value in use
 - (b) Economic value
 - (c) Both (A) and (B)
 - (d) None of these
114. 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
115. Exchange value is determined in
- (a) the monopoly market
 - (b) the oligopoly market
 - (c) in the market where exchange of goods and services takes place
 - (d) None of these
116. Which one of the following features of the term market is incorrect?
- (a) Market is the collection of buyers and sellers with the potential to trade.
 - (b) A market need not be a formal.
 - (c) A market need not to be held in a particular place.
 - (d) A market must be formal or to be held in a particular place.
117. In economics, generally the classification of the markets is made on the basis of
- (a) Time
 - (b) Geographic area
 - (c) Volume of business
 - (d) All of these

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

List I

- a. Technical Monopoly
- b. Global Market
- c. Legal Monopoly
- d. Oligopoly

List II

- 1. Gold and Silver
- 2. Cartel
- 3. Coca Cola
- 4. Patent Rights

Codes:

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

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

List I

- a. Local market
- b. Regional market
- c. National market
- d. International market

List II

- 1. Gold and Silver
- 2. Mekhela Chador (Traditional Assamese Sarees)
- 3. Hair dressers
- 4. Hindi books

Codes:

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

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

List I

- a. Whole sale market
- b. Retail market

List II

- 1. Stock exchange
- 2. Weekly market

- | | | | |
|----|--------------------|----|-----|
| c. | Regulated market | 3. | B2C |
| d. | Unregulated market | 4. | B2B |

Codes:

- | | a | b | c | d |
|-----|----------|----------|----------|----------|
| (a) | 3 | 1 | 4 | 2 |
| (b) | 3 | 2 | 4 | 1 |
| (c) | 4 | 3 | 1 | 2 |
| (d) | 4 | 1 | 2 | 3 |
121. If a firm's total revenue is not enough to make good even the _____, it is better for firm to shut down.
- (a) Total fixed cost
(b) Marginal cost
(c) Average fixed cost
(d) Total variable cost
122. At the point of equality between marginal revenue and marginal cost a firm will
- (a) earn maximum revenue
(b) earn maximum profit
(c) bear maximum cost
(d) any of the above
123. Price of goods express their
- (a) Value in use
(b) Exchange value
(c) Economic value
(d) Both (B) and (C)
124. The study of demand and supply model is useful in explaining
- (a) How government works
(b) How markets work
(c) How consumers behave
(d) None of these

125. When demand increases and supply decreases,
- (a) the equilibrium price and quantity both rise
 - (b) the equilibrium price and quantity both fall
 - (c) the equilibrium price rises but nothing certain can be said about the change in equilibrium quantity.
 - (d) the equilibrium quantity rises but nothing certain can be said about the change in equilibrium price.
126. Product variation means
- (a) An activity undertaken by a firm to increase demand
 - (b) A problem with quality control that tends to decrease the demand
 - (c) An activity undertaken by a firm to make demand more price inelastic
 - (d) An activity undertaken by a firm to make demand more price elastic
127. Marginal revenue is equal to the price under
- (a) Monopoly market structure
 - (b) Oligopoly form of market
 - (c) Monopolistically competitive market
 - (d) Perfect competition
128. A monopolized market is in long run equilibrium when
- (a) Zero economic profit is earned by the monopolist
 - (b) Production takes place where price is equal to long run MC and AC
 - (c) Production takes place where long run MC is equal to MR and price is not below the long run average cost.
 - (d) All of the above are correct
129. The short run supply curve of a perfectly competitive firm is equal to
- (a) That portion of the short run marginal cost curve that is above the average variable cost curve
 - (b) That portion of the short run marginal cost curve that is above the average total cost curve

- (c) That portion of the short run average total cost curve that is above the average variable cost curve
 - (d) None of the above is correct.
130. A natural monopoly refers to a monopoly that is defended from direct competition by
- (a) Economies of scale over a broad range of output.
 - (b) A franchise given by government
 - (c) Control over inputs
 - (d) An intellectual property right
131. The market demand curve for a perfectly competitive industry is: $Q_d = 12 - 2P$ and the market supply curve is: $Q_s = 3 + P$. The market will be in equilibrium if
- (a) $P = 6$ and $Q = 9$
 - (b) $P = 5$ and $Q = 2$
 - (c) $P = 4$ and $Q = 4$
 - (d) $P = 3$ and $Q = 6$
132. If a firm sells its output on a market that is characterized by few sellers and many buyers and limited long run resource mobility, then the firm is
- (a) A monopolist
 - (b) An oligopolist
 - (c) A perfect competitor
 - (d) A monopolistic competitor
133. Because the monopolist's average curve is downsloping
- (a) Marginal revenue is greater than price.
 - (b) Price must be lowered to sell more output.
 - (c) The elasticity coefficient will decrease as price lowered.
 - (d) Its supply curve will also be downsloping.
134. If the market demand curve for a commodity has a negative slope then the market structure must be:
- (a) Perfect competition
 - (b) Monopoly

- (c) Imperfect competition
 - (d) The market structure cannot be determined as the information is insufficient
135. Which of the following is a differentiated product?
- (a) A hamburger
 - (b) A shirt
 - (c) An automobile
 - (d) All of the above

CHAPTER – 5

136. In computing national income by income method, which of the following combinations would be correctly EXCLUDED from the calculation?
- (a) Interest on consumption loans, profits from sale of second-hand cars, and lottery winnings
 - (b) Imputed rent of owner-occupied houses, commission of brokers, and mixed income of self-employed
 - (c) Employers' contribution to provident fund, undistributed corporate profits, and royalty payments
 - (d) Bonus to employees, dividends distributed to shareholders, and interest on productive loans
137. A country has NDP at market prices of ₹15,800 crores. The income from property and entrepreneurship accruing to government administrative departments is ₹280 crores, savings of non-departmental enterprises is ₹160 crores, national debt interest is ₹220 crores, current transfers from government are ₹450 crores, net current transfers from rest of the world is ₹95 crores, savings of private corporate sector is ₹340 crores, corporate profit tax is ₹285 crores, and net indirect taxes are ₹620 crores. What is the Personal Income?
- (a) ₹15,260 crores
 - (b) ₹14,880 crores
 - (c) ₹15,520 crores
 - (d) ₹14,640 crores

138. A firm produces output worth ₹8,500 crores with opening stock of ₹1,200 crores and closing stock of ₹950 crores. Its intermediate consumption is ₹3,400 crores, depreciation is ₹580 crores, excise tax is ₹320 crores, and it receives subsidies of ₹95 crores. What is the Net Value Added at Factor Cost by this firm?
- (a) ₹4,245 crores
 - (b) ₹3,920 crores
 - (c) ₹4,495 crores
 - (d) ₹3,665 crores
139. In a particular year, nominal GDP is ₹12,600 crores and real GDP is ₹9,450 crores. If in the following year, nominal GDP increases to ₹14,280 crores while the GDP deflator rises to 145, what is the approximate inflation rate between these two years?
- (a) 8.58%
 - (b) 9.36%
 - (c) 7.82%
 - (d) 10.15%
140. An economy has private final consumption expenditure of ₹5,600 crores, government final consumption expenditure of ₹1,400 crores, gross domestic fixed capital formation of ₹2,100 crores, change in stock of ₹350 crores, net acquisition of valuables of ₹150 crores, exports of ₹900 crores, and imports of ₹1,200 crores. If depreciation is ₹420 crores and net indirect taxes are ₹310 crores, what is the NNP at factor cost?
- (a) ₹9,190 crores
 - (b) ₹8,880 crores
 - (c) ₹8,260 crores
 - (d) ₹8,570 crores
141. A country's GDP at market prices is ₹8,500 crores, depreciation is ₹650 crores, indirect taxes amount to ₹480 crores, subsidies are ₹120 crores, and net factor income from abroad is ₹ (-70) crores. If the operating surplus is ₹3,200 crores and mixed income of self-employed is ₹1,800 crores, what is the compensation of employees in this economy?
- (a) ₹2,520 crores
 - (b) ₹2,450 crores

- (c) ₹2,880 crores
- (d) ₹2,490 crores

CASE: In an economy, aggregate demand is lower than aggregate supply at the current level of income.

142. This situation will lead to:
- (a) Rise in output
 - (b) Increase in employment
 - (c) Fall in national income
 - (d) Full employment
143. The adjustment process will continue until:
- (a) MPC becomes zero
 - (b) Prices rise
 - (c) AD equals AS
 - (d) Investment becomes zero

CASE: The government increases autonomous investment in an economy where MPC is high.

144. The final impact on national income will be:
- (a) Greater than investment increase
 - (b) Less than investment increase
 - (c) Equal to investment increase
 - (d) Zero
145. In a three-sector economy, if $C = 80 + 0.70Y_d$, $I = 150$, $G = 200$, $T = 100$ (lump sum), what is the equilibrium national income?
- (a) ₹1,200 crores
 - (b) ₹1,333.33 crores
 - (c) ₹1,100 crores
 - (d) ₹1,433.33 crores
146. The concept of 'deflationary gap' in Keynesian economics specifically refers to:
- (a) The excess of actual output over potential GDP at full employment

- (b) The shortfall in aggregate demand required to achieve full employment equilibrium
 - (c) The reduction in price levels due to contractionary monetary policy
 - (d) The difference between actual inflation and target inflation rates
147. In a four-sector open economy model, which factor directly reduces the value of the autonomous expenditure multiplier compared to a closed economy?
- (a) Increase in government transfer payments
 - (b) Expansion of export demand
 - (c) Higher marginal propensity to import (m)
 - (d) Reduction in lump-sum taxes
148. Which of the following does NOT constitute a leakage that reduces the multiplier effect in the income propagation process?
- (a) Undistributed corporate profits retained by firms
 - (b) Progressive taxation resulting in minimal consumption increase
 - (c) Government expenditure on infrastructure development
 - (d) Increased demand met through existing inventories rather than new production
149. In the circular flow model of a three-sector economy, which statement correctly describes the equilibrium condition?
- (a) $C + I = C + S$ always holds true
 - (b) $S + T = I + G$ represents the equality of leakages and injections
 - (c) Total factor payments always equal GDP at market prices
 - (d) Aggregate supply equals consumption plus investment only
150. In a four-sector economy, if $C = 75 + 0.8(Y - T)$, $I = 100$, $G = 120$, $T = 80$, $X = 90$, $M = 40 + 0.12Y$, what is the equilibrium income?
- (a) ₹968.75 crores
 - (b) ₹1,031.25 crores
 - (c) ₹1,156.25 crores
 - (d) ₹878.25 crores

CHAPTER – 6

151. Which one of the following is not an internal cause of business cycles?
- Money supply
 - Technology shocks
 - Psychological factors
 - Fluctuations in investment
152. Which one of the following is correct regarding expansion phase of business cycle?
- Involuntary unemployment is at its peak.
 - Involuntary unemployment is almost zero.
 - There is either frictional or structural unemployment.
 - All of the above
153. Peak is the _____ stage of expansion.
- Later
 - Earlier
 - Either (A) or (B)
 - None of the above
154. Decrease in input demand _____.
- Doesn't affect inputs prices
 - Pushes inputs prices up
 - Pulls inputs prices down
 - Either (B) or (C)
155. Match List I with List II and choose the correct answer using the codes given below.

List I

- Leading indicator
- Lagging indicator
- Coincident indicator

List II

- Gross Domestic Product
- Profit margins and profits
- Unemployment

Codes:

	a	b	c
(a)	I	II	III
(b)	II	III	I
(c)	III	II	I
(d)	I	III	II

156. Different business cycles _____ in duration and intensity.

- (a) differ
- (b) similar
- (c) consistent
- (d) Can't say

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

List I**List II**

i. Great depression	a. 2008-09
ii. I.T or Dot.Com bubble	b. 1929-1932
iii. Global Economic Crises	c. 1997-2000

Codes:

- (a) i-a, ii-b, iii-c
- (b) i-c, ii-b, iii-a
- (c) i-b, ii-a, iii-c
- (d) i-b, ii-c, iii-a

158. Repercussions of business cycles get _____ felt on nearly all economic variables.

- (a) alternatively
- (b) simultaneously
- (c) one by one
- (d) All of the above

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

- (a) Business cycles are contagious and international in character.

- (b) Business cycles begin in one country and spread to other countries through trade relations.
- (c) Business cycles have serious consequences on well being of the societies.
- (d) All of the above

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

List I

- i. Trade cycle is purely monetary phenomena
- ii. Modern business activities are affected by waves of optimism/pessimism
- iii. Trade cycles occur as a result of innovations

List II

- a. Schumpeter
- b. Hawtrey
- c. Pigou

Codes:

- (a) i-a, ii-b, iii-c
 - (b) i-c, ii-b, iii-a
 - (c) i-b, ii-a, iii-c
 - (d) i-b, ii-c, iii-a
161. Nicholas Kaldor propounded _____
- (a) Nocholas theory
 - (b) Kaldor Theory
 - (c) Cobweb theory
 - (d) Cobb-douglas theory
162. A typical business cycle has _____ distinct phases.
- (a) three
 - (b) four
 - (c) two
 - (d) five
163. During business cycles the opposite of a peak is _____.
- (a) an inflation
 - (b) a hyperinflation

- (c) a trend
 - (d) a trough
164. In order to influence spending on the goods and services in the short run, _____ is directed at directly influencing interest rate.
- (a) fiscal policy
 - (b) budgetary policy
 - (c) monetary policy
 - (d) economic policy
165. Coincident economic indicators are also called _____.
- (a) Concurrent indicators
 - (b) Compound indicators
 - (c) Coexist indicators
 - (d) Random indicators

CHAPTER – 7

166. The concept of vertical equity in fiscal federalism refers to:
- (a) Equity among individuals
 - (b) Equity between regions
 - (c) Revenue sharing between centre and states
 - (d) Allocation of GST among consumers
167. The Net Divisible Pool (NDP) consists of:
- (a) Gross tax revenue including cesses
 - (b) Only direct taxes
 - (c) All union taxes excluding cesses and surcharges
 - (d) Only GST revenues
168. GST compensation cess is levied primarily to:
- (a) Increase union revenue permanently
 - (b) Offset revenue loss of states

- (c) Compensate consumers
- (d) Reduce fiscal deficit

169. Match the following:

List A

List B

- | | |
|-------------------|------------------------------------|
| (a) Article 246 | (1) Finance Commission |
| (b) Article 280 | (2) Borrowing powers |
| (c) Article 292 | (3) Division of legislative powers |
| (a) A-3, B-1, C-2 | |
| (b) A-2, B-1, C-3 | |
| (c) A-3, B-2, C-1 | |
| (d) A-1, B-2, C-3 | |

Case: The government increases public expenditure on social infrastructure and reduces taxes to stimulate growth during an economic slowdown. However, this leads to a sharp rise in fiscal deficit and inflationary pressures.

On the basis of above case, answer the following questions (170 & 171)

170. The situation reflects a conflict mainly between:

- (a) Allocation and redistribution
- (b) Stabilization and redistribution
- (c) Stabilization and fiscal discipline
- (d) Allocation and revenue mobilization

171. Which fiscal function is being overemphasized in this scenario?

- (a) Allocation
- (b) Stabilization
- (c) Redistribution
- (d) Resource mobilization

172. A firm discharges untreated waste into a river. Fishermen downstream experience a fall in fish catch, but the market price of the firm's output remains unchanged. This situation arises primarily because:

- (a) Marginal social benefit exceeds marginal private benefit

- (b) External costs are excluded from private cost calculations
- (c) Public goods are under-supplied
- (d) The demand curve is perfectly inelastic
173. A cap-and-trade system ensures cost-effective pollution control because:
- (a) All firms must reduce pollution equally
- (b) High polluters are exempted
- (c) Firms with lower abatement costs reduce more
- (d) Pollution taxes are eliminated
174. Which situation best illustrates adverse selection?
- (a) Insured driver drives rashly
- (b) Seller hides product defects before sale
- (c) Consumer overuses subsidised healthcare
- (d) Government fixes minimum prices
175. MATCH THE PAIRS:
- | Column A | Column B |
|----------------------|--------------------------------|
| A. Pigouvian tax | 1. Information imbalance |
| B. Adverse selection | 2. Internalising external cost |
| C. Moral hazard | 3. Post-contract opportunism |
| D. Public goods | 4. Free-rider problem |
- (a) A-1, B-2, C-3, D-4
- (b) A-2, B-3, C-1, D-4
- (c) A-2, B-1, C-3, D-4
- (d) A-4, B-3, C-2, D-1
176. The process of budget formulation is described as an iterative process because:
- (a) It is repeated every five years
- (b) Estimates are revised after negotiations

- (c) Parliament amends the budget
- (d) CAG audits expenditures
177. Which of the following expenditures is not subject to voting by Parliament?
- (a) Defence expenditure
- (b) Interest on public debt
- (c) Education expenditure
- (d) Health expenditure
178. The role of Parliamentary Committees in budget making is mainly to:
- (a) Prepare the budget
- (b) Execute the budget
- (c) Examine expenditure proposals in detail
- (d) Collect tax revenue
179. MATCH THE PAIRS:

Column A

Column B

- | | |
|------------------------|--------------------------------|
| A. Budget formulation | 1. Implementation of proposals |
| B. Budget enactment | 2. Approval by Parliament |
| C. Budget execution | 3. Preparation of estimates |
| D. Budget audit | 4. CAG examination |
| (a) A-2, B-3, C-1, D-4 | |
| (b) A-1, B-2, C-3, D-4 | |
| (c) A-3, B-3, C-2, D-1 | |
| (d) A-3, B-2, C-1, D-4 | |

180. MATCH THE PAIRS:

Column A

Column B

- | | |
|-------------------------------|------------------------------------|
| A. Annual Financial Statement | 1. Revenue & expenditure statement |
| B. Finance Bill | 2. Tax proposals |

- ## CHAPTER – 8

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- (b) Velocity of circulation only
 - (c) Money supply only
 - (d) Both velocity and price level
185. Which of the following situations best explains why speculative demand for money becomes perfectly elastic in a liquidity trap?
- (a) Transaction demand becomes interest elastic
 - (b) Bond prices become constant
 - (c) Expected capital losses on bonds dominate interest earnings
 - (d) Income elasticity of money demand becomes zero
186. Baumol's square-root rule implies that transaction demand for money is:
- (a) Directly proportional to income
 - (b) Inversely proportional to brokerage cost
 - (c) Positively related to interest rate
 - (d) Negatively related to interest rate
187. Tobin's portfolio approach modifies Keynesian liquidity preference by introducing:
- (a) Perfect certainty
 - (b) Risk-neutral behaviour
 - (c) Risk-return trade-off and diversification
 - (d) Zero transaction costs
188. Which variable is explicitly absent from the Cambridge money demand function but central to Keynes' speculative demand?
- (a) Income
 - (b) Price level
 - (c) Interest rate
 - (d) Velocity of money
189. If inflation expectations rise sharply while nominal interest rates remain unchanged, Friedman's theory predicts that demand for money will:
- (a) Increase due to higher prices
 - (b) Decrease due to higher opportunity cost

- (c) Remain constant
 - (d) Increase due to wealth effect
190. Money supply is defined as money held by the 'public'. Which of the following is excluded from money supply for this reason?
- (a) Demand deposits of households
 - (b) Time deposits of firms
 - (c) Cash balances of commercial banks
 - (d) Currency held by individuals
191. Which statement correctly explains why high-powered money is called the base of the money supply?
- (a) It directly equals broad money
 - (b) It alone determines velocity of circulation
 - (c) It supports multiple expansion of bank deposits
 - (d) It includes only currency in circulation
192. In the money multiplier framework, which behavioural factor is controlled primarily by the public?
- (a) High-powered money
 - (b) Excess reserve ratio
 - (c) Required reserve ratio
 - (d) Currency-deposit ratio
193. Which of the following changes would increase the money multiplier, ceteris paribus?
- (a) Rise in currency-deposit ratio
 - (b) Rise in excess reserves
 - (c) Fall in required reserve ratio
 - (d) Increase in public's preference for cash
194. Credit multiplier differs from money multiplier mainly because credit multiplier assumes:
- (a) No time deposits
 - (b) No excess reserves and no currency leakages

- (c) Perfect capital mobility
 - (d) Fixed interest rates
195. If banks expect higher deposit withdrawals due to financial uncertainty, the immediate impact will be:
- (a) Rise in money multiplier
 - (b) Increase in lending
 - (c) Increase in excess reserves
 - (d) Expansion of credit creation
196. If the central bank injects liquidity through open market purchases but banks choose to hold all additional reserves as excess reserves, the money supply will:
- (a) Increase multiple times
 - (b) Increase only by the initial injection
 - (c) Decrease
 - (d) Become indeterminate
197. The shift from a “multiple indicator approach” to a “flexible inflation targeting framework” in India primarily aimed at:
- (a) Eliminating output stabilisation as a policy goal
 - (b) Enhancing monetary policy transparency and credibility
 - (c) Fixing the exchange rate within a narrow band
 - (d) Ensuring automatic fiscal discipline
198. Which of the following best explains why CPI is preferred over WPI as the nominal anchor for inflation targeting in India?
- (a) CPI excludes volatile food prices
 - (b) CPI closely reflects cost of living and inflation expectations
 - (c) CPI has lower statistical revisions
 - (d) CPI is internationally mandated
199. A contractionary monetary policy is least effective in influencing output when:
- (a) Interest elasticity of investment is high
 - (b) The economy operates under a liquidity trap

- (c) Exchange rates are flexible
 - (d) Asset prices respond strongly to interest rates
200. Which monetary policy transmission channel operates mainly through changes in borrowers' net worth and collateral values?
- (a) Interest rate channel
 - (b) Exchange rate channel
 - (c) Asset price / balance sheet channel
 - (d) Cash-flow channel
201. If RBI reduces the repo rate while global interest rates remain unchanged, which sequence is most likely?
- (a) Capital inflows → Rupee appreciation → Lower exports
 - (b) Capital outflows → Rupee depreciation → Imported inflation
 - (c) Capital inflows → Rupee depreciation → Higher inflation
 - (d) Capital neutrality → No exchange rate effect
202. Which of the following constraints most seriously weakens the bank lending channel in an emerging economy like India?
- (a) Excessive household savings
 - (b) Underdeveloped and segmented financial markets
 - (c) High statutory liquidity ratio
 - (d) Dominance of public sector banks
203. Under the Monetary Policy Framework Agreement, RBI is deemed to have failed if inflation:
- (a) Deviates from target even once
 - (b) Breaches tolerance limits for two consecutive quarters
 - (c) Exceeds upper or lower tolerance limits for three consecutive quarters
 - (d) Deviates from WPI targets

CHAPTER – 9

204. A country has an absolute advantage in the production of all commodities. According to Ricardo, trade will still occur because:
- (a) Labour productivity differences disappear after trade
 - (b) Opportunity costs differ across commodities
 - (c) Terms of trade are always favourable to the efficient country
 - (d) Factor prices automatically equalize
205. Which of the following assumptions, if violated, most seriously undermines the practical applicability of Ricardo's theory of comparative advantage?
- (a) Two-country, two-commodity framework
 - (b) Absence of transport costs
 - (c) Labour immobility between countries
 - (d) Labour as the sole factor of production
206. According to New Trade Theory, a country may export a good even without comparative advantage due to:
- (a) Government trade restrictions
 - (b) Increasing returns to scale and network effects
 - (c) Factor abundance reversal
 - (d) Perfect competition in global markets
207. Which trade policy instrument results in price distortion without generating government revenue, while simultaneously creating economic rent for private agents?
- (a) Import tariff
 - (b) Countervailing duty
 - (c) Import quota
 - (d) Export tax
208. An escalated tariff structure is considered particularly disadvantageous to developing countries because it:
- (a) Raises the domestic price of final goods in importing countries

- (b) Reduces tariff revenue collection
 - (c) Discourages value addition and industrialisation in exporting countries
 - (d) Violates WTO's MFN principle
209. Which of the following best distinguishes anti-dumping duties from countervailing duties?
- (a) Anti-dumping duties respond to subsidies; countervailing duties respond to price discrimination
 - (b) Anti-dumping duties respond to unfair pricing; countervailing duties respond to government subsidies
 - (c) Anti-dumping duties are prohibited under WTO; countervailing duties are allowed
 - (d) Anti-dumping duties are temporary; countervailing duties are permanent
210. A tariff-rate quota (TRQ) combines:
- (a) Export subsidy with import licensing
 - (b) Import quota with ad valorem tariff
 - (c) Preferential tariff with MFN tariff
 - (d) Quantity restriction with differential tariff rates
211. A country experiences a persistent current account deficit along with a surplus in the capital account. This situation necessarily implies:
- (a) Deterioration in terms of trade
 - (b) Net capital inflows financing excess absorption
 - (c) Depletion of foreign exchange reserves
 - (d) Overvaluation of domestic currency
212. Which of the following transactions will improve the capital account balance but worsen the Net International Investment Position (NIIP)?
- (a) Increase in exports of software services
 - (b) Foreign Direct Investment inflow
 - (c) Repayment of external commercial borrowing
 - (d) Rise in remittances from abroad

213. In the balance of payments accounting framework, unrecorded capital flight is most likely to appear under:
- (a) Current account deficit
 - (b) Capital account surplus
 - (c) Errors and omissions
 - (d) Official reserve transactions
214. If a central bank intervenes in the foreign exchange market to prevent appreciation of domestic currency by purchasing foreign assets, the immediate impact on BOP accounts will be:
- (a) Increase in current account surplus
 - (b) Increase in capital account deficit
 - (c) Increase in official reserve assets
 - (d) Reduction in errors and omissions
215. If a country experiences simultaneous currency depreciation and worsening current account balance, the most plausible explanation is that:
- (a) Marshall–Lerner condition holds immediately
 - (b) Demand for imports and exports is highly elastic
 - (c) J-curve effect dominates in the short run
 - (d) Foreign exchange reserves increase sharply
216. An increase in the Real Effective Exchange Rate (REER), holding nominal exchange rate constant, necessarily implies that:
- (a) Domestic inflation is lower than foreign inflation
 - (b) Domestic inflation exceeds foreign inflation
 - (c) Trade balance must improve
 - (d) Capital inflows will increase
217. Which scenario best explains why a currency depreciation may fail to boost exports in the short run?
- (a) Foreign demand is perfectly elastic
 - (b) Export production relies heavily on imported intermediate goods
 - (c) Domestic inflation is zero
 - (d) Exchange rate pass-through is complete (D) Official reserve transactions

218. Under a managed floating exchange rate regime, central bank intervention is most effective when it primarily influences:
- (a) Trade volumes directly
 - (b) Inflation expectations alone
 - (c) Market expectations about future exchange rate movements
 - (d) Long-term capital formation
219. A multinational firm prefers horizontal FDI over exporting primarily when:
- (a) Host-country tariffs are zero and demand is volatile
 - (b) Firm-specific intangible assets lose value across borders
 - (c) Transport costs and trade barriers jointly exceed fixed setup costs
 - (d) Host country offers abundant raw materials
220. Foreign Portfolio Investment (FPI) is more likely than FDI to trigger a financial crisis in the host country because FPI:
- (a) Is associated with technology transfer
 - (b) Is driven by expectations and speculative capital movements
 - (c) Enhances domestic productive capacity
 - (d) Requires managerial control
221. Which situation best illustrates crowding-out caused by FDI in a developing economy?
- (a) Foreign firms export their entire output
 - (b) Foreign firms borrow heavily from domestic capital markets
 - (c) Foreign firms use imported capital goods
 - (d) Foreign firms reinvest profits locally
222. The strongest argument against unrestricted FDI from a long-term development perspective is that it may:
- (a) Increase capital inflows
 - (b) Promote economies of scale
 - (c) Lead to dualistic economic structure
 - (d) Enhance export competitiveness

CHAPTER – 10

223. In the pre-independence era, specifically the 1930s, where did India rank globally in terms of the number of cotton mill spindles?
- (a) Second
 - (b) Fifth
 - (c) Eighth
 - (d) Twelfth
224. During the period 1985-86 to 1989-90, the Indian rupee was depreciated by approximately what percentage based on the Real Effective Exchange Rate (REER)?
- (a) 18%
 - (b) 25%
 - (c) 30%
 - (d) 35%
225. Which of the following describes the unique "unconventional experience" of India's post-reform growth trajectory?
- (a) Direct shift from service-led to industry-led growth.
 - (b) Complete reliance on agricultural exports for forex.
 - (c) Bypassing the secondary sector in the shift from agriculture to services.
 - (d) Transitioning from a closed economy to a socialist market economy.
226. In the 1991 reforms, the initial number of industries reserved for the public sector was eight. What is the current status of reserved industries?
- (a) Only Defense and Atomic Energy.
 - (b) Only Railway transport and Atomic energy generation (core activities).
 - (c) Only Petroleum and Space Research.
 - (d) No industries are currently reserved for the public sector.
227. What was the primary reason for the "Crisis of Confidence" in 1991 that triggered the New Economic Policy?
- (a) Failure of the monsoon for three consecutive years.

- (b) Foreign exchange reserves falling to \$1.2 billion, sufficient for only two weeks of imports.
 - (c) A total collapse of the banking sector due to high NPAs.
 - (d) The sudden withdrawal of all US food aid under PL 480.
228. The "Hindu growth rate," referring to the modest 3.5% average annual GDP growth, occurred during which period?
- (a) 1947–1964
 - (b) 1950–1980
 - (c) 1965–1981
 - (d) 1981–1991
229. Under the "early liberalization" of the 1980s, the asset limit for MRTP (Monopolies and Restrictive Trade Practices) firms was raised to facilitate growth. What was the new limit?
- (a) 100 crore
 - (b) 50 crore
 - (c) 250 crore
 - (d) 500 crore
230. According to the India Development Update (2022) by the World Bank, why is India's economy considered more insulated from global spillovers compared to other emerging markets?
- (a) Due to its 100% reliance on the agricultural sector.
 - (b) Because of its large domestic market and less exposure to international trade flows.
 - (c) Because it has no external debt.
 - (d) Due to the fixed exchange rate system maintained by the RBI.
231. Which non-statutory body was established on April 12, 1988, to begin regulating the capital markets?
- (a) RBI
 - (b) IRDAI
 - (c) NITI Aayog
 - (d) SEBI

232. In the context of 1991 reforms, the "Stabilization Measures" were primarily intended to address which two issues?
- (a) Unemployment and poverty.
 - (b) Industrial stagnation and lack of technology.
 - (c) Inflation and adverse balance of payments.
 - (d) Rural-urban migration and literacy rates.
233. The Policy of "Broad-banding" introduced in 1985 allowed firms to:
- (a) Issue unlimited shares in the capital market.
 - (b) Import raw materials without any tariffs.
 - (c) Change their product mix within existing capacity without fresh licensing.
 - (d) Merge with any public sector unit.
234. Which committee's recommendations led to the reduction of reserve requirements (SLR and CRR) in the early 1990s?
- (a) Kelkar Committee
 - (b) Narasimham Committee
 - (c) Chelliah Committee
 - (d) Gadgil Committee
235. Which specific NITI Aayog initiative is aimed at reducing India's oil import bill and converting coal reserves into cleaner fuel?
- (a) Shoonya
 - (b) E-Amrit
 - (c) Methanol Economy
 - (d) Life
236. Before 1850, factory-based production in India was characterized by which of the following?
- (a) Rapid expansion of iron and steel.
 - (b) Highly automated textile machinery in Mumbai.
 - (c) Domination by government-owned paper mills.
 - (d) It did not exist.

237. In the context of India's early industrialization (1850-1947), which of the following statements precisely describes the global standing of Indian industries around 1930?
- Indian jute mills were the largest in the world by raw jute consumption, and the iron industry was ranked fifth globally.
 - India was the twelfth largest industrialized country by value of manufactured products, and its iron industry was ranked eighth globally.
 - India held the third position globally in cotton mill spindles, and the manufacturing sector's share in NDP reached 10% by 1946.
 - Factory employment in India grew from 0.4% in 1900 to 5.4% in 1941 due to the rapid expansion of producer goods industries.

Answers

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

QUESTIONS FOR PRACTICE**Q.57**

127.	(d)	128.	(c)	129.	(a)	130.	(a)	131.	(d)	132.	(b)
133.	(b)	134.	(d)	135.	(d)	136.	(a)	137.	(b)	138.	(a)
139.	(a)	140.	(d)	141.	(d)	142.	(c)	143.	(c)	144.	(a)
145.	(a)	146.	(b)	147.	(c)	148.	(c)	149.	(b)	150.	(d)
151.	(b)	152.	(b)	153.	(a)	154.	(c)	155.	(b)	156.	(a)
157.	(d)	158.	(b)	159.	(d)	160.	(d)	161.	(c)	162.	(b)
163.	(d)	164.	(c)	165.	(a)	166.	(c)	167.	(c)	168.	(b)
169.	(a)	170.	(c)	171.	(b)	172.	(b)	173.	(c)	174.	(b)
175.	(c)	176.	(b)	177.	(b)	178.	(c)	179.	(d)	180.	(a)
181.	(c)	182.	(b)	183.	(b)	184.	(b)	185.	(c)	186.	(d)
187.	(c)	188.	(c)	189.	(b)	190.	(c)	191.	(c)	192.	(d)
193.	(c)	194.	(b)	195.	(c)	196.	(b)	197.	(b)	198.	(b)
199.	(b)	200.	(c)	201.	(b)	202.	(b)	203.	(c)	204.	(b)
205.	(d)	206.	(b)	207.	(c)	208.	(c)	209.	(b)	210.	(d)
211.	(b)	212.	(b)	213.	(c)	214.	(c)	215.	(c)	216.	(b)
217.	(b)	218.	(c)	219.	(c)	220.	(b)	221.	(b)	222.	(c)
223.	(b)	224.	(c)	225.	(c)	226.	(b)	227.	(b)	228.	(b)
229.	(a)	230.	(b)	231.	(d)	232.	(c)	233.	(c)	234.	(b)
235.	(c)	236.	(d)	237.	(b)						

