



Question Bank - Multiple Choice Questions (MCQs)

Unit 1: Introduction to Macro Economics Concepts

- 1) Who is credited with bringing the term "the invisible hand" in economics?
 - a) Adam Smith
 - b) John Maynard Keynes
 - c) F. Hayek
 - d) Samuelson

- 2) Macroeconomics as a separate branch came to be studied after the contributions of which economist?
 - a) Adam Smith
 - b) John Maynard Keynes
 - c) F. Hayek
 - d) Samuelson

- 3) When did the Great Depression hit the United States?
 - a) 2007
 - b) 1929
 - c) 1936
 - d) 2001

- 4) Consider the following statements:
 1. In a Capitalist economy there is private ownership of means of production
 2. In a communist nation, the means of production are owned by the State
 3. In a free-market economy there is minimum role of the Government

Which of the above 3 statement is/are true?

 - a) Only 1 and 3
 - b) Only 2 and 3
 - c) Only 3
 - d) All are true

- 5) Macroeconomics is a study of economics that deals with which 4 major factors:
 - a) households, firms, government, and demand-supply
 - b) households, firms, government and external sector
 - c) firms, government, free-market, and regulations
 - d) none of the above



- 6) What are consumption goods?
- a) Goods used for consumption in the production process
 - b) Goods such as tools, machinery, etc which are used to create final consumption goods
 - c) Goods and services that are consumed fully when purchased by the consumers
 - d) None of the above
- 7) What are Capital goods?
- a) Goods used for consumption in the production process
 - b) Goods such as tools, machinery, etc which are used to create final consumer goods
 - c) Goods and services that are consumed fully when purchased by the consumers
 - d) None of the above
- 8) Intermediate goods are not included to calculate the final output because:
- a) they do not have value
 - b) they have unknown value
 - c) their value is included in final goods so they are not added to avoid the problem of double counting
 - d) none of the above
- 9) What does the term Gross investment mean while denoting a nation's economy?
- a) Gross investment= Net investment + Depreciation
 - b) Gross investment= Net investment - Depreciation
 - c) Gross investment= Depreciation - Net investment
 - d) None of the above
- 10) What does the term free-market denote in terms of economy?
- a) Minimal government intervention in trade and minimum regulations
 - b) Maximum government intervention in trade and maximum regulations
 - c) Means of production owned by the state
 - d) None of the above
- 11) _____ economics can study the problem of Inflation in the country.
- a) Micro
 - b) Macro
 - c) Static
 - d) Dynamic



12) The credit of development of macroeconomic approach must go to _____.

- a) Dr. Marshall
- b) Prof. Pigou
- c) Lord Keynes
- d) Mrs. Joan Robinson)

13) Macroeconomics does not study _____.

- a) whole economy
- b) national income
- c) aggregate supply
- d) product pricing)

14) _____ is the subject matter of Macroeconomics.

- a) Growth theory
- b) Factory Pricing
- c) Market Structure
- d) Individual Incomes

15) Micro and Macro approaches are _____.

- a) Competitive
- b) Alternative
- c) Substitutes
- d) Complementary

State the following statements are true or false:

16) Increase in national income is a Micro- Economic goal.

True / False

17) Macro-Economic adopts lumping method.

True / False

18) Study of price determination is a subject matter of Macro-Economics.

True / False

19) Micro-Economics deals with the study of aggregates.

True / False



- 20) For economists, statements about the world are of two types:
- Assumptions and theories
 - Positive statements and negative statements
 - Positive statements and normative statements
 - Specific statements and general statements
- 21) The opportunity cost of going to university is:
- The total spent on food, clothing, books, transportation, tuition, lodging and other expenses
 - Zero for students who are fortunate enough to have all of their university expenses paid by someone else
 - Zero, since a university education will allow a student to earn a higher income after graduation
 - The value of the best opportunity a student gives up to attend university
- 22) In a market economy:
- Households decide which firms to work for and what to buy with their incomes
 - Profit and self-interest guide the decisions of firms and households
 - Firms decide whom to hire and what to produce.
 - All of the above are true
- 23) Statistics such as GDP, the unemployment rate, the rate of inflation and the trade balance are:
- Macro, since they tell us something about the entire economy
 - Neither macro nor micro, but properly in the realm of political science
 - Both micro and macro
 - Micro, since they affect individual households and firms
- 24) What do you mean by a mixed economy?
- Modern and traditional industries
 - Public and private sectors
 - Foreign and domestic investments
 - Commercial and subsistence farming
- 25) "Capitalism" refers to?
- The use of market
 - Government ownership of capital
 - Private ownership of capital goods
 - Private ownership of homes & cars



Unit 1 Answer Keys

1-a	2-b	3-b	4-d	5-b	6-c	7-b	8-c	9-a	10-a
11-b	12-c	13-d	14-a	15-d	16-F	17-T	18-F	19-T	20-c
21-d	22-d	23-a	24-b	25-c					

Unit 2 National Income

- 1) The average income of a country is called
 - a) Per capita income
 - b) Disposable income
 - c) Inflation rate
 - d) Real national income

- 2) The value of NNP at production point is called
 - a) NNP at factor cost
 - b) NNP at market price
 - c) GNP at market price
 - d) GNP at factor cost

- 3) The value of NNP at consumer point is called the
 - a) NNP at factor cost
 - b) NNP at market price
 - c) GNP at market price
 - d) GNP at factor cost

- 4) When depreciation is deducted from GNP, the net value is
 - a) Net national product (NNP)
 - b) Net domestic product
 - c) Gross national product
 - d) Disposable income



- 5) Consider the following statements and identify the right ones.
- i. While calculating GNP, income generated by foreigners in a country is taken into consideration
 - ii. While calculating GNP, income generated by nationals of a country outside the country is taken into account
- a) I only
 - b) ii only
 - c) both
 - d) none
- 6) What is the net value of GDP after deducting depreciation from GDP(Gross domestic product)?
- a) Net national product
 - b) Net domestic product
 - c) Gross national product
 - d) Disposable income
- 7) Consider the following statements and identify the right ones.
- i. National income is the monetary value of all final goods and services produced.
 - ii. Depreciation is deducted from gross value to get the net value
- a) I only
 - b) ii only
 - c) both
 - d) none
- 8) Which of the following is considered as financial year in India?
- a) April 1 to March 31
 - b) January 1 to December 31
 - c) March 1 to April 30
 - d) March 16 to March 15
- 9) Which is not added in the calculation of national income of India?
- a) The value of goods and services
 - b) The sold value of the old fridge
 - c) Services rendered by the housewives
 - d) Both [B] & [C]
- 10) Which sector contributes the most to India's economy in terms of GDP?
- a) Service sector
 - b) Manufacturing sector
 - c) Agricultural sector
 - d) Small scale industries



- 11) Which Ministry is responsible for calculating GDP in India?
- Ministry of Finance
 - Ministry of Commerce and Industry
 - Ministry of Central Statistical and Program Implementation (Central statistical organization)
 - Ministry of consumer Affairs
- 12) Which statement is true?
- National Expenditure = National income
 - National Expenditure = National income + National savings
 - National Expenditure = National income + Taxes
 - National Expenditure = National income – Taxes
- 13) Which statement is true?
- National Income = National expenditure - indirect taxes
 - NI = GNP - NNP
 - NI = NNP - indirect taxes (because, from NNP if we minus the indirect taxes it will give us NNP@FC which is equal to NI)
 - NI = PI
- 14) There are methods of measuring national income:
- 5
 - 2
 - 1
 - 3
- 15) If we compare GDP and GNP, then:
- GNP = GDP - net income from abroad
 - GNP = GDP + net income from abroad (R-P)..... GDP+(R-P)
 - GNP = NNP - net income from abroad
 - GNP = NNP + net income from abroad
- 16) Select the correct statement:
- Transfer payment are included in national income
 - Depreciation allowance is a part of GNP
 - Taxes are not included in NNP
 - GDP means Gross Direct Production
- 17) Which is the largest figure:
- NNP
 - GNP
 - PI (Disposable Personal Income)
 - PI (personal income)



- 18) Which is a flow concept:
- a) Number of my shirts
 - b) My total wealth
 - c) My monthly income
 - d) Money supply
- 19) To avoid double counting when GDP is estimated, economists:
- a) Use GDP deflator
 - b) Calculate value added at each stage of production
 - c) Use retail prices
 - d) Use price of only intermediate goods
- 20) Personal income includes:
- a) Direct taxes
 - b) Indirect taxes
 - c) Depreciation
 - d) None of these
- 21) Personal income includes:
- a) Transfer payments
 - b) Indirect taxes
 - c) Depreciation
 - d) All of the above
- 22) If savings exceed investment then:
- a) National income rises
 - b) National income falls
 - c) National income is not affected
 - d) None of the above
- 23) This statement is true
- a) $NI = \text{rent} + \text{interest} + \text{wages} + \text{profit}$
 - b) $NI = \text{rent} + \text{interest} + \text{wages} + \text{taxes}$
 - c) $NI = \text{Govt. expenditure} + \text{interest} + \text{wages} + \text{profit}$
 - d) $NI = \text{rent} + \text{interest} + \text{wages} + \text{pensions}$
- 24) Which Ministry is responsible for calculating GDP in India?
- a) Ministry of Finance
 - b) Ministry of Commerce and Industry
 - c) Ministry of Central Statistical and Program Implementation
 - d) Ministry of consumer Affairs



Explanation: The work of computing the GDP is done by the Central Statistical Organization (CSO) which is under the Ministry of Statistical and Program Implementation.

25) An Indian farmer produces wheat without incurring cost of inputs all

sells for Rs. 1,000 to a miller who grinds wheat into flour and sells for Rs 1,200 to baker. The baker sells bread to consumers for Rs. 1,600. Total added is Rs.

- a) 1,600
- b) 2,200
- c) 1,000
- d) 1,400

26) How much does the primary sector contribute to India's GDP?

- a) 26%
- b) 20%
- c) 53%
- d) 14%

Explanation: The contribution of primary sector in India's GDP is 19.83%.

27) Which sector contributes the most to India's economy?

- a) Service sector
- b) Manufacturing sector
- c) Agricultural sector
- d) Small scale industries

Explanation: The service sector contributes 60% of India's economy.

28) If the contribution of the agricultural sector is decreasing in a country's economy, then what conclusion can be drawn?

- a) The country is growing in the direction of being a developed nation
- b) The country is moving towards becoming developing nation
- c) The country is moving towards becoming less developed nation
- d) The economic growth rate of the country has stopped

Explanation: The country is growing in the direction of being a developed nation. Contribution of Agriculture in the GDP of developed nations decreases and the contribution of service and manufacturing sector is very high.



29) Which is not added in the calculation of national income of India?

- a) The value of goods and services
- b) The sold value of the old fridge
- c) Services rendered by the housewives
- d) Both b & c

Explanation: In the calculation of national income, the value of goods and services produced in a year is added, while the value of old sold goods and the services of the Housewife are not added.

30) Output means.unless stated otherwise

- a) Gross output at MP (GDPmp)
- b) Net output at MP
- c) Gross output at FC
- d) None

31) Which of the following is not a component of domestic income?

- a) Operating surplus
- b) Compensation of employees
- c) Net factor income from abroad
- d) Mixed income

32) If factor cost is greater than marker price, it means that

- a) Indirect taxes < subsidies (Subsidy> indirect taxes)
- b) Indirect taxes > subsidies
- c) I.T = subsidies
- d) None

33) An Indian farmer produces wheat without incurring cost of inputs all

sells for Rs. 1,000 to a miller who grinds wheat into flour and sells for Rs 1,200 to baker. The baker sells bread to consumers for Rs. 1,600. Total added is Rs.

- a) 1,600
- b) 2,200
- c) 1,000
- d) 1,400



34) Which of the following is not true about final goods?

- a) Final goods satisfy wants of ultimate consumers and producers.
- b) Final goods have direct demand as they satisfy the wants directly.
- c) Final goods are subject to further transformation in the process of production.
- d) Final goods are neither used up as raw-material nor for resale in the same year.

35) Following is an example of final good:

- a) Flour used by a banker in making biscuits
- b) Unsold stock of goods lying with the sellers
- c) Tyres purchased by a transport company
- d) Mobile sets purchased by a mobile dealer

36) Which out of the following is not included in estimation of NI?

- a) Subsidized Lunch
- b) Old-age Pension
- c) Free Medical facilities
- d) Construction of a house

37) Which of the following is a synonym of “Undistributed Profits”?

- a) Savings of private corporate sector
- b) Reserves and Surplus
- c) Retained Earnings
- d) All of these



38) Piyush's mother is a teacher. She also teaches Piyush. How would you treat this while calculating national income and domestic income?

- a) It will be included in the national income, but not in the domestic income.
- b) It will be included in the domestic income, but not in the national income.
- c) It will be included in domestic income as well as national income.
- d) It will neither be included in the domestic income nor in the national income.

39) Subsidy implies Selling the product

- a) To the government at higher prices
- b) Below the cost of production.
- c) Selling the product at loss.
- d) Selling the product at cost plus indirect taxes.

40) Which of the following is correct?

- a) If national income rises, per capita income must also rise.
- b) If population rises, per capita income must fall.
- c) If national income rises, welfare of the people must rise.
- d) None of the above.

41) Goods which are not used in the production of other goods are called:

- a) Capital goods
- b) Consumption goods
- c) Producer goods
- d) Intermediate goods

42) Depreciation is the:

- a) Loss of value of fixed assets in use due to normal wear and tear
- b) Loss of value of fixed assets in use due to normal rate of accidental damages
- c) Loss of value of fixed assets in the due to foreseen obsolescence
- d) All of these



43) Which of following is not included in national income?

- a) Factor income
- b) Rent
- c) Operating surplus
- d) Transfer income

44) Which of following is not a capital good?

- a) Use of Machine tools
- b) Raw Material
- c) Advocate's Services
- d) Heavy Machinery

45) Which of following is not an intermediate goods?

- a) Wheat
- b) Gold
- c) Service of Doctor
- d) Sand and Bricks

46) Which of following is not a final good?

- a) Machinery purchased by dealer
- b) Machinery purchased by a factory
- c) Use of petrol
- d) Washing machine



47) Which of following is not a part of national income?

- a) Depreciation
- b) Net factor income from abroad
- c) Operating surplus
- d) Mixed income

Ans: A (explanation...NI= NNP @ fc...N means net and Gross- depreciation will give you net income

48) Product method of calculating national income is also known as:

- a) Income method
- b) Value added method
- c) Expenditure method
- d) Distribution method

49) Transfer payments refer to payments, which are made:

- a) Without any exchange of goods and services
- b) To workers on transfer from one job to another
- c) As compensation to employees
- d) None

50) National Income differs from Net National Product at market price by the amount of:

- a) Current transfers from rest of the world
- b) Net Indirect Taxes (difference between Indirect tax and subsidy)
- c) National debt interest
- d) it does not differ

51) Net national product at factor cost is also known as:

- a) Net Domestic product
- b) Gross National product
- c) National Income
- d) Personal Income



52) In GNP calculation which of the following should be excluded?

- a) Rental incomes
- b) Interest payments
- c) Dividends
- d) Government transfer payment

53) National Income differs from Net National Product at market price by the amount of:

- a) Current transfers from rest of the world
- b) Net Indirect Taxes
- c) National debt interest
- d) it does not differ

Unit 2: Answer Key

1-a	2-a	3-b	4-a	5-b	6-b	7-c	8-a	9-d	10-a
11-c	12-a	13-c	14-d	15-b	16-b	17-b	18-c	19-b	20-a
21-a	22-b	23-a	24-c	25-a	26-b	27-a	28-a	29-d	30-a
31-c	32-a	33-a	34-c	35-b	36-b	37-d	38-d	39-b	40-d
41-b	42-d	43-d	44-c	45-c	46-a	47-a	48-b	49-a	50-b
51-c	52-d	53-b							



Unit 3 Money

- 1) Which property the paper money does not possess:
 - a) Acceptability
 - b) Divisibility
 - c) Durability
 - d) Portability
- 2) A saving account in a bank represents the function of money:
 - a) A measure of value
 - b) A medium of exchange
 - c) A standard for deferred payments
 - d) Store of value
- 3) A student records her income and spending for past month, she uses the function of money
 - a) Medium of exchange
 - b) Standard of deferred payments
 - c) Store of value
 - d) Unit of account
- 4) It implements monetary policy of the country:
 - a) Central bank
 - b) Commercial banks
 - c) Specialized bank
 - d) Finance department
- 5) Which property paper money does NOT Possess?
 - a) Acceptability
 - b) Divisibility
 - c) Durability
 - d) Portability
- 6) Anything used as money must be:
 - a) Fixed in value
 - b) Fixed in supply
 - c) Legal tender
 - d) Readily acceptable
- 7) What will promote savings?



- a) Increase in credit facilities
 - b) Increase in taxation
 - c) Increase in personal incomes
 - d) Rising prices
- 8) Liquidity of a monetary asset means:
- a) Velocity of circulation of money
 - b) Easy availability of money
 - c) Ready acceptability of monetary asset
 - d) The monetary asset has lost its value
- 9) Barter means:
- a) Trade through metallic money only
 - b) Trade of goods only excluding services
 - c) Trade of very low value goods
 - d) Trade without use of money
- 10) Government securities:
- a) Mean currency
 - b) Are near money
 - c) Are bought and sold on stock exchange market
 - d) (b) and (c) of above
- 11) Which is the characteristic of a good money:
- a) Has good design
 - b) Has high value
 - c) Has a fixed value in gold
 - d) Is readily accepted by people
- 12) This is NOT money
- a) Currency
 - b) Prize bond
 - c) Demand deposit in a bank
 - d) Coins
- 13) Which of the following is true for Cross cheque?
- a) Is issued only by a business firm
 - b) Is not accepted by banks
 - c) Ensures immediate payment of cash to the holder
 - d) None of the above



14) This is a characteristic of good money:

- a) High intrinsic value
- b) Liquidity
- c) Attractive design
- d) Easy to duplicate

15) This is a characteristic of good money:

- a) High intrinsic value
- b) General acceptability
- c) Attractive design
- d) High purchasing power

16) It is a kind of money:

- a) Credit money
- b) Discredit money
- c) Trust money
- d) False money

17) It is included in kinds of money:

- a) Legal money
- b) Credit money
- c) Token money
- d) All of the above

18) Treasury Bill is a document used for:

- a) A short-term loan to the exporter
- b) A long-term loan to the government
- c) A short-term loan to the government
- d) A short-term loan to a govt. employee

19) Which does NOT represent a method of payment?

- a) Cheque
- b) Saving certificate
- c) Currency note
- d) Bill of exchange



20) Which is NOT a desirable characteristic of money?

- a) Portable
- b) Uniform
- c) Easily recognized
- d) Easily duplicated

21) According to Keynes people demand money for purposes (motives):

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

Unit 3: Answer Key

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



Unit 4 Value of Money

- 1) Speculative demand for money depends upon:
 - a) Income
 - b) Investment
 - c) Rate of interest
 - d) Central bank

- 2) If money supply in a country decrease:
 - a) Prices will rise
 - b) Prices will fall
 - c) Rate of interest falls
 - d) (b) and (c) of above

- 3) In the equation $MV = PY$, V represents:
 - a) Value of money
 - b) Velocity of circulation of money
 - c) Variation of nation income
 - d) All of the above

- 4) In the equation $MV = PY$, M represents:
 - a) Money supply
 - b) Money demand
 - c) Maximum output
 - d) Minimum output

- 5) According to Keynes, motives for holding money are:
 - a) Two
 - b) Three
 - c) Four
 - d) Five

- 6) Quantity Theory of Money explains that:
 - a) Value of money depends upon quantity of money
 - b) Rate of interest depends upon quantity of money
 - c) Quantity of investment depends upon quantity of money
 - d) Supply of money depends upon quantity of money



- 7) Cross cheque has a cross sign (X) in the:
- Right side upper corner
 - Right side lower corner
 - Left side upper corner
 - It does not have cross sign (X)
- 8) Cross cheque means:
- It has been cancelled
 - Cash cannot be directly drawn from the bank
 - It has two lines drawn in left upper corner
 - (b) and (c) of above
- 9) Purchasing power of money during deflation is:
- Reduced
 - Increased
 - Constant
 - Fluctuating
- 10) Velocity of circulation of money means the number of times a unit of money
- Changes hands daily
 - Changes hands monthly
 - Changes hands annually
 - Changes purchasing power
- 11) The equation of exchange $PT = MV$ was given by:
- Fisher
 - Crowther
 - Kuznets
 - Keynes
- 12) When value of money falls, they benefit more:
- Farmers
 - Industrialist
 - Lenders
 - Debtors



- 13) When the nation's money supply is Rs. 1200 billion and GDP is Rs. 4800 billion, velocity of circulation money is:
- 0.25
 - 4
 - 0.4
 - 4 billion rupees
- 14) Which one is equation of exchange?
- $PT = MV$
 - $PV = MT$
 - $PM = TV$
 - None of these
- 15) Inflation can be controlled by applying:
- Monetary and fiscal policies
 - Monetary and Labour policy
 - Fiscal and commercial policies
 - All of the above
- 16) Inflation is a situation when:
- Prices of some goods rise
 - General price level rises continuously
 - Prices double every year
 - Prices rise and fall
- 17) Under normal circumstances, the velocity of circulation of money in a country is:
- 100%
 - Negative
 - Less than 10
 - Zero
- 18) According to Keynes, demand for money is affected by:
- Income
 - Rate of interest
 - Literacy rate
 - Both (a) & (b)
- 19) During inflation:
- Lenders lose, borrowers gain
 - Borrowers lose, lenders gain
 - Borrowers and lenders both lose
 - All sections of the society gain



- 20) The quantity demanded of money rises:
- a) As the interest rises
 - b) As the interest rate falls
 - c) As the supply of money falls
 - d) As the number of banks rises
- 21) Which people are most likely to gain during inflation?
- a) Those living on pension
 - b) Those living on their savings
 - c) Those who are repaying borrowed money
 - d) Those who have lent money
- 22) If quantity of money increases 100%, other things remaining constant, value of money changes by:
- a) Increases by 100%
 - b) Decreases by 100%
 - c) Decreases by 200%
 - d) Does not change
- 23) For the economy, prices are beneficial:
- a) Falling slowly
 - b) Rising slowly
 - c) Rising fast
 - d) Falling fast
- 24) Value of money means:
- a) Gold purchased by money
 - b) General purchasing power of money
 - c) Importance of money
 - d) Demand for money
- 25) Value of money and supply of money are related:
- a) Inversely
 - b) Directly
 - c) Govt. law
 - d) Are not related



26) They are not affected badly by rising prices:

- a) Salaried persons
- b) Businessmen
- c) Debtors
- d) Importers

27) Inflation:

- a) Makes distribution of income equal
- b) Makes distribution of income unequal
- c) Has no effect on distribution of income
- d) Affects only industrial sector

28) It is assumption of quantity theory of money:

- a) Quantity of traded goods increases
- b) Velocity of circulation of money constant
- c) Govt. imposes new taxes
- d) (a) and (b) of the above

29) If we put this letter in the blank space, we get quantity theory of money $PY = M$

- a) S
- b) T
- c) V
- d) A

30) In the equation $PY = MV$ showing quantity theory of money. Y represents:

- a) Year of measurement of national income
- b) National income
- c) Tax revenue of the govt
- d) (a) and (c) of above

Unit 4: Answer Key

1-c	2-b	3-b	4-a	5-b	6-a	7-d	8-d	9-b	10-c
11-a	12-d	13-b	14-a	15-a	16-b	17-c	18-d	19-a	20-b
21-c	22-b	23-b	24-b	25-a	26-b	27-b	28-b	29-c	30-b



Unit 5 Inflation and Deflation

1. Demand-pull inflation may be caused by:
 - a) An increase in costs
 - b) A reduction in interest rates
 - c) A reduction in government spending
 - d) An outward shift in aggregate supply

2. Inflation:
 - a) Always reduces the cost of living
 - b) Always reduces the standard of living
 - c) Reduces the price of products
 - d) Reduces the purchasing power of a Rupee

3. An increase in injections into the economy may lead to:
 - a) An outward shift of aggregate demand and demand-pull inflation
 - b) An outward shift of aggregate demand and cost-push inflation
 - c) An outward shift of aggregate supply and demand-pull inflation
 - d) An outward shift of aggregate supply and cost-push inflation

4. According to the Phillips curve, unemployment will return to the natural rate when:
 - a) Nominal wages are equal to expected wages
 - b) Real wages are back at long-run equilibrium level
 - c) Nominal wages are growing faster than inflation
 - d) Inflation is higher than the growth of nominal wages

5. What is the cause of inflation?
 - a. If money supply increases.
 - b. If the production rate falls.
 - c. If money supply increases and production falls.
 - d. Both money supply and production decreases.

6. What does the inflation imply?
 - a) Rise in budget deficit
 - b) Rise in prices of consumer goods.
 - c) rise in money supply.
 - d) Rise in general price index.



7. How the inflation can be checked temporarily?

- a) Increase in money supply
- b) Decrease in money supply
- c) Increase in wages
- d) Decrease in Tax

8. Which groups are not protected from inflation?

- a) Industrial worker
- b) Agricultural farmers
- c) Government pensioners
- d) Saving bank account holders

9. Which of the following cannot be included among the remedies of inflation?

- a) Better capacity utilization
- b) by making low bank rate
- c) by reducing budget deficit
- d) by making high bank rate

10. What is Cost-Push inflation?

- a) Increasing money supply
- b) Increasing indirect tax
- c) Population increase
- d) expenditure increase unnecessarily.

11. Inflation is the state in which

- a) The value of money decreases
- b) The value of money increases
- c) The value of the money increases first and then decreases
- d) The value of money decreases first and increases later

12. Which of the following class will not be negatively affected by the higher inflation?

- a) The consumer class
- b) The debtor class
- c) Pensioner class
- d) Business class



13. Which of the following is an effect of inflation?

- a) Erosion in purchasing power
- b) Affects relative price of goods
- c) Increase in inequalities of income
- d) All the above

Unit 5: Answer Key

1-b	2-d	3-a	4-b	5-c	6-d	7-b	8-b	9-b	10-b
11-a	12-d	13-d							

Unit 6 Trade Cycle

1. The trough of a business cycle occurs when _____ hits its lowest point.

- a) inflation
- b) the money supply
- c) aggregate economic activity
- d) the unemployment rate

2. The low point in the business cycle is referred to as the

- a) expansion.
- b) boom.
- c) trough.
- d) peak.

3. When aggregate economic activity is increasing, the economy is said to be in

- a) an expansion.
- b) a contraction.
- c) a peak.
- d) a turning point.

4. In a boom:

- a) Unemployment is likely to fall
- b) Prices are likely to fall
- c) Demand is likely to fall
- d) Imports are likely to fall



5. Peaks and troughs of the business cycle are known collectively as
 - a) volatility.
 - b) turning points.
 - c) equilibrium points.
 - d) real business cycle events.

6. When aggregate economic activity is declining, the economy is said to be in
 - a) a contraction.
 - b) an expansion.
 - c) a trough.
 - d) a turning point.

7. Industries that are extremely sensitive to the business cycle are the
 - a) durable goods and service sectors.
 - b) nondurable goods and service sectors.
 - c) capital goods and nondurable goods sectors.
 - d) capital goods and durable goods sectors.

8. Economists use the term shocks to mean
 - a) unexpected government actions that affect the economy.
 - b) typically, unpredictable forces that have major impacts on the economy.
 - c) sudden rises in oil prices.
 - d) the business cycles.

9. Primarily, macroeconomists use microeconomic principles to study
 - a) business cycles and trends in the stock market.
 - b) long-run economic growth and antitrust policies.
 - c) trends in the stock market and long-term economic growth.
 - d) long-run economic growth and business cycles.

10. The two most important American business cycle events of the twentieth century were
 - a) the Great Depression and stagflation.
 - b) World War II and the Great Depression.
 - c) the productivity slowdown and the Great Depression.
 - d) government budget deficits and World War II.



11. According to real business cycle theory, the primary causes of business cycles are

- a) shocks to aggregate demand.
- b) monetary factors.
- c) technology shocks.
- d) waves of self-fulfilling optimism and pessimism.

12. During business cycles the opposite of a trough is..

- a) an inflation
- b) a hyperinflation.
- c) a trend.
- d) a peak.

13. The macroeconomic models that are most supportive of the role of government policy aimed at smoothing business cycles are

- a) real business cycle models.
- b) endogenous growth models.
- c) Keynesian models.
- d) growth models.

14. Business cycles are

- a) each unique, but all have a single cause.
- b) each unique and they can have many causes.
- c) similar, and they all have a single cause.
- d) similar, but they can have many causes.

15. In the long run, inflation is caused by

- a) aggressive labour unions.
- b) greedy monopolists.
- c) growth in the money supply.
- d) global warming.

16. in order to influence spending on goods and services in the short-run, monetary policy is directed at directly influencing...

- a) unemployment rates.
- b) inflation rates.
- c) interest rates.
- d) economic growth rates.



Unit 6: Answer Key

1-c	2-c	3-a	4-a	5-b	6-a	7-d	8-b	9-d	10-b
11-c	12-d	13-c	14-d	15-c	16-b				

Unit 7 Theories of Output and Employment

1. Excess demand for money, according to Say's law in the Economy:
 - a) Is greater
 - b) Is very less
 - c) Is equal to zero
 - d) There is no relationship between excess demand for money and Say's Law
2. Which of the following is not an assumption of classical theory?
 - a) Price flexibility
 - b) Unemployment
 - c) Say's law
 - d) Neutrality of money
3. In classical theory the equality between saving and investment is brought about by:
 - a) Rate of interest
 - b) Income
 - c) Consumption
 - d) Multiplier
4. The normal condition of a capitalist economy in classical theory is:
 - a) Underemployment
 - b) Full employment
 - c) General unemployment
 - d) Frictional unemployment
5. In classical theory of employment, there is the possibility of:
 - a) Voluntary unemployment
 - b) No unemployment
 - c) Involuntary unemployment
 - d) Disguised unemployment



6. "Supply creates its own demand" is a law of:
- a) Investment
 - b) Inflation
 - c) Consumption
 - d) Market
7. According to classical economists, variations in savings are due to:
- a) Level of investment
 - b) Rate of interest
 - c) Level of employment
 - d) None of the above
8. Supply creates its own demand is the Basis of:
- a) Classical economics
 - b) Keynesian economics
 - c) Monetarism
 - d) None of these
9. Which policy is effective in the Keynesian range?
- a) Monetary policy
 - b) Fiscal policy
 - c) Incomes policy
 - d) None of these
10. When output exceeds spending:
- a) There is unsold output, and level of output will fall
 - b) There is unsold output, and level of output will rise
 - c) There is unsold output, and level of spending will rise
 - d) There is no unsold output since the level of spending will rise
11. Saving is a function of
- a) Export
 - b) Import
 - c) Investment
 - d) Income



12. Entrepreneurs will have no tendency to expand or contract output and employment when

- a) $AD > AS$
- b) $AD < AS$
- c) $AD = AS$
- d) None of the above

13. The slope of the consumption function is called

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

14. The concept of effective demand is associated with the name of

- a) Marshall
- b) Keynes
- c) Krugman
- d) Say

15. Psychological law of consumption states that the value of MPC is lies between zero and

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

16. Net investment is also known as

- a) Depreciation
- b) Induced investment
- c) Autonomous investment
- d) Capital formation

17. In the saving function $S = -a + 1-b(Y)$, the term 'b' denotes

- a) Saving
- b) MPC
- c) MPS
- d) APS



18. Who propounded Psychological law of consumption

- a) Adam Smith
- b) Ricardo
- c) Keynes
- d) Pigou

19. When $MPS = 0.2$, MPC will be

- a) 0.8
- b) 0.2
- c) 1.2
- d) 20

20) In the linear consumption function $C = a + b(Y)$, coefficient 'a' denotes

- a) MPC
- b) APC
- c) Autonomous consumption
- d) Induced consumption

21. In the equation $C = 60 + 0.6 Y$, MPC is

- a) 60
- b) 0.6
- c) 0
- d) 1

22. Keynes assumed the presence of ----- economy for the fundamental law of consumption

- a) Capitalistic
- b) Socialistic
- c) Planned
- d) None of the above



Unit 7: Answer Key

1-d	2-b	3-a	4-b	5-a	6-d	7-b	8-a	9-b	10-a
11-d	12-c	13-a	14-b	15-a	16-d	17-b	18-c	19-a	20-c
21-b	22-a								

Unit 8: Public Finance

- Which of the following is a union tax?
 - Corporation tax
 - Taxes on agricultural income
 - Capitation taxes
 - Land revenues
- Which of the following is not a union tax?
 - Taxes on railway freights and fares
 - Stamp duties on financial documents
 - Tolls
 - A and b only
- The tax levied by the union government on income of individuals is known as
 - Personal income tax
 - Interest tax
 - Wealth tax
 - Corporation tax
- The tax on net income of companies is
 - Personal income tax
 - Interest tax
 - Wealth tax
 - Corporate tax



5. The most important source of revenue to the states is
 - a. Sales tax
 - b. Service tax
 - c. Excise duty
 - d. None of the above

6. The difference between revenue expenditure and revenue receipts is
 - a. Revenue deficit
 - b. Fiscal deficit
 - c. Budget deficit
 - d. Primary deficit

7. The difference between total expenditure and total receipts is
 - a. Fiscal deficit
 - b. Budget deficit
 - c. Primary deficit
 - d. Revenue deficit

8. Maximum Social Advantage is achieved,
 - a. at the point where the marginal social benefit of public expenditure and the marginal social sacrifice of taxation are equated
 - b. at the point where the marginal social benefit of public expenditure is higher than the marginal social sacrifice of taxation
 - c. at the point where the marginal social benefit of public expenditure is lower than the marginal social sacrifice of taxation
 - d. at the point where the marginal social benefit of public expenditure and the marginal social sacrifice of taxation are zero

9. Which one of the following economists introduced the principle of “Maximum Social Advantage”?
 - a. Alfred Marshall
 - b. John Maynard Keynes
 - c. Karl Marx
 - d. Hugh Dalton



10. In a free market economy, self-interested individuals operate through a system of mutual interdependence to promote the general benefit of society at large. Adam Smith referred this as:
- Invisible hand
 - Direct Intervention
 - Collective Spirit
 - Private Spirit
11. The role of Government would be highest in which of the following type of economy:
- Free market economy
 - Keynesian Economy
 - Mixed Economy
 - Socialist Economy
12. Taxes are levied to
- Provide general benefits to the People
 - Encourage people on unnecessary spending
 - Accumulate funds for the Government for future use
 - All of the above
13. Which of the following factors contribute to public debt of a country?
- To undertake public welfare
 - Urge for economic growth
 - Inefficiencies of public organisations and corruption
 - All of the above
14. Which of the following are the causes of public debt of a country?
- War or war-preparedness, including nuclear programmes
 - To cover the budget deficits on current account
 - To undertake public welfare schemes
 - All of the above
15. Which of the following statement is INCORRECT with regard to the burden of public debt of a country?
- If the public debt is taken for productive purposes it will not be a burden on the economy.
 - If the public debt is taken for unproductive purposes, it will impose both money burden and real burden on the economy.
 - In case of Internal Debt, the direct money burden on the economy is huge as transfer of wealth happens within the community
 - In the case of External debt, the amount of repayment of interest and principal represents the direct money burden on the community
16. Public Debt means
- Borrowing by a Government from abroad and does not include borrowing from within the country



- b. Borrowing by general public, private individuals or association of individuals from the Government which they need to repay to Government under the prescribed terms and conditions
- c. Borrowing by General Public in the form of loans or advances from the Government, Local Bodies, Government owned financial institutions
- d. Borrowing by a Government from within the country or from abroad, from private individuals or association of individuals or from banking and non-banking institutions

17. Debt obligations of the government that have maturities of one year or less is normally called

- a. Commercial Papers
- b. Commercial Deposits
- c. Treasury Bills
- d. Certificate of Deposits

18. Which of the following could be a reason for raising public loans by a country?

- a. Bringing gap between revenue and expenditure through temporary loans from central bank.
- b. To reduce depression in the economy and financing public works program.
- c. Financing the public sector for expanding and strengthening the public enterprises
- d. All of the above

19. Public Debt has a secular tendency to go up in every country. Which of the following are reasons contributing to such a trend?

- a. Increase trend in Financing of Public works programs
- b. Increasing trend in Financing for Economic Development
- c. Undertaking of Welfare Schemes by the Government
- d. All of the above

20. Expenditure incurred by the Government on building durable assets, like highways, multipurpose dams, irrigation projects are in the nature of

- a. Capital Expenditure
- b. Revenue Expenditure
- c. Transfer Expenditure
- d. Unproductive Expenditure
- e.

21. Which of the following describes the situation where revenues and expenditures are equal during a given period?

- a. Public Debt
- b. Budget Surplus
- c. Balanced Budget
- d. Budget Deficit



22. Old age pension is “National Old Age Pension Schemes”, “Interest payments”, “Subsidies”, “Unemployment allowances”, “Welfare benefits to weaker sections, etc.” By incurring such expenditure, the government does not get anything in return, but it adds to the welfare of the people, especially belong to the weaker sections of the society. Such expenditure basically results in redistribution of money incomes within the society.
- Non-Transfer Expenditure
 - Transfer Expenditure or transfer payments
 - Capital Expenditure
 - Non-Distributive Expenditure
23. With increase in urbanization and industrialization, the role of Government started:
- Declining
 - Increasing
 - Stagnant
 - Unstable
24. The ratio of change in the national income in relation to the change in government spending that causes it is referred to as:
- Fiscal Multiplier
 - Spending Ratio
 - Expenditure Ratio
 - Cost Multiplier
25. Expenditures incurred on civil administration, defence forces is in the nature of
- Capital Expenditure
 - Revenue Expenditure
 - Transfer Expenditure
 - Productive Expenditure
26. The practice by Governments in which a government spends more money than it receives as revenue is referred to as:
- Piggy backing
 - Direct Funding
 - Deficit financing
 - Pump Priming
27. Expenditure on defence, interest payments, law and order maintenance and public administration expenses are generally treated as:
- Productive Expenditure
 - Unproductive Expenditure
 - Growth-oriented Expenditure
 - Progressive Expenditure



28. Developmental expenditure refers to

- a. Revenue Expenditure incurred for meeting current expenses of the Government
- b. Capital Expenditure incurred for creating long-term assets of the Government
- c. Expenditure which is incurred on activities directly related to economic development
- d. Expenditure which is incurred on running the normal government administration

29. The multiplier effect is best described as:

- a. the increase in final income arising from any new injection of spending
- b. the increase in the expenditure of a country
- c. the increase in the public debt of a country
- d. the increase in investment of a country

Unit 8: Answer Key

1-a	2-c	3-a	4-d	5-a	6-a	7-b	8-a	9-d	10-a
11-d	12-a	13-d	14-d	15-c	16-d	17-c	18-d	19-d	20-a
21-c	22-b	23-b	24-a	25-b	26-c	27-b	28-c	29-a	

..... Thank you

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