

# SAMPLE Question Paper

# 1

Maximum Marks : 200

Time : 60 Minutes

### General Instructions :

- (i) This paper consists of 50 MCQs, attempt any 40 out of 50
- (ii) Correct answer or the most appropriate answer: Five marks (+5)
- (iii) Any incorrect option marked will be given minus one mark (-1)
- (iv) Unanswered/Marked for Review will be given no mark (0)
- (v) If more than one option is found to be correct then Five marks (+5) will be awarded to only those who have marked any of the correct options
- (vi) If all options are found to be correct then Five marks (+5) will be awarded to all those who have attempted the question.
- (vii) Calculator / any electronic gadgets are not permitted.

1. Inventory is a ..... concept whereas the change in inventory is a ..... concept.

- (1) stock, flow
- (2) flow, stock
- (3) stock, stock
- (4) flow, flow

2. If Marginal Propensity to Save (MPS) is 0.25 and initial change in investment is ₹250 crores, then the final change in income would be \_\_\_\_\_.

- (1) ₹1,000 crores
- (2) ₹1,200 crores
- (3) ₹500 crores
- (4) ₹3,500 crores

3. The focus of government budget is to:

- (1) maximise fiscal deficit
- (2) minimise fiscal deficit
- (3) maximise expenditure
- (4) maximise revenue

4. An Indian real estate company receives rent from Google in New York. This transaction would be recorded on \_\_\_\_\_ side of \_\_\_\_\_ account.

- (1) credit, current
- (2) debit, capital
- (3) credit, capital
- (4) debit, current

5. Identify the correctly matched pair of items in Column A to that of Column B.

Column A	Column B
1. Supply of Money	(a) Money in circulation at a point
2. Stock of Money	(b) Supply of money considered over a period

3. Flow of Money	(c) Money held by Public and the Bank today
4. Reserve Money	(d) Supply of money studied at a point of time

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

6. Study of population in India is an example of :

- (1) Macroeconomics
- (2) Microeconomics
- (3) Both (a) and (b)
- (4) None of these

7. Which of these is not a property of indifference curve?

- (1) Indifference curve slopes downwards.
- (2) Indifference curve is concave to origin.
- (3) Two indifference curves cannot intersect each other.
- (4) Higher indifference curve represents higher level of satisfaction.

8. Under which market form, a firm is a price taker?

- (1) Perfect competition
- (2) Monopoly
- (3) Oligopoly
- (4) Monopolistic competition

9. If the value of Average Propensity to Save (APS) is 0.2 and National Income is ₹4,000 crores, then consumption will be \_\_\_\_\_.

- (1) ₹4,000 crores
- (2) ₹3,200 crores
- (3) ₹3,800 crores
- (4) ₹2,600 crores

**10.** Which of the following statement is true about perfect competition?

- (1) There is no mobility of factors of production
- (2) There is a presence of transportation cost
- (3) There is no selling cost
- (4) There is no uniform price

**11.** Identify the correctly matched pair in Column A to that of Column B:

Column A	Column B
1. Excise Duty	(a) Capital Receipts
2. Income Tax	(b) Direct Tax
3. Earning from PSU	(c) Indirect Tax
4. Old Age Pensions	(d) Non-Tax Revenue Receipts

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

**12.** What will be the effect on equilibrium price and equilibrium quantity when income increases in case of normal goods?

- (1) Both equilibrium price and quantity fall
- (2) Both equilibrium price and quantity rise
- (3) Equilibrium price rises and quantity falls
- (4) Equilibrium price falls and quantity rises

**13.** Which of the following statements is true?

- (1) Under employment equilibrium refers to the situation when people who are able and willing to work at the prevailing wage rate do not get employment.
- (2) Under employment equilibrium refers to the situation when people who are not able but are willing to work at the prevailing wage rate do not get employment.
- (3) Full employment equilibrium refers to the situation when people who are not able but are willing to work at the prevailing wage rate do not get employment.
- (4) Full employment equilibrium refers to the situation when people who are able and willing to work at the prevailing wage rate get employment.

**14.** "Higher indifference curve represents fewer quantities of one or both goods, a higher indifference curve shows higher utility level." Choose the correct option for the above mentioned statement:

- (1) True
- (2) False
- (3) Partially false
- (4) Partially false

**15.** GDP is not an appropriate indicator of welfare because of:

- (1) Externalities.
- (2) Composition of GDP and distribution of GDP.
- (3) Non-monetary transactions.
- (4) All of the above.

**16.** Identify the correct matched pair from Column A to Column B:

Column A	Column B
(1) Import of Petroleum from Iran	(a) Debit side of Current Account
(2) BPO services provided by India to USA	(b) Credit Side of Capital Account
(3) Investment by Saudi Aramco in RIL	(c) Debit Side of Capital Account
(4) Export of Spices to Greece	(d) Debit Side of Current Account

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

**17.** Identify the correctly matched pair of the items in Column A to that of Column B.

Column A	Column B
1. Money Supply	(a) Total stock in circulation
2. Money Creation	(b) Function of Central Bank
3. Money Stock	(c) Function of the Commercial Bank
4. Money Demand	(d) Money in the Banks

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

**18.** When the demand of a commodity is inelastic.

- (1) Commodity has various uses.
- (2) Demand remains constant with variable price.
- (3) Commodity has few uses.
- (4) Commodity has no uses at all.

**19.** Area under MC curve is equal to:

- (1) TVC
- (2) AFC
- (3) AVC
- (4) AC

**20.** Smoke emitted by a chemical factory and causing air pollution is an example of:

- (1) Positive externalities
- (2) Negative externalities
- (3) Either (1) or (2)
- (4) Neither (1) nor (2)

- 21.** Which of following is a direct tax?  
 (1) Corporation tax      (2) Entertainment tax  
 (3) Excise duty          (4) Service tax
- 22.** Which of the following statements is/are correct:  
 (1) ₹1 note is issued by the RBI.  
 (2) Coins are issued by the Government of India.  
 (3) Both statements are true.  
 (4) Both statements are false.
- 23.** Which of the following is not a central problem of an economy?  
 (1) Why to produce?  
 (2) What to produce?  
 (3) How to produce?  
 (4) For whom to produce
- 24.** Which of the following statements is true?  
 (1) Demand curve under monopoly is positively sloped as more quantity can be sold only at a lower price.  
 (2) Demand curve under monopoly is negatively sloped as more quantity can be sold only at a lower price.  
 (3) Demand curve under monopoly is negatively sloped as less quantity can be sold only at a lower price.  
 (4) Demand curve under monopoly is negatively sloped as more quantity can be sold only at a higher price.
- 25.** The study of National Income is related to:  
 (1) Microeconomics  
 (2) Macroeconomics  
 (3) Both Micro and Macroeconomics  
 (4) None of the above
- 26.** For a consumer to recognize how many commodities he/she should buy, which approach is used?  
 (1) Utility Approach  
 (2) Indifference Curve Approach  
 (3) Both of the above  
 (4) None of the above
- 27.** Identify the correct pair as given in Column B by matching them with respective concepts in Column A:

Column A	Column B
(1) Reduction in the value of domestic currency by the government	(a) Devaluation
(2) Reduction in the value of domestic currency through market forces	(b) Appreciation

(3) Increase in the value of domestic currency by the government	(c) Depreciation
(4) Increase in the value of domestic currency through market forces	(d) Revaluation

- (1) 1 – (a)                      (2) 2 – (b)  
 (3) 3 – (c)                      (4) 4 – (d)
- 28.** Which of the following statement is true?  
 (1) When a rise in the price of a commodity leads to decrease in quantity supplied of a commodity, it is called Contraction of Supply.  
 (2) When a fall in the price of a commodity leads to increase in quantity supplied of a commodity, it is called Contraction of Supply.  
 (3) When a fall in the price of a commodity leads to decrease in quantity supplied of a commodity, it is called Contraction of Supply.  
 (4) When a rise in the price of a commodity leads to increase in quantity supplied of a commodity, it is called Contraction of Supply.
- 29.** Which of the following can cause an increase in demand:  
 (1) Increase in the price of substitute goods  
 (2) Decrease in the income in case of inferior goods  
 (3) Both of the above  
 (4) None of the above
- 30.** Which of the following statements is true?  
 (1) Monopolistic competitive markets have highly differentiated products.  
 (2) Monopolist markets have highly differentiated products.  
 (3) Perfect Competition markets have highly differentiated products.  
 (4) Monopoly markets have highly differentiated products.
- 31. Assertion (A):** GDP does not exhibit the structure of the product.  
**Reason (R):** If the increase in GDP is mainly due to increased production of war equipment and ammunitions, then such an increase cannot improve welfare in economy.  
 (1) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).  
 (2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).  
 (3) Assertion (A) is true, but Reason (R) is false.  
 (4) Assertion (A) is false, but Reason (R) is true.

**32. Assertion (A):** Full employment is the situation where all those workers who are able to work and willing to work get employment at the prevailing wage rate.

**Reason (R):** The situation of full employment is achieved only when the economy is in equilibrium.

- (1) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).
- (2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (3) Assertion (A) is true, but Reason (R) is false.
- (4) Assertion (A) is false, but Reason (R) is true.

**33.** Identify the correctly matched pair of Column A to that of Column B:

Column A	Column B
1. Items of imports and exports	(a) Import substitution
2. Outward oriented policy	(b) Composition of foreign trade
3. Inward oriented policy	(c) Export promotion
4. Imports exceeds exports	(d) Unfavourable Balance of Trade

- (1) 1 – (a)
  - (2) 2 – (b)
  - (3) 3 – (c)
  - (4) 4 – (d)
- 34.** Identify the two cost curves which start from the same point on the Y-axis.
- (1) TVC and TFC
  - (2) TFC and TVC
  - (3) TFC and TC
  - (4) TFC and AFC
- 35.** Aggregate demand can be decreased by:
- (1) Rise in Bank Rate.
  - (2) Purchase of securities in Open Market.
  - (3) Deficit Budget.
  - (4) None of the above
- 36.** Which of the following statements is not true regarding the benefit of GST?
- (1) GST provides comprehensive and wider coverage of input credit set-off, you can use service tax credit for the payment of tax on sale of goods, etc.
  - (2) All indirect taxes in state and central level have been included by GST.
  - (3) Uniformity of tax rates across the states.
  - (4) Ensure better compliance due to aggregate tax rate reduction.

**37.** Production possibility curve slopes downwards from ..... to .....

- (1) Left to right
- (2) Right to left
- (3) Up to down
- (4) Down to Up

**38.** Identify the correctly matched pair of items in Column A to those in Column B:

Column A	Column B
1. Total of factor payments	(a) Value Added Method
2. Value Added	(b) Stock Variable
3. Festival gifts	(c) Transfer payments
4. Final expenditure incurred by the government	(d) Consumption expenditure

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

**39.** In the present COVID-19 situation, many economists have raised their concerns that Indian economy may have to face a deflationary situation due to reduced economic activities in the country. Suppose you are a member of the high-powered committee constituted by the Reserve Bank of India (RBI). You have suggested that as the supervisor of commercial banks, ..... (restriction/release) of the money supply be ensured by the Reserve Bank of India (RBI).

- (1) Restriction
- (2) Release
- (3) Either (1) or (2)
- (4) Neither (1) nor (2)

**40.** Which of the following statements is true?

- (1) Depreciation of the foreign currency leads to the rise in exports.
- (2) Devaluation of the domestic currency leads to a rise in imports.
- (3) Appreciation of domestic currency leads to rise in exports.
- (4) Appreciation of foreign currency leads to fall in imports.

**41.** Oligopoly is a market structure in which there are :

- (1) Many sellers
- (2) One seller
- (3) Few sellers
- (3) None of these

**42.** Elasticity of the demand is available when:

- (1) Low priced commodities are available
- (2) Uses of a commodity is less
- (3) Both of the above
- (4) None of the above

**43.** If in an economy the value of Net Factor Income from Abroad is ₹ 200 crores and the value of Factor Income to Abroad is ₹ 40 crores. Identify the value of Factor Income from Abroad:

- (1) ₹ 200 crores
- (2) ₹ 160 crores
- (3) ₹ 240 crores
- (4) ₹ 180 crores

44. When we add up utility derived from consumption of all the units of the commodities, we get:
- (1) Total utility                      (2) Initial utility  
(3) Marginal utility                  (4) None of these
45. Which of the following statements is correct with respect to the correction of Excess Demand?
- (1) Government reduces the taxes.  
(2) Government reduces its expenditure.  
(3) The Central Bank reduces bank rates.  
(4) The Central Bank sells securities from the Open Market.
46. ....refers to the minimum price, fixed by the government, which is above the equilibrium price.
- (1) Price floor  
(2) Minimum support price  
(3) Both (a) and (b)  
(4) None of these

**I. Read the following hypothetical case study carefully and answer the questions follow on the basis of the same.**

Agricultural Developmental Bank of Pakistan uses the production function approach for measuring bank outputs and costs. A trans log cost function is estimated to provide an assessment of the bank's scale and scope efficiency, and to quantify the extent to which its production costs are sensitive to size and output mix. Results shows that the bank enjoys both overall and product-specific economies of scale and, therefore, there exists scope for the bank to expand its operations at declining

average cost. Even though bank branches in all size categories enjoy economies of scale, the extent of such economies is larger for branches operating at a smaller scale of production. This implies that as the bank branches grow larger in size in terms of both loan and deposit accounts, they move closer to attaining increasing returns to a factor. It is also shown that the marginal costs of servicing both loan and deposit accounts decline as bank branches grow larger in size in terms of either the number of loans or the number of deposits. This confirms that branches operating at a larger scale of production have attained greater cost efficiency in terms of servicing the loan and deposit accounts.

47. Agricultural Development Bank of Pakistan uses the \_\_\_\_\_ function approach.
- (1) Production                      (2) Cost  
(3) Utility                              (4) None of the above
48. Economies of scale is larger for which type of bank.
- (1) Larger scale of production  
(2) Smaller scale of production  
(3) Medium scale of production  
(4) None of the above
49. When the banks grow in size, they move closer in achieving \_\_\_\_\_ returns to factor.
- (1) Increasing                      (2) Decreasing  
(3) Constant                        (4) None of the above
50. The increasing returns to scale in larger branches is due to \_\_\_\_\_
- (1) Increase in loans              (2) Increase in deposits  
(3) Both (A) and (B)              (4) None of them

# SOLUTIONS OF Question Paper

# 1

1. Option (1) is correct.

*Explanation:* Inventory is a stock concept as it can be measured at a point of time and change in inventory is a flow concept because it can be measured over a time period.

2. Option (1) is correct.

*Explanation:*  
$$\Delta Y = \Delta I \times \frac{1}{MPS}$$
$$\Delta Y = ₹250 \times \frac{1}{0.25}$$
$$= ₹1,000 \text{ crores}$$

3. Option (2) is correct.

*Explanation:* Flows of Government Budget  
(1) Minimize fiscal deficit  
(2) Reallocation of resources  
(3) Economic growth and Stability.

4. Option (1) is correct.

*Explanation:* It is an inflow of money and it is recurring in nature.

5. Option (1) is correct.

*Explanation:* Money Supply is the total stock of money circulating in the economy at a particular point of time including currency and other liquid instruments.

6. Option (1) is correct.

*Explanation:* The study of population in India involves the study of the economy as a whole, thus it is an example of study of macroeconomics.

7. Option (2) is correct.

*Explanation :* Properties or Characteristics of Indifference Curves :

- It slopes downwards from left to right.
- Indifference Curves are convex to the origin.
- Indifference Curves will never intersect each other.
- A higher Indifference Curve represents higher level of satisfaction.
- Indifference Curve neither touch to each x-axis nor y-axis.

8. Option (1) is correct.

*Explanation:* Perfect competition is a situation in which there are large number of buyers and sellers. Each seller has a very small proportion in the market. And since the share of each seller in the market is less. Market forces of demand and supply decide the equilibrium price and equilibrium quantity in the industry and that price is taken by each firm in the perfect competition. Hence, firm is a price taker.

9. Option (2) is correct.

*Explanation:*  
$$APS = \frac{S}{Y}$$
$$0.8 = \frac{S}{4,000}$$
$$S = ₹800 \text{ crores}$$
$$C = Y - S$$
$$= ₹4,000 - ₹800$$
$$= ₹3,200 \text{ crores}$$

10. Option (3) is correct.

*Explanation:* Selling cost is the cost incurred on advertisement of goods. Selling cost is zero in case of perfect competition because of perfect knowledge of buyers and sellers. Because products are homogeneous and they are perfect substitutes of each other.

11. Option (2) is correct.

*Explanation:* A direct tax is a tax, the burden of which is on that very person who is liable to pay it to the government.

12. Option (2) is correct.

*Explanation:* Normal goods are those goods whose demand rises with rise in income and falls with fall in income. When income increases in case of normal goods, then demand rises and hence demand curve shifts to the right. Hence, equilibrium price and equilibrium quantity both rise.

13 Option (4) is correct.

*Explanation:* Full employment equilibrium refers to the situation where aggregate demand is equal to aggregate supply and all those who are equal to work and willing to work (at existing wage rate) are getting work.



**14. Option (2) is correct.**

*Explanation:* Under monopoly, the firm faces a demand curve, which slopes downwards from left to right. It implies monopoly firm can sell more only at lower price.

**15. Option (4) is correct.**

*Explanation:* There are certain limitations of GDP as an index of welfare:

- (1) GDP does not take into account changes in inequalities in the distribution of income.
- (2) GDP does not include non-monetary exchanges.
- (3) GDP does not consider the changes in the population of a country.
- (4) GDP does not account for valuation of externalities.

**16. Option (1) is correct.**

*Explanation:* Import of goods and services are recorded in current account. Import is recorded on the debit side as it leads to an outflow of foreign exchange in the country.

**17. Option (1) is correct.**

*Explanation:* Money supply is the total stock of money in circulation held by public at a given point of time.

**18. Option (3) is correct.**

*Explanation:* There is a difference when we talk about in-elasticity and perfect in-elasticity. When a commodity has few uses, its demand is inelastic because the prices are less, demand increases but since the commodity has a few uses only there will be a slight increase.

**19. Option (1) is correct.**

*Explanation:* Area which lies below the MC curve is the total variable cost because MC is calculated by subtracting TVC as follows:-  
 $MC = TVC_n - TVC_{n-1}$   
 Hence, area covered under MC is TVC.

**20. Option (2) is correct.**

*Explanation:* Negative externalities refer to negative impact of an economic activity on the others without involving any penalty.

**21. Option (1) is correct.**

*Explanation:* In case of direct tax, the burden of tax and the liability to pay it falls on the same person.

**22. Option (2) is correct.**

*Explanation:* Coins in India are issued by the Government of India. It is the sole responsibility of the Government of India to mint coins of all denominations.

**23. Option (1) is correct.**

*Explanation:* The central problems under 'problem of allocation of resources' are :

- (i) What to produce ?
- (ii) How to produce ?
- (iii) For whom to produce ?

**24. Option (2) is correct.**

*Explanation:* Under monopoly, the firm faces a demand curve, which slopes downwards from left to right. It implies monopoly firm can sell more only at lower price.

**25. Option (2) is correct.**

*Explanation:* Macroeconomics is the study of behaviour of an economy as a whole. National income is the value of total final goods produced by an economy. Thus, the study of National Income is related to macroeconomics.

**26. Option (3) is correct.**

*Explanation:* The utility approach refers to a consumer's realised happiness when he is willing to spend money on a stock of commodity that can satisfy his need. The indifference curve approach gives a tabular presentation of different combinations of two goods that yield the same level of satisfaction to the consumer. Both of them help a consumer in realising the amount of commodity they require to avail satisfaction.

**27. Option (1) is correct.**

*Explanation:* Devaluation refers to fall in the value of domestic currency due to deliberate increase in foreign exchange rate by the government which follows fixed exchange rate system.

**28. Option (3) is correct.**

*Explanation:* Contraction in supply can be defined as due to fall in price of the commodity, there is fall in quantity supplied of a commodity, i.e., there is downward movement along the same supply curve.

**29. Option (3) is correct.**

*Explanation:* Increase in the price of substitute goods leads to increase in the demand for other goods. Inferior goods are the opposite of normal goods, its demand increases with the rise in income and decreases with fall in income.

30. Option (1) is correct.

31. Option (1) is correct.

*Explanation:* Features of Monopolistic market

- (1) Highly Differentiated Product
- (2) Many buyer and Seller
- (3) Low barrier to entry and exit
- (4) Non price competition

32. Option (3) is correct.

*Explanation:* Full employment equilibrium refers to a situation when equilibrium is attained i.e., aggregate demand is equal to aggregate supply at full employment level.

33. Option (4) is correct.

*Explanation:* When there is excess of imports over exports, it is called an unfavourable balance of trade.

34. Option (3) is correct.

*Explanation:* The two cost curves which start from the same point on the Y-axis are total fixed cost and total cost. TC is sum of TFC and TVC. Since at zero level of output, TVC is zero and starts from origin. Thus, at zero level of output, TC = TFC and start from the same point on the y-axis.

35. Option (1) is correct.

*Explanation:* In case of deficient demand, there is a need to liberalize credit. It can be done by reducing bank rate so that the commercial banks also reduce their lending rate, thereby increasing the availability of credit in the economy.

36. Option (2) is correct.

*Explanation:* Features of Monopolistic market

- (1) Consumption based tax .
- (2) One tax rate across the country.
- (3) No tax on tax.
- (4) Simplify taxation process.

37. Option (1) is correct.

*Explanation:* Production Possibility Curve refers to the graphical representation of possible combinations of two goods that can be produced with given resources and technology. PPC slopes downwards from left to right. It is because in a situation of fuller utilisation of given resources, production of both the goods cannot be increased. More of Goods X can be produced only with less of Goods Y.

38. Option (3) is correct.

*Explanation:* When there are no goods or services exchanged for the payment of money, it is known as transfer payment.

39. Option (2) is correct.

*Explanation:* RBI should release money as it will increase money supply in the economy, and thus in turn will increase production activities.

40. Option (1) is correct.

*Explanation:* Depreciation of home currency implies fall in the price of domestic goods for the foreign buyers.

41. Option (3) is correct.

*Explanation:* Oligopoly is a form of market in which there are few big sellers of a commodity and a large number of buyers. Each seller has a significant share of the market.

42. Option (4) is correct.

*Explanation:* Elasticity is the responsiveness of demand for the change to the price of the commodity. With the price of the commodity being low, demand increases but since the commodity has less uses the demand becomes inelastic.

43. Option (3) is correct.

*Explanation:* Net Factor Income from Abroad  
 = Factor Income from Abroad – Factor Income to Abroad  
 $\text{₹}200 = \text{Factor Income from Abroad} - \text{₹}40$   
 Factor Income from Abroad =  $\text{₹}200 + \text{₹}40$   
 =  $\text{₹}240$  crores

44. Option (1) is correct.

*Explanation:* TU = EMU

Total utility is the aggregate amount of satisfaction or fulfilment that a consumer receives through the consumption of a specific goods or service.

45. Option (2) is correct.

*Explanation:* Decrease in Government spending will reduce the level of aggregate demand in the economy and will help to correct inflationary pressures in the economy.

46. Option (3) is correct.

*Explanation:* Minimum support price or price floor is fixed by the government in the interest of producers and it refers to the minimum price which is decided by the government so that producers are not exploited and it is fixed above the equilibrium price.



**47. Option (1) is correct.**

*Explanation:* Agricultural Development bank of Pakistan uses the production function approach to measure bank output and costs.

**48. Option (2) is correct.**

*Explanation:* Economies of scale is larger for branches at a smaller scale of production

**49. Option (1) is correct.**

*Explanation:* When the banks grow in size, they move closer in achieving increasing returns to a factor.

**50. Option (3) is correct.**

*Explanation:* The increasing returns to scale in larger branches is due to both increase in loans and increase in deposits.

□□□