

Model Question Paper
Economics for Managers (SMB104)

- Answer all 77 questions.
- Marks are indicated against each question.

Total Marks : 100

1. In which of the following type of economic systems price plays an important role?
- I. Market Economy.
II. Command Economy.
III. Mixed economy.
- (a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) Both (II) and (III) above. (1 mark)
2. Which of the following statements is **false** about Microeconomics?
- (a) Microeconomics studies the economic behavior of individual entities
(b) Microeconomics explains the interrelationships between economic units
(c) Microeconomics analyzes the condition for efficiency in consumption and production
(d) Microeconomics study is vital in the formulation and execution of economic policies by Government
(e) Microeconomics helps in individual's decision making. (1 mark)
3. The curve which shows the maximum possible output that the economy can produce using all the available resource is called as
- (a) Demand curve
(b) Supply curve
(c) Production possibility curve
(d) Total revenue curve
(e) Total cost curve. (1 mark)
4. At a stage where the total product is maximum, the marginal product will be
- (a) Maximum
(b) Minimum
(c) Zero
(d) Equal to total product
(e) Equal to average product. (1 mark)
5. The point where the total cost equals the total revenue is known as
- (a) Expansion point
(b) Break-even point
(c) Shut down point
(d) Focal point
(e) Equilibrium point. (1 mark)
6. Which of the following are **not true** with respect to a perfectly competitive market?
- I. There are many sellers in the market.
II. Individual firms are price makers.
III. Products sold by the firms are differentiated.
IV. Anyone can enter or exit the industry.
- (a) Both (I) and (II) above
(b) Both (I) and (III) above
(c) Both (I) and (IV) above
(d) Both (II) and (III) above
(e) Both (III) and (IV) above. (1 mark)

7. Cartels are formed in
- (a) Oligopolistic Market
 - (b) Perfectly Competitive Market
 - (c) Monopoly
 - (d) Monopsony
 - (e) Monopolistically Competitive Market.
- (1 mark)**
8. Nominal wages are otherwise known as
- (a) Real wages
 - (b) Kind wages
 - (c) Money wages
 - (d) Task wages
 - (e) Piece wages.
- (1 mark)**
9. According to Ricardo, rent is the surplus of revenue over costs which arises due to
- (a) Difference in the level of fertility of land
 - (b) Increase in the amount of labor employed
 - (c) Increase in the amount of capital used
 - (d) The type of crop produced
 - (e) High prices of other factors of production.
- (1 mark)**
10. Mr. X has leased his 10 hectares of land to Mr. Y. So Mr. X will receive
- (a) Rent
 - (b) Wage
 - (c) Interest
 - (d) Commission
 - (e) Profit.
- (1 mark)**
11. A profit maximizing firm seeks to maximize the difference between
- (a) Marginal revenue and marginal cost
 - (b) Marginal revenue and average cost
 - (c) Total revenue and marginal revenue
 - (d) Total revenue and average cost
 - (e) Average revenue and average cost.
- (1 mark)**
12. In which of the following situations a perfectly competitive firm would shutdown its operations?
- (a) The profits of the firm equals its total costs
 - (b) At that output level where the price covers the average fixed costs of the firm
 - (c) At that output level where the price covers the average variable costs of the firm
 - (d) At that output level where the price covers the average total costs of the firm
 - (e) At that output level where the losses of the firm cease and its profits begin.
- (1 mark)**
13. When a proportionate change in input combination causes less than proportionate change in output, it is considered as
- (a) Increasing returns
 - (b) Decreasing returns
 - (c) Constant returns
 - (d) Negative returns
 - (e) Law of variable proportions.
- (1 mark)**
14. Which of the following is **not** a reason of economies of scale accruing to a firm due to large-scale operations?
- (a) Lower advertising prices
 - (b) Lower costs of external finance
 - (c) Lower prices of its raw materials
 - (d) Lower prices paid by customers
 - (e) More competitive transport rates.
- (1 mark)**

15. An oligopoly market consists of
- Many sellers and many buyers
 - One seller and many buyers
 - Few sellers and many buyers
 - One buyer and many sellers
 - One buyer and one seller.
- (1 mark)**
16. Which of the following is **true** with respect to a monopoly?
- There is no distinction between firm and industry
 - There are only two firms
 - There are three firms
 - There are few firms
 - There are two or more industries.
- (1 mark)**
17. The price elasticity of demand is the measure of
- Absolute change in quantity demanded as a result of change in absolute price of the commodity
 - Relative change in quantity demanded as a result of change in absolute price of the commodity
 - Relative change in quantity demanded as a result of relative change in price of the commodity
 - Change in the types of various commodities consumed
 - Absolute change in price level as a result of change in absolute quantity demanded.
- (1 mark)**
18. If the quantity supplied **does not** change at all when price changes the supply is said to be
- Perfectly elastic
 - Perfectly inelastic
 - Unitary elastic
 - Relatively elastic
 - Relatively inelastic.
- (1 mark)**
19. At the point of tangency between budget constraint and indifference curve, the consumer
- Minimizes his budget
 - Maximizes his budget
 - Cannot afford to buy the desired goods
 - Attains maximum satisfaction at the given budget
 - Consumes only one good.
- (1 mark)**
20. Which of the following is **true** with respect to 'law of demand'?
- It is the relationship between cost and quantity produced
 - It is same as quantity demanded
 - It is same as the price
 - It is shown by a vertical demand curve
 - It is the inverse relationship between quantity demanded and price.
- (1 mark)**
21. Which of the following statements is **not true**?
- Gross profit is equal to total revenue minus total explicit cost
 - The classical economists did not distinguish between ownership of capital and management of business
 - Karl Marx stated that profits are unearned income of entrepreneur
 - According to Schumpeter profits are a reward for innovative ability of the entrepreneur
 - Economic progress of a country does not affect the profits.
- (1 mark)**
22. When marginal utility is decreasing, it means that the total utility is
- Increasing
 - Decreasing
 - Increasing, if the marginal utility still remains positive
 - Constant
 - Infinity.
- (1 mark)**

23. Which of the following statements **best** reflects the consumer surplus?
- Padma who is willing to accept a job at Rs.50 per hour is offered Rs.45 per hour
 - Raju pays the sales price of Rs.150 for the same shirt that he refused to buy earlier at Rs.180
 - Tendulkar gets Pepsi for free when he was ready to pay Rs.8, to quench his thirst
 - Dolly finds that the price of burgers, a food she dislikes, has been reduced by 50 percent
 - Rajesh, carpenter by profession, has a marginal cost of Rs.500 for a unit of output and sells that unit at Rs.600. **(1 mark)**
24. Which of the following is **not true**?
- Two Indifference curves never intersect each other
 - Total utility is the sum of marginal utilities of all units of a good consumed
 - When price of a product increases, demand for its complement will increase
 - Want satisfying power of a good is called utility
 - Consumer surplus of a good and its economic value are different. **(1 mark)**
25. Which of the following factor(s) make price discrimination possible under monopoly?
- Consumer's preference.
 - The nature of the good.
 - Distance and frontier barrier.
- Only (I) above
 - Both (I) and (II) above
 - Both (I) and (III) above
 - Both (II) and (III) above
 - All (I), (II) and (III) above. **(1 mark)**
26. Which of the following variables is a flow variable?
- Price index
 - Public debt
 - Gross fixed investment
 - A firm's assets
 - Capital stock. **(1 mark)**
27. The record of a country's transactions in goods, services and assets with the rest of the world is known as
- Current account
 - Balance of trade
 - Capital account
 - Balance of payments
 - Errors & omissions. **(1 mark)**
28. The phrase "business cycle" refers to
- The pattern of fluctuations in the general level of prices as measured by the consumer price index
 - The pattern of fluctuations in interest rate as measured by the prime lending rate
 - The pattern of fluctuations in economic activity
 - The pattern of fluctuations in budget surplus or deficit
 - The pattern of fluctuations in stock market index. **(1 mark)**
29. Which of the following is **not** a component of aggregate expenditure?
- Consumption
 - Investment
 - Government purchases
 - Net exports
 - Taxes. **(1 mark)**

30. Which of the following statements is **true** of credit creation by commercial banks?
- (a) Credit creation by commercial banks is limited by cash reserve ratio
 - (b) Commercial banks can create as much credit as they want
 - (c) RBI has no control over the credit created by the commercial banks
 - (d) Reserve Ratio has no impact on credit creation
 - (e) When a bank advances loans, there tends to be a contraction of credit in the banking system. **(1 mark)**
31. Cost push inflation occurs when
- (a) Wages are decreased
 - (b) Productivity of labor increases
 - (c) Cost of raw material increases
 - (d) Aggregate supply curve shifts to the right
 - (e) New raw material reserves are found. **(1 mark)**
32. Which of the following is **not** an instrument of monetary policy?
- (a) Bank rate
 - (b) Reserve requirement
 - (c) Open market operations
 - (d) Tax rate
 - (e) Selective credit controls. **(1 mark)**
33. Which of the following ratios is **not** an indicator of financial development of a country?
- (a) Finance Ratio
 - (b) Financial Interrelations Ratio
 - (c) New Issue Ratio
 - (d) Intermediation Ratio
 - (e) Cost Benefit Ratio. **(1 mark)**
34. Which of the following school of thought advocates that money supply determines the short-run movements in nominal GDP?
- (a) Keynesian
 - (b) Classical
 - (c) Monetarist
 - (d) Neo-classical
 - (e) Supply side economics. **(1 mark)**
35. Which of the following is/are general economic indicators?
- I. GDP.
 - II. Inflation.
 - III. Interest rates.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Both (I) and (II) above
 - (d) Both (II) and (III) above
 - (e) All (I), (II) and (III) above. **(1 mark)**
36. Which of the following indicators measures the change in costs of labor for employees at all levels in the company?
- (a) Consumer confidence index
 - (b) Employee cost index
 - (c) Wholesale price index
 - (d) Consumer price index
 - (e) Producers price index. **(1 mark)**
37. Per capita GDP is GDP divided by
- (a) Real GNP
 - (b) Nominal national income
 - (c) Net factor income from abroad
 - (d) Indirect taxes
 - (e) Population. **(1 mark)**

38. Which of the following phase marks the end of the expansion phase of a business cycle?
- Peak
 - Boom
 - Recession
 - Depression
 - Recovery.
- (1 mark)**
39. A cricket star who has one month off before reporting to his new national cricket academy team is an example of
- Cyclical unemployment
 - Structural unemployment
 - Frictional unemployment
 - Natural unemployment
 - Disguised unemployment.
- (1 mark)**
40. Which of the following is/are example(s) of quantitative credit control measures of RBI?
- Bank rate policy.
 - Open market operations.
 - Cash reserve ratio.
 - Statutory liquidity ratio.
 - Moral suasion.
- Only (I) above
 - Both (I) and (II) above
 - (I), (II) and (III) above
 - (I), (II), (III) and (IV) above
 - All (I), (II), (III), (IV) and (V) above.
- (1 mark)**
41. Which of the following is the ultimate goal of monetary policy?
- Economic growth with stable prices
 - A stable interest rates
 - A low federal funds rate
 - A steady growth in bank reserves
 - A low repo rate.
- (1 mark)**
42. The multiplier measures the rate of change in output resulting from a change in
- Import
 - Consumption
 - Production
 - Investment spending
 - Taxes.
- (1 mark)**
43. Which of the following is/are limitation(s) of national income accounting?
- Non-market production.
 - Leisure and human cost.
 - Double counting.
- Only (I) above
 - Only (II) above
 - Both (I) and (III) above
 - Both (II) and (III) above
 - All (I), (II) and (III) above.
- (1 mark)**
44. Disposable income is personal income minus
- Subsidies
 - Corporate taxes
 - Indirect taxes
 - Personal taxes
 - Transfer payments.
- (1 mark)**

45. The Keynesian remedy for unemployment is to
- Decrease aggregate demand
 - Reduce tax rates or lower interest rates
 - Decrease government spending
 - Decrease private consumption and investment
 - Increase imports.
- (1 mark)
46. Economic growth is measured in terms of increase in the
- Gross domestic Product
 - Money supply
 - Foreign exchange reserves
 - Employment
 - Government expenditure.
- (1 mark)
47. Inflation is best defined as
- A sustained and persistent increase in the general money supply
 - A sustained and persistent increase in the general level of income
 - A sustained and persistent increase in the general price level
 - A continuous increase in the nominal interest rates
 - A persistent increase in the general level of output.
- (1 mark)
48. The difference between Net National Product and Net Domestic Product is
- Net exports
 - Foreign aid
 - Net income from abroad
 - Subsidies
 - Depreciation.
- (1 mark)
49. Which of the following is **true** in the circular flow of income model?
- Business firms earn most of the income by buying of goods and services
 - Business firms earn a small part of the income flow in the form of providing labor to the households
 - Households supply resources to the business sector
 - Business firms buy goods and services from the household sector
 - Business firms earn most of the income flow in the form of rent.
- (1 mark)
50. Which of the following is **not** an example of an automatic stabilizer?
- National defense spending
 - Social welfare payments
 - Unemployment compensation
 - Personal income tax
 - Corporate income tax.
- (1 mark)
51. The demand and supply functions of a good are given as follows:
 $Q_d = 19,000 - 300P$
 $Q_s = 17,000 + 100P$
 What is the equilibrium quantity of the good?
- 17,100 units
 - 17,200 units
 - 17,300 units
 - 17,500 units.
 - 20,000 units.
- (2 marks)
52. A major flood in India wiped out 5% of the entire India's paddy production. As a result, if the price of paddy rises by 100%, the elasticity of demand for paddy is
- 0.05
 - 0.50
 - 5.00
 - 10.00
 - Insufficient data.
- (1 mark)

53. A wheat producer finds that the price elasticity of demand for wheat is infinity. If the producer decides to increase the price of the wheat by 14 %, the quantity demanded for wheat will
- Increase by 14%
 - Remain the same
 - Decline to zero
 - Decrease by 14%
 - Become infinity.
- (2 marks)
54. For a consumer in equilibrium, marginal rate of substitution of X for Y (MRS_{XY}) is 3. If price of the good X (P_X) is Rs.150, price of good Y (P_Y) is
- Zero
 - Rs. 25
 - Rs. 50
 - Rs.150
 - Rs.450.
- (2 marks)
55. Assume that the consumer is in equilibrium consuming commodities X and Y. If marginal utility of commodity X is 250 utils, price of the commodity X is Rs.25, and the price of commodity Y is Rs.20, the marginal utility of Y is
- 150 utils
 - 200 utils
 - 250 utils
 - 300 utils
 - 500 utils.
- (2 marks)
56. The production function for winter garments is estimated as $TP = 20L^2 - L^3$. The maximum possible average product of labor is
- 100 units
 - 200 units
 - 225 units
 - 250 units
 - 600 units.
- (2 marks)
57. Production function for a firm is $TP_L = 10L - L^2$. The number of labor units after which marginal product becomes negative is
- 2 units
 - 5 units
 - 10 units
 - 20 units
 - 25 units.
- (2 marks)
58. If total cost function for a firm is $TC = 48Q - 0.40Q^2 + 0.010Q^3$, the minimum possible average cost is
- Rs.20
 - Rs.24
 - Rs.40
 - Rs.44
 - Rs.56.
- (2 marks)
59. For a firm, the average cost function is estimated as follows:

$$AC = \frac{500}{Q} + 30 + 5Q$$

What is total variable cost for the firm at an output of 12 units?

- Rs. 100
 - Rs. 131
 - Rs.1,020
 - Rs.1,080
 - Rs.1,580.
- (2 marks)

60. Total cost function of a firm is $TC = 500 + 5Q$. If price of the product sold by the firm is Rs.7 per unit, the break-even sales revenue is
- (a) Rs. 100
 (b) Rs. 250
 (c) Rs. 700
 (d) Rs.1,250
 (e) Rs.1,750.
- (2 marks)

61. Alpha Ltd., has a monopoly in producing a product X. The demand function for this product is estimated as $Q = 75 - P$. The total cost function is $TC = 25Q$. What is the profit?
- (a) Rs.400
 (b) Rs.625
 (c) Rs.725
 (d) Rs.600
 (e) Rs.450.
- (2 marks)

62. The demand function of a monopolist is given as follows:
 $P = 500 - 8Q$
 If the marginal cost of the firm is $MC = 9Q$, the profit maximizing price of the firm is
- (a) Rs.320
 (b) Rs.340
 (c) Rs.360
 (d) Rs.350
 (e) Rs.355.
- (2 marks)

63. The total cost function of a firm is given as $TC = 200 + 8Q + 2Q^2$. The firm is a perfectly competitive firm and is selling the product at Rs.48. If the output produced and sold by the firm is 10 units, the profit earned by the firm is
- (a) Zero
 (b) Rs. 10
 (c) Rs. 20
 (d) Rs. 25
 (e) Rs. 30.
- (2 marks)

64. The personal income of an individual is Rs.25,000. If the income tax paid is Rs.575, consumption expenditure is Rs.5,000, interest payments on loans are Rs.200 and savings amount to Rs.800, the disposable income of the individual is
- (a) Rs.12,000
 (b) Rs.12,400
 (c) Rs. 5,600
 (d) Rs.25,575
 (e) Rs.24,425.
- (2 marks)

65. The following information is extracted from the National Income Accounts of an economy.

Particulars	MUC
GDP at market price	4,275
Depreciation	48
Subsidies	128

The NDP at market price is

- (a) 3,195 MUC
 (b) 3,275 MUC
 (c) 2,246 MUC
 (d) 4,227 MUC
 (e) 4,355 MUC.
- (2 marks)

66. The following information is extracted from National Income Accounts of a country:

Particulars	MUC
NDP at market prices	20,000
Indirect taxes	1,000
Subsidies	600
Depreciation	800

The GDP at factor cost would be

- (a) 12,000 MUC
- (b) 15,800 MUC
- (c) 18,800 MUC
- (d) 20,100 MUC
- (e) 20,400 MUC.

(2 marks)

67. Consider the following information:

Particulars	Rs. crore
NDP at market prices	3,08,000
Net factor income from abroad	-2,800
Depreciation	6,800
Subsidies	26,800
Indirect Taxes	30,800

What is the national income?

- (a) Rs.3,04,000 cr
- (b) Rs.3,00,300 cr
- (c) Rs.3,01,200 cr
- (d) Rs.3,10,800 cr
- (e) Rs.3,18,800 cr.

(2 marks)

68. The following is the information drawn from the National Income Accounts of an economy:

Particulars	MUC
Aggregate income	35,950
Gross investment	5,978
Consumption	22,165
Government spending	2,456

The net exports for the economy is

- (a) 627 MUC
- (b) 1,829 MUC
- (c) 1,000 MUC
- (d) 5,351 MUC
- (e) 7,807 MUC.

(1 mark)

69. In a hypothetical economy, if the marginal propensity to consume is 0.60, the value of multiplier will be

- (a) 2.5
- (b) 3.0
- (c) 4.0
- (d) 5.5
- (e) 6.0.

(1 mark)

70. Suppose that the MPC is 0.50 and there is no investment accelerator or crowding-out effect. If government expenditures is increased by Rs.20 billion, aggregate demand will increase by

- (a) Rs. 5 billion
- (b) Rs.10 billion
- (c) Rs.25 billion
- (d) Rs.40 billion
- (e) Rs.50 billion.

(2 marks)

71. The following are the excerpts from the balance sheet of a Central Bank.

Particulars	MUC
Financial Assets	4,340
Non-monetary liabilities	1,040
Other Assets	100

If the government money is 50 MUC, the high powered money in the economy is

- (a) 3,300 MUC
- (b) 3,350 MUC
- (c) 3,400 MUC
- (d) 3,450 MUC
- (e) 3,500 MUC.

(2 marks)

72. Consider the following information:

High powered money	Rs.10,000 Cr.
Currency deposit ratio in the economy	10%
Cash reserve requirement of the central bank	5%

The money multiplier is

- (a) 4.00
- (b) 4.50
- (c) 5.50
- (d) 6.33
- (e) 7.33.

(2 marks)

73. In an economy, the high-powered money and money supply are 2,956 MUC and 11,824 MUC respectively. If the reserve ratio is 10%, currency deposit ratio for the economy is

- (a) 0.05
- (b) 0.20
- (c) 0.25
- (d) 0.50
- (e) 2.00.

(2 marks)

74. The consumption schedule for a two sector economy is given below:

Consumption (C)	Disposable Income (Y _d)
475.0	500
400.0	400

The marginal propensity to consume in the economy would be

- (a) 0.50
- (b) 0.75
- (c) 1.20
- (d) 1.25
- (e) 2.00.

(2 marks)

75. The following are the indicators of financial development of an economy for the year 2008-09:

Total Issues	34,000
Net Physical Capital Formation	21,000
Finance Ratios	0.25

The financial interrelations ratio is

- (a) 1.62
- (b) 1.00
- (c) 1.25
- (d) 1.50
- (e) 2.00.

(2 marks)

76. The deposits at the XYZ bank are Rs.6,00,000 crore and the reserve requirement is 20 percent. If cash reserves equal Rs.1,80,000 crore, excess reserves equals to

- (a) Rs. 20,000 crore
- (b) Rs. 40,000 crore
- (c) Rs. 60,000 crore
- (d) Rs. 80,000 crore
- (e) Rs.1,60,000 crore.

(1 mark)

77. If the economy grows at 8% and the population grows at 1%, what is the growth rate in per capita income?

- (a) 1.93%
- (b) 6.93%
- (c) 7.73%
- (d) 8.23%
- (e) 9.13%.

(2 marks)

END OF QUESTION PAPER

Suggested Answers

Economics for Managers (SMB104)

ANSWER	REASON
1.	A Price plays a major role in the market economy. In the market economy scarce resource are allocated to best use through price mechanism. In a command economy prices are controlled by Government. So prices have no role in command economy. In a mixed economy also price have a very minimal role, here also Government controls price fluctuations.
2.	D The formulation and execution of economic policies by Government comes under the purview of macroeconomics.
3.	C The production possibility curve shows the maximum possible output that the economy can produce using all the available resource. So this is the correct answer.
4.	C When Total Product remain constant as the number of labor units are increased, the Marginal Product will be zero.
5.	B Break-even point is the point where the total cost equals total revenue. After this point, the firm is able to make operating profits.
6.	D In perfect competition the firm is a price taker and they sell homogenous products.
7.	A Cartels are formed in Oligopolistic markets.
8.	C Nominal wages are also known as Money wages.
9.	A According to Ricardo rent is the surplus of revenue over costs which arises due to difference in the level of fertility of land.
10.	A Reward for use of land is rent.
11.	E The profit of a firm refers to the difference between total revenue and total cost. Hence, to maximize the profits, the firm should maximize the difference between total revenue and total cost. The difference between average revenue (AR) and average cost (AC) represents the average profit of the firm. Hence maximization of difference between average revenue and average cost also indicates profit maximization. A firm maximizes its profit when it produces and sells an output at which marginal revenue (MR) is equal to marginal cost (MC).
12.	C Shutdown point is the level of output at which the firm is indifferent between continuing its operations and shutting down its operations. At this point the total revenue (price) of the firm is equal to the total variable cost (average variable cost) incurred by the firm and loss for the firm is equal to the fixed cost. If price falls below the average variable cost, the firm would be better off by closing operations and limiting losses to the level of fixed costs. Therefore the answer is (c).
13.	B When a proportional change in input combination causes less than proportionate change in output, it is said to be decreasing returns to scale. (a) Is not the answer because in case of increasing returns to scale, a proportional change in input combination causes more than proportionate change in output. (b) Is the answer because in case of decreasing returns to scale, a proportional change in input combination causes less than proportionate change in output. (c) Is not the answer because in case of constant returns to scale, a proportional change in input combination causes proportionate change in output. (d) Is not the answer because in case of negative returns, the quantity of variable factor is so large compared to the fixed factors that reduce the fixed factor that results in a fall in the total product instead of rising. (e) Law of variable proportions says as a particular input is increased keeping other things constant the marginal productivity of that input first increases than decreases with every increase.
14.	D Lower prices paid by customers is not a reason of economies of scale accruing to a firm due to large scale operations. So, the answer is (d).
15.	C Oligopoly is a market structure, in which a few sellers dominate the sales of a product and the entry of new sellers is difficult or impossible. And at the same time there are large number of buyers exist.
16.	A In a monopoly market structure, there is no distinction between firm and industry.

17. C Price elasticity of demand is the percentage change in quantity demanded resulting from one percent change in the price of the good, other things remaining constant.
18. B When there is no change in the quantity supplied even though the price changes the supply is said to be perfectly inelastic. This situation is also called as zero elasticity of supply. At this situation the supply curve will be a vertical straight line.
19. D The point of tangency between the budget constraint and the indifference curve indicates that the consumer is in equilibrium. That is consumer attains maximum amount of satisfaction implying that all the other combinations give him the lesser utility or unavailability given his budget. Hence the correct answer is (d).
20. E The inverse relationship between quantity demanded and price is known as demand.
21. E All the given options are correct except option (e).
Economic progress of a country in fact has an impact on profits. It is known that profits accrue because of risk – bearing, innovation, uncertainty, etc. Economic progress of a country leads to improvements and innovation in production and manufacturing technologies. As a result, entrepreneurs gain in the form of reduction in cost and increase in productivity.
22. C When marginal utility is decreasing it means that the total utility is increasing, if the marginal utility still remains positive. Marginal utility starts diminishing as the consumer starts consuming more units of a product. When marginal utility reaches zero, total utility reaches its maximum and remains constant.
23. C Consumer surplus is the excess of the price that a consumer is willing to pay for the commodity over and above what he actually pays for it.
(a) Is not the answer because Parma is offered a job below the price what she expected. So, this doesn't reflect the consumer surplus.
(b) Is not the answer because Raju refused to buy the same shirt at Rs.180, but he pays for the same shirt a sale price of Rs.150. So, this doesn't reflect the consumer surplus.
(c) Is the answer because Tendulkar is ready to pay Rs.8 for a pepsi, but he gets it free. This is a case of consumer surplus.
(d) Is not the answer because the price of the burgers has reduced by 50 percent. This is not a case of consumer surplus.
(e) Is not the answer because Rajesh has a marginal cost of Rs.500 for a unit of output and sells that unit at Rs.600. This is not the excess of the price that a consumer is willing to pay for the commodity over and above, what he actually pays for it. So this is not a case for a consumer surplus.
24. C
(a) True. Two Indifference curves never touches each other
(b) True. Total utility is the sum of marginal utilities of all the goods consumed
(c) False. When price of a product increases demand for the product decreases. As complimentary goods are consumed together, demand for the compliment also decreases.
(d) True. Utility is subjective and varies from individual to individual and from time to time for the same individual, hence cannot be measured precisely.
(e) True. Consumer surplus is the difference between what the consumer is willing to pay and what he actually pays. Economic value is the market value of a good consumed.
25. E The factors make price discrimination possible under monopoly are
Consumer's preference.
The nature of the good.
Distance and frontier barrier.
26. C A variable is a stock if it is measured at a particular point of time. It is a flow variable if it is measured over a period of time.
a. Capital stock is measured at a particular point of time, hence is a stock variable.
b. A firm's assets are measured at a particular point of time, hence is a stock variable.
c. Investment is measured over a period of time hence is a flow variable.
d. Price index is measured at a particular point of time, hence is a stock variable.
e. Public debt is measured at a particular point of time, hence is a stock variable.

27. D Balance of payments statement is described as a nation's record of its goods, services and assets transactions with the rest of the world. This is recorded in the form of double entry bookkeeping.
28. C Business cycle is the fluctuation in the level of economic activity which forms a regular pattern.
29. E Aggregate expenditure in an economy consists of Consumption, Investment, Government purchases and Net exports. Hence the answer is (e).
30. A When a bank creates credit or advances loans, there tends to be a multiple expansion of credit in the banking system (a) Is the answer because credit creation by the commercial banks is limited by the cash reserve ratio i.e. every commercial bank has to keep on reserve with the central bank certain amount of funds equal to a specified percentage of its own deposit liabilities.
31. C Cost-push inflation refers to increase in price as a result of the causes originating from the supply side. The leftward shift of the supply curve occurs as a result of increase in the wage level unmatched by the increase in the labour productivity, increase in the profit margins by those who can exercise the market power and supply shocks.
- Decrease in wages leads to decrease in cost of production and hence prices will reduce if the producer passes on to the consumer
 - When the productivity of labour increases it leads to lowering the cost of production per unit and hence the prices will decrease
 - As the cost of raw material increases it leads to increase in cost of production which results in increases in prices. Hence this option is correct
 - Rightward shift in the supply curve occurs when there is a decrease in prices and hence not the correct option
 - Finding of new raw material would lead to lower cost of raw material as the supply of raw material has increased and hence lowers the prices.
32. D Taxation is not an instrument of monetary policy, rather it is a fiscal policy instrument. So the answer is (d).
33. E A well-developed financial system is vital for the smooth functioning of an economy. The financial development ratios such as Finance Ratio, Financial Interrelation Ratio, New Issues Ratio and Intermediation Ratio are indicators of financial development of a country.
- Is not the answer because Finance Ratio is an indicator of financial development of a country.
 - Is not the answer because Financial Interrelation Ratio is an indicator of financial development of a country.
 - Is not the answer because New Issues Ratio is an indicator of financial development of a country.
 - Is not the answer because Intermediation Ratio is an indicator of financial development of a country.
 - Is the answer because Cost Benefit Ratio is not an indicator of financial development of a country.
34. C Monetarist advocates that money supply determines the short-run movements in nominal GDP.
35. E GDP, Inflation and Interest rates are general economic indicators.
36. B Employee cost index measures the change in costs of labor for employees at all levels in the company.
37. E Per capita GDP is GDP divided by population.
38. A Peak is the turning point of a business cycle.
39. C Frictional unemployment is a product of short-term movement of workers between jobs and of first-time job seekers. A cricket star who has one month off before reporting to his new national cricket academy team is an example of frictional unemployment.
40. D Bank Ratio Policy, open market operations cash reserve ratio and statutory liquidity ratio are quantitative methods of credit control. Moral suasion is a qualitative credit control measure of RBI.
41. A Economic growth with stable prices is the ultimate goal of monetary policy.

42. D The multiplier measures the rate of change in output resulting from a change in investment spending.
43. E Non-market production, leisure and human cost and double counting are the limitations of national income accounting.
44. D Disposable income is personal income minus Personal taxes.
45. B The Keynesian remedy for unemployment is to reduce tax rates or lower interest rates.
46. A Economic growth is measured in terms of increase in the Gross domestic Product.
47. C Inflation is a sustained and persistent increase in the general price level.
48. C The difference between NNP and NDP is net income from abroad since NDP plus net income from abroad equals NNP.
49. C The households sell resources or factors of production to business firms. In return, the households are paid income. Thus, all income flows to the households.
50. A Automatic stabilizers refer to those government spending and tax revenues that change automatically as the economy fluctuate. This prevents aggregate demand from falling excessively during bad times and rising during good times. National defense spending is not an automatic stabilizer because it is less concerned with the ups and downs in the economy.
- (a) National defense spending changes depending upon the security situation and not on the business cycles. Thus, national defense spending does not signify an automatic stabilizer.
- (b) Social welfare payments are made during economic downturns that prevent aggregate demand from falling excessively during economic downturn. But, once the economy picks up the social welfare payments will decrease which prevent aggregate demand from rising excessively.
- (c) Unemployment compensation payments increase during the economic downturn because of higher rate of unemployment caused by reduced business activity. Unemployment compensation payments prevent aggregate demand from falling excessively during economic downturn. On the contrary, these payments will be low no sooner than the economy picks up. This prevents aggregate demand from rising excessively.
- (d) & (e) tax revenues automatically change depending upon the profits generated by the firms. It would be lower during downturn and higher during boom.
51. D At equilibrium $Q_d = Q_s$
or $19,000 - 300P = 17,000 + 100P$
or $P = 5$
The equilibrium quantity of the good = $19,000 - 300P = 19,000 - 300(5) = 19,000 - 1,500 = 17,500$ units.
52. E Elasticity of demand measures how responsive the demand is to a given change in the price. In the given situation decrease in supply causes an increase in the price. Hence elasticity of demand cannot be computed and the answer is (e).
53. C Here the price elasticity of the good implies a perfectly elastic situation. In the case of perfect price elasticity, if a firm increases the price of the good, the quantity demanded of the good may fall to zero. Hence (c) is the answer.
54. C When the consumer is in equilibrium,
- $$|MRS_{xy}| = \left| \frac{P_x}{P_y} \right|$$
- $$\therefore 3 = \frac{150}{P_y}$$
- $P_y = \text{Rs.}50$

55. B At equilibrium $\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$
- $$\frac{250}{25} = \frac{MU_y}{20}$$
- $$\therefore MU_y = \frac{250}{25} \times 20 = 200 \text{ utils}$$
56. A $AP = TP/L = 20L - L^2$
Maximum AP: $\partial AP/\partial L = 0$
 $20 - 2L = 0$
Or, $L = 10$
At $L = 10$, $AP = 20(10) - 10 \times 10 = 100$ units.
57. B $TP_L = 10L - L^2$
 $MP_L = 10 - 2L$
Marginal returns become negative, once MP_L equals zero. Thus,
 $10 - 2L = 0$
Or, $L = 5$ units.
58. D $AC = TC/Q = 48 - 0.40Q + 0.010Q^2$
AC is minimum when $\partial AC/\partial Q = 0$
 $= -0.40 + 0.020Q = 0$
 $0.020Q = 0.40$
 $Q = 20$
At $Q = 20$, $AC = 48 - 0.40(20) + 0.010(20)^2 = 48 - 8 + 4 = \text{Rs.}44$
59. D $AC = \frac{500}{Q} + 30 + 5Q$
 $TC = 500 + 30Q + 5Q^2$
 $TVC = 30Q + 5Q^2$
At output 12 units, $TVC = 30(12) + 5(12)^2 = 360 + 720 = \text{Rs.}1,080$
60. E $TC = 500 + 5Q$
 $VC = 5Q$; $FC = 500$
 $AVC = \frac{5Q}{Q} = 5$
 $BEP = \frac{FC}{(P - AVC)} = \frac{500}{(7 - 5)} = 250$
 \therefore BE Sales revenue = $250 \times 7 = \text{Rs.}1750$.

61. B Demand function of the firm is given as $Q = 75 - P$
 $P = 75 - Q$
 $TR = P \times Q$
 $= 75Q - Q^2$
 $MR = 75 - 2Q$
 $TC = 25Q$
 $MC = 25$
 Profit maximizing output is obtained when $MR = MC$
 $= 75 - 2Q = 25$
 $2Q = 50$
 $Q = 25$
 $P = 75 - Q$
 $= 75 - 25 = 50$
 $\text{Profit} = TR - TC$
 $TR = P \times Q$
 $= 50 \times 25 = 1250$
 $TC = 25Q$
 $= 25 \times 25 = 625$
 $\therefore \text{Profit} = 1250 - 625 = \text{Rs.}625.$
62. B The demand function of the firm is given as
 $P = 500 - 8Q$
 $TR = P \times Q = (500 - 8Q)Q = 500Q - 8Q^2$
 $\therefore MR = 500 - 16Q$
 A firm maximizes its profits when $MR = MC$
 So $500 - 16Q = 9Q$
 Or $25Q = 500$
 $Q = 20$
 $\therefore \text{Price} = 500 - 8(20) = 500 - 160 = \text{Rs.}340.$
63. A The total revenue = Price \times quantity.
 Then it becomes $48Q$. Profits = total revenue - total costs
 $\text{Profits} = 48Q - 200 - 8Q - 2Q^2$
 $= 40Q - 2Q^2 - 200$
 Profit at the output of 10 units
 $= 40(10) - 2(10)^2 - 200$
 $= 400 - 200 - 200 = 400 - 400 = 0.$
64. E Disposable income = personal income - personal taxes = $25,000 - 575 = \text{Rs.}24,425.$
65. D NDP at market price = GDP at market price - depreciation = $4,275 - 48 = 4,227 \text{ MUC.}$
66. E $\text{GDP}_{\text{FC}} = \text{NDP}_{\text{MP}} + \text{Depreciation} - \text{Indirect Taxes} + \text{Subsidies}$
 $\text{GDP}_{\text{FC}} = 20,000 + 800 - 1,000 + 600 = 20,400 \text{ MUC.}$
67. C National Income = NNP at factor cost
 $= \text{NDP at factor cost} + \text{net income from abroad}$
 $= (3,08,000 - 30,800 + 26,800) + (-2,800)$
 $= 3,04,000 + (-2,800)$
 $= \text{Rs.}301,200 \text{ Cr.}$
68. D Net exports = $\text{GNP} - (C + I + G)$
 $= 35950 - (22165 + 5978 + 2,456)$
 $= 5,351 \text{ MUC.}$

69. A Income (Y) = Consumption(C) + Savings(S)
Change in Income (ΔY) = Change in Consumption (ΔC) + Change in Savings(ΔS)
Dividing both sides by ΔY we get
 $\{\text{Change in Income } (\Delta Y)/\text{Change in Income } (\Delta Y)\} = \{\text{Change in Consumption } (\Delta C)/\text{Change in Income } (\Delta Y)\} + \{\text{Change in Savings } (\Delta S)/\text{Change in Income } (\Delta Y)\}$
 $\Rightarrow \text{MPC} + \text{MPS} = 1$
Where $\Delta C/\Delta Y = \text{MPC}$ and $\Delta S/\Delta Y = \text{MPS}$
Multiplier = $1/\text{MPS} = 1/(1 - \text{MPC}) = 1/(1 - 0.60) = 1/0.40 = 2.5$
70. D MPC = 0.50
Multiplier = $\frac{1}{1 - \text{MPC}} = \frac{1}{1 - 0.50} = 2$
Therefore increase in AD = $2 \times 20 = \text{Rs.40 billion}$.
71. D High powered money
= Monetary liabilities of central bank + Government money
Monetary liabilities of central bank
= Financial Assets + Other assets – Non-monetary liabilities
= 4,340 + 100 – 1,040 = 3400
High powered money = 3400 + 50 = 3,450 MUC.
72. E Money multiplier = $\frac{1 + 0.10}{0.10 + 0.05} = \frac{1.10}{0.15} = 7.33$
73. B Money supply = High Powered money \times Money multiplier
 $\therefore 11,824 = 2956 \cdot m$
or, $m = \frac{11824}{2956} = 4$
 $m = \frac{1 + C_u}{C_u + r}$
 $\therefore \frac{1 + C_u}{C_u + 0.10} = 4$
or, $1 + C_u = 4C_u + 0.40$
or, $-3C_u = -0.60$
or, $C_u = 0.20$.
74. B Marginal propensity to consume
= Change in consumption/Change in disposable income
= $\Delta C/\Delta Y_d = 75/100 = 0.75$
75. A Financial Interrelations Ratio = Total issues/Net Physical Capital Formation (NPCF)
= $34000/21000 = 1.62$
76. C Reserve requirement is 20 percent.
So 20% of Rs.600,000 crore = Rs.120,000 crore.
Excess reserve = Rs.180,000 crore – Rs.120,000 = Rs.60,000 crore.
77. B $\left[\left(\frac{1 + 0.08}{1 + 0.01} \right) - 1 \right] \times 100 = 6.93 \%$