

**UNIVERSITY OF CALICUT**  
**SCHOOL OF DISTANCE EDUCATION**

**MA ECONOMICS**

**I SEMESTER**

**2019 Admission onwards**

**CORE COURSE**

**QUANTITATIVE METHODS FOR ECONOMIC ANALYSIS I**

**Multiple Choice Questions**

1. Suppose that price of 2 ball and 1 bat is 100 units, then What will be representation of problems in Linear Algebra in the form of x and y?  
A.  $2x + y = 100$     B.  $2x + 2y = 100$     C.  $2x + y = 200$     D.  $x + y = 100$
2. Which of the following is not a type of matrix?  
A. Square Matrix    B. Scalar Matrix    C. Trace Matrix    D. Term Matrix
3. Multiplication of a matrix with a scalar constant is called?  
A. Complex multiplication    B. Linear multiplication  
C. Scalar multiplication    D. Constant multiplication
4. What is true regarding Determinant of a Matrix?  
A. The concept of determinant is applicable to square matrices only.  
B. To find determinant, subtract diagonal elements together.  
C. determinant is a vector value that can be computed from the elements of a Trace matrix  
D. Both A and C
5. The concept of Eigen values and vectors is applicable to?  
A. Scalar matrix    B. Identity matrix  
C. Upper triangular matrix    D. Square matrix

6. Singular matrix are?  
A. non-invertible  
B. invertible  
C. Both non-invertible and invertible  
D. None Of the above
7. Determinant value of a singular Matrix  
A. 0  
B. not equal to 0  
C. any value  
D. None of the above
8. The matrix which is the sum of all the diagonal elements of a square matrix?  
A. Diagonal matrix  
B. Trace matrix  
C. Identity matrix  
D. Both A and B
9. Which of the following is false?  
A. we have a constant scalar 'c' and a matrix 'A'. Then multiplying 'c' with 'A' gives:  $c[C_{ij}] = [c * A_{ij}]$   
B. The multiplication of two matrices of orders  $i * j$  and  $j * k$  results into a matrix of order  $i * k$ .  
C. Two matrices will be compatible for multiplication only if the number of columns of the first matrix and the number of rows of the second one are same.  
D. Transposition simply means interchanging the row and column index.
10. \_\_\_\_\_ is equal to the maximum number of linearly independent row vectors in a matrix.  
A. Row matrix  
B. Rank of a matrix  
C. Term matrix  
D. Linear matrix
11. Vectors whose direction remains unchanged even after applying linear transformation with the matrix are called?  
A. Eigen values  
B. Eigenvectors  
C. Cofactor matrix  
D. Minor of a matrix
12. Singular Value Decomposition is some sort of generalization of \_\_\_\_\_ decomposition.  
A. Singular  
B. Eigen vector  
C. Eigen value  
D. None of the above
13. The cofactor is always preceded by a?  
A. positive (+) sign  
B. negative (-) sign  
C. positive (+) or negative (-) sign  
D. With decimal
14. What is symmetric Matrix?  
A.  $A \neq A^T$   
B.  $A = A^T$   
C. both A and B  
D. none of the above

15. What is the transpose of cofactor matrix?  
 A. inverse matrix  
 B. singular matrix  
 C. non singular matrix  
 D. Ad joint of a matrix
16. Inverse of matrix equals  
 A.  $\frac{\text{Ad joint matrix}}{|A|}$   
 B.  $\text{Ad joint matrix} * |A|$   
 C.  $\frac{|A|}{\text{ad joint matrix}}$   
 D. none of the above
17. Rank of a matrix  
 A. highest non negative minor  
 B. highest negative minor  
 C. both A and B  
 D. highest non zero minor
18.  $f(x) = 3x^3 - 4x^2 + 10$  implies  
 A.  $f(1) = 10$   
 B.  $f'(x) = 9x^2 - 8x + 10$   
 C.  $f''(x) = 18x - 8$   
 D.  $f'(2) = 20$
19. Which of the following are true?  
 A.  $f(x) = ax^n$  implies  $f'(x) = anx^{n-1}$   
 B.  $f(x) = ax^n$  implies  $f'(x) = anx^{n+1}$   
 C.  $f(x) = ax^n$  implies  $f'(x) = anx^n$   
 D. None of the above
20.  $f(x) = \log x$ ,  $F'(x) =$   
 A.  $2x$   
 B.  $1/2x$   
 C.  $1/x$   
 D.  $X$
21. Slope of total cost curve equal to  
 A. MR  
 B. MC  
 C. AR  
 D. AC
22. ----- are the conditions for maximum of a function  
 A.  $f'$  is equal to zero and  $f''$  is negative  
 B. first derivative of a function is zero and second derivative is positive  
 C. both A and B are true  
 D. A only
23. What is the value of slope in the inflection point?  
 A. 1  
 B. 2  
 C. -1  
 D. 0
24. What is the value of elasticity of demand when MR is equal to zero?  
 A. 1  
 B. 0  
 C. -1  
 D. 4



35.  $y = \frac{1}{x}$      $\frac{d^2y}{dx^2} = ?$

A.  $\frac{-1}{x^2}$

B.  $\frac{1}{x^2}$

C.  $\frac{-2}{x^3}$

D.  $\frac{2}{x^3}$

36. What is the value of  $\int_1^5 x + 5 dx$ ?

A. 8

B. 7

C. 12.5

D. 15

37. Evaluate the integral of  $dx / (x + 2)$

A.  $21/2$

B.  $1/2$

C.  $\ln 3$

D.  $\ln 2$

38.  $y = x^2 + 2x + 2$ , what is the value x?

A. 1

B. 2

C. -1

D. 1

39. The total of first 100 number is-----

A. 5050

B. 10100

C. 7500

D. 5000

40. What is the sum of all 3 digit numbers that leave a remainder of '2' when divided by 3?

A. 897

B. 1,64,850

C. 1,64,749

D. 1,49,700

41. The sum of third and ninth term of an A.P is 8. Find the sum of the first 11 terms of the progression.

A. 44

B. 22

C. 19

D. None of the above

42. Given  $A = 2^{65}$  and  $B = (2^{64} + 2^{63} + 2^{62} + \dots + 2^0)$ , which of the following is true?

A. B is  $2^{64}$  larger than A

B. A and B are equal

C. B is larger than A by 1

D. A is larger than B by 1

43. If a rubber ball consistently bounces back  $\frac{4}{9}$  of the height from which it is dropped, what fraction of its original height will the ball bounce after being dropped and bounced four times without being stopped?

A.  $\frac{16}{81}$

B.  $\frac{16}{27}$

C.  $\frac{4}{9}$

D.  $\frac{37}{81}$

44. Which theory describes money received in the current time it has more worth than money received in future

A) Cash value of money

B) Time value of money

C) Storage value of money

D) Lead value of money

45. A project assumed monetary gain or loss by discounting entire cash inflows and outflows by utilising the necessary rate of return is listed as
- A) Net recorded cash value
  - B) Net discounted value
  - C) Net future value
  - D) Net present value
46. 3. As per the net present value, any projects to be acceptable should have a
- A) Positive net present value
  - B) Zero net present value
  - C) Negative net present value
  - D) Both A and B
47. The cash flows method, utilized by the internal rate of return and net present value method are
- A) Future cash flows
  - B) Lean cash flows
  - C) Discounted cash flows
  - D) Vertical cash flows
48. Which method in a capital budgeting is based on the discounted cash flow?
- A) Net equity budgeting method
  - B) Net capital budgeting method
  - C) Net future value method
  - D) Net present value method
49. Cash flows are a project's revenue and are indicated by
- A) Positive numbers
  - B) Negative numbers
  - C) Relative number
  - D) Hurdle number
50. In which payback period a due cash flows are discounted with the cost of capital of the project is categorised as
- A) Discounted project cost
  - B) Discounted cash flows
  - C) Discounted rate of return
  - D) Discounted payback period
51. Which of the option is not a part of the three primary procedure of firm valuation?
- A) Market Share
  - B) Balance sheet
  - C) Income or earnings
  - D) Discounted Cashflow
52. Internal rate of return is
- A) The rate at which discounted cash inflow is equal to the discounted cash outflow
  - B) The rate at which discounted cash inflow is less than discounted cash outflow
  - C) The rate at which discounted cash inflow is more than discounted cash outflow
  - D) None of the above
53. Which cash flow is accessible for a firm's investors?
- A) Free cash flow
  - B) Investing cash
  - C) Intrinsic stock
  - D) Extrinsic stock

**ANSWERS**

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

**UNIVERSITY OF CALICUT**  
**School of Distance Education**

**INDIAN ECONOMY PROBLEMS AND POLICIES**  
**MA Economics I Semester (2019 Admn.)**

**Multiple Choice Question Bank**

1. National Development Council was set up in:  
a. 1948                      b. 1950                      c. 1951                      d. 1952
2. Economic Planning is a subject:  
a. in the Union List                      b. in the State List  
c. in the Concurrent List                      d. unspecified in any special list
3. For internal financing of Five Year Plans, the government depends on:  
a. taxation only  
b. taxation and public borrowing  
c. public borrowing and deficit financing  
d. taxation, public borrowing and deficit financing
4. The Planning Commission is :  
a. a Ministry                      b. a Government department  
c. an Advisory body                      d. an Autonomous Corporation
5. Take off stage' in an economy means:  
a. steady growth begins                      b. economy is stagnant  
c. economy is about to collapse                      d. all controls are removed
6. Above 50% of working population of India is engaged in:  
a. public sector                      b. primary sector  
c. secondary sector                      d. tertiary sector
7. Economic survey is published by :  
a. Ministry of Finance                      b. Planning Commission  
c. Govt. of India                      d. Indian Statistical Institute
8. India has:  
a. Socialistic economy                      b. Gandhian economy  
c. Mixed economy                      d. Free economy
9. The first attempt to initiate economic planning in India was made by:  
a. Balwantraai Mehta                      b. Vallabhbhai Patel  
c. M. Visvesvaraya                      d. Jawaharlal Nehru



20. Who among the following was the first Chairman of the Planning Commission? [CDS 2008]
- a. Dr. Rajendra Prasad
  - b. Pt. Jawahar Lal Nehru
  - c. Sardar Vallabhbhai Patel
  - d. J.B. Kripalani
21. Which Committee's recommendations are being followed for estimating Poverty Line in India?
- a. Dutt Committee
  - b. Chelliah Committee
  - c. Chakravorty Committee
  - d. Lakdawala Committee
22. Absolute Poverty means:
- a. poverty in terms of absolute number of people
  - b. poverty in terms of the basic minimum calorie requirements
  - c. poverty in terms of the prevailing price level
  - d. poverty in terms of the absolute level of unemployment
23. Among the following who are eligible to benefit from the "Mahatma Gandhi National Rural Employment Guarantee Act" ?
- a. Adult members of only the scheduled Caste and scheduled tribe households
  - b. Adult members of below poverty line (BPL) households
  - c. Adult members of households of all backward communities
  - d. Adult members of any household
24. The Food For Work programme was renamed as:
- a. Rural Landless Employment Guarantee Programme (RLEGP)
  - b. National Rural Employment Programme (NREP)
  - c. Jawahar Rozgar Yojana (JRY)
  - d. Integrated Rural Development Programme (IRDP)
25. What is the main objective of Antyodaya programme?
- a. Uplift the poor
  - b. Uplift the urban poor
  - c. Uplift the farmer
  - d. Uplift the landless labour
26. What is the minimum calorie intake decided by the Planning Commission for rural and urban areas, respectively ?
- a. 2400 and 2100
  - b. 2100 and 2400
  - c. 2400 and 2200
  - d. 2100 and 2200
27. Black money is :
- a. counterfeit currency
  - b. illegally earned money
  - c. money earned through underhand deals
  - d. income on which payment of tax is usually evaded

28. Broad money in India is :
- (a)  $M_1$                       b.  $M_2$                       c.  $M_3$                       d.  $M_4$
29. The Issue Department of the RBI maintains a \_\_\_\_\_ against printing of notes:
- a. Minimum Reserve System  
b. Proportional Reserve System  
c. Proportional Gold Reserve System  
d. Proportional Foreign Securities Reserve System
30. Inflation implies:
- a. rise in budget deficit                      b. rise in money supply  
c. rise in general price index                      d. rise in prices of consumer goods
31. Who is the originator of Green Revolution in India?
- a. Norman E. Borlaug                      b. M.S. Swaminathan  
c. Garry Backer                      d. None of these
32. Which of the following is the apex bank of India?
- (a) SBI                      b. SBT                      c. RBI                      d. ICICI
33. Which one of the following institution formulates monetary policy?
- (a) RBI                      b. Finance Ministry  
c. SEBI                      d. Planning Commission
34. National income estimation in India is the responsibility of
- (a) NSSO                      b. CSO  
c. Finance Ministry                      d. National Income Committee
35. As per the CSO classification, which of the following does not fall under industrial sector?
- a. Electricity                      b. Gas and Water supply  
c. Transport and Communication                      d. Manufacturing
36. Which one of the following brings out the publication called 'Energy Statistics' from time to time?"
- (a) Central Power Research Institute                      b. Planning Commission  
c. PFCL                      d. Central Statistical Organization
37. Which of the following introduced Green Index?
- (a) World Bank's Environmentally and Socially Sustainable Development Division  
(b) United Nations Environment Programme  
(c) United Nations Development Programme  
(d) Kyoto Protocol

38. The headquarters of UNFCCC is located at:  
(a) Geneva                      b. Berlin                      c. Tokyo                      d. Bonn
39. Which of the following brings out wholesale Price Index (WPI)  
(a) The Reserve Bank of India                      b. The Department of Economic Affairs  
c. The Labour Bureau                      d. Ministry of Industry
40. Economic depression is usually coupled with:  
(a) Deflation    b. Inflation  
c. Stagflation    d. Hyperinflation
41. The phenomena of increasing prices but declining output and employment indicates:  
(a) Disinflation                      b. Stagflation                      c. Reflation                      d. Open inflation
42. Which of the following is not a measure to control inflation adopted by the RBI and the Government?  
(a) Monetary policy    b. Financial Inclusion  
c. Variation in Margin Requirements                      d. Changes in taxation
43. Which of the authority is entrusted to retain the foreign exchange reserve of the country?  
(a) SEBI    b. Central Government  
c. RBI    d. EXIM Bank
44. Dr. Nachiket Mor Committee is related to:  
(a) Small scale industries development  
(b) Financial inclusion and financial deepening  
(c) Banking licenses  
(d) Reforms in SEBI
45. Urjit Patel committee appointed by RBI to examine:  
(a) Banking licenses  
(b) Financial inclusion and deepening  
(c) Revise and strengthen the current monetary policy framework  
(d) Foreign banks administration
46. The lowering of bank rate by the RBI leads to:  
(a) Mobilization of more deposits by commercial banks  
(b) More liquidity in the market  
(c) Less liquidity in the market  
(d) Rise in the market rate of interest

47. This is the rate at which RBI borrows money from commercial banks:
- (a) Open Market Operations                      b. SLR  
c. Repo rate    d. Reverse repo rate
48. Cheap and dear money policy relates to changes in:
- (a) Repo rate    b. Bank rate  
(b) Both repo and reverse repo rate      d. Both repo and bank rate
49. The basic objective of MUDRA bank is to:
- (a) Give priority to SC/ST enterprises              b. Funding the unfunded areas  
c. Ensuring financial inclusion                      d. All of the above
50. 'Pradhan Mantri Jan-Dhan Yojana' has been launched for:
- (a) Providing housing loan to poor people at cheaper interest rates  
(b) Promoting women sel-help groups in backward areas  
(c) Promoting financial inclusion in the country  
(d) Providing financial help to the marginalized communities
51. The main objective of the 12<sup>th</sup> Five-Year Plan is:
- (a) Inclusive growth and poverty reduction  
(b) Inclusive and sustainable growth  
(c) Sustainable and inclusive growth to reduce unemployment  
(d) Faster, sustainable and more inclusive growth
52. In India deficit financing is used for raising resources for:
- (a) Economic development                              b. Redemption of public debt  
c. Adjustment the balance of payments              d. Reducing the foreign debt
53. Which of the following contributes largest share in the tax revenue of India?
- (a) Service tax    b. Wealth tax  
c. Income tax    d. Securities transaction tax
54. Which one of the following state introduced 'fat tax' for the first time in India?
- (a) Gujarat    b. Kerala  
c. Karnataka    d. Haryana
55. Demonetisation has the potential to generate long term benefits in terms of:
- (a) Reduced corruption                                      b. Greater digitalization of the economy  
c. Increased flows of financial savings              d. All of the above

56. Disguised unemployment generally means:
- (a) Large number of people remains unemployed
  - (b) Alternative employment not available
  - (c) Marginal productivity of labour is zero
  - (d) Productivity of workers is zero
57. What is the level of sex ratio in India as per the Census Report of 2011?
- (a) 930      b. 935      c. 940      d. 945
58. Select the scheme which was launched to promote basic education in India and attract children in school going age to attend the classes:
- (a) Pulse Polio Abhiyan
  - b. Operation Black Board
  - c. Mid-Day Meal Scheme
  - d. Shiksha Sahyog Yojana
59. The AMRUT (Atal Mission for Rejuvenation and Urban Transformation) programme focuses on:
- (a) Providing water supply
  - b. Providing nutritional support
  - c. Providing electricity connection
  - d. Providing free LPG connection
60. In an economy, head count ratio is the measure of :
- (a) Unemployment
  - b. Poverty
  - c. Literacy
  - d. Malnutrition
61. The government of India refers to the absolute poverty line in terms of:
- (a) Household savings
  - b. Household consumption
  - c. Household investment
  - d. Household income
62. Which one of the following items has maximum weight in wholesale price index in India?
- a. Primary article
  - b. Fuel and power
  - c. Manufactured products
  - d. Food item
63. Which one among the following sectors in India has the highest share of employment?
- a. Agriculture and allied sectors
  - b. Manufacturing
  - c. Construction
  - d. Tertiary sector
64. When was the first agriculture census of India conducted?
- a. 1880      b. 1890      c. 1921      d. 1970
65. Evergreen revolution indicates:
- (a) Wheat revolution
  - b. Organic farming
  - c. Large scale milk production
  - d. Promotion of horticulture



75. Pradhan Mantri Mudra Yojana is aimed at:
- (a) Bringing the small entrepreneurs into formal financial system
  - (b) Providing loans to poor farmers for cultivating particular crops
  - (c) Providing pension to old and destitute persons
  - (d) Funding the voluntary organization involved in the promotion of skill development and employment generation
76. When was Make in India programme launched?
- (a) September 25, 2014
  - (b) October 2, 2015
  - (c) October 11, 2016
  - (d) July 15, 2015
77. When was NITI Aayog established?
- (a) 1 January 2015
  - (b) 25 January 2016
  - (c) 14 May 2014
  - (d) 1 July 2015
78. Which of the following statement is correct about the NITI Aayog?
- (a) NITI Aayog was Formed 25 January 2016
  - (b) NITI Aayog comes under the Ministry of Commerce and Industry
  - (c) The full form of NITI Aayog is National institute for Transforming India
  - (d) The NITI Aayog is a policy think tank of the Government of India
79. Make in India programme was launched to improve the .....sector of the Indian economy.
- (a) Agriculture sector
  - (b) Manufacturing sector
  - (c) Service sector
  - (d) None of the above
80. "Zero Defect Zero Effect" slogan is related to which of the following scheme?
- (a) Digital India
  - (b) Make in India
  - (c) Startup India
  - (d) Clean India mission
81. Which among the following are considered as the highlights of Kerala Model Development?
- 1) Health Security
  - 2) Education & Literary
  - 3) Equality of Gender
  - 4) Highest Sex Ratio
- a. 1,2,3 only
  - b. 1,2,4 only
  - c. 2,3,4 only
  - d. All
82. Which of the following sector is dominant in Kerala economy?
- a. Agrarian
  - b. Industrial
  - c. Service
  - d. None
83. GST is ----- based tax on consumption of goods and services:
- (a) Duration
  - (b) Destination
  - (c) Dividend
  - (d) Development
84. India chosen ----- model of dual GST:
- (a) USA
  - (b) UK
  - (c) Canadian
  - (d) China

85. GST stands for:
- (a) Goods and supply tax                      b. Government sales tax  
c. Goods and service tax                      d. General sales tax
86. Ashok Mehta Committee in 1977 recommended for the establishment of:
- (a) Nagar Panchayat                              b. Panchayat Samiti  
c. Maha Panchayat                                d. Mandal Panchayat
87. Which one of the following was the first committee to demand constitutional recognition for Panchayats?
- (a) Balwantrai Mehta Committee              b. Ashok Mehta Committee  
c. Santhanam Committee                      d. G.V.K.Rao Committee
88. Land reform is covered under.....
- (a) Central list                                      b. State list  
(c) Concurrent list                                d. None of the above
89. When the Land Reform Act was passed?
- (a) 1950                      b. 1953                      c. 1952                      d. 1957
90. How much economic relief package is announced by Prime Minister Narendra Modi through Aatma Nirbhar Bharat Abhiyaan?
- (a) Rs 10 lakh crores                              b. Rs 15 lakh crores  
(c) Rs 20 lakh crores                              d. Rs 25 lakh crores
91. What are the Pillars of Self-Reliant India Movement?
- (a) Infra-structure                                b. Economy  
(c) Demography                                    d. All the above
92. Which of the following statements is correct?
- (a)  $GDP \text{ at factor cost} = \text{Net Value Addition} + \text{Depreciation}$   
(b)  $GDP \text{ at factor cost} = \text{Net Value Addition} - \text{Depreciation}$   
(c)  $GDP \text{ at factor cost} = \text{Net price increase} + \text{indirect tax}$   
(d)  $GDP \text{ at factor cost} = \text{Net price increase} + \text{direct tax}$
93. Which sector contributes the most income to India's economy?
- (a) Primary sector                                b. Secondary sector  
(c) Tertiary sector                                d. None of these
94. Till what time Indian Economy want to become a US\$5 trillion dollar economy?
- (a) 2022-23                      b. 2024-25                      c. 2027-28                      d. 2029-30
95. What is the base year for calculating India's GDP?
- (a) 2004-05                      b. 2010-11                      c. 2011-12                      d. 2014-15

96. What is the biggest source of Income for the Central Government in the Union Budget 2020-21?
- (a) Goods and Services Tax                      b. Corporation Tax  
(c) Income Tax                                      d. Borrowings and other liabilities
97. What was the theme of the Union Budget 2020-21?
- (a) Har Nagrik Jeetega  
(b) Ease of Living  
(c) Ude Desh ka Aam Nagrik  
(d) Sabka Sath, Sabka Vikas aur Sabka Vishwas
98. As per the Union Budget, 2020-21, what is the highest rate of Direct Tax in India?
- (a) 20%              b. 35%              c. 30%              d. 40%
99. On which commission's recommendations; Reserve Bank of India was established?
- (a) Chamberlain Commission                      b. Hilton Young Commission  
(c) Keynes Commission                              d. None of the above
100. When was R.B.I. nationalised?
- (a) 1935              b. (b) 1949              c. (c) 1929              d. (d) 1914

ANSWER KEY

1	d	21	d	41	b	61	b	81	b
2	a	22	b	42	b	62	c	82	c
3	a	23	d	43	c	63	a	83	b
4	c	24	b	44	b	64	d	84	c
5	a	25	a	45	c	65	b	85	c
6	b	26	a	46	b	66	d	86	d
7	a	27	d	47	d	67	b	87	a
8	c	28	c	48	b	68	b	88	b
9	c	29	a	49	d	69	c	89	a
10	c	30	c	50	c	70	b	90	c
11	b	31	a	51	d	71	b	91	d
12	a	32	a	52	a	72	c	92	a
13	a	33	a	53	c	73	a	93	c
14	c	34	b	54	b	74	b	94	b
15	b	35	c	55	d	75	a	95	c
16	c	36	d	56	c	76	a	96	c
17	d	37	a	57	c	77	a	97	b
18	d	38	d	58	c	78	a	98	c
19	b	39	d	59	a	79	b	99	b
20	b	40	a	60	b	80	b	100	b

**UNIVERSITY OF CALICUT**  
**School of Distance Education**

**ECO1C02 - MACROECONOMICS: THEORIES AND POLICIES I**

**MA Economics I Semester (2019 Admn.)**

**Multiple Choice Question Bank**

- 1) The most important determinant of consumption and saving is the:
  - A) price level.
  - B) level of income.
  - C) interest rate.
  - D) level of bank credit.
- 2) As disposable income goes up, the:
  - A) average propensity to consume falls.
  - B) volume of investment diminishes.
  - C) average propensity to save falls.
  - D) volume of consumption declines absolutely
- 3) Assume the economy's consumption and saving schedules simultaneously shift downward. This must be the result of:
  - A) the expectation of a recession.
  - B) an increase in disposable income.
  - C) an increase in personal taxes.
  - D) an increase in household wealth.
- 4) The investment demand curve suggests:
  - A) that changes in the real interest rate will not affect the amount invested.
  - B) there is a direct relationship between the real rate of interest and the level of investment spending.
  - C) that an increase in business taxes will tend to stimulate investment spending.
  - D) there is an inverse relationship between the real rate of interest and the level of investment spending.
- 5) Other things equal, if the real interest rate falls and business taxes rise:
  - A) we can be certain that investment will rise.
  - B) investment will rise until it is equal to saving.
  - C) we can be certain that investment will fall.
  - D) we will be uncertain as to the resulting change in investment.

- 6) Which of the following statement is inconsistent with Say's Law
- (a) The economy has flexible wages and prices.
  - (b) The economy's level of investment solely depends on the level of income.
  - (c) The economy will produce at full employment level of output.
  - (d) The economy has an environment of "laissez faire"
7. An increase in investment is caused by
- (a) Lower interest rates
  - (b) Expectations of lower national income
  - © A decrease in the marginal propensity to consume
  - (d) An increase in withdrawals
8. Which type of bank deals with short term credit?
- (a) Agricultural bank
  - (b) Industrial bank
  - (c) Commercial bank
  - (d) None of these
9. Demand pull inflation may be caused by
- (a) An increase in cost
  - (b) A decrease in interest rate
  - (c) A reduction in government spending
  - d) An outward shift of aggregate supply
10. An increase in aggregate demand is more likely to lead to demand pull inflation
- (a) If aggregate supply is completely elastic
  - (b) If aggregate supply is completely inelastic
  - (c) If aggregate supply is unitary elastic
  - (d) If aggregate supply is moderately elastic
11. Which of the following phases describes the phase of business cycle that occurs after a trough and before a peak
- (a) Lag
  - (b) Consolidation
  - (c) Expansion
  - (d) Contraction
12. Which of the following is an example of fiscal policy
- (a) Change in interest rate
  - (b) Change in tax rate
  - (c) Controlling money supply
  - (d) Manipulating bank rate
13. The Cambridge version of the quantity theory of money was developed by:
- a) Fisher
  - b) Alfred Marshall
  - (C) Pigou
  - (D) Keynes
14. The \_\_\_\_\_ method consists in deriving conclusions from general truths, takes few general principles and applies them draw conclusions.
- a) Inductive
  - b) Deductive
  - c) Empirical
  - d) Scientific



- B) the same thing as disinvesting.
  - C) that saving and investment are equal.
  - D) that disposable income is less than zero.
25. Which one of the following will cause a movement up along an economy's saving schedule?
- A) An increase in interest rates.
  - B) An increase in household borrowing.
  - C) An increase in disposable income.
  - D) An increase in stock prices.
26. Changes in the interest rate affect planned investment spending and hence the equilibrium level of output,
- (a) but this change in investment spending merely causes a movement along the IS curve and not a shift.
  - (b) but this change in investment spending is crowded out by higher taxes.
  - (c) but this change in investment spending is crowded out by higher government spending.
  - (d) but this change in investment spending is crowded out by lower consumer expenditures.
27. A tax increase shifts the IS curve to the
- (a) left, causing output and interest rates to fall.
  - (b) left, causing output and interest rates to increase.
  - (c) right, causing output and interest rates to fall.
  - (d) right, causing output and interest rates to rise.
  - (e) left, causing output to fall and interest rates to increase.
28. Factors that cause the IS curve to shift include
- (a) changes in autonomous consumer spending.
  - (b) changes in government spending.
  - (c) changes in investment spending related to a change in the interest rate.
  - (d) only (a) and (b) of the above.
29. In the long-run ISLM model, the long-run effect of a cut in government spending is to
- (a) increase real output and the interest rate.
  - (b) increase real output and not affect the interest rate.
  - (c) not affect real output and increase the interest rate.
  - (d) not affect real output and reduce the interest rate.
  - (e) not affect either real output or the interest rate.

- 30) In the long-run ISLM model, the long-run effect of a tax cut is to
- (a) increase real output and the interest rate.
  - (b) increase real output and not affect the interest rate.
  - (c) not affect real output and increase the interest rate.
  - (d) not affect real output and reduce the interest rate.
  - (e) not affect either real output or the interest rate.
- 31) In the long-run ISLM model, the long-run effect of an autonomous increase in investment is to
- (a) increase real output and the interest rate.
  - (b) increase real output and not affect the interest rate.
  - (c) not affect real output and increase the interest rate.
  - (d) not affect real output and reduce the interest rate.
  - (e) not affect either real output or the interest rate.
- 32) In the long-run ISLM model, the long-run effect of a fall in net exports is to
- (a) increase real output and the interest rate.
  - (b) increase real output and not affect the interest rate.
  - (c) not affect real output and increase the interest rate.
  - (d) not affect real output and reduce the interest rate.
  - (e) not affect either real output or the interest rate.
33. Who invented the General Equilibrium analysis?
- (A) L. Walras.
  - (B) W. Leontief
  - (C) J.M.Keynes.
  - (D) None of these.
34. Employment equilibrium in the Classical theory is achieved through:
- (A) Wage-Price flexibility.
  - (B) Changes in aggregate demand
  - (C) Changes in aggregate supply
  - (D) None of these.
35. Market does not clear is a proposition of:
- (A) Neoclassical theory.
  - (B) Keynesian Economics
  - (C) Monetarism
  - (D) Rational expectations
36. The interest rate paid on bonds is known as:
- (A) Call rate
  - (B) Coupon rate
  - (C) Repo rate
  - (D) Bank rate
37. The book "General Theory of Employment, Interest and Money" was published in-----
- a. 1836
  - b. 1936
  - c. 1963
  - d. None of these

38. Macroeconomics became popular after-----
- a. Great depression of 1929- 33                      b. 1972-73  
c. 1996- 97    d. 2006- 07
39. Real and nominal income is calculated respectively at-----
- a. Current price and Constant Price                      b. Constant price and Current price  
c. Current price and Current price                      d. Constant price and Constant price.
40. GDP Deflator is equal to-----
- a.  $Nominal\ GDP / Real\ GDP \times 100$                       b.  $Real\ GDP / Nominal\ GDP \times 100$   
c.  $Nominal\ GNP / Real\ GNP \times 100$                       d.  $Nominal\ NDP / Real\ NDP \times 100$
41. Sum of all kinds of income received by the individuals from all sources is called-----
- a. Personal Income                      b. Private Income                      c. Personal Disposable Income                      d. None .
42. GNPMP is equal to
- a. GDPMP + NFIA                      b. GDPMP - NFIA                      c. GDPMP – D                      d. None
43. A temporary unemployment which exists during the period of the transfer of labor from one occupation to another is called
- a. Voluntary Unemployment                      b. Involuntary Unemployment  
c. Cyclical Unemployment                      d. Frictional Unemployment
44. When more workers are engaged in a work than actually required to work, it is called
- a. Voluntary Unemployment                      b. Involuntary Unemployment  
c. Disguised Unemployment                      d. Frictional Unemployment
45. The position of IS curve depends on---
- a. rate of interest,                      b. rate of investment,  
c. autonomous expenditure                      d. none of the above
46. The curve which relates the level of income with the rate of interest which is determined by money- market equilibrium corresponding to different levels of demand for money is known as
- a. IS curve                      b. LM curve                      c. Income curve                      d. None of the above.
47. LM curve slopes—
- a. downward to the right                      b. upward to the right  
c. vertical                      d. horizontal.
48. Net investment is equal to
- A. Gross investment plus replacement or depreciation;  
B. Gross investment less replacement or depreciation;

- C. Gross investment multiply by replacement or depreciation;
- D. None of the above.

49. Which is/are the determinant/s of private investment

- A. Prospective income from the capital asset;
- B. Supply price of the capital asset;
- C. The rate of interest;
- D. All of the above

50. Those inflows of money to the government against which a liability of repayment devolves upon the government, is known as

- A. Revenue receipts;
- B. Capital receipts;
- C. Revenue expenditure;
- D. Capital expenditure

**ANSWER KEY**

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

# UNIVERSITY OF CALICUT

## School of Distance Education

### MACROECONOMICS: THEORIES AND POLICIES II

#### MA Economics II Semester (2019 Admn.)

#### Multiple Choice Question Bank

1. The IS-LM Model was developed by
  - a. J M Keynes
  - b. Patinkin
  - c. Hicks and Hansen
  - d. Schumpeter
2. The book 'A Treatise on Money' is authored by
  - a. J M Keynes
  - b. Irving Fischer
  - c. Milton Friedman
  - d. None of these
3. According to Keynes, there is
  - a. No direct relationship between the quantity of money and price level
  - b. direct relationship between money and price level
  - c. no direct relationship between demand for money and supply of money
  - d. direct relationship between demand for money and supply of money
4. Assertion (A): According to Milton Friedman, slope of the long-run Philips curve is vertical.  
Reason (R): The expectations about future inflation are the basic cause of the nonexistence of the trade-off between inflation and unemployment in the long-run.
  - a. Both (A) and (R) are true, but (R) is not the correct reason of (A)
  - b. Both (A) and (R) are true, and (R) is the correct reason of (A)
  - c. Both (A) and (R) are false
  - d. (A) is true, but (R) is false
5. The concepts of inside money and outside money is given by
  - a. Milton Friedman
  - b. J M Keynes
  - c. Gurley and Shaw
  - d. None of these
6. Assertion (A): Long-run Philips curve is a vertical line at the NAIRU  
Reason (R): Non-accelerating inflation raise of unemployment, more or less, stands accepted
  - a. Both (A) and (R) are false.
  - b. Both (A) and (R) are true, but (R) is not the correct reason.
  - c. Both (A) and (R) are true, and (R) is the explanation.
  - d. (A) is true, (R) is false.
7. The quantity theory of money first propounded in 1588 by an Italian Economist
  - a. David Hume
  - b. Davanzatti
  - c. J S Mill
  - d. Ricardo

8. What is the shape of Long Run Phillips curve is
- a. Inverted U shape                      b. Horizontal                      c. Inverse L shape                      d. Vertical
9. Which among the followings is not the feature of monetarism?
- a. Fiscal policy causes no long-term increase in real output  
b. Only a trade-off in the short-term  
c. Tend to emphasis supply-side unemployment (natural rate)  
d. Demand- deficient unemployment big causes
10. According to Keynes Investment is a function of
- a. Dumping                      b. Income                      c. Saving                      d. interest
11. “Interest is poorly a monetary phenomenon “is a very famous statement made by
- a. J M Keynes                      b. Hamilton                      c. Friedman                      d. J B Say
12. Which one the following economists is the chief advocate of supply side economics
- a. Arther laffer                      b. Robert Lucas                      c. Neil Wallace                      d. Both A and C
13. Advocates of New classical Economics are
- a. Robert Lucas                      b. Neil Wallace                      c. Thomas Surgent                      d. all of the above
14. The Laffer curve is associated with
- a. New classical Economics                      b. Supply Side economics  
c. Keynesian Economics                      d. New Keynesian Economics
15. The doctrine of Policy ineffectiveness postulate is associated with
- a. New classical Economics                      b. Supply side economics  
c. New Keynesian Economics                      d. Monetarism
16. The concept of Rational expectation is associated with
- a. Natural rate of unemployment hypothesis                      b. New classical hypothesis  
c. both A and B                      d. None of these
17. The idea of Adaptive expectation is associated with
- a. Natural Unemployment rate hypothesis                      b. New Classical Economics  
c. Both A and B                      d. none of these
18. The idea of rational expectation first given by
- a. John Muth                      b. Robert Lucas                      c. Neil Wallace                      d. Thomas Surgent
19. Laffer curve links
- a. inflation and unemployment                      b. tax revenue and tax rate  
c. output and unemployment                      d. inflation and interest rate
20. New classical Economics is consistent with
- a. Policy ineffectiveness postulate                      b. policy effectiveness postulate  
c. both A and B                      d. None of these

21. New Classical Economics is based on
- a. Rational Expectation
  - b. Adaptive expectation
  - c. backward looking expectation
  - d. all the above
22. Supply side Economics was emerged against the background of
- a. 1930's great depression
  - b. 2008 global financial crisis
  - c. 1970's stagflation
  - d. none of these
23. The dual decision hypothesis was given by
- a. Clower
  - b. Crowther
  - c. Robert Lucas
  - d. Wallras
24. The book Elements of Pure Economics was authored by
- a. Walras
  - b. Clower
  - c. Robert Lucas
  - d. Kaldor
25. The Neo Keynesian quantity constrained model is associated with the work of
- a. Robert J Barro
  - b. Robert M Clower
  - c. Leonwalrs
  - d. None of these
26. The efficiency wage model is associated with
- a. New Keynesian Economics
  - b. New Classical economics
  - c. Supply side Economics
  - d. Keynesian Economics
27. The insider outsider model is associated with
- a. New Keynesian Economics
  - b. New Classical Economics
  - c. Supply Side Economics
  - d. None of these
28. The Menu cost model is associated with
- a. New Classical Economics
  - b. New Keynesian Economics
  - c. Supply Side economics
  - d. None of these
29. The New Classical economics was developed against the back ground of
- a. 1930's depression
  - b. 1970' stagflation
  - c. 2008 subprime crisis
  - d. None of these
30. Consider the following statements
- 1. Natural unemployment hypothesis is based on rational expectation
  - 2. New Classical Economics based on Adaptive Expectation
- Which one of the following is correct among the following options?
- a. 1 alone is correct
  - b. 2 alone is correct
  - c. 1 and 2 correct
  - d. neither 1 nor 2 correct
31. Reagonomics is related to
- a. Supply side economics'
  - b. new classical economics
  - c. New Keynesian Economics
  - d. natural unemployment hypothesis

32. Ratex hypothesis is related to
- a. New Classical Economics
  - b. Supply side Economics
  - c. New Keynesian Economics
  - d. None of these
33. What is near money?
- a. coins
  - b. promissory notes
  - c. bank demand deposits
34. Inflation can be contained by
- a. surplus budget
  - b. increase in taxation
  - c. Reduction in public expenditure
  - d. All these three measures
35. Gregory Mankiw belongs to
- a. New Keynesian Economics
  - b. New Classical Economics
  - c. Supply Side economics
  - d. None of these
36. According to Hawtrey, the business cycle is caused by
- a. variation in the interest of banking system
  - b. variation in the price level of the economy
  - c. variation in the money supply by bank
  - d. All the above
37. Which of the following are main postulates of Supply side Economics
- a. Cut in tax rate
  - b. increasing public expenditure
  - c. both A and B
  - d. none of these
38. Which of the following economist is not related to New Classical Economics
- a. ArtherLaffer
  - b. Thomas Surgent
  - c. Robert Lucas
  - d. Neil Walace
39. According to New Classical Economist, Business cycle is due to
- a. anticipated policy change
  - b. unanticipated policy change
  - c. both a and b
  - d. none of these
40. The shape of Laffer curve is
- a. Inverted U shape
  - b. U shape
  - c. Inverse L shape
  - d. none of these
41. The curve which explains relationship between tax rate and tax revenue is called
- a. Laffer curve
  - b. Kuznets curve
  - c. Lorenz curve
  - d. none of these
42. According to New classical Economics
- a. Anticipated policy change will not affect output
  - b. Unanticipated policy change will affect output
  - c. both a and b
  - d. none of these

43. According to New Classical Economics Philips curve is
- Always vertical
  - always horizontal
  - always downward slopping
  - downward slopping in short run and vertical in the long run
44. Which of the following statements does not hold true in case of the Keynesian Economics ?
- Velocity of money is an unstable function of its determinants.
  - Labour is subject to money illusion.
  - Aggregate supply function tends to become flat at levels of output well below full employment and to become steeper as full capacity is reached.
  - Aggregate supply schedule is vertical, and output and employment are completely supply determined.
45. Liquidity trap is a situation when,
- all potential investors expect the rate of interest to rise in future
  - all potential investors expect the rate of interest to fall in future
  - natural rate of interest is above the critical rate of interest
  - demand for money for speculative purpose is interest inelastic
46. The classical economists focussed on the role of money as
- medium of exchange
  - medium of distribution
  - wealth
  - link between present and future
47. In Keynesian system speculative demand for money arises because of
1. Uncertainty of future interest rates
  2. Unexpected expenditures
  3. To bridge the gap between income and eventual expenditure
  4. Relationship between changes in the interest rates and bond prices

Codes :

- I and III are correct
- II and III are correct.
- I and IV are correct.
- III and IV are correct.

48. According to Milton Friedman Theory of permanent component of consumption-expenditure depends on

- Transitory income alone
- Transitory and permanent income
- Permanent income alone
- Windfall gains

Codes :

- I and II are correct
- II and IV are correct
- I and III are correct
- Only III is correct

49. The classical model of economic development emphasises

- a. Laissez-Faire Policy
- b. Capital Accumulation
- c. Both (A) and (B)
- d. None of these

50. Assertion (A): According to Keynes, individuals hold either cash or all bonds.

Reasoning (R): Because, according to him, the speculative demand for money is associated with uncertainty.

Codes:

- a. Both (A) and (R) are correct and (R) is the correct explanation of (A).
- b. Both (A) and (R) are correct, but (R) is not the correct explanation of (A).
- c. (A) is correct, but (R) is incorrect.
- d. Both (A) and (R) are incorrect.

51. Speculative demand for money is zero when market rate of interest is

- a. more than the 'critical rate'.
- b. More than the market rate of interest but less than the critical rate (i.e. capital gains occur).
- c. less than the market rate of interest.
- d. Lowest (i.e. in liquidity trap).

52. Which of the following is true in case of the orthodox (early) Keynesians?

- a. Interest elasticity of demand for money is extremely high.
- b. Interest elasticity of demand for money is low.
- c. Changes in the quantity of money do not have important predictable effects on the level of economic activity.
- d. Demand for money is unstable

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

53. Assertion (A) : There exists inverse relationship between interest rates and bond prices.

Reason (R) : A bond price represents the present discounted value of the payments agreed upon at the time when the bond was issued.

Codes :

- a. Both (A) and (R) are correct, and (R) is the correct explanation of (A).
- b. (A) is correct, but (R) is not the correct explanation of (A).
- c. (A) is correct, but (R) is incorrect.
- d. (A) is incorrect, but (R) is correct.

54. According to Say's law of market what is the main cause of overproduction?

- a. Unemployment
- b. Fall in demand
- c. Rise in price
- d. Fall in wage rate

55. In Classical system how to correct an overproduction or glut in the market?
- a. By increasing price of input
  - b. By wage cut policy
  - c. By price cut policy
  - d. By decreasing production
56. According to Classical what bring full employment in an economy?
- a. flexible wage and rigid price
  - b. A rigid wage and flexible price
  - c. Wage price flexibility
  - d. Wage price rigidity
57. What is the effect of monetary policy in a situation of “Liquidity trap”?
- a. Expansionary monetary policy
  - b. Contractionary monetary policy
  - c. Both expansionary and contractionary monetary policy effective
  - d. Monetary policy ineffective
58. In which of the following market Keynes effect operates?
- a. Goods market
  - b. Labour market
  - c. Money market
  - d. All of the above markets
59. In which of the following market Pigou effect operates?
- a. Goods market
  - b. Labour market
  - c. Money market
  - d. All of the above markets
60. Real balance effect is equal to –
- a. Pigou effect divided by Keynes effect
  - b. Pigou effect into Keynes effect
  - c. Pigou effect + Keynes effect
  - d. Pigou effect - Keynes effect
61. Under perfect competition firm hire labour until-
- a. Money wage rate > General Price level
  - b. Money wage rate < General Price level
  - c. Money wage rate = General Price level
  - d. Both a and c
62. Classical dichotomy is based on –
- a. Neutrality of money
  - b. Velocity of money
  - c. Medium of exchange of money
  - d. Both a and b
63. Cambridge **K** is related to –
- a. Restatement theory of money
  - b. Cash balance approach
  - c. Liquidity preference theory
  - d. Transaction version of quantity theory of money
64. Assertion (A) : In liquidity trap, the demand for money is perfectly interest elastic.  
Reason (R) : Because in this situation, all the investors expect the market rate of interest to rise towards the natural rate of interest.

**Codes :**

- a. (A) & (R) both are correct and (R) is the correct explanation of (A)
- b. (A) & (R) both are correct, but (R) is not the correct explanation of (A)
- c. (A) is correct, but (R) is incorrect.
- d. Both (A) and (R) are incorrect.

65. Which of the following is not specifically mentioned as a determinant of the demand for money ?

- a. Wealth
- b. Nominal yield on alternative assets
- c. Inflation rate
- d. Real rate of interest

66. In the Keynesian system speculative demand for money arises because of,

- 1 : uncertainty of future interest rate.
- 2 : unexpected expenditures.
- 3 : To bridge the gap between income and eventual expenditures.
- 4 : Relationship between changes in the interest rates and bond price.

**Codes :**

- a. 1 & 3 are correct
- b. 1 & 4 are correct
- c. 2 & 3 are correct
- d. 3 & 4 are correct

67. The classical economists focused on the role of money as,

- a. Medium of exchange
- b. Medium of distribution
- c. Wealth
- d. Link between present and future

68. Identify the correct chronological order of the following classical economists.

- a. Adam smith, Malthus, Ricardo, Mill
- b. Adam smith, Ricardo, Malthus, Mill
- c. Adam smith, Mill, Ricardo, Malthus
- d. Adam smith, Malthus, Mill, Ricardo

69. Liquidity trap is a situation when,

- a. All potential investors expect the rate of interest to rise in future.
- b. All potential investors expect the rate of interest to fall in future.
- c. Natural rate of interest is above the critical rate of interest.
- d. None of these

70. Which of the following statements does not hold true in case of the Keynesian economics?

- a. Velocity of money is an unstable function of its determinant
- b. Labor is subject to money illusion
- c. As function tends to become flat at levels of output well below full employment and to become steeper as full capacity is reached
- d. As schedule is vertical, and output, and employment are completely supply determined.

71. In whose economic theories, Malthus theories are in the base?
- a. Adam smith      b. Ricardo      c. Keynes      d. Robin's
72. The equation of exchange is
- a.  $M \cdot P = V \cdot Y$       b.  $M + V = P + Y$       c.  $M + Y = V + P$       d.  $M \cdot V = P \cdot T$
73. The formula to compute the spending multiplier is
- a.  $1/(MPC+MPS)$       b.  $1/(1-MPC)$       c.  $1/(1-MPS)$       d.  $1/(C+I)$
74. Liquidity trap sets a loop:
- a. Below which the discount rate cannot fall
- b. Above which discount rate cannot rise
- c. Below which the market rate of interest cannot fall
- d. Above which market rate of interest cannot rise
75. If the Keynesian consumption function is  $C=10+0.8Y_d$  then, if disposable income is 1000, what is amount of total consumption ?
- a. 0.8      b. 800      c. 810      d. 0.81
76. Why does a temporary decrease in government purchases decrease labour supply in the classical model?
- a. People prefer to work less when government is doing less for them.
- b. Decreased government purchases make people worse off, so they work less hours.
- c. The decrease in current or future taxes needed to pay for the decrease in government purchases increases people wealth
- d. The fall in government spending decreases labour demand, decreasing the real wage, and so people decreases their labour supply.
77. As the economy nears full employment the aggregate supply curve tend to
- a. Become flatter      b. Become steeper
- c. Shift to the left      d. Shift to the right
78. "In a closed economy with no government;  $s=100+0.2y$  investment increases by 100, what is the increase in consumption?
- a. 100      b. 200      c. 300      d. 400
79. Using Keynesian multiplier,  $MPC= 0.8$  and government spending increased by 40 billion dollars. How much will GDP increased?
- a. 100 billion dollars      b. 200 billion dollars
- c. 300 billion dollars      d. 500 billion dollars
80. According to Keynesian analysis, the great depression was caused by:
- a. A lack of spending
- b. A sharp rise in the MPC

- c. Too much investment
  - d. Too much foreign influence on the economy
81. The purpose of Keynesian analysis is to explain what determines the
- a. Size of the labor force
  - b. Price level
  - c. Amount of money required in the economy
  - d. Levels of national income, output and employment
82. In the Keynesian range of the SRAS, if AD shift to the right, then
- a. The price level falls
  - b. The price level rises
  - c. Real GDP is unchanged
  - d. The price level is unchanged
83. In the very short term, in the Keynesian model which of the following is fixed and does not change when GDP changes
- a. Planned investment
  - b. Planned consumption
  - c. Planned imports
  - d. All of the above
84. The slope of the consumption function is (Keynesian)
- a. Less than the slope of the 45 degree line, but not equal to zero
  - b. Greater than the slope of the 45 degree line
  - c. Equal to the slope of the 45 degree line
  - d. Equal to zero
85. A decrease in expected future income, \_\_\_\_\_ consumption expenditure and \_\_\_\_\_ saving.
- a. Increases: increases
  - b. Increases: decreases
  - c. Decreases: increases
  - d. Decreases: decreases
86. If the aggregate supply curve is perfectly elastic as in the Keynesian model at low level of national incomes, an increase in AD will cause an increase in
- a. The rate of inflation
  - b. The level of real national output
  - c. The government budget deficit
  - d. The level of consumer debt
87. Attempts to force inflation below no-accelerating inflation rate of unemployment (NAIRU) will cause:
- a. Inflation to accelerate without any change in employment or output
  - b. Inflation to decelerate with rising employment and output
  - c. Inflation to decelerate with employment and output remaining the same
  - d. Inflation to remain unchanged with fall in employment and output
88. Which of the following statements would Milton Friedman disagree with?
- a. Monetary policy has few short-run effects on the real economy
  - b. In the long-run, changes in the money supply primarily affect the price

- c. There is little scope for using monetary policy actively to smooth out business cycles  
d. The Reserve Bank cannot be relied on to effectively smooth out business cycles
89. Which of the following is true with respect to the monetary approach to the balance of payments?
- a. It views the balance of payments as an essentially monetary phenomenon  
b. A balance of payments deficit results from an excess demand of money in the nation  
c. A balance of payments surplus results from an excess supply of money  
d. Balance of payments disequilibrium are not automatically corrected in the long run
90. Which of the following is not a feature of the A.W.Philip's inflation unemployment trade-off relation?
- a. A non-linear inverse relationship between unemployment rate and the rate of exchange in wage rate  
b. There is a loop in the anticlockwise around the Philip's curve  
c. The wage-inflation unemployment relationship is predictable  
d. Philip's curve shifts when expected rate of inflation shifts
91. According to monetarists, money supply constitutes
- a. Currency+ demand deposits  
b. Currency +demand deposits+time deposits  
c. Currency + demand deposits + equity shares  
d. Currency + all kinds of banks + deposits with other institutions + borrowing
92. According to monetary approach a revaluation of a nation's currency
- a. Increase the nation's demand for money                      b. Increase the nation's supply of money  
c. Reduces the nation's demand for money                      d. Reduces the nation's supply of money
93. what is the foundation of monetarism?
- a. Quantity theory of money    b. Demand theory  
c. ISLM model    d. None of these
94. The economist who proposed that," inflation is always and every where monetary phenomenon"was
- a. J. M Keynes              b. John R Hicks              c. Milton Friedman                      d. Franco Modigliani
95. Suppose that the money stock is \$10 billion, each dollar generates \$ 5worth of spending, and the NAIRU is 7%. According to the quantity theory of what is nominal GDP (income)
- a. \$ 350 million              b. \$ 70 million              c. \$ 35 million                      d. \$ 50 million
96. Shoe leather costs are:
- a. The costs to individuals as they hold less cash and have to visit banks more frequently to get cash out

- b. The cost of changing price lists
  - c. The arrival of fiscal drag as fixed rate taxes will gross higher revenues as prices rise
  - d. The less well-off will lose part of their purchasing power
97. When there are vacancies in the job-market, but also high levels of unemployment, then we could say that this unemployment is?
- a. Cyclical
  - b. Regional
  - c. Seasonal
  - d. Structural
98. Demand-side unemployment is partly caused by:
- a. Imperfections in the labour market
  - b. Occupational and geographic immobility of factors
  - c. Demographic changes
  - d. A lack of aggregate demand
99. According to the basic classical model, an increase in the money supply will cause
- a. Employment to increase.
  - b. The price level to increase.
  - c. Output to increase.
  - d. Investment to increase.
100. Why does a temporary decrease in government purchases decrease labour supply in the classical model?
- a. The fall in government spending decreases labour demand, decreasing the real wage, and so people decrease their labour supply.
  - b. The decrease in current or future taxes needed to pay for the decrease in government purchases increases people's wealth.
  - c. People prefer to work less when the government is doing less for them.
  - d. Decreased government purchases make people worse off, so they work less hours.

**ANSWER KEY**

1	c	21	a	41	a	61	c	81	d
2	a	22	c	42	c	62	a	82	d
3	a	23	a	43	a	63	b	83	a
4	b	24	a	44	d	64	a	84	a
5	c	25	b	45	a	65	d	85	c
6	c	26	a	46	a	66	b	86	b
7	b	27	a	47	b	67	a	87	a
8	d	28	b	48	d	68	b	88	c
9	d	29	b	49	c	69	a	89	a
10	d	30	d	50	c	70	d	90	d
11	a	31	a	51	a	71	c	91	b
12	a	32	a	52	b	72	d	92	c
13	d	33	c	53	a	73	b	93	a
14	b	34	d	54	a	74	b	94	c
15	a	35	a	55	b	75	c	95	d
16	b	36	d	56	c	76	c	96	a
17	a	37	a	57	d	77	b	97	d
18	a	38	a	58	c	78	d	98	d
19	b	39	b	59	a	79	b	99	b
20	a	40	a	60	c	80	a	100	b

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# UNIVERSITY OF CALICUT

## School of Distance Education

### MICRO ECONOMICS: THEORY AND APPLICATIONS-I

#### Core Course of MA Economics

#### I Semester (2019 Admn.)

#### Multiple Choice Question Bank

1. The law of demand states that an increase in the price of a good:
  - A) Increases the supply of that good.
  - B) Decreases the quantity demanded for that good.
  - C) Increases the quantity supplied of that good.
  - D) None of these answers.
2. The law of supply states that an increase in the price of a good:
  - A) None of these answers.
  - B) Increases the quantity supplied of that good.
  - C) Decreases the demand for that good.
  - D) Decreases the quantity demanded for that good.
3. If an increase in consumer incomes leads to a decrease in the demand for camping equipment, then camping equipment is:

A) A normal good.	B) An inferior good.
C) A substitute good	D) A complementary good.
4. Which of the following shifts the demand for watches to the right?
  - A) An increase in the price of watches
  - B) None of these answers
  - C) A decrease in the price of watch batteries if watch batteries and watches are complements
  - D) A decrease in consumer incomes if watches are a normal good
5. An inferior good is one for which an increase in income causes a(n)

A) Decrease in supply.	B) Increase in demand.
C) Increase in supply.	D) Decrease in demand.

6. If a small percentage increase in the price of a good greatly reduces the quantity demanded for that good, the demand for that good is
- A) Income inelastic.                      B) Price inelastic.  
C) Price elastic.                            D) Unit price elastic.
7. The price elasticity of demand is defined as
- A) The percentage change in the quantity demanded divided by the percentage change in income.  
B) The percentage change in income divided by the percentage change in the quantity demanded.  
C) The percentage change in the quantity demanded of a good divided by the percentage change in the price of that good.  
D) The percentage change in price of a good divided by the percentage change in the quantity demanded of that good.
8. In general, a flatter demand curve is more likely to be:
- A) Price elastic B) Unit price elastic C) None of these answers D) Price inelastic.
9. In general, a steeper supply curve is more likely to be
- A) Price elastic                              B) None of these answers  
C) Unit price elastic                        D) Price inelastic
10. Which of the following would cause a demand curve for a good to be price inelastic?
- A) The good is a luxury  
B) There are a great number of substitutes for the good  
C) The good is a necessity  
D) The good is an inferior good
11. If the cross-price elasticity between two goods is negative, the two goods are likely to be:
- A) Substitutes                                B) Complements  
C) Necessities                                D) Luxuries
12. If there is excess capacity in a production facility, it is likely that the firm's supply curve is:
- A) Price inelastic                            B) None of these answers  
C) Unit price elastic                        D) Price elastic
13. If the income elasticity of demand for a good is negative, it must be:
- A) An elastic good                        B) An inferior good  
C) A normal good                            D) A luxury good
14. If input prices increase, all else equal,
- A) Quantity supplied will decrease    B) Supply will increase

- B) Supply will decrease                      D) Demand will decrease
15. Which of the following would decrease the supply of wheat?
- A) A decrease in the price of pesticides
  - B) An increase in the demand for wheat
  - C) A rise in the price of wheat
  - D) An increase in the price of corn
16. When the price of a product is increased 10 percent, the quantity demanded decreases 15 percent. In this range of prices, demand for this product is:
- A) Elastic    B) Inelastic
  - B) Unitary elastic                                      D) Perfectly elastic
17. When the price of a product falls for a normal good, the:
- A) Income and substitution effects will encourage consumers to purchase more of the product
  - B) Income and substitution effects will encourage consumers to purchase less of the product
  - C) Substitution effect will encourage consumers to purchase less of the product and the income effect will encourage them to purchase more
  - D) Substitution effect will encourage consumers to purchase more of the product and the income effect will encourage them to purchase less
18. The reason the substitution effect works to encourage a consumer to buy less of a product when its price increases is:
- A) The real income of the consumer has been increased
  - B) The real income of the consumer has been decreased
  - C) The product is now relatively more expensive than it was before
  - D) Other products are now relatively more expensive than they were before
19. George consumes only two goods, Biscuit and compact discs. Both are normal goods for George. Suppose the price of Biscuit decreases. George's consumption of compact discs will:
- A) Increase due to the income effect
  - B) Increase due to the substitution effect
  - C) Increase due to a negative income elasticity
  - D) Remain unchanged, since the income elasticity of Biscuit is greater than 0
20. The total utility of a product is calculated by:
- A) Summing the marginal utility from the first unit of a product that is consumed and the last unit of a product that is consumed.

- B) Multiplying the marginal utility of a unit of the product consumed times the average quantity consumed.
- C) Summing the marginal utilities for each successive unit of the product that is consumed.
- D) Multiplying price times quantity and dividing by the marginal utility.
21. Which of the following defines marginal utility?
- A) The change in total utility divided by the price of a product
- B) The maximum amount of satisfaction from consuming a product
- C) The total satisfaction received from consuming as much of the product that is available for consumption
- D) The additional satisfaction received from consuming one more unit of a product
22. Which best expresses the law of diminishing marginal utility?
- A) The more consumption of a product, the smaller is the total and marginal utility from the consumption.
- B) The less consumption of a product, the greater is the total and marginal utility of the consumption.
- C) The more consumption of a product, the smaller is the marginal utility from consuming an additional unit.
- D) The more consumption of a product, the smaller is the total and marginal utility from the consumption.
23. Which situation is consistent with the law of diminishing marginal utility?
- A) The more cake Henry eats, the more he enjoys another slice.
- B) The more cake Henry eats, the less he enjoys another slice.
- C) Henry's marginal utility from eating cake becomes positive after eating three slices.
- D) Henry's marginal utility from eating cake reaches a maximum when total utility is zero.
24. When marginal utility is decreasing but positive, total utility is:
- A) Increasing at a decreasing rate.                      C) Increasing at an increasing rate.
- B) Decreasing at a decreasing rate.                      D) Decreasing at an increasing rate.
25. A consumer with a fixed income will maximize utility when each good is purchased in amounts such that the:
- A) Total utility is the same for each good.
- B) Marginal utility of each good is maximized.

- C) Marginal utility per dollar spent is the same for all goods.  
D) Marginal utility per dollar spent is maximized for each good.
26. If a rational consumer is in equilibrium, then:
- A) The marginal utility obtained from one product is equal to the marginal utility obtained from any other product.
  - B) A reallocation of income would increase the consumer's total utility.
  - C) The marginal utility per last dollar spent is the same for all goods consumed.
  - D) Total utility becomes zero.
27. If you know that the marginal utility per rupees spent on product Alpha is less than the marginal utility per rupees spent on product Beta, consumers who spend all their income on these two products can:
- A) Maximize total utility but not marginal utility.
  - B) Maximize marginal utility but not total utility.
  - C) Increase total utility by buying more of Beta and less of Alpha.
  - D) Increase total utility by buying more of Alpha and less of Beta.
28. A consumer is in equilibrium and is spending income in such a way that the marginal utility of product X is 40 units and Y is 16 units. The unit price of X is Rs.5. The price of Y is:
- A) Rs.1 per unit.
  - B) Rs.2 per unit.
  - C) Rs.3 per unit.
  - D) Rs.4 per unit.
29. Which is an explanation for why the demand curve is down sloping?
- A) Normal goods
  - B) The law of supply
  - C) The law of diminishing marginal utility
  - D) The law of increasing opportunity cost
30. As If a few large firms dominate an industry the market is known as:
- A) Monopolistic competition
  - B) Competitively monopolistic
  - C) Duopoly
  - D) Oligopoly
31. In a cartel, member firms may be given a fixed amount to produce. This amount is called
- A) Limitless
  - B) Factor
  - C) Quota
  - D) Quotient
32. In the Kinked Demand Curve theory it is assumed that:
- A) An increase in price by the firm is not followed by others
  - B) An increase in price by the firm is followed by others
  - C) A decrease in price by the firm is not followed by others



40. A firm that considers the potential reactions of its competitors when it makes a decision
- A) Is referred to as a price leader
  - B) Is engaged in strategic behaviour
  - C) Is engaged in collusion
  - D) Is referred to as a barometric firm
41. Which of the following is an example of strategic behaviour?
- A) A firm builds excess capacity to discourage the entry of competitors
  - B) A firm adopts the pricing behaviour of a dominant firm under the assumption that other firms will do likewise
  - C) Firms in an industry increase advertising expenditures to avoid losing market share
  - D) All of the above are examples of strategic behaviour
42. Which one of the following is a part of every game theory model?
- A) Players
  - B) Payoffs
  - C) Probabilities
  - D) Strategies
43. In game theory, a choice that is optimal for a firm no matter what its competitors do is referred to as
- A) The dominant strategy
  - B) The game-winning choice
  - C) Super optimal
  - D) A gonzo selection
44. Which of the following circumstances in an industry will result in a Nash equilibrium?
- A) All firms have a dominant strategy and each firm chooses its dominant strategy
  - B) All firms have a dominant strategy, but only some choose to follow it
  - C) All firms have a dominant strategy, and none choose it
  - D) None of the above is correct
45. Which of the following describes a Nash equilibrium?
- A) A firm chooses its dominant strategy, if one exists
  - B) Every competing firm in an industry chooses a strategy that is optimal given the choices of every other firm
  - C) Market price results in neither a surplus nor a shortage
  - D) All firms in an industry are earning zero economic profits
46. A prisoners' dilemma is a game with all of the following characteristics except one. Which one is present in a prisoners' dilemma?
- A) Players cooperate in arriving at their strategies
  - B) Both players have a dominant strategy
  - C) Both players would be better off if neither chose their dominant strategy
  - D) The payoff from a strategy depends on the choice made by the other player

47. Which of the following legal restrictions, if enforced effectively, would be likely to solve a prisoners' dilemma type of problem for the firms involved?
- A) A law that prevents a cartel from enforcing rules against cheating
  - B) A law that makes it illegal for oligopolists to engage in collusion
  - C) A law that prohibits firms in an industry from advertising their services
  - D) All of the above would be likely to solve a prisoners' dilemma for the firms
48. Until recently, medical doctors and lawyers have been prohibited from engaging in competitive advertising. If the prisoners' dilemma applies to this situation, then the presence of this restriction would be likely to
- A) Increase profits earned by individuals in these professions
  - B) Reduce profits earned by individuals in these professions
  - C) Have no effect on the profits earned by individuals in these professions
  - D) Increase the profits of some and reduce the profits of other individuals in these professions
49. Which one of the following conditions is required for the success of a tit-for-tat strategy?
- A) Demand and cost conditions must change frequently and unpredictably
  - B) The number of oligopolists in the industry must be relatively small
  - C) The game can be repeated only a small number of times
  - D) Firms must be unable to detect the behaviour of their competitors
50. An oligopolist may engage in short-run behaviour that results in lower profits if
- A) It leads to a Nash equilibrium
  - B) It is a dominant strategy
  - C) It is not involved in a repeated game
  - D) It lends credibility to the firm's threats
51. A firm may decide to increase its scale so that it has excess production capacity because, by doing so, it is able to
- A) Minimize its average cost of production
  - B) Establish a credible deterrent to the entry of competing firms
  - C) Take advantage of a dominant strategy in a prisoners' dilemma
  - D) Attain a Nash equilibrium and avoid repeated games
52. Game theory is concerned with
- A) Predicting the results of bets placed on games like roulette
  - B) The choice of an optimal strategy in conflict situations
  - C) Utility maximization by firms in perfectly competitive markets

- D) The migration patterns of caribou in Alaska
53. Which of the following is an example of a game theory strategy?
- A) You scratch my back and I'll scratch yours
  - B) If the shoe fits, wear it
  - C) Monkey see, monkey do
  - D) None of the above
54. In game theory, a situation in which one firm can gain only what another firm loses is called a
- A) Nonzero-sum game
  - B) Prisoners' dilemma
  - C) Zero-sum game
  - D) Cartel temptation
55. Which of the following is a nonzero-sum game?
- A) Prisoners' dilemma
  - B) Chess
  - C) Competition among duopolists when market share is the payoff
  - D) All of the above
56. Which of the following is a zero-sum game?
- A) Prisoners' dilemma
  - B) Chess
  - C) A cartel member's decision regarding whether or not to cheat
  - D) All of the above
57. A plan of action that considers the reactions of rivals is an example of
- A) Accounting liability
  - B) Strategic behaviour
  - C) Accommodating behaviour
  - D) Risk management
58. In game theory, the outcome or consequence of a strategy is referred to as the
- A) Payoff
  - B) Penalty
  - C) Reward
  - D) End-game strategy
59. A strategy that is best regardless of what rival players do is called
- A) First-mover advantage
  - B) A Nash equilibrium strategy
  - C) Tit-for-tat
  - D) A dominant strategy
60. A game that involves interrelated decisions that are made over time is a
- A) Sequential game
  - B) Repeated game
  - C) Zero-sum game
  - D) Nonzero-sum game
61. A game that involves multiple moves in a series of identical situations is called a
- A) Sequential game
  - B) Repeated game
  - C) Zero-sum game
  - D) Nonzero-sum game

62. Sequential games can be solved using
- A) Tit-for-tat
  - B) Dominated strategies
  - C) Backward induction
  - D) Risk averaging
63. A firm that is threatened by the potential entry of competitors into a market builds excess production capacity. This is an example of
- A) A prisoners' dilemma
  - B) Collusion
  - C) A credible threat
  - D) Tit-for-tat
64. Implicit costs are:
- A) Equal to total fixed costs
  - B) Comprised entirely of variable costs
  - C) "Payments" for self-employed resources
  - D) Always greater in the short run than in the long run
65. Which would be an implicit cost for a firm? The cost:
- A) of worker wages and salaries for the firm
  - B) paid for leasing a building for the firm
  - C) paid for production supplies for the firm
  - D) of wages foregone by the owner of the firm.
66. If a firm's revenues just cover all its opportunity costs, then:
- A) normal profit is zero
  - B) economic profit is zero
  - C) total revenues equal its explicit costs
  - D) total revenues equal its implicit costs
67. Suppose a firm sells its product at a price lower than the opportunity cost of the inputs used to produce it. Which is true?
- A) The firm will earn accounting and economic profits
  - B) The firm will face accounting and economic losses
  - C) The firm will face an accounting loss, but earn economic profits
  - D) The firm may earn accounting profits, but will face economic losses
68. The short run is a time period in which:
- A) all resources are fixed
  - B) the level of output is fixed
  - C) the size of the production plant is variable
  - D) some resources are fixed and others are variable

69. The law of diminishing returns states that:
- A) as a firm uses more of a variable resource, given the quantity of fixed resources, the average product of the firm will increase
  - B) as a firm uses more of a variable resource, given the quantity of fixed resources, marginal product of the firm will eventually decrease
  - C) in the short run, the average total costs of the firm will eventually diminish
  - D) in the long run, the average total costs of the firm will eventually diminish
70. The law of diminishing returns only applies in cases where:
- A) there is increasing scarcity of factors of production
  - B) the price of extra units of a factor is increasing
  - C) there is at least one fixed factor of production
  - D) capital is a variable input
71. The marginal product of labour curve shows the change in total product resulting from a:
- A) one-unit increase in the quantity of a particular resource used, letting other resources vary
  - B) one-unit increase in the quantity of a particular resource used, holding constant other resources
  - C) change in the cost of a variable resource
  - D) change in the cost of a fixed resource
72. When the total product curve is falling, the:
- A) marginal product of labor is zero
  - B) marginal product of labor is negative
  - C) average product of labor is increasing
  - D) average product of labor must be negative
73. When marginal product reaches its maximum, what can be said of total product?
- A) total product must be at its maximum
  - B) total product starts to decline even if marginal product is positive
  - C) total product is increasing if marginal product is still positive
  - D) total product levels off
74. Variable costs are:
- A) sunk costs
  - B) multiplied by fixed costs
  - C) costs that change with the level of production

- D) defined as the change in total cost resulting from the production of an additional unit of output.
75. Which is not a fixed cost?
- A) monthly rent of Rs.1,000 contractually specified in a one-year lease
  - B) an insurance premium of Rs.50 per year, paid last month
  - C) an attorney's retainer of Rs.50,000 per year
  - D) a worker's wage of Rs.15 per hour
76. If you know that with 8 units of output, average fixed cost is Rs.12.50 and average variable cost is Rs.81.25, then total cost at this output level is:
- A) Rs.93.75
  - B) Rs.97.78
  - C) Rs.750
  - D) Rs.880
77. With fixed costs of Rs.400, a firm has average total costs of Rs.3 and average variable costs of Rs.2.50. Its output is:
- A) 200 units
  - B) 400 units
  - C) 800 units
  - D) 1600 units
78. The reason the marginal cost curve eventually increases as output increases for the typical firm is because:
- A) of diseconomies of scale
  - B) of minimum efficient scale
  - C) of the law of diminishing returns
  - D) normal profit exceeds economic profit
79. If the short-run average variable costs of production for a firm are rising, then this indicates that:
- A) average total costs are at a maximum
  - B) average fixed costs are constant
  - C) marginal costs are above average variable costs
  - D) average variable costs are below average fixed costs
80. If a more efficient technology was discovered by a firm, there would be:
- A) an upward shift in the AVC curve
  - B) a downward shift in the AFC curve
  - C) an upward shift in the AFC curve
  - D) a downward shift in the MC curve
81. The firm's short-run marginal-cost curve is increasing when:
- A) marginal product is increasing
  - B) marginal product is decreasing
  - C) total fixed cost is increasing
  - D) average fixed cost is decreasing

82. A firm encountering economies of scale over some range of output will have a:
- A) rising long-run average cost curve
  - B) falling long-run average cost curve
  - C) constant long-run average cost curve
  - D) rising, then falling, then rising long-run average cost curve
83. When a firm doubles its inputs and finds that its output has more than doubled, this is known as:
- A) economies of scale
  - B) constant returns to scale
  - C) diseconomies of scale
  - D) a violation of the law of diminishing returns
84. The larger the diameter of a natural gas pipeline, the lower is the average total cost of transmitting 1,000 cubic feet of gas 1,000 miles. This is an example of:
- A) economies of scale
  - B) normative economies
  - C) diminishing marginal returns
  - D) an increasing marginal product of labour
85. If all resources used in the production of a product are increased by 20 percent and output increases by 20 percent, then there must be:
- A) economies of scale
  - B) diseconomies of scale
  - C) constant returns to scale
  - D) increasing average total costs.
86. Economies and diseconomies of scale explain why the:
- A) short-run average fixed cost curve declines so long as output increases
  - B) marginal cost curve must intersect the minimum point of the firm's average total cost curve
  - C) long-run average total cost curve is typically U-shaped
  - D) short-run average variable cost curve is U-shaped
87. \_\_\_\_\_ shows the overall output generated at a given level of input:
- A) Cost function
  - B) Production function
  - C) Iso cost
  - D) Marginal rate of technical substitution
88. If LAC curve falls as output expands, this is due to \_\_\_\_\_:
- A) Law of diminishing returns
  - B) Economics of scale

- C) Law of variable proportion      D) Diseconomies of scale
89. Isoquants are equal to:
- A) Product Lines      B) Total utility lines  
C) Cost lines      D) Revenue lines
90. The marginal product curve is above the average product curve when the average product is :
- A) Increasing      B) Decreasing  
C) Constant      D) None
91. Increasing returns to scale can be explained in terms of:
- A) External and internal economies  
B) External and internal diseconomies  
C) External economics and internal diseconomies  
D) All of these
92. An isoquant is \_\_\_\_\_ to an iso cost line at equilibrium point:
- A) Convex      B) Concave  
C) Tangent      D) Perpendicular
93. At the point of inflexion, the marginal product is:
- A) Increasing      B) Decreasing  
C) Maximum      D) Negative
94. Diminishing marginal returns implies:
- A) Decreasing average variable costs  
B) Decreasing marginal costs  
C) Increasing marginal costs  
D) Decreasing average fixed costs
95. If the marginal product of labour is below the average product of labour. It must be true that:
- A) Marginal product of labour is negative  
B) Marginal product of labour is zero  
C) Average product of labour is falling  
D) Average product of labour is negative
96. Law of variable proportion is valid when:
- A) Only one input is fixed and all other inputs are kept variable  
B) All factors are kept constant  
C) All inputs are varied in the same proportion  
D) None of these



**ANSWER KEY**

1. B	11.B	21. D	31. C	41. D	51. B	61. B	71. B	81. B	91. A
2. B	12. D	22. C	32. A	42. D	52. B	62. C	72. B	82. B	92. C
3. C	13. B	23. B	33. C	43. A	53. A	63. C	73. C	83. A	93. C
4. C	14. C	24. A	34. D	44. A	54. C	64. C	74. C	84. A	94. C
5. D	15. D	25. C	35. D	45. B	55. A	65. D	75. D	85. C	95. C
6. C	16. A	26. C	36. D	46. A	56. B	66. B	76. C	86. C	96. A
7. C	17. A	27. C	37. A	47. C	57. B	67. D	77. C	87. B	97. A
8. A	18. C	28. B	38. D	48. A	58. A	68. D	78. C	88. B	98. B
9. D	19. A	29. C	39. B	49. B	59. D	69. B	79. C	89. A	99. C
10. C	20. C	30. D	40. B	50. D	60. A	70. C	80. D	90. A	100. C

# UNIVERSITY OF CALICUT

## School of Distance Education

### MICROECONOMICS: THEORY AND APPLICATIONS-II

#### Core Course of MA Economics

#### II Semester (2019 Admn.)

#### Multiple Choice Question Bank

1. A pure private good is
  - (a) nonrival in consumption and subject to exclusion.
  - (b) rival in consumption and subject to exclusion.
  - (c) rival in consumption and not subject to exclusion.
  - (d) all of the above
2. Pareto points in the Edgeworth Box are
  - (a) found when indifference curves are tangent.
  - (b) found when MRS are equal.
  - (c) found when one person cannot be made better off without making another person worse off.
  - (d) all of the above.
3. Points outside the production possibility frontier are
  - (a) producible.
  - (b) endowment points.
  - (c) consumer equilibrium points.
  - (d) unattainable.
4. Positive economics
  - (a) does not depend on market interactions.
  - (b) only looks at the best parts of the economy.
  - (c) examines how the economy actually works (as opposed to how it should work).
  - (d) is very subjective.
5. The Coase theorem has problems because
  - (a) generally, bargaining costs are not zero.
  - (b) individuals are not concerned with others.
  - (c) markets always exist.
  - (d) all of the above.

6. The marginal rate of substitution is
  - (a) the slope of the Pareto curve.
  - (b) the slope of the contract curve.
  - (c) the slope of the utility possibilities curve.
  - (d) the slope of the indifference curve.
7. The slope of the production possibilities curve is the
  - (a) marginal rate of substitution.
  - (b) contract curve.
  - (c) marginal rate of transformation.
  - (d) offer curve.
8. The First Fundamental Theorem of Welfare Economics requires
  - (a) producers and consumers to be price takers.
  - (b) that there be an efficient market for every commodity.
  - (c) that the economy operate at some point on the utility possibility curve.
  - (d) all of the above.
9. Market failure can occur when
  - (a) monopoly power exists in the market.
  - (b) markets are missing.
  - (c) consumers can influence prices.
  - (d) all of the above.
10. A public good is
  - (a) a good that the public must pay for.
  - (b) nonrival in consumption.
  - (c) more costly than a private good.
  - (d) paid for by the government.
11. Movement from an inefficient allocation to an efficient allocation in the Edgeworth Box will
  - (a) increase the utility of all individuals.
  - (b) increase the utility of at least one individual, but may decrease the level of utility of another person.
  - (c) increase the utility of one individual, but cannot decrease the utility of any individual.
  - (d) decrease the utility of all individuals.
12. Points on the utility possibility frontier are
  - (a) inefficient.
  - (b) points of incomplete preferences.
  - (c) not producible.
  - (d) Pareto efficient.
13. Market mechanisms are unlikely to provide
  - (a) prices.
  - (b) nonrival goods efficiently.
  - (c) supply and demand.
  - (d) none of the above.
14. Public goods can be
  - (a) provided privately.
  - (b) provided publicly.
  - (c) subject to free rider problems.
  - (d) all of the above.

15. Externalities can be positive because
- (a) marginal damages do not last over time.
  - (b) utility can be impacted positively as well as negatively.
  - (c) there is no concept for marginal benefit.
  - (d) positive externalities are subsidies.
16. A Pigouvian subsidy
- (a) cannot exist with externalities.
  - (b) is the same thing as a Pigouvian tax.
  - (c) is measured in terms of Pigouvian dollars.
  - (d) moves production to the socially optimal level of output
17. Which method can help in obtaining a welfare improvement if externalities exist?
- (a) Pigouvian taxes
  - (b) regulation
  - (c) assigning property rights and permitting bargaining
  - (d) all of the above
18. Marginal damages
- (a) must always be considered in social marginal costs.
  - (b) must not be considered in social marginal costs.
  - (c) must sometimes be considered in social marginal costs.
  - (d) have nothing to do with social marginal costs.
19. In a public goods context, it is difficult to measure impact on real income because
- (a) public goods are generally free to the public.
  - (b) they make up a small percentage of total GDP.
  - (c) it is hard to measure how people value the public good.
  - (d) inflation decreases the value of the good.
20. According to the required reading from the 2003 Washington Post, a recent study by the U.S. Office of Management and Budget found that
- (a) The benefits of tough new clean-air regulations in the past decade were five to seven times greater than their costs
  - (b) The most efficient way to control pollution is through Pigouvian taxes
  - (c) The 1990 Clean Air Act has not affected the problem of acid rain
  - (d) Environmentalists are generally supportive of cost-benefit calculations in assessing environmental policy

21. impossibility theorem was propounded by  
(a) Hicks (b) Arrow (c) Kaldor (d) Scitovsky
22. According to a required reading from the 2003 Economist, the biggest problem facing Indonesia's economy is  
(a) Terrorism  
(b) An organic approach to public policy questions  
(c) Inadequate rule of law  
(d) Geographical (e) Hobbits
23. According to a required reading by P.J. O'Rourke, which of the following statements is false?  
(a) In most of the world, food production has well outpaced the growth of population  
(b) Democracy may be able to help prevent famines from occurring  
(c) In countries experiencing famine, security and order must be established before the famine can be contained  
(d) Famines are mainly caused by natural disasters or pestilence
24. According to a required reading by P.J. O'Rourke, which of the following statements is false?  
(a) The pesticide DDT may have done more good than harm in some countries before it was banned  
(b) Despite their other problems, Eastern European countries did a good job protecting the environment during the Communist era  
(c) The costs of environmental regulation exceed their benefits  
(d) Recycling is an economically inefficient way of reducing the human impact on the environment
25. The assigned Washington Post Op-Ed by Daniel Chirot can be interpreted as asserting that  
(a) Inadequate education and lack of knowledge of history in the population is why Saddam Hussein's government succeeded in ruling Iraq for so long  
(b) The right way to think about Saddam Hussein's government is basically as if he were the head of a Mafia organization  
(c) Saddam Hussein's government could be described as adhering to an organic philosophy  
(d) The biggest problem in Iraq under Saddam Hussein was a lack of rule of law

26. If, for John's current intertemporal consumption pattern (satisfying his intertemporal budget constraint), his marginal rate of intertemporal substitution is 1 and the real rate of interest is positive, then...
- (a) the interest rate will fall to zero.
  - (b) John could increase his lifetime utility by consuming more today.
  - (c) John could increase his lifetime utility by consuming less today.
  - (d) John is necessarily a borrower.
27. There are strong theoretical reasons to expect that changes in wealth are responsible for changes in consumption. Nonetheless, one reason that we observe a tight link between consumption and disposable income is...
- (a) credit rationing which changes the intertemporal budget constraint for borrowers.
  - (b) households attempt to smooth their consumption.
  - (c) household saving provides a buffer between income and expenditure.
  - (d) Ricardian equivalence.
28. The accelerator principle states:
- (a) If an increase in the growth of output is expected, investment will increase.
  - (b) If an increase in investment is expected, output will increase.
  - (c) If an increase in the growth of investment is expected, output will increase.
  - (d) Small swings in investment are associated with large swings of output.
29. In the case of a negative externality, the social marginal cost will
- (a) exceed the private marginal cost.
  - (b) be equal to private marginal cost.
  - (c) fall short of private marginal cost.
  - (d) bear no significant relation to private marginal cost.
30. A perfectly competitive steel mill that produces large amounts of pollution (a negative externality) will, from a social point of view
- (a) produce too little steel
  - (b) produce the socially optimal quantity of steel.
  - (c) produce too much steel.
  - (d) produce too much steel only if it installs pollution control equipment.
31. In the case of a positive externality, social marginal cost will
- (a) exceed private marginal cost.
  - (b) be equal to private marginal cost.

- (c) fall short of private marginal cost.
- (d) have no specific relation to private marginal cost.
32. Each of the following provides incentives to reduce a negative externality except:
- (a) a merger with affected firms.
- (b) subsidizing consumption of the good being produced.
- (c) bargaining among firms.
- (d) taxation of the externality.
33. To reach an economically efficient output level, the size of an excise tax imposed on a firm generating a negative externality should be
- (a) the firm's marginal cost.
- (b) the social marginal cost.
- (c) the difference between the social marginal cost and the firm's marginal cost.
- (d) the sum of the social marginal cost and the firm's marginal cost.
34. In perfect competition, environmental externalities need not distort the allocation of resources providing
- (a) transactions costs are zero.
- (b) average costs are constant for all output levels.
- (c) firms install pollution control equipment.
- (d) the government sets realistic pollution standards.
35. In drilling a new oil well in an existing oil field, the fact that output on existing wells is reduced means that
- (a) existing wells have negatively sloped marginal cost curves.
- (b) existing wells and new wells are owned by different people.
- (c) existing wells and new wells are owned by the same people.
- (d) there is a discrepancy between private and social marginal costs.
36. Bargaining costs are generally high in cases involving environmental externalities because
- (a) there are strong incentives to be a free rider.
- (b) many individuals may be affected by the externalities.
- (c) it is difficult to measure the costs of the externalities.
- (d) all of the above.
37. Externalities between two firms can be "internalized" if:
- I. The two firms merge.
- II. Bargaining costs are zero.

III. The externalities affect each firm equally.

IV. Marginal costs for both firms are constant.

Which statement(s) correctly complete(s) the sentence?

- (a) Only II. (b) All except III.  
(c) I and II, but not III and IV. (d) I and IV, but not II and III.

38. Common property

- (a) is owned by specific people.  
(b) is inexhaustible.  
(c) refers strictly to land resource.  
(d) refers to goods “owned” by society at large and freely usable by anyone.

39. Which best describes consumer surplus?

- (a) The price consumers are willing to pay for a unit  
(b) The cost of providing a unit  
(c) The profits made by a firm  
(d) The difference between the price a consumer pays for an item and the price he/she is willing to pay for it

40. Which of the following statements is NOT true?

In the free market changes in the price of a product:

- (a) Can act as a signal to producers  
(b) Can provide an incentive to reallocate resources  
(c) Can act as a rationing device  
(d) Are set by the government

41. Community surplus equals:

- (a) Producer surplus minus consumer surplus  
(b) Profits plus utility  
(c) Total utility minus plus profit  
(d) Consumer surplus plus producer surplus

42. Monopoly power in a market is likely to:

- (a) increase consumer surplus (b) increase community surplus  
(c) lead to higher producer surplus (d) lead to lower prices and lower output

43. A negative production externality means:

- (a) The social marginal cost is greater than the private marginal cost  
(b) The social marginal benefit is greater than the private marginal cost

- (c) The social marginal cost is greater than the private marginal benefit  
(d) The social marginal cost is less than the private marginal cost
44. A positive consumption externality occurs when:
- (a) The social marginal cost is greater than the private marginal cost  
(b) The social marginal benefit is greater than the private marginal benefit  
(c) The social marginal cost is greater than the private marginal benefit  
(d) The social marginal cost is less than the private marginal cost
45. A merit good:
- (a) Is a public good  
(b) Involves a negative externality  
(c) Is overprovided in the free market  
(d) Is under provided in the free market
46. A demerit good:
- (a) Is a public good  
(b) Involves a positive externality  
(c) Is overprovided in the free market  
(d) Is under provided in the free market
47. A public good will probably:
- (a) Be expensive in a free market  
(b) Be overprovided in the free market  
(c) Not be provided in the free market  
(d) Has no opportunity cost
48. Asymmetric information occurs when:
- (a) Information is free  
(b) Buyers and sellers have access to different information  
(c) Community surplus is maximized  
(d) Community surplus is minimized
49. A situation where people who have taken out insurance behave more recklessly as a result is known as:
- (a) asymmetric information.  
(b) bad luck.  
(c) adverse selection.  
(d) moral hazard.
50. An insurance company can protect itself from moral hazard by:
- (a) monitoring.  
(b) imposing an 'excess'.  
(c) holding liquid assets  
(d) diversification
51. Taking into account the utility of all persons in society is referred to as
- (a) a utilitarian social welfare function.  
(b) equalizing social welfare function.  
(c) an in-kind transfer.  
(d) a Pareto equilibrium.

52. When the average buyer of an insurance policy is likely to have higher risk than others in his class, this is known as
- (a) adverse selection. (b) moral hazard.  
(c) asymmetric information. (d) an HMO.
53. Health care markets may be inefficient because of
- (a) poor information ('ignorance'). (b) adverse selection.  
(c) moral hazard. (d) all of the above.
54. The government can address by providing universal health insurance coverage and charging uniform premiums.
- (a) expected utility (b) asymmetric information  
(c) commodity egalitarianism (d) adverse selection
55. When people behave in ways that involve increased risk because they have insurance, this is known as
- (a) adverse selection. (b) moral hazard.  
(c) asymmetric information. (d) a HMO.
56. Which of the following is not an assumption used in class for reaching the conclusion, using utilitarian reasoning, that income should be divided equally:
- (a) Everybody has the same utility function  
(b) There is a fixed amount of income to be divided  
(c) Marginal utility is a diminishing function of income  
(d) Some people are more productive than others
57. In the economic analysis of the market for new drugs, it is critical to take into account
- (a) Inefficiency from monopoly power granted by patents  
(b) Inequity generated by drug makers charging more than a medication costs to make  
(c) Incentives for innovation by inventing new drugs  
(d) All of the above
58. Suppose that you have complete health insurance that covers all expenses. You will use medical care up to the point where your:
- (a) total benefits equal the costs of providing the medical care.  
(b) marginal benefit is zero.  
(c) marginal benefit is equal to the marginal cost of the medical care.  
(d) marginal benefit is equal to the total costs of providing the medical care. AS

59. If the government subsidizes the health insurance costs of individuals because individuals do not sufficiently realize the importance of having health insurance, which of the following justifications for government intervention is being used?
- (a) high administrative costs
  - (b) redistribution
  - (c) ignorance
  - (d) externalities
60. Which of the following is a reason why employers are the predominant source of insurance?
- (a) Insuring at the firm level reduces the extent to which insurance has moral hazard effects.
  - (b) Insuring at the firm level allows insurers to create large insurance pools with a predictable distribution of medical risk.
  - (c) Employee compensation in the form of medical expenditures is not taxed.
  - (d) Both b and c are correct.
61. Adverse selection can occur when
- (a) all persons involved in a transaction have full information.
  - (b) one person has information not available to others.
  - (c) post-agreement incentives result in workers shirking.
  - (d) nobody has any information about a particular product.
62. Adverse selection occurs when
- (a) a person takes more risks that are not known to the life insurance company because he has life insurance.
  - (b) a person buys life insurance because he has a risky lifestyle that is not known to the life insurance company.
  - (c) a person is a risk lover.
  - (d) pregnant women with health insurance make more doctor visits than uninsured pregnant women.
63. Adverse selection occurs when there is
- (a) full information.
  - (b) an unobserved behaviour.
  - (c) an unobserved characteristic.
  - (d) a worker who shirks because his boss does not watch him.
64. If reckless drivers are more likely to buy automobile insurance than safe drivers are,
- (a) a moral hazard has occurred.
  - (b) adverse selection has occurred.
  - (c) the market for insurance is efficient.

- (d) then automobile insurance will be fairly priced.
65. An individual is willing to pay something for information because
- (a) information is costly.
  - (b) it is always better to know than not to know.
  - (c) this allows him or her to increase utility.
  - (d) information is a public good.
66. An individual will not choose to acquire all available information because
- (a) that would maximize utility given his or her budget constraint.
  - (b) that would violate the assumption of risk aversion.
  - (c) there are increasing returns to additional information.
  - (d) there are decreasing marginal costs to acquiring information.
67. Adverse selection arises because
- (a) insurance buyers have more information than insurance sellers.
  - (b) insurance sellers have more information than insurance buyers.
  - (c) individuals can select which insurance company to patronize.
  - (d) insurance companies can exercise too much control over who they insure.
68. Adverse selection in competitive insurance markets harms
- (a) high risk individuals.
  - (b) low risk individuals.
  - (c) owners of insurance companies.
  - (d) Everyone.
69. One way the “lemons problem” in the used-car industry can be mitigated is by
- (a) raising the price of used cars.
  - (b) hiring auto experts to sell used cars.
  - (c) requiring sellers to guarantee trouble-free cars.
  - (d) allowing owners to trade in their own cars when they purchase a used car.
70. An example of adverse selection is
- (a) purchasing a new car sight unseen based on the recommendation of a neighbour.
  - (b) high health insurance premiums resulting from the poor health of people who buy policies.
  - (c) suppliers who charge more for better quality clothing than for lower quality clothing.
  - (d) being talked into buying a low-quality item because the price is lower.
71. If markets are perfect, a rational actor may reasonably conclude from the high price of a good that the good
- (a) is produced by a monopoly.
  - (b) is of better quality.

- (c) has a greater demand for it. (d) is not known about by other consumers.
72. In volatile markets, “speculators” would be expected to provide some stability because
- (a) they will be required to do so by the government.
  - (b) they will use current price moves to predict future moves.
  - (c) they will buy when price is below equilibrium and sell when it is above equilibrium.
  - (d) they will buy when price is above equilibrium and sell when it is below equilibrium.
73. A market participant who obeys the principles of rational expectations will base his or her expectations of market price on
- (a) all possible information about supply and demand curves.
  - (b) all possible information about the history of price movements.
  - (c) rational behaviour by other market participants.
  - (d) rational behaviour by government regulators.
74. The “lemons model” predicts quality deterioration in the used car market because
- (a) used cars require increasing maintenance.
  - (b) suppliers and demanders have different information about cars’ quality.
  - (c) used cars are generally of a lower quality than new cars.
  - (d) people will usually buy new cars if they are available.
75. The standard economic model assumes people are
- (a) Rational (b) boundedly rational
  - (c) altruistic (d) Emotional
76. What is the methodology of positive economics
- (a) Models should say what it is optimal for a person to do
  - (b) Models should be as realistic as possible
  - (c) Models should be judged on their assumptions
  - (d) Models should be judged on their ability to predict
77. The standard economic model assumes people are
- (a) kind (b) boundedly rational (c) Fair (d) Selfish
78. Which of the following statements is correct about behavioural economics
- (a) It builds upon the standard economic model
  - (b) It does not use the methodology of positive economics
  - (c) It rejects the standard economic model
  - (d) It is the same as economic psychology

79. What is a Nash equilibrium
- (a) A strategy for each player such that total payoffs are maximized
  - (b) A strategy for a person such that the person maximizes payoff given the strategies of others
  - (c) A strategy that maximizes payoff
  - (d) A strategy for each person such that everyone maximizes payoff given the strategies of others
80. An outcome is Pareto efficient if
- (a) No person can be made better off without making someone worse off
  - (b) Everybody can be made better off
  - (c) At least one person can be made better off
  - (d) Every person maximizes payoff given the payoff of others.
81. The permanent increment to future consumption expressed as a fraction of the initial consumption forgone is.....
- (a) rate of return
  - (b) perpetual rate of return
  - (c) expected return
  - (d) all the above
82. Diversifiable risk can be eliminated by
- (a) investing in many projects.
  - (b) by holding the stocks of many companies.
  - (c) both a and b
  - (d) none of them
83. Non diversifiable risk affects
- I. the opportunity cost of capital
  - II. should enter into the risk premium
- (a) only I
  - (b) only II
  - (c) both I & II
  - (d) None of them
84. Several combination of commodities x and y that the economy can produce by fully utilizing all of the fixed amounts of labour and capital with the best technology available is depicted by
- I. production possibility frontier
  - II. transformation curve
  - III. production possibility curve
- (a) both I & II
  - (b) both II & III
  - (c) both I & III
  - (d) all the above
85. Who opined that economic growth meant bringing  $W$  closer to  $W^*$
- (a) Walras
  - (b) Adam Smith
  - (c) Bentham
  - (d) Pareto

86. Who argued that welfare is improved when 'the greatest good (is secured) for the greatest number'
- (a)Walras                      (b)Adamsmith                      (c)Bentham                      (d) Pareto
87. Which criterion refers to economic efficiency which can be objectively measured
- (a) 'Cardinalist' Criterion  
(b)Bentham's Criterion  
(c)The Pareto-Optimality Criterion  
(d)The Kaldor-Hicks 'Compensation Criterion'
88. The sum of forgone interest and depreciation costs the machine's owner must pay is the
- (a) competitive rental rate                      (b) capital asset pricing  
(c) risk premium                      (d) all of the above
89. The marginal conditions must be satisfied for the attainment of a Pareto-efficient situation in an economy :
- (a) efficiency in exchange  
(b) efficiency of production  
(c) efficiency in the product-mix, or composition of output  
(d) all the above
90. Points where the slopes of the isoquants are equal
- (a) indifference curve                      (b) contract curve  
(c) production possibility curve                      (d)Edgeworth box
91. Pareto-optimal state in the economy can be attained if the
1. The  $MRS_{x,y}$  between any two goods be equal for all consumers.
  2. The  $MRTS_{L,K}$  between any two inputs be equal in the production of all commodities.
  3. The  $MRPT_{x,y}$  be equal to the  $MRS_{x,y}$  for any two goods.
- (a)Condition 1&2 are satisfied                      (b) Condition 1 &3 are satisfied  
(c) Condition 2 &3 are satisfied                      (d) Condition 1, 2 &3 are satisfied
92. The set of all Pareto efficient allocations in an Edgeworth box diagram is called the
- (a) indifference curve                      (b) contract curve  
(c) production possibility curve                      (d)Edgeworth box
93. A scientific paper titled "The Tragedy of the Commons" was written by
- (a)Walras                      (b)Kaldor  
(c) Garrett Hardin                      (d) Pareto

94. A negative externality from consumption occurs if there is a
- (a) Bandwagon Effect
  - (b) Snob Effect
  - (c) Veblen Effect
  - (d) All the above
95. The tragedy of the commons results in
- (a) Overconsumption
  - (b) under investment
  - (c) depletion of the resource
  - (d) All the above
96. An important mechanism through which sellers and buyers deal with the problem of asymmetric information is
- (a) Market signalling
  - (b) Insurance Markets
  - (c) Moral Hazard
  - (d) Principal-Agent Problem
97. The concept of market signalling was first developed by
- (a) Michael Spence
  - (b) Kaldor
  - (c) Garrett Hardin
  - (d) Pareto
98. Non diversifiable risk arises because
- (a) a firm's profits tend to depend on the overall economy
  - (b) a firm's profits tend to depend on that firm only
  - (c) Both a & b
  - (d) None of them
99. The risk premium for a capital investment by comparing the expected return on that investment with the expected return on the entire stock market is measured by
- (a) Diversifiable risk
  - (b) Non diversifiable risk
  - (c) Capital Asset Pricing Model
  - (d) None of the above
100. The quantity of present goods that must be forgone to increase future consumption by 1 unit is called
- (a) The relative price of future goods
  - (b) Indifference curve
  - (c) Production possibility curve
  - (d) Contract curve

**Answer Key**

1.B	2.D	3.D	4.C	5.A	6.D	7.C	8.D	9.D	10.B
11.B	12.D	13.B	14.D	15.B	16.D	17.D	18.A	19.C	20.A
21.B	22.C	23.D	24.B	25.C	26.C	27.A	28.A	29.A	30.C
31.C	32.B	33.C	34.A	35.D	36.D	37.C	38.D	39.D	40.D
41.D	42.C	43.A	44.B	45.D	46.C	47.C	48.B	49.D	50.B
51.A	52.A	53.D	54.D	55.B	56.D	57.D	58.B	59.C	60.D
61.B	62.B	63.C	64.B	65.C	66.A	67.A	68.B	69.C	70.B
71.B	72.C	73.A	74.B	75.A	76.D	77.D	78.A	79.A	80.A
81.B	82.C	83.C	84.D	85.B	86.C	87.C	88.A	89.D	90.B
91.D	92.B	93.C	94.B	95.D	96.A	97.A	98.C	99.C	100.A

**UNIVERSITY OF CALICUT**  
**School of Distance Education**

**ECO2 C07 - PUBLIC FINANCE: THEORY AND PRACTICE**  
**MA Economics II Semester (2019 Admn.)**

**Multiple Choice Question Bank**

1. A progressive income tax implies that
  - a. The amount of tax falls with a rise in income
  - b. The rate of rises with a rise in income
  - c. Both (a) and (b)
  - d. The rate of tax decreases with a rise in income
2. A public good is
  - a. Non executable in nature
  - b. Non rival in consumption
  - c. Excludable in nature
  - d. A good that public must possess

Select the correct answer using the codes given below

  - i. Both a and b
  - ii. Only c
  - iii. Both c and d
  - iv. Only d
3. A forward-shifted tax will affect
  - a. Buyers more than sellers
  - b. Sellers more than buyers
  - c. Buyers and sellers equally
  - d. Government revenues negatively
4. If with the increase in income, the percentage of income collected as tax remains constant, tax will be called
  - a. Regressive
  - b. Progressive
  - c. Proportional
  - d. Neutral
5. Repayment of public debt refers to
  - a. Discharging duties
  - b. Redemption of public debt
  - c. Repayment
  - d. Recovery
6. The chairman of FRBM committee is.....
  - a. A.P Lerner
  - b. Dalton
  - c. Hicks
  - d. Adarkar
7. Which of the following canon of taxation is given by Adam Smith
  - a. Canon of diversity
  - b. Canon of simplicity
  - c. Canon of economy
  - d. Canon of productivity

8. Tobin tax is a tax on
- a. Taxation in the share market
  - b. Transaction in the money market
  - c. Transaction on the commodity market
  - d. Transaction on the foreign exchange market
9. In case of deficit budget, when the deficits are covered through taxes, that budget is called:
- a. Unbalanced budget
  - b. Surplus budget
  - c. Balanced budget
  - d. None of these
10. Expenditure tax was introduced in India as per the recommendation of .....
- a. Nehru
  - b. Kaldor
  - c. K N Raj
  - d. John Mathai
11. Wealth tax was abolished in
- a. 2011
  - b. 2012
  - c. 2014
  - d. 2015
12. According to Wiseman and peacock, public expenditure will increase in a
- a. Smooth manner
  - b. Reverse manner
  - c. Step – like manner
  - d. None of the above
13. Canons of budgeting was given by
- a. Adam Smith
  - b. H D Smith
  - c. Marshall
  - d. Dalton
14. Concept of concentration and displacement effect in public expenditure are attributed to
- a. Allen T. Peacock and Jack Wiseman
  - b. A R Prest and I M D Little
  - c. A C Pigou and J K Mehta
  - d. Kenneth Arrow and Paul A Samuelson
15. The greater the elasticity of supply, the greater is
- a. Incidence of tax on buyers
  - b. Incidence of tax on sellers
  - c. Impact of tax on sellers
  - d. Impact of tax on buyers
16. The ability to pay principle of taxation is logically most consistent with the normative notion of :
- a. Tax neutrality
  - b. Horizontal equity
  - c. Value – added taxation
  - d. Vertical equality
17. Which committee recommended tax on agriculture holding in India?
- a. Tandor committee
  - b. Raj committee
  - c. Kelkar committee
  - d. Dantwala committee
18. With a regressive tax, as income
- a. Increases, tax rate remains the same
  - b. Decrease, the tax rate decreases
  - c. Increases, the tax rate increases
  - d. Increases, the tax rate decreases

19. The principle of maximum social advantage is concerned with
- a. Taxation
  - b. Expenditure
  - c. Public debt
  - d. Both taxation and public expenditure
20. Justice in taxation is best ensured by applying the principle of
- a. Equal absolute sacrifice
  - b. Equal proportional sacrifice
  - c. Equal marginal sacrifice
  - d. Quid pro quo
21. Agriculture income tax is a source of revenue to
- a. Central government
  - b. State government
  - c. Local administration
  - d. Central and state government
22. Ad Valorem means
- a. According to value
  - b. According to weight
  - c. According to size
  - d. According to advertisement costs
23. Octroi is levied and collected by
- a. Centre
  - b. State government
  - c. Local bodies
  - d. All of the above
24. The relationship between tax collections and tax rates has been expressed by
- a. Lorenz curve
  - b. Engel's law
  - c. Laffer curve
  - d. Indifference curve
25. All taxes come under
- a. Capital receipt
  - b. Revenue receipt
  - c. Public debt
  - d. Public expenditure
26. The merit of zero-based budgeting is that
- a. Tax liability is reduced
  - b. Profit goes up
  - c. Deficit financing becomes zero
  - d. Expenditure is rationalized
27. The concept of Zero-Based-Budget (ZBB) was given by
- a. RA Musgrave
  - b. JM Keynes
  - c. Peter A Pyhr
  - d. AH Hancan
28. If interest payments are subtracted from gross fiscal deficit, the remainder will be
- a. Revenue deficit
  - b. Gross primary deficit
  - c. Capital deficit
  - d. Budgetary deficit
29. Indirect taxes are objectionable because they
- a. Are hard to collect
  - b. Are aggressive
  - c. Do not raise enough revenue
  - d. Are particularly hard on rich
30. Interest payment is an item of
- a. Revenue expenditure
  - b. Capital expenditure
  - c. Plan expenditure
  - d. None of these

31. The basis of corporate tax is
- a. Total turnover of the company
  - b. Profit after distribution of dividend
  - c. Profit before distribution of dividend
  - d. Capital employed in the company
32. Federalism refers to a
- a. relationship between the national and state governments.
  - b. relationship among the state governments.
  - c. political system in which power is vested in the state governments.
  - d. political system in which power is vested in the national government.
33. The objective of taxation by the Government are –
- a. Raising revenue for the state
  - b. To maintain economic stability
  - c. To remove disparities in the distribution of income
  - d. All of the above
34. Which of the following is not a direct tax?
- a. Personal Income Tax
  - b. Service tax
  - c. Wealth Tax
  - d. Corporate Income Tax
35. Transfer Payments include
- a. Old Age Pension
  - b. Subsidies
  - c. Wealth Tax
  - d. Corporate Income tax
36. The following is not a characteristic of a tax.
- a. It is a compulsory payment
  - b. Every tax involves a sacrifice by tax payer
  - c. There is a quid-pro-quo between the tax payer and the Government.
  - d. Refusal to pay tax is a punishable offence.
37. The following is a characteristic of indirect tax –
- a. The impact and incidence are not on the same person.
  - b. It is levied on income.
  - c. Taxes are progressive in nature.
  - d. All of the above
38. Special assessment is also known as
- a. Tax Revenue
  - b. Battement Levy
  - c. VAT
  - d. None of the above

39. Impact of a tax refers to
- a. Final money burden
  - b. Immediate money burden
  - c. Indirect real burden
  - d. None of the above
40. Which factor has no role in the shifting of a tax?
- a. Change in prices
  - b. Elasticity of demand and supply
  - c. Nature of Demand
  - d. Income of the consumer
41. Which of the following is not a direct tax?
- a. Income tax
  - b. wealth tax
  - c. gift tax
  - d. service tax
42. Which of the following is administrative non-tax revenue?
- a. Fees
  - b. gifts
  - c. grants
  - d. profits of Govt. enterprises
43. Which of the following is not an indirect tax?
- a. Sales tax
  - b. custom duty
  - c. excise duty
  - d. gift tax
44. Generally, the nature of indirect tax is .....
- a. Progressive
  - b. Regressive
  - c. Proportional
  - d. None of the above
45. Direct tax are..... in nature.
- a. Progressive
  - b. Equitable
  - c. Regressive
  - d. None of the above
46. The term incidence of taxation refers to .....
- a. Initial burden of the tax
  - b. Final burden of the tax
  - c. Burden of tax on government
  - d. None of the above
47. Debts which have to be paid at some specific future date are known as
- a. Redeemable Debts
  - b. Irredeemable Debts
  - c. Treasury
  - d. None of the above
48. Which is / are the advantages of redemption of debt.
- a. Saves the government from bankruptcy
  - b. Reduces Cost
  - c. Saves future generation from the pressure of public debt
  - d. All of the above
49. Pick out the item which is not a part of tax revenue.
- a. Interest
  - b. Corporate Tax
  - c. Excise
  - d. Customs
50. The term fiscal federalism was introduced by
- a. Dalton
  - b. Seligman c
  - c. Musgrave
  - d. None of the above

51. The theory of fiscal federalism assumes –
- A federal system of government can be efficient and effective in solving problems.
  - A federal government will be able to bring about economic stability allocation of resources.
  - Since states and localities are not equal in their income, federalism is helpful.
  - All of the above
52. An empirical law to the effect of growing public expenditure was propounded by
- Wagner
  - Peacock
  - Wiseman
  - None of these
53. Productive debts are utilized for .....
- Transfer payments in form of subsidies
  - They are raised for financing wars
  - They add to productive capacity of the economy
  - special incentives to weaker sections
54. External debts can be raised from .....
- Individuals
  - RBI
  - Commercial Banks
  - World Bank
55. Debts that are repaid at some specific future date are known as
- Redeemable debts
  - Irredeemable debts
  - Treasury Bill
  - None of the above
56. External loans are raised from
- IDBI
  - ICICI
  - RBI
  - WTO
57. The concept of Merit goods was developed by .....
- Musgrave
  - Marshall
  - Adam Smith
  - Zak
58. Non-rival consumption is the feature of .....
- Public good
  - Private good
  - Merit good
  - Necessary good
59. The theory of second best was introduced by .....
- Lipse and Lancaster
  - Allen and Hicks
  - Samuelson and Hicks
  - Horrod and Dommor
60. .... are provided by both public and private sector.
- Public Goods
  - Private Goods
  - Merit Goods
  - Necessary Goods
61. Wagner's Law of increasing ..... activities.
- Central
  - State
  - Local
  - one of these

62. Wiseman-Peacock was studied expenditure of ..... in 1890-1955.
- a. USSR                      b. USA                      c. UK                      d. None of these
63. Pure theory of public expenditure is based on .....
- a. benefit                      b. loss                      c. profit                      d. None of these
64. Social marginal productivity criteria was developed by .....
- a. Malthus                      b. A. E. Khan                      c. A. K. Sen                      d. None of these
65. Balanced budget means ..... between revenue and expenditure.
- a. Balance                      b. Unbalance                      c. Unequal                      d. None of these
66. .... budget concept was first introduced in USA in 1964.
- a. Zero-base                      b. No Zero-base                      c. Surplus base                      d. None of these
67. Public debt is the debt owed by .....
- a. Industry                      b. Individual                      c. Central government                      d. Bank
68. In a concept of budgetary deficit, ..... is always greater than the total revenue.
- a. Public expenditure                      b. Taxes amount  
c. Money supply                      d. CRR
69. The value of balanced budget multiplier is always .....
- a. 0                      b. 1                      c. 2                      d. Indefinite
70. .... tax is in the jurisdiction of the Central government.
- a. Land Revenue                      b. Corporation tax  
c. Excise on alcohol                      d. Tax on electricity consumption
71. In internal debt ..... are important.
- a. External loans                      b. Market loans  
c. Personal loans                      d. None of these
72. Public debt in Indian Economy is ..... in nature.
- a. Increasing                      b. Decreasing  
c. Constant                      d. None of these
73. Fiscal Crisis was carried in ..... period.
- a. Planning                      b. New Economic Policy  
c. Before independence                      d. None of these
74. Which of the following is a Revenue Receipt?
- a. Loan from the IMF  
b. Grant Received from the world Bank

- c. Borrowing from the Public
- d. Sale of the shares held by the government in HMT

75. Which of the following is a Capital Receipt?

- a. Profit Tax
- b. Railway Ticket Fare
- c. Fee of the Government Hospital
- d. Borrowing from the public

76. Which one of the following is not the form of Tax Revenue?

- a. Income Tax
- b. Sales Tax
- c. License Fee
- d. Excise Duty

77. Identify the Revenue Expenditure

- a. Subsidies
- b. Loan given to the State Government
- d. Repayment of loans I
- d. Construction of a school building

78. Identify the Capital Receipts

- a. Penalty
- b. Corporation Tax
- c. Dividends on Investments made by the government
- d. Sale of a Public Sector Undertaking

79. Existence of Centre State economic inequalities is known as

- a. Vertical imbalance
- b. Horizontal Imbalance
- c. Parallel imbalance
- d. None of these

80. A multilevel decentralized fiscal system involving sharing of fiscal responsibilities between central, state and local governments is referred to as:

- a. Fiscal Union
- b. Fiscal Federalism
- c. Fiscal Equalisation
- d. Fiscal Generalism

81. The system of assigning the source of revenue to the Central as well as State Governments is generally referred to as

- a. Public Finance
- b. Distributive Finance
- c. Unitary Finance
- d. Federal Finance

82. The modern state is:

- a. Laissez-faire state
- b. Welfare state
- c. Aristocratic state
- d. Police state

83. Which one of the following is the most acceptable theory of taxation:

- a. Benefit theory
- b. Cost of service theory
- c. Ability to pay theory
- d. None of these

84. The Indian income tax is:
- a. Direct and proportional
  - b. Indirect and proportional
  - c. Indirect and progressive
  - d. Direct and progressive
85. The main objective of budgeting is:
- a. Planning
  - b. Co-ordination
  - c. Control
  - d. All of these
86. Wiseman-Peacock hypothesis supports in a much stronger manner the possibility of:
- a. An upward trend in public expenditure
  - b. A downward trend in public expenditure
  - c. A constancy of public expenditure
  - d. A mixed trend in public expenditure
87. A negative externality is
- a. conflict relation with a foreign country
  - b. deficit in external trade
  - c. hurting effect of a private action on other people
  - d. rain outdoors.
88. The “Tragedy of the Commons” is
- a. discovery of corruption among members of the British parliament.
  - b. exhaustion of resources that are collectively owned.
  - c. outrageous crime in a Boston public park.
  - d. play by Arthur Miller.
89. Which of the following is a public good?
- a. house.
  - b. traffic sign.
  - c. both of the above.
  - d. none of the above
90. The provision of public goods requires
- a. competition among firms in the market
  - b. lobbying
  - c. trade protection
  - d. none of the above.
91. Public goods are those for which
- a. external costs exist.
  - b. individuals who do not pay cannot be excluded from consuming.
  - c. individuals who do not pay can be excluded from consuming.
  - d. no external costs exist.
92. When consumption of a good is non-rival and non-excludable, the good is a
- a. public good.
  - b. mixed good.
  - c. private good.
  - d. service.
93. An example of a public good is
- a. a loaf of bread.
  - b. national defence services.

- c. a Ford truck. d. a home computer.

94. Of those listed below, the best example of a pure public good is

- a. a radio broadcast. b. a book.  
c. a rock concert held in a small auditorium. d. a state lottery

95. Public goods are those for which consumption is

- a. rival. b. regulated. c. Non-rival. d. unregulated.

96. Non-rivalry is a feature of

- a. public goods. b. goods but not services.  
c. excludable goods. d. all non-excludable goods.

97. Non-excludability is a feature of

- a. goods but not services b. goods with an external cost.  
c. public goods d. all non-rival goods.

98. Pure private goods are those for which consumption is

- a. Non-rival and excludable. b. rival and excludable.  
c. rival and non-excludable. d. Non-rival and non-excludable.

99. When consumption is rival and excludable, the product is a

- a. private good. b. service not a good.  
c. mixed good. d. public good.

100. A good or service or a resource is non-excludable if

- a. it is possible to prevent someone from enjoying the benefits of it.  
b. its use by one person decreases the quantity available for someone else.  
c. it is not possible to prevent someone from benefiting from it.  
d. its use by one person does not decrease the quantity available for someone else

101. Education at a private university is NOT a public good because it is

- a. excludable. b. Non-rival.  
b. both non-rival and non-excludable. d. None of the above answers is correct.

102. An uncrowded toll road is \_\_\_\_\_ because it is \_\_\_\_\_.

- a. not a pure public good; non-rival but excludable  
b. not a pure public good; both rival and excludable  
c. a pure public good; both non-rival and non-excludable  
d. not a pure public good; non-excludable but rival

103. A good or service or a resource is excludable if
- it is possible to prevent someone from enjoying the benefits of it.
  - its use by one person decreases the quantity available for someone else.
  - it is not possible to prevent someone from enjoying the benefits of it.
  - its use by one person does not decrease the quantity available for someone else.
104. A good or service or a resource is non-rival if
- it is not possible to prevent someone from enjoying the benefits of it.
  - it is possible to prevent someone from enjoying the benefits of it.
  - its use by one person decreases the quantity available for someone else.
  - its use by one person does not decrease the quantity available for someone else.
105. If the consumption of Good A by one person does not decrease the consumption of Good A by another person, then the good is said to
- Non-excludable.
  - excludable.
  - Non-rival.
  - rival.
106. If I increase my consumption of a good and this has no impact on your ability to consume the same good, then this good is
- a free good.
  - both non-rival and non-exclusive.
  - Non-rival.
  - Non-exclusive.
107. Which of the following is the BEST example of a good that is non-rival but excludable?
- Cable television.
  - A can of Pepsi.
  - National defence.
  - A fish in the ocean.
108. The nature of federalism was changed forever by
- Missouri v. Department of Interior
  - Gibbons v. Ogden.
  - the Civil War
  - Chief Justice Rutledge.
109. Cooperative federalism is characterized by
- increasing power of local governments.
  - a stronger, more influential national government.
  - a shift in power from the national to state governments.
  - stronger state governments.
110. The increase in public expenditure doesn't follow any smooth and continuous trend but the increase in public expenditure occurred in step like manner. This hypothesis is called
- Caldor's model
  - Peacock and Wiseman Hypothesis
  - Wagner's Law of Public Expenditure
  - Keynes Law of Public Expenditure

111. Peacock and Wiseman Hypothesis on public expenditure consists of three concepts which are:
- Subscription Effect, Tax Effect, Expenditure Effect
  - Tax Effect, Expenditure Effect, Consumption Effect
  - Displacement Effect, Concentration Effect, Inspection Effect
  - Consumption Effect, Labour Effect, Income Effect
112. According to Peacock Wiseman hypothesis, A discontinuity in the growth pattern which produces expenditure peak during social disturbances is referred to as:
- Displacement Effect
  - Concentration Effect
  - Inspection Effect
  - Substitution Effect
113. The theory of fiscal policy derives from
- Principle of sound finance
  - N.I. analysis
  - Welfare economics
  - None of these
114. Fiscal Federalism refers to
- Sharing of political power between centre and states
  - Organising and implementing economic plans
  - Division of economic functions and resources among different layers of Government
  - None of these
115. Marginal cost of providing the public goods to additional consumers is:
- 0
  - 1
  - 2
  - 3
116. Mixed goods are those goods having benefits which are:
- Rival
  - Non-rival
  - Both A & B
  - None of these
117. Escheat is an example of
- Direct tax
  - Indirect tax
  - Both A & B
  - None of these
118. Gift tax was introduced in the year
- 1958
  - 1959
  - 1960
  - 1961
119. \_\_\_\_\_ is a broad based and a single comprehensive tax levied on goods and services consumed in an economy
- VAT
  - CENVAT
  - GST
  - None of these
120. In India GST was introduced in the year
- 2016
  - 2017
  - 2018
  - 2019
121. \_\_\_\_\_ is the first country to implement GST
- USA
  - U K
  - Canada
  - France

122. In which year GST was first introduced  
a. 1952                      b. 1953                      c. 1954                      d. 1955
123. The movement from older level of expenditure and taxation to a new and higher level is called  
a. Concentration effect                      b. Inspection effect  
c. Displacement effect                      d. None of these
124. The diffusion theory was associated with the name of  
a. Dalton                      b. Keynes                      c. R A Musgrave                      d. Mansfield
125. The existence of economic inequalities among the states is known as  
a. Vertical imbalance                      b. Horizontal Imbalance  
c. Parallel imbalance                      d. None of these
126. When expenditure exceeds total tax revenue, it is called:  
a. Surplus budget                      b. Balanced budget  
c. Deficit budget                      d. None of these
127. The Benefit Principle of taxation states that tax should be paid in proportion to:  
a. Income                      b. Expenditure                      c. Benefit                      d. Utility
128. The most accepted theory of taxation in modern times:  
a. Benefit theory                      b. Cost of service  
c. Financial Theory                      d. Ability theory
129. In which of the following type of economy, the revenue from taxation is likely to be the least?  
a. Free market economy                      b. Keynesian Economy  
c. Mixed Economy                      d. Socialist Economy
130. The horizontal fiscal imbalance that arises in a fiscal federation is also called:  
a. Problem of Equalisation                      b. Problem of Efficiency  
c. Problem of Effectiveness                      d. Problem of Economy
131. Tax revenue sharing between the federal and sub-national governments is aimed at correcting which of the following type of imbalances?  
a. Vertical imbalances                      b. Horizontal imbalances  
c. Diagonal imbalances                      d. Criss-cross imbalances
132. 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:  
a. Invisible hand                      b. Direct Intervention  
c. Collective Spirit                      d. Private Spirit

133. In a federation differences exist in the per capita distribution of income and wealth and the volume of trade among different states. Such an imbalance existing among different subnational governments are referred to as
- a. Vertical imbalances
  - b. Horizontal imbalances
  - c. Diagonal imbalances
  - d. Criss-cross imbalances
134. 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
135. 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
136. During the process of economic development, the share of public expenditure to Gross Domestic Product tends to expand. This is called:
- a. Wagner's law
  - b. Keynes Law
  - c. Adam Smith's Theory
  - d. Brettonwoods Law
137. The principle of public expenditure that requires that Government should avoid shortfall of revenue in comparison with its expenditure is termed as
- a. Canon of Deficit
  - b. Canon of Surplus
  - c. Canon of Elasticity
  - d. Canon of Sanction
138. The ratio of change in the national income in relation to the change in government spending that causes it is referred to as:
- a. Fiscal Multiplier
  - b. Spending Ratio
  - c. Expenditure Ratio
  - d. Cost Multiplier
139. Which of the following occurs when all taxes and other revenues exceed government expenditures for a year?
- a. Public Debt
  - b. Budget Surplus
  - c. Balanced Budget
  - d. Budget Deficit
140. Marginal social cost can be defined in which one of the following ways?
- a. Marginal private cost plus Marginal social cost
  - b. Marginal private cost minus Marginal private revenue

- c. Marginal private cost
  - d. Marginal external cost
  - e. Marginal private cost plus Marginal external cost
141. Public goods have two criteria, one of which is non-excludability. What does that mean?
- a. It is not possible to exclude individuals from consumption.
  - b. It is not possible to produce them without externalities
  - c. Consumption by one does not affect consumption of others
  - d. A and C.
142. The role of the Finance Commission in Central-State fiscal relations has been undermined by
- a. The State Governments
  - b. The Zonal Councils
  - c. The Planning Commission
  - d. The Election Commission
143. The term 'Performance Budget' was coined by
- a. Administrative Reforms Commission of India
  - b. Second Hoover Commission of USA
  - c. Estimates Committee of India
  - d. First Hoover Commission of USA
144. The public debt of a country is not necessarily a burden on the economy to the extent that:
- a. It grows less rapidly than GDP
  - b. people receive good public services
  - b. it is paid for by borrowing abroad.
  - d. It can be financed without adding to inflation
145. If the public debt can be financed without adding to inflation or causing interest rates to rise, it is said to be:
- a. only a burden on future generations.
  - b. in primary balance
  - c. Sustainable
  - d. following the golden rule of the public finances.
146. Progressive Tax System is that system in which what happens in the rate of tax if there is an increase in income?
- a. destruction
  - b. becomes equal
  - c. growth
  - d. becomes unequal
147. Statutory incidence of a tax deals with
- a. the amount of revenue left over after taxes.
  - b. the amount of taxes paid after accounting for inflation.
  - c. the person(s) legally responsible for paying the tax.

- d. the amount of tax revenue generated after a tax is imposed.
148. Who deals with income and expenditure of public authorities?  
a. Public finance      b. Private finance      c. Local Govt      d. None of these
149. Unfunded debts are those debts which are paid back within .....  
a. two year      b. one year      c. three year      d. six months
150. Which one of the following is not a feature of private finance:  
a. Balancing of income and expenditure      b. Secrecy  
c. Saving some part of income      d. Publicity
151. In the time of emergency from which sources, the government take debt?  
(a) only Indian      b. only imported      c. Indian or imported      d. All
152. Government budget is balanced when  
a. Govt. expenditure outstrips tax receipts      b. Govt. tax receipts outstrips expenditure  
c. Govt. expenditure equals tax revenues      d. None of the above
153. Government taxing and spending policies are called:  
a. Monetary Policy      b. Fiscal Policy  
b. Commercial Policy      d. Finance Policy
154. The government can collect funds from  
a. Taxes      b. Fees      c. Prices of public goods      d. All the three
155. Progressive taxes:  
a. Increase government revenue      b. Bring equality in distribution of incomes  
c. Act as penalty for rich people      d. Both a and b
156. The most important source of revenue to the states is  
a. Sales tax      b. Service tax      c. Excise duty      d. None of the above
157. The tax levied on the interstate trade of goods is  
a. Sales tax      b. Excise tax      c. Service tax      d. Central sales tax
158. Which of the following taxes is/are withdrawn or abolished?  
a. Interest tax      b. Estate duty      c. Gift tax      d. All the above
159. ....is that process in which taxpayer tries to shift burden of tax on others.  
a. Impact of tax      b. Shifting of tax      c. Incidence of tax      d. Elasticity of tax
160. Shifting of tax depends on .....of goods.  
a. Elasticity      b. Quality      c. Quantity      d. Durability

161. The tax levied by the union government on income of individuals is known as
- a. Personal income tax
  - b. Interest tax
  - c. Wealth tax
  - d. Corporation tax
162. The tax on net income of companies is
- a. Personal income tax
  - b. Interest tax
  - c. Wealth tax
  - d. Corporation tax
163. All type of income received to government is called ..... income.
- a. Private
  - b. Public
  - c. Company
  - d. Partnership
164. Which of the following is a union tax?
- a. Corporation tax
  - b. Taxes on agricultural income
  - b. Capitation taxes
  - d. Land revenues
165. Which of the following is not a union tax?
- a. Taxes on railway freights and fares
  - b. Stamp duties on financial documents
  - b. Tolls
  - d. A and b only
166. The principal of public finance is also called the principal of .....
- a. Maximum Social Sacrifice
  - b. Minimum Social Benefit
  - b. Minimum Social Sacrifice
  - d. Maximum Social Benefit
167. The difference between total expenditure and total receipts is
- a. Fiscal deficit
  - b. Budget deficit
  - c. Primary deficit
  - d. Revenue deficit
168. If the proceeds from a Pigouvian tax are used to income tax rates, then efficiency in both markets.
- a. increase; increases
  - b. reduce; reduces
  - b. increase; reduces
  - d. reduce; increases
169. An ad valorem tax is
- a. given as a proportion of the price.
  - b. Latin for “buyer beware.”
  - b. identical to a unit tax.
  - d. computed using the “inverse taxation rule.”
170. Lump sum taxes
- a. create no excess burden.
  - b. are not as widely used as other forms of taxation.
  - c. generally lack a sense of equity.
  - d. all of the above
171. Statutory incidence of a tax deals with
- a. the amount of revenue left over after taxes.

- b. the amount of taxes paid after accounting for inflation.
  - c. the person(s) legally responsible for paying the tax.
  - d. the amount of tax revenue generated after a tax is imposed.
172. Externalities can be positive because
- a. marginal damages do not last over time.
  - b. utility can be impacted positively as well as negatively.
  - c. there is no concept for marginal benefit.
  - d. positive externalities are subsidies.
173. The economic incidence of a unit tax is
- a. generally borne by the buyers.
  - b. generally borne by sellers.
  - c. generally borne by the government.
  - d. independent of the statutory incidence for the tax.
174. Market failure can occur when
- a. monopoly power exists in the market.
  - b. consumers can influence prices
  - b. markets are missing.
  - d. all of the above.
175. A public good is
- a. a good that the public must pay for
  - c. more costly than a private good.
  - b. Non-rival in consumption.
  - d. paid for by the government.
176. The Coase theorem has problems because
- a. generally, bargaining costs are not zero
  - b. markets always exist
  - b. individuals are not concerned with others
  - d. all of the above
177. These are principles of taxation:
- a. Principle of equality
  - b. Principle of secrecy
  - b. Principle of certainty
  - d. Both (a) & (b)
178. Which of the following tax is best example of ability to pay principle of taxes:
- a. Excise tax on cigarettes
  - b. Proportional sales tax
  - b. Highway toll tax
  - d. Personal income tax
179. A direct tax is that which
- a. Is heavy burden on the tax payers
  - b. Can not be evaded
  - b. Can be directly deposited in the banks
  - d. Is paid by the person on whom it is levied
180. Which tax better conforms to the principle of equality in taxation

- a. Progressive tax  
b. Proportional tax
- b. Regressive tax  
d. Fixed tax
181. Which one is not a principle of taxation:  
a. Principle of equality  
b. Principle of morality
- b. Principle of certainty  
d. Principle of diversity
182. Net taxes are:  
a. Domestic taxes minus foreign taxes  
b. Total taxes minus govt. transfer payments
- b. Business taxes minus personal taxes  
d. Total taxes minus govt. purchases
183. Which is not counted as public expenditure?  
a. Subsidy given to local city bus service  
b. Investment spending by public companies
- b. Defence expenditure  
d. Interest payment on national debt.
184. It is difficult to evade:  
a. Direct tax      b. Indirect      c. Proportional      d. Progressive tax
185. The main source of revenue of federal government is:  
a. Property taxes      b. Token taxes      c. Customs duties      d. Sales tax
186. Who establishes the Finance Commission in India?  
a. President  
c. Parliament
- b. Finance Minister  
d. Governor of Reserve Bank of India
187. How many Finance Commissions have been constituted so far?  
a. 12      b. 13      c. 14      d. 15
188. Which of the following statements is not correct?  
a. The first finance commission was constituted in 1951  
b. Chairman of the First Finance Commission was Mr. Santhanam  
c. The Chairman of the 12th Finance Commission was C. Rangarajan  
d. B and C
189. Which of the following article talks about the formation of the Finance Commission?  
a. Article 280  
b. Article 148
- b. Article 275  
d. Article 176
190. Who is the Chairman of the 14th Finance Commission?  
a. Vijay Kelkar  
b. Arun Kumar Mathur
- b. Y.V. Reddy  
d. Nandan Nilakani
191. Who among the following recommends distribution of taxes between the Union and State Govt?



**Answer Key**

1. B	2. *	3. A	4. C	5. B	6. **	7. C	8. D	9. A	10. B
11. D	12. C	13. B	14. A	15. A	16. D	17. B	18. D	19. D	20. C
21. B	22. A	23. C	24. C	25. B	26. D	27. C	28. B	29.	30. A
31. A	32. A	33. D	34. B	35. D	36. C	37. A	38. B	39. B	40. D
41. D	42. A	43. D	44. B	45. A	46. B	47. A	48. D	49. A	50. C
51. D	52. A	53. B	54. D	55. A	56. D	57. A	58. A	59. A	60. C
61. B	62. C	63. A	64. B	65. A	66. A	67. C	68. A	69. B	70. B
71. B	72. A	73. A	74. B	75. D	76. C	77. A	78. D	79. A	80. B
81. B	82. B	83. C	84. D	85. D	86. A	87. C	88. B	89. C	90. D
91. B	92. A	93. B	94. A	95. C	96. A	97. C	98. D	99. A	100. C
101. A	102. A	103. A	104. A	105. C	106. B	107. A	108. C	109. B	110. B
111. C	112. A	113. A	114. C	115. A	116. C	117. D	118. A	119. C	120. B
121. D	122. C	123. C	124. D	125. B	126. A	127. C	128. D	129. D	130. A
131. A	132. A	133. B	134. A	135. C	136. A	137. B	138. A	139. B	140. E
141. D	142. C	143. D	144. A	145. C	146. C	147. C	148. A	149. B	150. D
151. C	152. C	153. B	154. D	155. D	156. D	157. D	158. D	159. B	160. A
161. A	162. D	163. B	164. A	165. D	166. A	167. D	168. A	169. A	170. D
171. C	172. B	173. D	174. D	175. B	176. A	177. D	178. D	179. D	180. A
181. C	182. C	183. C	184. A	185. D	186. A	187. C	188. B	189. A	190. B
191. B	192. B	193. D	194. A	195. B	196. B	197. C	198. D	199. D	200. B

\*Both A and B    \*\* N K Singh

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