

# Practice Set-9

1. The elasticity of demand at the mid-point of a straight line demand curve:
  - (a) will be zero
  - (b) will be unity
  - (c) will be infinity
  - (d) None of these
2. Which of the following is true?
  - (a) Fixed exchange rate is determined by the government
  - (b) Flexible exchange rate is determined by market forces (demand and supply of foreign exchange)
  - (c) Both (a) and (b)
  - (d) None of the above
3. Which one is a kind of fixed exchange rate?
  - (a) Gold Standard System of Exchange Rate
  - (b) Bretton Woods System of Exchange Rate
  - (c) Both (a) and (b)
  - (d) None of the above
4. Balance of Trade =?
  - (a) Export of Visible Items – Imports of Visible Items
  - (b) Export of both Visible and Invisible Items – Import of both Visible and Invisible Items
  - (c) Import of Visible Items – Export of Visible Items
  - (d) None of the above
5. Any statement about the demand of an object is considered complete when it is mentioned in the following:
  - (a) Price of good
  - (b) Demand of good
  - (c) Time period
  - (d) All of the above.
6. When economic development takes place
  - (a) Specialisation increases
  - (b) Commercialisation decreases
  - (c) Market imperfections increase
  - (d) None of the above
7. Which one among the following is the total amount of money available in an economy at a specific time ?
  - (a) Near money
  - (b) Narrow money
  - (c) Money volume
  - (d) Money stock
8. Which one of the following is the act of stimulating the economy by increasing the money supply or by reducing taxes?
  - (a) Disinflation
  - (b) Reflation
  - (c) Inertial inflation
  - (d) Inflation hedge
9. The Central Pollution Control Board (CPCB) was established in the year
  - (a) 1964
  - (b) 1974
  - (c) 1980
  - (d) 1982
10. What are the main causes of poverty in India?
  - (a) low capital formation
  - (b) lack of infrastructure
  - (c) lack of social/welfare nets
  - (d) All of the above
11. The Education Commission (1964–66) had recommended that at least .... per cent of GDP be spent on education so as to make a noticeable rate of growth in educational achievements
  - (a) 2
  - (b) 4
  - (c) 6
  - (d) 8
12. Diversification in agriculture mainly includes
  - (a) change in cropping pattern
  - (b) shift of workforce from agriculture to other allied activities
  - (c) Both a and b
  - (d) None of the above
13. The Great Leap Forward (GLF) is mainly associated with which of the following country?
  - (a) USA
  - (b) India
  - (c) China
  - (d) Bangladesh
14. Match list I and list II
 

List I	List II
A. Liberalisation	I. Opening of economy
B. Privatisation	II. Deregulation of industry
C. Globalisation	III. Disinvestment

Codes

  - (a) A–I, B–III, C–II
  - (b) A–III, B–II, C–I
  - (c) A–II, B–III, C–I
  - (d) A–III, B–I, C–II
15. Which of the following is included in M1?
  - (a) gold
  - (b) checkable deposits
  - (c) stock
  - (d) credit cards

16. Which of the following is not seen as an advantage of the gold standard?
- For a given stock of gold, a rise in real money supply can only occur if the price level declines.
  - Inflation is unlikely to emerge as a significant problem.
  - No country needs to serve at the centre of this fixed exchange rate system.
  - The monetary mechanism has credibility.
17. Which one of the following is a development expenditure?
- Irrigation expenditure
  - Administration
  - Debt services
  - Grant-in-aid
18. Which of the following is not an example of economic overheads?
- Schools
  - Sanitary facilities
  - Roads and Railways
  - Coal mines
19. Development expenditure of the Central government does not include
- defence expenditure
  - expenditure on economic services
  - expenditure on social and community services
  - grant to states
20. Which of the following are correct in regard to the austerity measures taken by a country going through adverse economy conditions:
- These measures include a reduction in spending.
  - These measures include an increase in tax
  - These measures include reduction in budget deficit.
- Select the correct answer using the codes given below:
- 1 and 2 only
  - 1 and 3 only
  - 2 and 3 only
  - 1, 2 and 3
21. Which of the following is not a part of India's National Debt?
- National savings certificates
  - Dated Government securities
  - Provident funds
  - Life insurance policies
22. Which of the following will not contribute to a higher current account deficit?
- Increase in price of crude oil
  - Rise in export of software services
  - Rise in import of services

Choose the correct answer using the codes given below:

- 1 and 2 only
  - 2 only
  - 3 only
  - 1 and 3 only
23. What do you understand by 'regressive taxation'?
- Tax that takes a larger percentage from low-income people than from high income people.
  - Taxation where the tax rate increases irrespective of fall or rise in taxable incomes.
  - Taxation where the tax rate increase with the increase of taxable income
  - None of above
24. Which of the following best explains the cascading effect of taxation?
- When tax imposition leads to a disproportionate increase in prices by an extent more than the rise in the tax.
  - When tax imposition leads to a disproportionate decrease in prices by an extent more than the rise in the tax.
  - When tax imposition leads to a disproportionate decrease in imports.
  - When tax imposition leads to a disproportionate decrease in exports.
- 1 only
  - 2 and 3 only
  - 4 only
  - 3 and 1 only
25. The Reserve Bank of India (RBI) acts as a bankers' bank. This would imply which of the following?
- Other banks retain their deposits with the RBI.
  - The RBI lends funds to the commercial banks in times of need.
  - The RBI advises the commercial banks on monetary matters.
- Select the correct answer using the codes given below:
- 2 and 3 only
  - 1 and 2 only
  - 1 and 3 only
  - 1, 2 and 3
26. In India, deficit financing is used for raising resources
- economic development
  - redemption of public debt
  - adjusting the balance of payments
  - reducing the foreign debt
27. Priority Sector Lending by banks in India constitutes the lending to
- agriculture
  - micro and small enterprises
  - weaker sections
  - All of the above

28. Which one of the following groups of items is included in India's foreign-exchange reserves?
- Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries
  - Foreign-currency assets, gold holdings of the RBI and SDR's
  - Foreign-currency assets, loans from the World Bank and SDRs
  - Foreign-currency assets, gold holdings of the RBI and loans from the World Bank
29. The national income of a country for a given period is equal to the
- total value of goods and services produced by the nationals
  - sum of total consumption and investment expenditure
  - sum of personal income of all individuals
  - money value of final goods and services produced
30. Which of the following constitute Capital Account?
- Foreign Loans
  - Foreign Direct Investment
  - Private Remittances
  - Portfolio Investment
- Select the correct answer using the codes given below.
- 1, 2 and 3
  - 1, 2 and 4
  - 2, 3 and 4
  - 1, 3 and 4
31. Consider the following statements:
- Capital Adequacy Ratio (CAR) is the amount that banks have to maintain in the form of their own funds to offset any loss that banks incur if the account-holders fail to repay dues.
  - CAR is decided by each individual bank.
- Which of the statements given above is/are correct?
- 1 only
  - 2 only
  - Both 1 and 2
  - Neither 1 nor 2
32. Aggregate demand can be increased by:
- increasing bank rate
  - selling govt, securities by RBI
  - increasing cash reserve ratio
  - none of these
33. If the income is ₹ 400 crores and consumption is ₹ 250 crores, what will be the APC?
- 0.67
  - 0.63
  - 0.60
  - 0.58
34. On the basis of government law, the compulsory payment made by the public is known as \_\_\_\_\_
- Expenditure
  - Investment
  - Tax
  - Subsidy
35. Which is the measure of correcting excess demand?
- Deficit financing
  - Reduction in taxes
  - Increase in public expenditure
  - Increase in public debt
36. If the demand for a good changes by 60% due to 40% change in price, the elasticity of demand is :
- 0.5
  - 1.5
  - 1
  - zero
37. Consumer is in equilibrium when:
- $MU_x = PU_x$
  - $MU_x > PU_x$
  - $MU_x < P_x$
  - $MU_x \div P_x$
38. Marshall has given the law of Equimarginal utility related:
- Related to goods
  - Related to money
  - In relation to both
  - None of these.
39. How many tremendous curves can touch the budget line:
- One
  - Two
  - Several
  - Depends on the basis of indifference maps.
40. Indifference curves were first introduced by the English economist in 1881 by:
- Edge worth
  - Pareto
  - Myers
  - Hicks.

### Passage

**Read the text and answer the question that follows.**

Suez Canal is an artificial waterway running from north to south across the Isthmus of Suez in north-eastern Egypt. It connects Port Said on the Mediterranean Sea with the Gulf of Suez, an arm of the Red Sea. The canal provides a direct trade route for ships operating between European or American ports and ports located in South Asia, East Africa and Oceania by doing away with the need to sail around Africa. Strategically and economically, it is one of the most important waterways in the world. Its opening in 1869 reduced the cost of transportation and made access to the Indian market easier.

41. Isthmus of Suez is situated in which of the following part of the Egypt?  
 (a) South-west (b) North-east  
 (c) North-west (d) South-east
42. What was most important benefit of the opening of the Suez Canal?  
 (a) Opportunity for tourism  
 (b) New fishing area was open  
 (c) Distance between India and Europe reduced  
 (d) None of the above
43. Suez Canal was opened in which year?  
 (a) 1800 (b) 1830  
 (c) 1860 (d) 1869
44. Suez Canal is a  
 (a) link between India and South-east Asia  
 (b) natural waterway  
 (c) artificial waterway  
 (d) All of the above
45. Port Said is located along  
 (a) Mediterranean Sea (b) Gulf of Suez  
 (c) Red Sea (d) Caspian Sea

**On the basis of the given data answer the question that follows:**

**Sectoral share of Employment and GVA(%) in 2018-19.**

Sector	Contribution to GVA			Distribution of Workforce		
	India	China	Pakistan	India	China	Pakistan
Agriculture	16	7	24	43	26	41
Industry	30	41	19	25	28	24
Services	54	52	57	32	46	35
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**Source:** Human Development Report: Key Indicators of Asia and Pacific 2019.

46. In India which of the following sector contributes to the GVA?  
 (a) Agriculture (b) Industry  
 (c) Services (d) All of them have equal share
47. In comparison to India which of the following country has highest share of services in GVA?  
 (a) China (b) Pakistan  
 (c) Both (a) and (b) (d) None of the above
48. What percentage of workforce is engaged in agriculture in India?  
 (a) 20 % (b) 22 %  
 (c) 24 % (d) 30 %
49. Arrange the following sector in ascending order in terms of increasing contribution in GVA?  
 (a) Agriculture, Industry, Services  
 (b) Services, Industry, Agriculture  
 (c) Industry, Services, Agriculture  
 (d) Services, Agriculture, Industry,
50. In Pakistan percentage of People engaged in agriculture is  
 (a) 40 % (b) 43%  
 (c) 45 % (d) 50 %

## RESPONSE SHEET

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



## Hints & Explanations

1. (b) will be unity
2. (c) Both (a) and (b)
3. (c) Both (a) and (b)
4. (d) All the above
5. (d) All the above
6. (a) When economic development takes place, specialisation increases. Economic development typically involves improvements in a variety of indicators such as literacy rates, life expectancy and poverty rates. GDP does not take into account other aspects such as leisure time, environmental quality, freedom, or social justice; alternative measures of economic well-being have been proposed.
7. (d) The money supply or money stock, is the total amount of monetary assets available in an economy at a specific time. It includes currency in circulation and demand deposits.  
**Near money** : assets which can readily be converted into cash, such as bills of exchange.  
**Narrow money** : Money in forms that can be used as a medium of exchange generally notes, coins and certain balances held by bank.
8. (b) Reflation is the act of stimulating the economy by increasing the money supply or by reducing taxes, seeking to bring the economy (specifically price level) back up to the long-term trend, following a dip in the business cycle. Disinflation : Reduction in the rate of inflation. Inflation Hedge : It is an investment with intrinsic value such as Oil, Natural Gas, Gold, farmland and to a lesser degree commercial real state.
9. (b) 1974
10. (d) All the above
11. (c) 6
12. (c) Both (a) and (b)
13. (c) China
14. (c) A-II, B-III, C-I
15. (b) M1 measures the most liquid components of the money supply, as it contains cash and assets that can quickly be converted to currency.  
 $M0 + M1$  - Narrow money - includes coins and notes in circulation and other money equivalents that are easily convertible into cash.  
 $M2 - M1$  + short term deposits in banks.  
 $M3 - M2$  + long term deposits and money market fund.  
 $M4 - M3$  + other deposits.
16. (a) For a given stock of gold, a rise in real money supply can only occur if the price level declines. The blue fit of Gold standard is that a fixed assets back the money values. It provide a self regulating and stabilizing effect on the economy that discourages the inflation.
17. (a) **Developmental Expenditure** - The expenditure which is incurred on activities directly related to economic development is called developmental expenditure. Expenditure occurred on education, health care, scientific research, infrastructure etc.  
**Non Developmental Expenditure** - Expenditure incurred on general essential services required for normal running of the Govt. is non developmental expenditure. Expenditure occurred on service relating to general administration, police, judiciary, defense is non developmental expenditure.
18. (d) Coal mines is not an example of economic overheads. Economic overhead is capital investment into the infrastructure which should encourage new industrial growth and social well being. The other three School, sanitary facilities and roads and railways are economic overheads. Overheads are indirect cost which cannot be traced into any specified cost objects.
19. (a) All expenditures that promote economic growth and development are termed as development expenditure. Expenditure on infrastructure development, public enterprises or development of agriculture increase productive capacity in the economy and bring income to the government. Expenditures in the nature of consumption such as Defence, interest payments, expenditure on law and order, public administration, do not create any productive asset which can bring income or returns to the government are non-development expenditure.  
Govt. grant is a financial award given by the federal State local Govt. to an eligible grantee.
20. (d) Austerity describes policies used by governments to reduce budget deficits during adverse economic conditions. These policies may include spending cuts, tax increases. This is done in economic crisis situation to improve the credit rating of the countries going through adverse economic condition.

21. (d) Government debt is the debt owed by central government. Government usually borrows by issuing securities, government bonds, bills through Provident funds etc. However pension policies are not included in the list.
22. (b) Current account deficit is a measurement of a country's trade in which the value of goods and services it imports exceeds the value of goods and services it exports. Increase in crude oil price and rise in import of services oil increase the current account deficit. However increase in exports will reduce the deficit.
23. (a) A regressive tax is generally a tax that is applied uniformly. This means that it hits lower income individuals harder. Regressive tax imposes a greater burden (relative to resources) on the poor than on the rich — there is an inverse relationship between the tax rate and the taxpayer's ability to pay as measured by assets, consumption, or income.
24. (a) "taxation over taxes" or "cascading-effect" of the taxes adds to the deadweight loss i.e. slump in total surplus of supply chain consisting of supplier, manufacturer, retailer and consumer. Due to cascading tax imposition leads to a disproportionate increase in prices by an extent more than the rise in the tax.
25. (d) All the statements are correct.
26. (a) Deficit financing refers to the difference between expenditure and receipts. In public finance, it means the govt. is spending more than what it is earning. Deficit financing is a necessary evil in a welfare state as the states often fail to generate tax revenue which is sufficient enough to take care of the expenditure of the state. The basic intention behind deficit financing is to provide the necessary impetus to economic growth by artificial means.
27. (d) Priority sector lending constitutes the lending to—agriculture, micro and small enterprises, micro credit, education, housing and weaker sections.
28. (b) In India's foreign exchange reserve, it includes foreign currency deposits, bonds, gold reserves, SDRs and IMF reserve position. Foreign exchange reserves are an important part of the international investment position of a country.
29. (d) National Income is the money value of all the final goods and services produced by a country during a period of one year. National Income consists of a collection of different types of goods and services of different types.
30. (b) Capital Account comprises of Foreign loans, Foreign Direct Investment and Portfolio Investment. Capital Account is the net result of public and private international investments flowing in and out of a country. Portfolio investment is the buying of shares and bonds. FDI is the investments by foreigners in a country or the citizens investing in foreign countries.
31. (a) CAR is decided by the benchmarks set by BASEL-III Committee on Banking supervision and implemented by the central bank of individual country. So, Statement 2 is right, whereas Statement 1 is correct.
32. (d) None of these
33. (b) 0.63
34. (c) Tax
35. (d) Increase in public debt
36. (b) -1.5
37. (a)  $MU_x = P U_x$
38. (a) Related to goods
39. (a) One
40. (a) Edge worth
41. (b) North-east
42. (c) Distance between India and Europe reduced
43. (d) 1869
44. (c) artificial waterway
45. (a) Mediterranean Sea
46. (c) Services
47. (c) Both a and b
48. (b) 43%
49. (a) Agriculture, Industry, Services
50. (c) 24 %