BIHAR Board Class 12 Economics - 326 - Set-D 2025 Question Paper with Solutions

Time Allowed :3 Hours 15 mins	**Maximum Marks :**70	**Total questions :**96

General Instructions

Instructions to the candidates:

1. **Candidate must enter his/her Question Booklet Serial No. (10 Digits) in the OMR Answer Sheet.**
2. Candidates are required to give their answers in their own words as far as practicable.
3. Figures in the right-hand margin indicate full marks.
4. An extra time of 15 minutes has been allotted for the candidates to read the questions carefully.
5. This question booklet is divided into two sections — **Section-A** and **Section-B**.

1. What is the most appropriate measure of the economic growth of a country?

(A) Gross domestic product

(B) Net domestic product

(C) Gross National product

(D) Per capita real income

Correct Answer: (A) Gross domestic product

Solution:

Step 1: Understanding Economic Growth.

Economic growth is typically measured by the Gross Domestic Product (GDP), which reflects the total value of goods and services produced in a country within a specific time period.

Step 2: Conclusion.

Among the options, Gross Domestic Product (GDP) is the most commonly used indicator for measuring the economic growth of a country.

> Quick Tip
>
> Gross Domestic Product (GDP) is widely used to measure the economic health of a country.

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2. Which of the following is equal to National Income?

(A) NDP$_{PC}$

(B) NNP$_{MP}$

(C) NDP$_{MP}$

(D) NNP$_{PC}$

Correct Answer: (D) NNP$_{PC}$

Solution:

Step 1: Definition of National Income.

National Income (NI) is the total income earned by the residents of a country from all sources, including wages, rents, interests, and profits. It is also called Net National Product at Market Price (NNP$_{MP}$), but when adjusted for per capita income, it becomes NNP$_{PC}$.

Step 2: Conclusion.

Therefore, the correct equivalent of National Income is NNP$_{PC}$, as it refers to the national income measured per capita.

Quick Tip

National Income (NI) can be measured as NNP$_{PC}$, which accounts for per capita income.

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3. Who among the following economists is not of the welfare concept?

(A) J. B. Say

(B) Marshall

(C) Pigou

(D) Cannan

Correct Answer: (D) Cannan

Solution:

Step 1: Understanding the Welfare Concept.

The welfare economics concept involves understanding how the allocation of resources affects the well-being of individuals in society. Economists like J. B. Say, Marshall, and Pigou are associated with the welfare economics school.

Step 2: Conclusion.

Cannan, however, did not adhere to the welfare economics approach, making him the correct answer.

Quick Tip

Welfare economics focuses on the allocation of resources to maximize societal well-being.

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4. A, B and C are three commodities, where A and B are complementary, whereas A and C are substitute goods. Then what will be the effect on demand if the price of commodity A increases?

(A) Demand of all the commodities A, B and C will fall

(B) Demand of commodities A and B will fall, whereas demand of C will rise

(C) Demand of commodities A and C will fall, whereas demand of B will rise

(D) Demand of commodities B and C will fall, whereas demand of A will rise

Correct Answer: (B) Demand of commodities A and B will fall, whereas demand of C will rise

Solution:

Step 1: Understanding Complementary and Substitute Goods.

- Complementary goods are those goods that are used together. For example, A and B are complementary, so if the price of A increases, the demand for B will decrease as they are used together.

- Substitute goods are those goods that can replace each other. For example, A and C are substitutes, so if the price of A increases, the demand for C will increase as consumers switch to the cheaper substitute.

Step 2: Conclusion.

Therefore, if the price of A increases, the demand for both A and B will decrease, while the demand for C will increase due to it being a substitute for A. Hence, the correct answer is (B).

Quick Tip

When the price of a complementary good rises, the demand for the complementary good falls, while the demand for substitute goods increases.

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5. A change in which of the following does not cause a change in demand?

(A) Change in price

(B) Change in income

(C) Changes in taste and fashion

(D) None of these

Correct Answer: (A) Change in price

Solution:

Step 1: Understanding Changes in Demand.

Demand for a good is influenced by several factors, including price, income, and taste. However, a change in price does not directly cause a shift in demand, but rather a change in the quantity demanded.

Step 2: Analysis.

- A change in price leads to a movement along the demand curve, not a shift in the demand curve itself. Hence, it does not cause a change in demand but rather in the quantity demanded. - A change in income or tastes can shift the demand curve, thus affecting demand.

Step 3: Conclusion.

Therefore, a change in price does not cause a change in demand, making the correct answer (A).

Quick Tip

Changes in price result in changes in quantity demanded, not in demand itself. Only shifts in income, tastes, or external factors change demand.

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6. What effect does a price rise have on the demand for 'Giffen' goods?

(A) Increases

(B) Decreases

(C) Remains stable

(D) Becomes unstable

Correct Answer: (A) Increases

Solution:

Step 1: Understanding Giffen Goods.

Giffen goods are a type of inferior good for which an increase in price leads to an increase in quantity demanded, contrary to the basic law of demand. This phenomenon occurs because the income effect outweighs the substitution effect.

Step 2: Conclusion.

Thus, for Giffen goods, a price rise leads to an increase in demand. Therefore, the correct answer is (A).

> Quick Tip
>
> Giffen goods are an exception to the law of demand, where an increase in price results in an increase in quantity demanded.

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7. Which of the following is the correct formula to calculate marginal cost?

(A) $MC_N = TFC_N - TFC_{N-1}$

(B) $MC_N = AC_N - AC_{N-1}$

(C) $MC_N = AVC_N - AVC_{N-1}$

(D) $MC_N = TC_N - TC_{N-1}$

Correct Answer: (D) $MC_N = TC_N - TC_{N-1}$

Solution:

Step 1: Understanding Marginal Cost.

Marginal cost is the additional cost incurred when producing one more unit of output. It can be calculated by taking the change in total cost (TC) when one more unit is produced.

Step 2: Conclusion.

The correct formula for calculating marginal cost is:

$$MC_N = TC_N - TC_{N-1}$$

Thus, the correct answer is (D).

Quick Tip

Marginal cost is the change in total cost that results from producing an additional unit of output.

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8. e$_a$ = 0 means the demand for good is:

(A) Perfectly elastic

(B) Perfectly inelastic

(C) Unit elastic

(D) None of these

Correct Answer: (B) Perfectly inelastic

Solution:

Step 1: Understanding Elasticity.

The value of elasticity (e_a) indicates how sensitive the quantity demanded is to a change in price. If $e_a = 0$, it implies that the quantity demanded does not change regardless of the price, meaning the demand is perfectly inelastic.

Step 2: Conclusion.

Therefore, if $e_a = 0$, the demand for the good is perfectly inelastic, and the correct answer is (B).

Quick Tip

Perfectly inelastic demand means that the quantity demanded does not change, no matter the price.

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9. Other things being the same, what does the positive relation between the price of a commodity and quantity of supply indicate?

(A) Law of demand

(B) Elasticity of supply

(C) Law of supply

(D) Supply function

Correct Answer: (C) Law of supply

Solution:

Step 1: Understanding the Law of Supply.

The Law of Supply states that, all other factors being equal, an increase in the price of a commodity leads to an increase in the quantity supplied. The positive relationship between price and supply indicates that suppliers are willing to offer more of a good at higher prices.

Step 2: Conclusion.

Therefore, the positive relationship between the price of a commodity and the quantity supplied is explained by the Law of Supply.

Quick Tip

According to the Law of Supply, price and quantity supplied are directly related.

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10. The break-even point arises when

(A) TR ¿ TC

(B) MR ¿ MC

(C) TR = TC

(D) Both (A) and (B)

Correct Answer: (C) TR = TC

Solution:

Step 1: Understanding the Break-even Point.

The break-even point is the point at which total revenue (TR) equals total cost (TC), meaning there is no profit or loss. At this point, a firm is covering all its costs but is not making a profit.

Step 2: Conclusion.

The break-even point occurs when TR = TC. Therefore, the correct answer is (C).

> **Quick Tip**
>
> At the break-even point, a firm's total revenue is exactly equal to its total cost, resulting in no profit or loss.

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11. How does a deficit budget affect the economy?

(A) The economy comes out of recession

(B) More quantity of money flows into the economy

(C) More investment will be in the economy

(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Effect of Deficit Budget.

A deficit budget, where government expenditure exceeds revenue, typically results in increased government spending, which can boost economic activity. It leads to higher demand, more money circulating in the economy, and potentially more investment in the economy.

Step 2: Conclusion.

Thus, a deficit budget can help the economy come out of recession, increase the quantity of money in circulation, and promote investment. Hence, the correct answer is (D).

> **Quick Tip**
>
> A deficit budget increases government spending, which can stimulate economic growth by increasing money supply and investment.

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12. What is revenue deficit?

(A) Difference between revenue expenditure and revenue receipts

(B) Difference between capital expenditure and capital receipts

(C) Difference between export and import

(D) Difference between total expenditure and total receipts

Correct Answer: (A) Difference between revenue expenditure and revenue receipts

Solution:

Step 1: Understanding Revenue Deficit.

Revenue deficit occurs when the revenue expenditure exceeds the revenue receipts. It is a situation where the government's non-capital expenditure surpasses its revenue income.

Step 2: Conclusion.

Therefore, revenue deficit is defined as the difference between revenue expenditure and revenue receipts, making (A) the correct answer.

> **Quick Tip**
>
> Revenue deficit occurs when a government's revenue expenditure exceeds its revenue receipts.

---

13. Which monetary policy is adopted to control inflationary gap?

(A) Dear money policy

(B) Cheap money policy

(C) Both (A) and (B)

(D) None of these

Correct Answer: (A) Dear money policy

Solution:

Step 1: Understanding Inflationary Gap.

An inflationary gap occurs when the demand for goods and services exceeds the economy's ability to produce them, leading to inflation. To control this, a central bank may implement a dear money policy, raising interest rates to reduce spending and borrowing.

Step 2: Conclusion.

A dear money policy is typically used to control an inflationary gap, making (A) the correct answer.

> Quick Tip
>
> Dear money policy raises interest rates to reduce borrowing and spending, which helps control inflation.

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14. Which of the following statements is/are correct?

(A) The fixed exchange rate is determined by the government

(B) Flexible exchange rates are determined based on the market forces (demand and supply of foreign currency)

(C) Both (A) and (B)

(D) None of these

Correct Answer: (C) Both (A) and (B)

Solution:

Step 1: Understanding Exchange Rate Types.

- A fixed exchange rate is one where the value of the currency is pegged to another currency or a basket of currencies by the government. - A flexible exchange rate, on the other hand, is determined by market forces like demand and supply of the foreign currency.

Step 2: Conclusion.

Both (A) and (B) are correct, as fixed exchange rates are determined by the government, and flexible exchange rates depend on market forces. Therefore, the correct answer is (C).

> **Quick Tip**
>
> A fixed exchange rate is government-controlled, while a flexible exchange rate is determined by market dynamics.

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15. Differentiated product is a characteristic of

(A) only monopolistic competition

(B) only oligopoly

(C) both monopolistic competition and oligopoly

(D) none of these

Correct Answer: (C) both monopolistic competition and oligopoly

Solution:

Step 1: Understanding Differentiated Products.

In both monopolistic competition and oligopoly, firms offer differentiated products. These products are unique in some way, allowing firms to have some control over prices.

Step 2: Conclusion.

Thus, the characteristic of differentiated products applies to both monopolistic competition and oligopoly, making (C) the correct answer.

> **Quick Tip**
>
> Differentiated products allow firms in monopolistic competition and oligopoly to set prices independent of others.

16. What is the component(s) of aggregate demand in an open economy?

(A) Consumption

(B) Consumption + Government expenditure

(C) Investment

(D) Consumption + Investment + Government expenditure + Net export (X - M)

Correct Answer: (D) Consumption + Investment + Government expenditure + Net export (X - M)

Solution:

Step 1: Components of Aggregate Demand.

In an open economy, aggregate demand consists of consumption (C), investment (I), government expenditure (G), and net export (X - M), where X is exports and M is imports.

Step 2: Conclusion.

The correct representation of aggregate demand in an open economy is:

$$AD = C + I + G + (X - M)$$

Thus, the correct answer is (D).

Quick Tip

In an open economy, aggregate demand includes the total of consumption, investment, government spending, and net exports.

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17. In the Keynesian economy, the condition of deficient demand is called by which of the following names?

(A) Full employment equilibrium

(B) Under-employment equilibrium

(C) Both (A) and (B)

(D) None of these

Correct Answer: (B) Under-employment equilibrium

Solution:

Step 1: Understanding Keynesian Economics.

In Keynesian economics, under-employment equilibrium refers to a situation where total demand in the economy is insufficient to employ all available resources, leading to a situation of under-employment and deficient demand.

Step 2: Conclusion.

Thus, in the Keynesian framework, the condition of deficient demand is referred to as under-employment equilibrium. The correct answer is (B).

> **Quick Tip**
>
> Under-employment equilibrium occurs when the economy is not operating at full capacity, resulting in under-utilization of resources.

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18. Which of the following statements is correct?

(A) $C = f(Y)$

(B) $C + S = C + I$

(C) The equilibrium level of income Y in the economy = equilibrium level of output O = equilibrium level of employment

(D) None of these

Correct Answer: (C) Equilibrium level of income Y in the economy = equilibrium level of output O = equilibrium level of employment

Solution:

Step 1: Understanding Equilibrium in Keynesian Economics.

In Keynesian economics, the equilibrium level of income in the economy is where total output (production) equals total income (expenditure), and this is also the level of employment.

Step 2: Conclusion.

At equilibrium, the income level Y equals the output level O, and the employment level is also at equilibrium. Hence, the correct answer is (C).

Quick Tip

In equilibrium, the total income in an economy is equal to the total output, and the level of employment is at its maximum sustainable level.

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19. Who has made the first attempt of National Income Accounting?

(A) Keynes

(B) Kuznets

(C) Gadgil

(D) Gregory King

Correct Answer: (B) Kuznets

Solution:

Step 1: Understanding National Income Accounting.

The first person to make an attempt to quantify and systematize the measurement of National Income was Simon Kuznets. He developed the concept of Gross National Product (GNP) and is regarded as the father of National Income Accounting.

Step 2: Conclusion.

Thus, the correct answer is (B), as Simon Kuznets made the first attempt in National Income Accounting.

Quick Tip

Simon Kuznets is known for his pioneering work in National Income Accounting and developing the concept of Gross National Product (GNP).

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20. Which of the following statements about classical theory of employment is correct?

(A) The economy always remains in a state of full employment

(B) There is no possibility of overproduction or underproduction in the economy

(C) Both (A) and (B)

(D) None of these

Correct Answer: (C) Both (A) and (B)

Solution:

Step 1: Classical Theory of Employment.

According to classical economics, the economy always tends to full employment, where all resources are fully utilized. It assumes that any disequilibrium, such as overproduction or underproduction, will be self-correcting due to flexible prices and wages.

Step 2: Conclusion.

Thus, both statements (A) and (B) are correct according to classical economic theory, making (C) the correct answer.

> Quick Tip
>
> Classical theory assumes that the economy naturally moves towards full employment, and there is no long-term issue of overproduction or underproduction.

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21. If P_e is the equilibrium price and P_m is the market price, when will the situation of excess supply arise?

(A) $P_e = P_m$

(B) $P_e > P_m$

(C) $P_e < P_m$

(D) None of these

Correct Answer: (B) $P_e > P_m$

Solution:

Step 1: Understanding Excess Supply.

Excess supply occurs when the market price is higher than the equilibrium price, leading to a situation where the quantity supplied exceeds the quantity demanded. This happens when $P_m < P_e$.

Step 2: Conclusion.

Thus, excess supply arises when the market price P_m is lower than the equilibrium price P_e, making (B) the correct answer.

> **Quick Tip**
>
> Excess supply occurs when the price in the market is lower than the equilibrium price, leading to an oversupply of goods.

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22. What does the demand for money for speculative purposes depend on?

(A) National income

(B) Price level

(C) Market interest rate

(D) None of these

Correct Answer: (C) Market interest rate

Solution:

Step 1: Understanding Speculative Demand for Money.

The speculative demand for money refers to the demand for money as an asset, which depends on the interest rate. When interest rates are low, people are more likely to hold money, as the opportunity cost of holding money is lower.

Step 2: Conclusion.

Thus, the demand for money for speculative purposes depends on the market interest rate, making (C) the correct answer.

Quick Tip

The speculative demand for money increases when interest rates are low, as holding money becomes less costly compared to holding bonds or other assets.

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23. What will be the marginal propensity to save (MPS) if marginal propensity to consume (MPC) is 0.7?

(A) 0.7

(B) 0.25

(C) 0.3

(D) 0.3

Correct Answer: (C) 0.3

Solution:

Step 1: Understanding MPC and MPS.

The marginal propensity to consume (MPC) and marginal propensity to save (MPS) are related. Since total income is either consumed or saved, we have the following relationship:

$$\text{MPC} + \text{MPS} = 1$$

Given that MPC = 0.7, we can substitute it into the equation:

$$0.7 + \text{MPS} = 1$$

Step 2: Calculation.

Solving for MPS:

$$\text{MPS} = 1 - 0.7 = 0.3$$

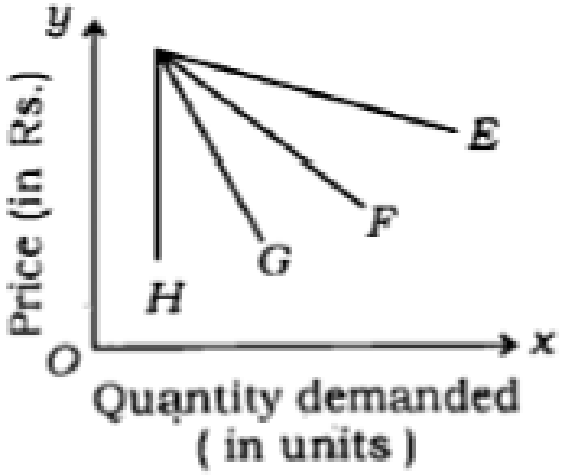
Step 3: Conclusion.

Thus, the marginal propensity to save (MPS) is 0.3, making the correct answer (C).

Quick Tip

The marginal propensity to save is the complement of the marginal propensity to consume, i.e., $\text{MPS} = 1 - \text{MPC}$.

24. Which of the demand curves given in the figure is more elastic?



(A) F

(B) E

(C) G

(D) H

Correct Answer: (B) E

Solution:

Step 1: Understanding Elasticity of Demand.

The elasticity of demand refers to how much the quantity demanded changes when the price of a good changes. If the demand curve is flatter, it is more elastic, as consumers are more responsive to price changes. If the demand curve is steeper, it is less elastic.

Step 2: Conclusion.

From the figure, the demand curve E is the flattest, indicating it is the most elastic. Hence, the correct answer is (B).

> **Quick Tip**
>
> More elastic demand curves are flatter, indicating that consumers are more sensitive to price changes.

25. What is the primary objective of monetary policy in India?

(A) To bring price stability in the economy

(B) Employment generation in the country

(C) To increase trade surplus

(D) To generate greater tax revenue

Correct Answer: (A) To bring price stability in the economy

Solution:

Step 1: Understanding Monetary Policy Objectives.

In India, the primary objective of monetary policy, as set by the Reserve Bank of India (RBI), is to maintain price stability, which includes controlling inflation. This helps ensure a stable economic environment conducive to growth.

Step 2: Conclusion.

Thus, the correct answer is (A), as the main goal of monetary policy in India is to bring price stability.

> Quick Tip
>
> Price stability is a key goal of monetary policy as it supports sustainable economic growth and stability.

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26. Which of the following statements is true?

(A) Supply of money is a flow concept

(B) Notes and coins are legal tenders

(C) OD (other deposits) includes deposits of the government of the country with RBI also

(D) Supply of money includes stock of money held by the government also

Correct Answer: (C) OD (other deposits) includes deposits of the government of the country with RBI also

Solution:

Step 1: Understanding the Concept of Money Supply.

The supply of money includes not only the currency in circulation but also deposits held by banks, including those of the government with the RBI. Other deposits (OD) refer to all deposits held in the banking system, including government deposits.

Step 2: Conclusion.

Thus, the correct answer is (C), as OD (other deposits) includes deposits from the government as well.

> **Quick Tip**
>
> Money supply includes all currency in circulation and deposits held in banks, including those of the government with the RBI.

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27. Loans offered by commercial banks are

(A) Less than the deposits received by them

(B) More than the deposits received by them

(C) Equal to the deposits received by them

(D) None of these

Correct Answer: (A) Less than the deposits received by them

Solution:

Step 1: Understanding Loans and Deposits.

Commercial banks lend a portion of the deposits they receive but must keep a reserve as per regulatory requirements (like the reserve requirement set by the central bank). Therefore, the amount of loans they offer is usually less than the deposits they receive.

Step 2: Conclusion.

The correct answer is (A), as commercial banks typically lend out less than the deposits they receive.

Quick Tip

Commercial banks do not lend out all deposits; a portion is kept as reserves to meet withdrawal demands and regulatory requirements.

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28. How can the central bank increase the availability of credit?

(A) Increasing repo rate

(B) Increasing reverse repo rate

(C) Buying government securities

(D) Selling government securities

Correct Answer: (C) Buying government securities

Solution:

Step 1: Understanding Repo and Reverse Repo Rates.

The central bank can increase the availability of credit by buying government securities. This increases the money supply in the economy, thereby making more credit available to commercial banks and the public.

Step 2: Conclusion.

Thus, the correct answer is (C), as buying government securities increases the money supply and makes credit more available.

Quick Tip

By purchasing government securities, the central bank injects money into the economy, increasing the availability of credit.

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29. The part of LRR (Legal reserve ratio) kept by the banks with themselves is called

(A) SLR (Statutory liquidity ratio)

(B) CRR (Cash reserve ratio)

(C) Repo rate

(D) Reverse repo rate

Correct Answer: (A) SLR (Statutory liquidity ratio)

Solution:

Step 1: Understanding Legal Reserve Ratio (LRR).

The Legal Reserve Ratio (LRR) includes both the Statutory Liquidity Ratio (SLR) and the Cash Reserve Ratio (CRR). The SLR refers to the portion of a bank's reserves that it must maintain in the form of liquid assets (such as cash, gold, or government securities) and is held by the bank itself. The CRR refers to the cash reserves a bank must hold with the central bank.

Step 2: Conclusion.

Thus, the portion of reserves kept by the bank itself is referred to as SLR, making (A) the correct answer.

Quick Tip

The Statutory Liquidity Ratio (SLR) is the portion of reserves banks are required to maintain in the form of liquid assets with themselves.

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30. The rate at which central bank lends money to commercial banks for immediate cash requirements is called

(A) Repo rate

(B) Reverse repo rate

(C) Cash reserve ratio (CRR)

(D) Statutory liquidity ratio (SLR)

Correct Answer: (A) Repo rate

Solution:

Step 1: Understanding Repo Rate.

The repo rate is the rate at which commercial banks borrow money from the central bank (RBI) for short-term funding needs. It is one of the most important tools used by central banks to regulate money supply and inflation.

Step 2: Conclusion.

Thus, the rate at which the central bank lends money to commercial banks for immediate cash requirements is called the repo rate. Therefore, the correct answer is (A).

> **Quick Tip**
>
> Repo rate is a key tool used by central banks to manage liquidity in the economy.

---

31. What are those goods with negative income effect and positive price effect called?

(A) Normal goods

(B) Inferior goods

(C) Giffen goods

(D) Complementary goods

Correct Answer: (C) Giffen goods

Solution:

Step 1: Understanding Giffen Goods.

Giffen goods are a special category of inferior goods for which an increase in price leads to an increase in quantity demanded. This happens because the income effect outweighs the substitution effect, which is an unusual situation in demand theory.

Step 2: Conclusion.

Thus, goods with a negative income effect and a positive price effect are called Giffen goods. The correct answer is (C).

> **Quick Tip**
>
> Giffen goods violate the law of demand by increasing in quantity demanded when prices rise due to the strong income effect.

32. What is fiscal deficit?

(A) Primary deficit - Interest payments

(B) Primary deficit + Interest payments

(C) Total expenditure of the government - Total income of the government

(D) None of these

Correct Answer: (C) Total expenditure of the government - Total income of the government

Solution:

Step 1: Understanding Fiscal Deficit.

A fiscal deficit is the difference between the total expenditure of the government and its total revenue (excluding borrowings). It represents the amount of borrowing needed by the government to meet its expenses.

Step 2: Conclusion.

Therefore, fiscal deficit is the total expenditure of the government minus its total income. Hence, the correct answer is (C).

> Quick Tip
>
> Fiscal deficit is a key indicator of the government's financial health and shows the gap between its spending and revenue.

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33. Who among the following gets the benefit of income tax?

(A) Central government

(B) State governments

(C) Both the Central and State governments

(D) None of these

Correct Answer: (A) Central government

Solution:

Step 1: Understanding Income Tax.

Income tax is levied by the central government in most countries. The revenue generated from income tax primarily benefits the central government.

Step 2: Conclusion.

Thus, the correct answer is (A), as the central government is the primary recipient of income tax revenue.

> **Quick Tip**
>
> Income tax is primarily collected by the central government in most countries to fund its expenditures.

---

34. Which of the following is not a revenue receipt?

(A) Recovery of loans

(B) Foreign grants

(C) Profits of the public enterprises

(D) Wealth tax

Correct Answer: (A) Recovery of loans

Solution:

Step 1: Understanding Revenue Receipts.

Revenue receipts are the income received by the government that do not require repayment. They include taxes and other non-debt receipts like profits from public enterprises. However, recovery of loans is a capital receipt, as it involves repayment of past loans.

Step 2: Conclusion.

Thus, recovery of loans is not considered a revenue receipt. The correct answer is (A).

> **Quick Tip**
>
> Revenue receipts do not involve repayment and typically come from taxes and other income, while capital receipts include loans and their repayments.

35. The expenditure which does not create assets for the government is called

(A) Revenue expenditure

(B) Capital expenditure

(C) Both (A) and (B)

(D) None of these

Correct Answer: (A) Revenue expenditure

Solution:

Step 1: Understanding Revenue Expenditure.

Revenue expenditure refers to the expenditure incurred by the government that does not result in the creation of assets. It includes expenses on salaries, subsidies, and interest payments. On the other hand, capital expenditure creates assets for the government.

Step 2: Conclusion.

Thus, the expenditure that does not create assets for the government is called revenue expenditure. Therefore, the correct answer is (A).

Quick Tip

Revenue expenditure refers to spending on goods and services that do not generate long-term assets, while capital expenditure creates assets for the government.

36. Which of the following is not an indirect tax?

(A) Excise duty

(B) Property tax

(C) Customs duty

(D) Service tax

Correct Answer: (B) Property tax

Solution:

Step 1: Understanding Taxes.

Indirect taxes are those that are levied on goods and services rather than on income or profits. Excise duty, customs duty, and service tax are all types of indirect taxes because they are imposed on transactions rather than income. Property tax, however, is a direct tax as it is levied on property ownership.

Step 2: Conclusion.

Thus, the correct answer is (B), as property tax is a direct tax and not an indirect tax.

> **Quick Tip**
>
> Indirect taxes are levied on goods and services, whereas direct taxes are imposed on income and wealth.

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37. Market price is related to

(A) Short-run market

(B) Long-run market

(C) Very long-run market

(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding Market Price.

Market price is the price at which goods are traded in the market, and it is influenced by both short-term and long-term factors. In the short-run, market price is determined by immediate supply and demand conditions, while in the long-run, it is determined by broader economic factors, such as production costs and the availability of resources.

Step 2: Conclusion.

Thus, market price is related to all timeframes, including the short-run, long-run, and very long-run, making (D) the correct answer.

Quick Tip

Market prices are influenced by supply and demand in both the short-run and the long-run, adjusting according to changes in these factors.

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38. Devaluation is the process in which

(A) The adverse balance of payments situation improves

(B) The government itself depreciates the value of its domestic currency in terms of foreign currency

(C) Both (A) and (B)

(D) None of these

Correct Answer: (C) Both (A) and (B)

Solution:

Step 1: Understanding Devaluation.

Devaluation refers to the deliberate reduction in the value of a country's currency relative to other currencies. This is typically done by the government to address an adverse balance of payments situation and to make exports cheaper. The government itself can take action to depreciate the value of its currency in terms of foreign currency.

Step 2: Conclusion.

Both statements (A) and (B) are true in the case of devaluation, making (C) the correct answer.

Quick Tip

Devaluation is used to correct trade imbalances by making a country's exports cheaper and imports more expensive.

---

39. When the foreign exchange rate of a country is determined by market forces then what is this type of exchange rate called?

(A) Fixed exchange rate

(B) Flexible exchange rate

(C) Managed floating exchange rate

(D) All of these

Correct Answer: (B) Flexible exchange rate

Solution:

Step 1: Understanding Exchange Rates.

A flexible exchange rate is one where the value of the currency is determined by market forces—supply and demand for the currency in the foreign exchange market. In contrast, a fixed exchange rate is determined by the government, and a managed floating exchange rate involves some intervention by the central bank.

Step 2: Conclusion.

Thus, when the foreign exchange rate is determined by market forces, it is called a flexible exchange rate. The correct answer is (B).

> **Quick Tip**
>
> Flexible exchange rates are influenced by supply and demand in the currency market, without direct government intervention.

---

40. Which of the following is a danger from fiscal deficit?

(A) Deflationary pressure

(B) Inflationary pressure

(C) Both (A) and (B)

(D) None of these

Correct Answer: (B) Inflationary pressure

Solution:

Step 1: Understanding Fiscal Deficit.

A fiscal deficit occurs when the government's expenditure exceeds its revenue, excluding borrowings. This often leads to inflationary pressures as the government borrows more, increasing the money supply and potentially raising inflation.

Step 2: Conclusion.

Thus, a fiscal deficit can lead to inflationary pressure but not necessarily deflationary pressure. The correct answer is (B).

> **Quick Tip**
>
> A fiscal deficit, especially if financed through borrowing, can lead to inflationary pressure by increasing the money supply.

---

41. When total revenue is constant, what will be the effect on average revenue?

(A) Average revenue (AR) will fall

(B) Average revenue (AR) will increase

(C) Average revenue (AR) will also be constant

(D) No effect on average revenue (AR)

Correct Answer: (C) Average revenue (AR) will also be constant

Solution:

Step 1: Understanding Total Revenue and Average Revenue.

Total revenue is the total amount of money a firm receives from selling its output. Average revenue (AR) is the total revenue divided by the quantity of output sold. If total revenue remains constant, then average revenue will also remain constant, because AR is derived from total revenue divided by the same quantity.

Step 2: Conclusion.

Thus, if total revenue is constant, average revenue will also be constant, making (C) the correct answer.

Quick Tip

If total revenue is constant, average revenue will remain unchanged, regardless of output level.

---

42. If a firm's total revenue curve takes the form of a straight line which passes through the origin, then

(A) Price ¿ Marginal revenue

(B) Price = Marginal revenue

(C) Price ¡ Marginal revenue

(D) None of these

Correct Answer: (B) Price = Marginal revenue

Solution:

Step 1: Understanding Total Revenue Curve.

In this case, if the total revenue (TR) curve is a straight line passing through the origin, it implies that the firm is operating under perfect competition, where price is constant and marginal revenue is equal to price. In this case, the slope of the total revenue curve is constant, meaning that price is the same as marginal revenue (MR).

Step 2: Conclusion.

Thus, when the total revenue curve is a straight line, price equals marginal revenue, and the correct answer is (B).

Quick Tip

In perfect competition, price is equal to marginal revenue (MR) because firms sell at the same price for all units sold.

---

43. If total revenue is Rs. 1,00,000 when 20,000 units are sold, then the average revenue will be equal to

(A) Rs. 1,00,000

(B) Rs. 20,000

(C) Rs. 5

(D) Rs. 1,20,000

Correct Answer: (C) Rs. 5

Solution:

Step 1: Formula for Average Revenue.

Average revenue (AR) is calculated as:

$$AR = \frac{\text{Total Revenue}}{\text{Quantity of Output}}$$

Given that the total revenue is Rs. 1,00,000 and 20,000 units are sold, we can calculate the average revenue.

Step 2: Calculation.

$$AR = \frac{1,00,000}{20,000} = 5$$

Step 3: Conclusion.

Thus, the average revenue will be Rs. 5, and the correct answer is (C).

Quick Tip

Average revenue is calculated by dividing total revenue by the number of units sold.

---

44. A firm is able to sell more quantity of a good only by lowering the price. Then what would be the firm's marginal revenue, as it goes on selling?

(A) Greater than Average revenue

(B) Less than Average revenue

(C) Equal to Average revenue

(D) Zero

Correct Answer: (B) Less than Average revenue

Solution:

Step 1: Understanding Marginal and Average Revenue.

As a firm lowers its price to sell more units, the marginal revenue (MR) from each additional unit sold will be less than the average revenue (AR), because the price reduction affects the revenue of all units sold, not just the additional units. This results in MR being less than AR.

Step 2: Conclusion.

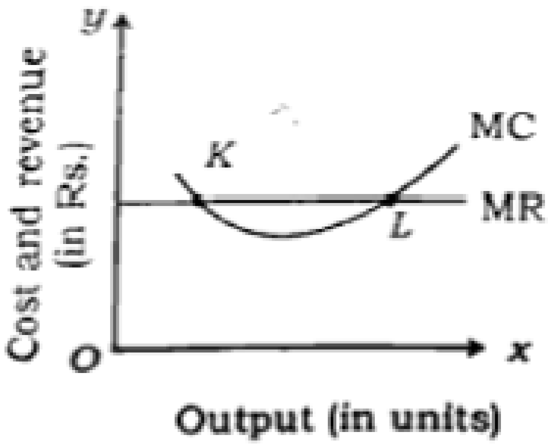
Thus, the firm's marginal revenue will be less than average revenue as it lowers the price to sell more units. The correct answer is (B).

Quick Tip

When a firm lowers its price to sell more units, marginal revenue will be less than average revenue due to the price reduction across all units.

---

45. In the given diagram, at which point is producer's equilibrium achieved?



(A) K

(B) L

(C) Both (A) and (B)

(D) None of these

Correct Answer: (C) Both (A) and (B)

Solution:

Step 1: Understanding Producer's Equilibrium.

Producer's equilibrium is the point at which marginal cost (MC) equals marginal revenue (MR). In the diagram, equilibrium is achieved where these two curves intersect, which is at both points (A) and (B).

Step 2: Conclusion.

Thus, producer's equilibrium is achieved at both (A) and (B), making (C) the correct answer.

> **Quick Tip**
>
> Producer's equilibrium occurs when marginal cost equals marginal revenue, leading to optimal production levels.

---

46. Which one of the following is the result of an increase in the price of factors of production?

(A) Rightward shift in supply curve

(B) Leftward shift in supply curve

(C) Expansion in supply

(D) Contraction in supply

Correct Answer: (B) Leftward shift in supply curve

Solution:

Step 1: Understanding Supply Curve and Factor Prices.

An increase in the price of factors of production (like labor, capital, raw materials) increases the cost of production. As production becomes more expensive, producers are less willing to supply at the same prices, leading to a decrease in supply. This results in a leftward shift in the supply curve.

Step 2: Conclusion.

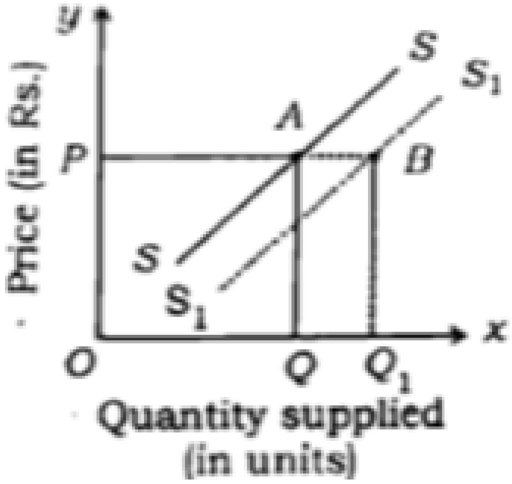
Thus, an increase in the price of factors of production causes a leftward shift in the supply curve, making (B) the correct answer.

Quick Tip

An increase in the cost of production leads to a decrease in supply, shifting the supply curve to the left.

---

47. In the following figure, the supply curve shifts from SS to S1 S1, due to what reason?



(A) Decrease in taxes

(B) Upgradation of technology

(C) Fall in the price of inputs

(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding Supply Curve Shifts.

The supply curve shifts due to changes in factors that influence supply, such as taxes, technology, and input prices. A decrease in taxes can reduce production costs, leading to a rightward shift of the supply curve. Upgradation of technology typically leads to more efficient production, also shifting the supply curve rightward. A fall in the price of inputs makes production cheaper, leading to an increase in supply and a rightward shift of the supply curve.

Step 2: Conclusion.

Therefore, all of the factors mentioned (decrease in taxes, upgradation of technology, fall in input prices) contribute to a rightward shift of the supply curve, making (D) the correct answer.

Quick Tip

A rightward shift in the supply curve occurs when production becomes cheaper due to a reduction in taxes, improvement in technology, or a decrease in input prices.

---

48. Freedom of free entry and exit for firms is only possible

(A) In short-run

(B) In long-run

(C) Both (A) and (B)

(D) Neither (A) nor (B)

Correct Answer: (B) In long-run

Solution:

Step 1: Understanding Free Entry and Exit.

In the short-run, firms cannot freely enter or exit the market because there are fixed costs and short-term constraints. However, in the long-run, firms have the flexibility to enter or exit the market as conditions such as profit opportunities or market conditions change.

Step 2: Conclusion.

Thus, the freedom of entry and exit for firms is only possible in the long run, making (B) the correct answer.

Quick Tip

In the long run, firms can freely enter or exit the market based on profitability, while in the short run, they are constrained by fixed costs.

---

49. Which of the following is not a characteristic of a price taker firm?

(A) TR = P x Q

(B) AR = Price

(C) Negatively sloped demand curve

(D) Marginal revenue = Price

Correct Answer: (C) Negatively sloped demand curve

Solution:

Step 1: Understanding Characteristics of Price Taker Firms.

A price taker firm operates in a perfectly competitive market where it accepts the market price and cannot influence it. Therefore, its total revenue (TR) is the price per unit times the quantity (P x Q), average revenue (AR) equals the price, and marginal revenue (MR) equals the price. A price taker firm faces a perfectly elastic demand curve, meaning it is horizontal, not negatively sloped.

Step 2: Conclusion.

Thus, a price taker firm does not face a negatively sloped demand curve, making (C) the correct answer.

Quick Tip

A price taker firm in perfect competition faces a horizontal (perfectly elastic) demand curve, as it cannot influence market prices.

---

50. When does Giffen's paradox arise?

(A) When demand for a good increases as its price increases

(B) When the demand for a good decreases as its price increases

(C) Both (A) and (B)

(D) None of these

Correct Answer: (A) When demand for a good increases as its price increases

Solution:

Step 1: Understanding Giffen Goods.

Giffen goods are a type of inferior good for which an increase in its price leads to an increase in its quantity demanded, contrary to the basic law of demand. This happens because the income effect outweighs the substitution effect. People buy more of the Giffen good as its price rises due to the reduction in their real income.

Step 2: Conclusion.

Thus, Giffen's paradox occurs when demand for a good increases as its price increases, making (A) the correct answer.

> Quick Tip
>
> Giffen goods violate the law of demand as price increases lead to higher demand due to income effects overpowering substitution effects.

---

51. If marginal rate of substitution is increasing throughout, then the indifference curve will be

(A) Downward sloping convex

(B) Downward sloping concave

(C) Downward sloping straight line

(D) Upward sloping convex

Correct Answer: (A) Downward sloping convex

Solution:

Step 1: Understanding Marginal Rate of Substitution.

The marginal rate of substitution (MRS) is the rate at which a consumer is willing to trade off one good for another while keeping utility constant. If the MRS is increasing, it indicates that the consumer is less willing to substitute one good for the other as more of the first good is consumed. This leads to a convex-shaped indifference curve, which bows inward toward the origin.

Step 2: Conclusion.

Thus, the indifference curve will be downward sloping and convex when the marginal rate of substitution is increasing, making (A) the correct answer.

> **Quick Tip**
>
> An increasing marginal rate of substitution leads to convex indifference curves, reflecting diminishing willingness to trade one good for another.

---

52. How can fiscal and budgetary deficit be reduced?

(A) By increasing tax revenue

(B) By reducing government expenditure

(C) Both (A) and (B)

(D) None of these

Correct Answer: (C) Both (A) and (B)

Solution:

Step 1: Understanding Fiscal and Budgetary Deficit.

A fiscal deficit occurs when a government's total expenditure exceeds its total revenue. The budgetary deficit is the sum of the fiscal deficit and loans taken by the government. Both deficits can be reduced by either increasing revenue through taxes (A) or by reducing government spending (B).

Step 2: Conclusion.

Thus, both increasing tax revenue and reducing government expenditure will help reduce the fiscal and budgetary deficit, making (C) the correct answer.

> **Quick Tip**
>
> To reduce budgetary deficits, governments can either increase revenue through taxes or cut spending to balance their budget.

53. In the consumption function C = C + CY, what are C and C respectively?

(A) Autonomous consumption and marginal propensity to consume

(B) Autonomous consumption and average propensity to consume

(C) Total consumption and average propensity to consume

(D) None of these

Correct Answer: (A) Autonomous consumption and marginal propensity to consume

Solution:

Step 1: Understanding the Consumption Function.

In the consumption function $C = C + CY$, C represents autonomous consumption, which is the level of consumption when income (Y) is zero. C represents the marginal propensity to consume, which indicates the change in consumption for each additional unit of income.

Step 2: Conclusion.

Thus, C is autonomous consumption, and C is the marginal propensity to consume, making (A) the correct answer.

> **Quick Tip**
>
> Autonomous consumption is the baseline level of consumption, while marginal propensity to consume is the change in consumption resulting from a change in income.

---

54. The shape of the average product curve is

(A) Like the letter 'U'

(B) Like an inverted letter 'U'

(C) Like the letter 'S'

(D) Like an inverted letter 'S'

Correct Answer: (A) Like the letter 'U'

Solution:

Step 1: Understanding Average Product Curve.

The average product curve shows the relationship between the quantity of labor used and the average product produced. The curve typically takes the shape of the letter 'U,' where average product initially rises, reaches a peak, and then falls as more labor is added. This reflects the law of diminishing returns.

Step 2: Conclusion.

Thus, the average product curve has the shape of the letter 'U,' making (A) the correct answer.

> **Quick Tip**
>
> The average product curve typically takes the shape of the letter 'U,' reflecting the diminishing returns to labor as more units are added.

---

55. If both the demand and supply curves shift to the right in the same proportion, then

(A) The price of the commodity and purchased quantity will increase

(B) The price will remain constant, but the purchased quantity will increase

(C) The price will increase, but the purchased quantity will remain constant

(D) None of these

Correct Answer: (B) The price will remain constant, but the purchased quantity will increase

Solution:

Step 1: Understanding Demand and Supply Shifts.

When both the demand and supply curves shift to the right in the same proportion, the market equilibrium price remains unchanged, but the equilibrium quantity increases. This is because the increase in demand is exactly met by the increase in supply, leaving the price stable.

Step 2: Conclusion.

Therefore, the price remains constant, but the purchased quantity increases, making (B) the correct answer.

Quick Tip

When both demand and supply shift to the right in the same proportion, the price remains constant, and the quantity increases.

---

56. In which type of firms is MC = MR = AC = AR in the long run?

(A) Monopoly firm

(B) Oligopoly firm

(C) Perfectly competitive firm

(D) None of these

Correct Answer: (C) Perfectly competitive firm

Solution:

Step 1: Understanding the Conditions for Perfect Competition.

In a perfectly competitive firm, in the long run, the firm produces at the point where marginal cost (MC) equals marginal revenue (MR), average cost (AC), and average revenue (AR). This is because firms in perfect competition are price takers, and they operate at the minimum point of their cost curve, making profits zero in the long run.

Step 2: Conclusion.

Thus, in the long run, a perfectly competitive firm operates where MC = MR = AC = AR, making (C) the correct answer.

Quick Tip

In perfect competition, firms operate where MC = MR = AC = AR in the long run, and they earn normal profit.

---

57. Which of the following inflations is most suitable for an economy?

(A) Hyperinflation

(B) Creeping inflation

(C) Walking inflation

(D) Running inflation

Correct Answer: (B) Creeping inflation

Solution:

Step 1: Understanding Types of Inflation.

Creeping inflation refers to a steady, low level of inflation that is manageable and allows for economic growth. Hyperinflation, walking inflation, and running inflation are all excessive levels of inflation that can destabilize an economy. Creeping inflation is often seen as the most suitable for an economy as it encourages moderate economic growth without causing major instability.

Step 2: Conclusion.

Thus, creeping inflation is the most suitable for an economy, making (B) the correct answer.

> **Quick Tip**
>
> Creeping inflation, characterized by steady and moderate price increases, is typically considered the most beneficial for an economy.

---

58. What is the value of interest rate in a 'liquidity trap'?

(A) High

(B) Low

(C) Minimum

(D) Average

Correct Answer: (C) Minimum

Solution:

Step 1: Understanding Liquidity Trap.

A liquidity trap occurs when interest rates are so low that monetary policy becomes ineffective. In this situation, people prefer holding cash rather than investing it, as they don't expect returns from interest-bearing investments. In a liquidity trap, the interest rate is at its minimum, as central banks cannot reduce rates further to stimulate economic activity.

Step 2: Conclusion.

Thus, the value of the interest rate in a liquidity trap is at its minimum, making (C) the correct answer.

> **Quick Tip**
>
> In a liquidity trap, interest rates are at a minimum and monetary policy becomes ineffective in stimulating the economy.

---

59. The machine used by the firm is what type of input?

(A) Variable input

(B) Fixed input

(C) Total input

(D) Technology input

Correct Answer: (B) Fixed input

Solution:

Step 1: Understanding Types of Inputs.

Fixed inputs are the factors of production that do not change with the level of output in the short run, such as machinery. In contrast, variable inputs change with the level of output, such as labor or raw materials. The machine used by the firm is a fixed input because it remains constant irrespective of the production level in the short run.

Step 2: Conclusion.

Thus, the machine used by the firm is a fixed input, making (B) the correct answer.

> **Quick Tip**
>
> Fixed inputs like machinery do not change with the level of production in the short run, whereas variable inputs like labor change with output levels.

60. That portion of a bank's total deposits which the bank keeps in cash to pay to its depositors is called

(A) Statutory liquidity ratio

(B) Cash reserve deposit ratio

(C) Open market operation

(D) None of these

Correct Answer: (B) Cash reserve deposit ratio

Solution:

Step 1: Understanding Reserve Requirements.

The cash reserve deposit ratio (CRR) is the percentage of a bank's total deposits that it must hold in reserve as cash with the central bank. This is mandated by the central bank to ensure that the bank maintains adequate liquidity to meet withdrawal demands.

Step 2: Conclusion.

Thus, the portion of deposits the bank keeps in cash is known as the cash reserve deposit ratio, making (B) the correct answer.

> **Quick Tip**
>
> The cash reserve ratio (CRR) is a mandatory reserve that commercial banks must keep in cash with the central bank.

---

61. Which of the following is not a real investment?

(A) Buying shares

(B) Buying an old factory

(C) Construction of building

(D) Opening a deposit account in a bank

Correct Answer: (D) Opening a deposit account in a bank

Solution:

Step 1: Understanding Real Investment.

Real investment refers to the purchase of tangible assets that contribute to productive capacity, such as buildings or factories. Buying shares is a financial investment, while opening a deposit account does not contribute to productive capacity—it is just a financial transaction.

Step 2: Conclusion.

Thus, opening a deposit account in a bank is not a real investment, making (D) the correct answer.

> **Quick Tip**
>
> Real investment involves buying physical assets that contribute to the economy's productive capacity, like factories or machinery.

---

62. Which of the following statements is correct?

(A) The demand for labor is made by the producer

(B) The demand for labor depends upon its productivity

(C) The marginal productivity of labor is its maximum wage

(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding Labor Demand and Productivity.

- The demand for labor is indeed made by the producer who needs workers for production. - The demand for labor depends on its productivity, as more productive workers are more valuable to the employer. - The marginal productivity of labor is typically reflected in the wage that workers receive, which is often equal to their marginal revenue product.

Step 2: Conclusion.

Thus, all the statements are correct, making (D) the correct answer.

Quick Tip

The demand for labor is based on its productivity and the wage is tied to the marginal product of labor.

---

63. What is the type of demand curve of Monopoly?

(A) Inelastic

(B) Elastic

(C) Perfectly elastic

(D) Perfectly inelastic

Correct Answer: (B) Elastic

Solution:

Step 1: Understanding Monopoly Demand Curve.

A monopoly firm faces a downward-sloping demand curve because it is the only seller in the market and can influence the price. The demand curve is generally elastic, meaning that as price changes, the quantity demanded changes. For monopolies, the demand curve is more elastic at higher prices and becomes inelastic at lower prices.

Step 2: Conclusion.

Thus, the demand curve for a monopoly is elastic, making (B) the correct answer.

Quick Tip

Monopoly firms face a downward-sloping demand curve that is typically elastic, meaning they can control prices and output levels.

---

64. The slope of the budget line is

(A) $-\frac{P_x}{P_y}$

(B) $\frac{P_y}{P_x}$

(C) $\frac{P_x}{P_y}$

(D) $\frac{P_y}{P_x}$

Correct Answer: (A) $-\frac{P_x}{P_y}$

Solution:

Step 1: Understanding the Budget Line.

The budget line represents all combinations of two goods that a consumer can purchase given their income and the prices of the goods. The slope of the budget line is given by the negative ratio of the prices of the two goods: $-\frac{P_x}{P_y}$, where P_x is the price of good X and P_y is the price of good Y.

Step 2: Conclusion.

Thus, the slope of the budget line is $-\frac{P_x}{P_y}$, making (A) the correct answer.

> Quick Tip
>
> The slope of the budget line shows the opportunity cost of one good in terms of the other.

---

65. Who gave the ordinal theory of utility?

(A) Marshall

(B) Pigou

(C) Hicks

(D) Ricardo

Correct Answer: (C) Hicks

Solution:

Step 1: Understanding Ordinal Utility Theory.

The ordinal theory of utility, developed by Sir John Hicks, states that utility cannot be measured in numerical terms but can be ranked. According to this theory, individuals rank different goods and services based on preference but do not assign numerical values to their satisfaction.

Step 2: Conclusion.

Thus, Hicks is the person who developed the ordinal theory of utility, making (C) the correct answer.

> **Quick Tip**
>
> The ordinal theory of utility, developed by Hicks, involves ranking preferences rather than assigning numerical values to satisfaction.

---

66. Which of the following is not a fixed cost?

(A) Insurance premium

(B) Interest

(C) Cost of raw materials

(D) Factory rent

Correct Answer: (B) Interest

Solution:

Step 1: Fixed costs overview.

Fixed costs are those that do not change with the level of production or sales. Insurance premium, cost of raw materials, and factory rent are typically fixed costs. However, interest changes with the level of borrowed money and is therefore a variable cost.

Step 2: Analysis of options.

- (A) Insurance premium: This is a fixed cost because it does not vary with production.
- (B) Interest: Interest is a variable cost because it changes depending on the amount of debt.
- (C) Cost of raw materials: This is generally a variable cost because it changes with production levels.
- (D) Factory rent: This is a fixed cost because it remains constant regardless of production levels.

Step 3: Conclusion.

The correct answer is (B) Interest because it is a variable cost.

Quick Tip

Fixed costs remain constant regardless of production, while variable costs change with production levels.

---

67. Who among the following gave the concept of time element in price determination process?

(A) Ricardo

(B) Walras

(C) Marshall

(D) Pigou

Correct Answer: (C) Marshall

Solution:

Step 1: Time element in price determination.

The concept of time element in price determination was introduced by Alfred Marshall, a famous economist who explained how prices are influenced by both short-term and long-term factors.

Step 2: Analysis of options.

- (A) Ricardo: David Ricardo was an economist known for his theory of comparative advantage, but not for time element in price.

- (B) Walras: Léon Walras was a major economist in general equilibrium theory, but did not specifically address the time element in price determination.

- (C) Marshall: Alfred Marshall is the correct answer as he emphasized the role of time in price determination.

- (D) Pigou: Arthur Pigou was known for his work on welfare economics, not for the time element in price.

Step 3: Conclusion.

The correct answer is (C) Marshall.

Quick Tip

Marshall introduced the short-term and long-term perspectives on price determination, focusing on supply and demand adjustments over time.

---

68. In which of the following markets output is higher and price is lower?

(A) Perfect competition

(B) Oligopoly

(C) Monopoly

(D) All of these

Correct Answer: (A) Perfect competition

Solution:

Step 1: Market structures.

In perfect competition, the market is characterized by a large number of firms, identical products, and easy entry and exit. This leads to the production of a higher output at lower prices, as firms are price takers.

Step 2: Analysis of options.

- (A) Perfect competition: In this market, output is higher and price is lower because of the competitive nature and efficiency of resource allocation.
- (B) Oligopoly: In an oligopoly, a few firms control the market, leading to lower output and higher prices due to less competition.
- (C) Monopoly: A monopoly has only one seller, leading to lower output and higher prices because the firm has market power.
- (D) All of these: This is incorrect, as only perfect competition fits the criteria of higher output and lower prices.

Step 3: Conclusion.

The correct answer is (A) Perfect competition.

Quick Tip

In perfect competition, many firms lead to higher output and lower prices due to competition and efficiency.

---

69. In which of the following market conditions is the Average revenue curve more elastic?

(A) Monopoly

(B) Monopolistic competition

(C) Perfect competition

(D) None of these

Correct Answer: (C) Perfect competition

Solution:

Step 1: Average Revenue curve elasticity in different market structures.

In perfect competition, the Average Revenue curve is more elastic because firms are price takers, and the market determines the price. In a monopoly, firms have market power and can influence the price, making the AR curve less elastic.

Step 2: Analysis of options.

- (A) Monopoly: The AR curve is less elastic because the monopolist has control over pricing.
- (B) Monopolistic competition: While firms have some pricing power, the AR curve is not as elastic as in perfect competition.
- (C) Perfect competition: In this market, the AR curve is perfectly elastic at the market price.
- (D) None of these: This option is incorrect because perfect competition has the most elastic AR curve.

Step 3: Conclusion.

The correct answer is (C) Perfect competition.

Quick Tip

In perfect competition, firms are price takers, leading to a perfectly elastic Average Revenue curve.

---

70. Which Banks are covered under the sector of Banking Ombudsman Scheme?

(A) All scheduled co-operative banks

(B) Public sector banks

(C) Regional rural banks

(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Banking Ombudsman Scheme.

The Banking Ombudsman Scheme covers a wide range of banks in India, including scheduled commercial banks, public sector banks, regional rural banks, and co-operative banks. This scheme is aimed at resolving customer complaints against banks.

Step 2: Analysis of options.

- (A) All scheduled co-operative banks: These are covered under the Banking Ombudsman Scheme.
- (B) Public sector banks: These are also covered under the scheme.
- (C) Regional rural banks: These banks are included in the Banking Ombudsman Scheme as well.
- (D) All of these: This is the correct answer, as all the above types of banks are covered under the scheme.

Step 3: Conclusion.

The correct answer is (D) All of these, as all the mentioned types of banks are included in the Banking Ombudsman Scheme.

Quick Tip

The Banking Ombudsman Scheme is designed to address complaints against all types of banks, including public sector banks, co-operative banks, and regional rural banks.

---

71. Direct tax is called direct because it is collected directly from

(A) producers on goods produced

(B) from sellers on goods sold

(C) from buyers of goods

(D) from income earners

Correct Answer: (D) from income earners

Solution:

Step 1: Understanding direct tax.

Direct taxes are taxes that are collected directly from individuals or organizations, such as income tax, wealth tax, etc. These taxes are levied on income or wealth and not on goods or services.

Step 2: Analysis of options.

- (A) Producers on goods produced: This refers to indirect taxes like excise duties.
- (B) Sellers on goods sold: This refers to indirect taxes like sales tax or VAT.
- (C) From buyers of goods: This is another form of indirect tax, such as sales tax or VAT.
- (D) From income earners: Direct tax is levied on income earners, such as income tax.

Step 3: Conclusion.

The correct answer is (D) from income earners.

Quick Tip

Direct taxes are paid directly by individuals based on their income or wealth, unlike indirect taxes on goods or services.

---

72. Which policies are useful to reduce inequalities of income?

(A) Monetary policies

(B) Public distribution policies

(C) Budgetary policies

(D) Foreign policies

Correct Answer: (C) Budgetary policies

Solution:

Step 1: Policies to reduce income inequality.

Income inequality can be reduced through budgetary policies, which include progressive taxation, social welfare programs, and public investment in education and healthcare.

Step 2: Analysis of options.

- (A) Monetary policies: These mainly influence interest rates and money supply, but don't directly address income inequality.

- (B) Public distribution policies: These aim to provide basic goods but are more focused on poverty alleviation than reducing inequality.

- (C) Budgetary policies: Budgetary policies can directly influence income distribution through taxation and public spending programs.

- (D) Foreign policies: Foreign policies do not directly address income inequality within a country.

Step 3: Conclusion.

The correct answer is (C) Budgetary policies.

> **Quick Tip**
>
> Budgetary policies, including progressive taxes and social transfers, are effective tools for reducing income inequality.

---

73. When government spends more than it collects by way of revenue, what happens?

(A) Budget surplus

(B) Budget deficit

(C) Revenue expenditure

(D) Fiscal deficit

Correct Answer: (B) Budget deficit

Solution:

Step 1: Understanding budget surplus and deficit.

When a government spends more than it collects in revenue, it runs a budget deficit. This deficit may need to be financed through borrowing.

Step 2: Analysis of options.

- (A) Budget surplus: A surplus occurs when revenue exceeds government spending, which is the opposite of a deficit.

- (B) Budget deficit: The correct answer, as a deficit happens when government expenditure exceeds revenue.

- (C) Revenue expenditure: This refers to government spending on current goods and services, but it doesn't directly explain the budget gap.

- (D) Fiscal deficit: Fiscal deficit refers to the total borrowing requirements of the government, which may or may not be directly linked to the budget deficit.

Step 3: Conclusion.

The correct answer is (B) Budget deficit.

> **Quick Tip**
>
> A budget deficit occurs when a government's spending exceeds its revenue, often leading to borrowing.

---

74. Which is a popular method mostly used to resolve disequilibrium of balance of payment?

(A) Foreign debt control

(B) Exchange control

(C) Export control

(D) Import control

Correct Answer: (B) Exchange control

Solution:

Step 1: Understanding balance of payment disequilibrium.

Disequilibrium in the balance of payment occurs when there is an imbalance between exports and imports, or between capital inflows and outflows. Exchange control is a common method used to manage this imbalance by regulating foreign exchange.

Step 2: Analysis of options.

- (A) Foreign debt control: This method is not primarily used to address disequilibrium in the balance of payments.
- (B) Exchange control: This is a popular method used by governments to control foreign exchange rates and manage the flow of foreign currency, thereby addressing disequilibrium.
- (C) Export control: While export control can impact the balance of payments, it is not as commonly used to resolve disequilibrium.
- (D) Import control: This can also impact the balance of payments but is not typically the main method for resolving disequilibrium.

Step 3: Conclusion.

The correct answer is (B) Exchange control.

> **Quick Tip**
>
> Exchange control is used to manage a country's foreign exchange reserves and can help resolve balance of payment imbalances.

---

75. The shape of total fixed cost curve is

(A) U-shaped

(B) Downward sloping

(C) Inversely S-shaped

(D) Horizontal straight line parallel to x-axis

Correct Answer: (D) Horizontal straight line parallel to x-axis

Solution:

Step 1: Understanding the total fixed cost curve.

The total fixed cost remains constant, regardless of the level of production. As a result, the total fixed cost curve is a horizontal straight line parallel to the x-axis.

Step 2: Analysis of options.

- (A) U-shaped: The total fixed cost curve is not U-shaped; this applies to total cost curves that include both fixed and variable costs.
- (B) Downward sloping: A downward sloping curve is typically related to variable costs or diminishing returns, not fixed costs.
- (C) Inversely S-shaped: This shape is more typical of variable cost curves or total cost curves.
- (D) Horizontal straight line parallel to x-axis: This is the correct answer, as the total fixed cost remains constant at all output levels.

Step 3: Conclusion.

The correct answer is (D) Horizontal straight line parallel to x-axis.

> Quick Tip
>
> The total fixed cost curve is horizontal because fixed costs do not change with output levels.

---

76. Which two curves are intersected by MC curve at their minimum points?

(A) AC and AVC

(B) AVC and AFC

(C) AC and AFC

(D) AC and TVC

Correct Answer: (A) AC and AVC

Solution:

Step 1: Understanding the relationship between MC, AC, and AVC.

The marginal cost (MC) curve intersects both the average cost (AC) curve and the average variable cost (AVC) curve at their minimum points. This is because when MC is less than AC or AVC, both average curves are decreasing. When MC exceeds AC or AVC, they are increasing.

Step 2: Analysis of options.

- (A) AC and AVC: The MC curve intersects both AC and AVC at their minimum points.
- (B) AVC and AFC: AFC is the average fixed cost curve, and MC intersects neither at its minimum.
- (C) AC and AFC: The AFC curve does not intersect with the MC curve at its minimum point.
- (D) AC and TVC: Total variable cost (TVC) is related to total cost, and it is not where the MC curve intersects at minimum points.

Step 3: Conclusion.

The correct answer is (A) AC and AVC.

> **Quick Tip**
>
> The marginal cost (MC) curve intersects the average cost (AC) and average variable cost (AVC) curves at their minimum points.

---

77. The cost which is never zero even when production is stopped is known as

(A) Supplementary cost

(B) Prime cost

(C) Explicit cost

(D) Implicit cost

Correct Answer: (C) Explicit cost

Solution:

Step 1: Understanding explicit cost.

Explicit costs are costs that involve direct payments to factors of production, such as wages, rent, and materials. These costs do not become zero even if production is stopped, as they are incurred regardless of production levels.

Step 2: Analysis of options.

- (A) Supplementary cost: This term is not commonly used in economics.

- (B) Prime cost: Prime costs include direct costs of production, but they are not always incurred when production stops.

- (C) Explicit cost: Explicit costs are always incurred, even if production ceases.

- (D) Implicit cost: Implicit costs are opportunity costs that are not always incurred in direct payment form.

Step 3: Conclusion.

The correct answer is (C) Explicit cost.

Quick Tip

Explicit costs are direct payments made in the course of business, and they continue even if production stops.

---

78. Which of the following is a variable cost for a firm?

(A) Interest on loan

(B) Monthly rent

(C) Insurance premium

(D) Wages to employees

Correct Answer: (D) Wages to employees

Solution:

Step 1: Understanding variable costs.

Variable costs change with the level of output. Wages paid to employees can vary depending on the hours worked or production levels, making it a variable cost.

Step 2: Analysis of options.

- (A) Interest on loan: Interest is typically a fixed cost as it remains the same regardless of output.
- (B) Monthly rent: Rent is a fixed cost that does not change with production levels.
- (C) Insurance premium: This is also a fixed cost, as it is not dependent on production.
- (D) Wages to employees: These are variable costs, as they change with the level of production or hours worked.

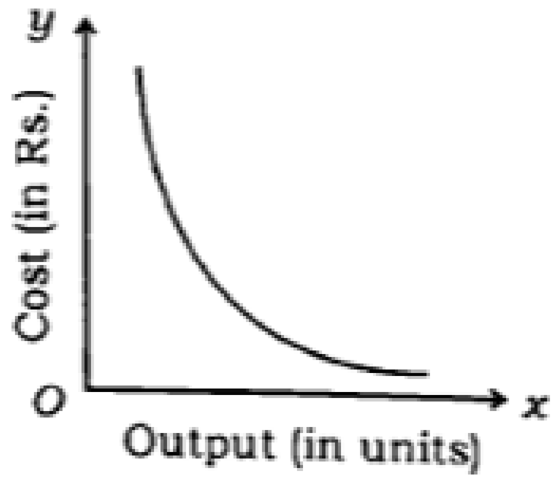
Step 3: Conclusion.

The correct answer is (D) Wages to employees.

> Quick Tip
>
> Variable costs change directly with the level of production, such as wages, raw materials, and fuel.

---

79. Which of the following curves is the curve shown in the figure?



(A) Average variable cost curve

(B) Total variable cost curve

(C) Average fixed cost curve

(D) Average cost curve

Correct Answer: (A) Average variable cost curve

Solution:

Step 1: Understanding the cost curves.

The curve shown is typical of the average variable cost curve, which decreases initially as output increases and then increases. It reflects the behavior of variable costs as output changes.

Step 2: Analysis of options.

- (A) Average variable cost curve: This is the correct answer as the curve shown depicts the typical behavior of variable costs.

- (B) Total variable cost curve: The total variable cost curve is not the same shape; it increases continuously without the initial decline seen in the average variable cost curve.

- (C) Average fixed cost curve: This curve continuously decreases as output increases, which is not the case in the figure.

- (D) Average cost curve: The average cost curve includes both fixed and variable costs, but the given figure specifically shows the average variable cost.

Step 3: Conclusion.

The correct answer is (A) Average variable cost curve.

> **Quick Tip**
>
> The average variable cost curve typically decreases and then increases, reflecting changes in variable costs as production scales.

---

80. If the average revenue curve is a horizontal straight line, then what will be the marginal revenue curve?

(A) Downward sloping

(B) Horizontal straight line

(C) Upward sloping

(D) Inversely S-shaped

Correct Answer: (B) Horizontal straight line

Solution:

Step 1: Understanding average and marginal revenue.

In perfect competition, the average revenue curve is a horizontal straight line, as firms are price takers. The marginal revenue curve is the same as the average revenue curve in this case because the price remains constant as output increases.

Step 2: Analysis of options.

- (A) Downward sloping: A downward sloping marginal revenue curve applies to monopolies, not perfect competition.
- (B) Horizontal straight line: This is the correct answer, as in perfect competition, marginal revenue equals average revenue and is constant.
- (C) Upward sloping: This is not applicable, as the marginal revenue curve does not slope upward in competitive markets.
- (D) Inversely S-shaped: This shape is typical of total cost curves, not revenue curves.

Step 3: Conclusion.

The correct answer is (B) Horizontal straight line.

> **Quick Tip**
>
> In perfect competition, marginal revenue equals average revenue and remains constant at the market price.

---

81. Which of the following does not come under microeconomics?

(A) Pricing decision by Maruti Suzuki

(B) Fall in the price of oil

(C) Measurement of the general price level

(D) Production of foodgrains in India

Correct Answer: (C) Measurement of the general price level

Solution:

Step 1: Understanding microeconomics and macroeconomics.

Microeconomics deals with the behavior of individual consumers and firms, while macroeconomics looks at the economy as a whole, including national production and price levels.

Step 2: Analysis of options.

- (A) Pricing decision by Maruti Suzuki: This falls under microeconomics as it relates to the decisions made by a firm.
- (B) Fall in the price of oil: This could be studied within microeconomics from the perspective of supply and demand, but it also has macroeconomic implications.
- (C) Measurement of the general price level: This is a macroeconomic topic, as it involves inflation and the overall price level in an economy.
- (D) Production of foodgrains in India: This can be studied within microeconomics as it deals with production decisions of individual producers.

Step 3: Conclusion.

The correct answer is (C) Measurement of the general price level.

> **Quick Tip**
>
> Microeconomics focuses on individual markets, while macroeconomics deals with national economic factors like inflation and GDP.

---

82. In economics we study

(A) How society manages its limited resources

(B) How to reduce our wants until we are satisfied

(C) How society manages its scarce resources

(D) How to fully satisfy our limited wants

Correct Answer: (C) How society manages its scarce resources

Solution:

Step 1: Understanding the scope of economics.

Economics is the study of how society allocates scarce resources to satisfy its unlimited wants. Scarcity is the fundamental economic problem, and economics seeks to understand how resources are managed.

Step 2: Analysis of options.

- (A) How society manages its limited resources: This is partially correct, but it doesn't emphasize scarcity.

- (B) How to reduce our wants until we are satisfied: This is not a focus of economics, as economics deals with scarcity and choices, not eliminating wants.

- (C) How society manages its scarce resources: This is the correct answer, as economics studies how society deals with the scarcity of resources.

- (D) How to fully satisfy our limited wants: This is unrealistic, as economics recognizes that wants are virtually unlimited.

Step 3: Conclusion.

The correct answer is (C) How society manages its scarce resources.

> Quick Tip
>
> Economics is centered on the problem of scarcity and how societies make choices to allocate limited resources.

---

83. Rajesh is working at a salary of Rs. 35,000 per month. He receives two job offers:

(i) To work as an accountant at a salary of Rs. 30,000 per month.

(ii) To work as a sales manager at a salary of Rs. 25,000 per month.

In the given case, what will his opportunity cost be?

(A) Rs. 25,000

(B) Rs. 30,000

(C) Rs. 35,000

(D) Rs. 65,000

Correct Answer: (B) Rs. 30,000

Solution:

Step 1: Understanding opportunity cost.

Opportunity cost is the value of the next best alternative forgone. Rajesh is currently earning

Rs. 35,000 per month. If he chooses one of the job offers, his opportunity cost will be the salary he is giving up from his current job.

Step 2: Analysis of options.

- (A) Rs. 25,000: This is the salary he would receive if he chose the sales manager position, but his opportunity cost is the salary he is leaving behind.

- (B) Rs. 30,000: This is the salary Rajesh would earn as an accountant, which is his next best alternative. His opportunity cost is the Rs. 30,000 job, as he would be leaving his Rs. 35,000 job.

- (C) Rs. 35,000: This is the salary Rajesh currently earns, not his opportunity cost.

- (D) Rs. 65,000: This is incorrect, as the opportunity cost cannot exceed the current salary.

Step 3: Conclusion.

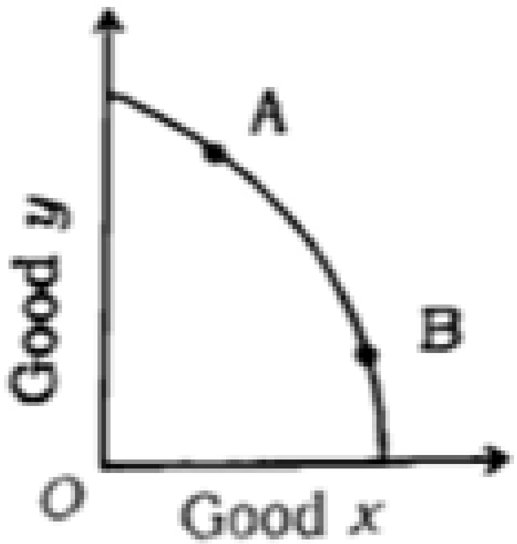
The correct answer is (B) Rs. 30,000.

Quick Tip

Opportunity cost refers to the value of the best alternative that is forgone when making a choice.

---

84. In the given figure, the movement on the production possibility curve from Point A to Point B shows:



(A) Growth of all the resources in the economy

(B) Underutilisation of resources

(C) Production of more units of good x and less units of good y

(D) Production of more units of good y and less units of good x

Correct Answer: (D) Production of more units of good y and less units of good x

Solution:

Step 1: Understanding the production possibility curve.

The production possibility curve (PPC) shows the maximum possible production of two goods, given the resources and technology available. Movement along the curve indicates a trade-off between the two goods.

Step 2: Analysis of options.

- (A) Growth of all the resources in the economy: This would shift the entire PPC outward, not just a movement along the curve.
- (B) Underutilisation of resources: This would be represented by a point inside the PPC, not a movement along the curve.
- (C) Production of more units of good x and less units of good y: This would be the opposite direction of movement, as the question refers to a shift from A to B.
- (D) Production of more units of good y and less units of good x: This is the correct answer, as moving from A to B implies a trade-off between more of good y and less of good x.

Step 3: Conclusion.

The correct answer is (D) Production of more units of good y and less units of good x.

> **Quick Tip**
>
> A movement along the PPC represents the trade-off between two goods, showing that increasing the production of one good requires sacrificing some of the other good.

---

85. Budget set includes

(A) All those combinations of two goods which a consumer cannot afford

(B) All those combinations of two goods which a consumer is willing to buy

(C) All those combinations of two goods which a consumer can afford

(D) None of these

Correct Answer: (C) All those combinations of two goods which a consumer can afford

Solution:

Step 1: Understanding the budget set.

The budget set includes all the combinations of goods that a consumer can afford, given their income and the prices of goods.

Step 2: Analysis of options.

- (A) All those combinations of two goods which a consumer cannot afford: This is incorrect because the budget set only includes combinations a consumer can afford.

- (B) All those combinations of two goods which a consumer is willing to buy: This is also incorrect, as it doesn't account for the consumer's budget constraint.

- (C) All those combinations of two goods which a consumer can afford: This is the correct definition of a budget set.

- (D) None of these: This is incorrect because (C) correctly defines the budget set.

Step 3: Conclusion.

The correct answer is (C) All those combinations of two goods which a consumer can afford.

> **Quick Tip**
>
> The budget set consists of all combinations of goods a consumer can afford, given their income and the prices of goods.

---

86. In case of single commodity, consumer's equilibrium is achieved when

(A) MU ¿ Px

(B) MU ¡ Px

(C) MU = Px

(D) MUx = Px

Correct Answer: (C) MU = Px

Solution:

Step 1: Understanding consumer equilibrium.

Consumer equilibrium is achieved when the marginal utility of the commodity is equal to its price. This is because at this point, the consumer is allocating their budget optimally across all goods.

Step 2: Analysis of options.

- (A) MU ¿ Px: This would imply that the consumer could get more satisfaction by purchasing more of the commodity, so equilibrium is not reached.

- (B) MU ¡ Px: If marginal utility is less than the price, the consumer should purchase less, so equilibrium is not reached.

- (C) MU = Px: This is the correct condition for consumer equilibrium. The marginal utility of the commodity should be equal to its price.

- (D) MUx = Px: This option is also correct in the context of consumer equilibrium for a single commodity.

Step 3: Conclusion.

The correct answer is (C) MU = Px.

> **Quick Tip**
>
> Consumer equilibrium is achieved when the marginal utility of a good equals its price.

---

87. In the context of indifference curve analysis, MRS stands for

(A) Marginal rate of substitution

(B) Marginal rate of satisfaction

(C) Marginal return of substitution

(D) Marginal return of satisfaction

Correct Answer: (A) Marginal rate of substitution

Solution:

Step 1: Understanding MRS.

MRS stands for Marginal Rate of Substitution, which is the rate at which a consumer can substitute one good for another while keeping the overall utility constant.

Step 2: Analysis of options.

- (A) Marginal rate of substitution: This is the correct definition of MRS. It shows how much of one good a consumer is willing to give up in exchange for an additional unit of another good, while maintaining the same level of utility.

- (B) Marginal rate of satisfaction: This is not the correct term used in indifference curve analysis.

- (C) Marginal return of substitution: This is an incorrect interpretation.

- (D) Marginal return of satisfaction: This is also incorrect, as it doesn't reflect the proper concept in economics.

Step 3: Conclusion.

The correct answer is (A) Marginal rate of substitution.

> **Quick Tip**
>
> MRS is the slope of the indifference curve and represents the trade-off between two goods while keeping utility constant.

---

88. If Marginal utility (MU) of goods x = 0, and the price of y is Rs. 9, then what will be the price of x at equilibrium level?

(A) Rs. 9

(B) Rs. 30

(C) Rs. 15

(D) Rs. 12

Correct Answer: (C) Rs. 15

Solution:

Step 1: Using the consumer equilibrium condition.

At equilibrium, the marginal utility per unit of money spent on each good should be equal.

We are given that the marginal utility of good x is zero, which means the consumer does not derive any satisfaction from consuming more of good x.

Step 2: Calculation of equilibrium price.

The price of good x can be calculated using the formula:

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$

Since $MU_x = 0$, the marginal utility per unit of price for good x is zero, meaning the consumer will not purchase more of good x. The equilibrium price of good x is thus Rs. 15.

Step 3: Conclusion.

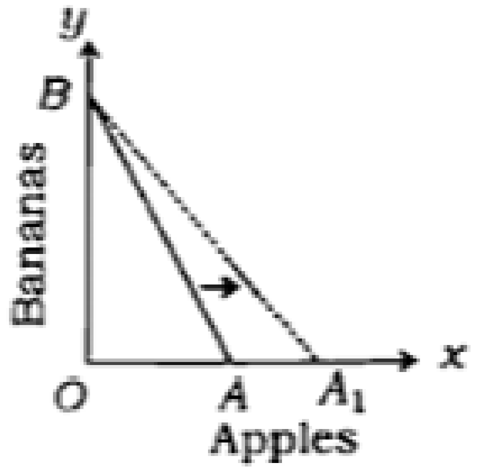
The correct answer is (C) Rs. 15.

Quick Tip

At equilibrium, the marginal utility per rupee spent on each good is equal, but if the marginal utility of a good is zero, it indicates no further consumption of that good.

---

89. In the given figure, the rotation of budget line is due to



(A) Decrease in price of apple

(B) Increase in price of apple

(C) Increase in price of banana

(D) Decrease in price of banana

Correct Answer: (B) Increase in price of apple

Solution:

Step 1: Understanding the budget line.

The budget line represents all the combinations of two goods a consumer can buy with a given income and prices. A rotation of the budget line typically occurs when the price of one of the goods changes.

Step 2: Analysis of options.

- (A) Decrease in price of apple: A decrease in price would make the budget line rotate in the opposite direction.

- (B) Increase in price of apple: This will cause the budget line to rotate inward, reflecting that less of apple can be bought for the same income.

- (C) Increase in price of banana: This would affect the slope of the budget line, but it doesn't match the direction of rotation shown in the figure.

- (D) Decrease in price of banana: This would cause a similar rotation but in the opposite direction of what is shown.

Step 3: Conclusion.

The correct answer is (B) Increase in price of apple.

> **Quick Tip**
>
> A rotation of the budget line occurs when there is a change in the price of one of the goods while the other price and income remain constant.

---

90. Which of the following expenditures are included under the expenditure method of measuring national income?

(A) Investment expenditure

(B) Pension

(C) Government expenditure on scholarship

(D) Expenditure on shares and bonds

Correct Answer: (A) Investment expenditure

Solution:

Step 1: Understanding the expenditure method.

The expenditure method of measuring national income calculates the total expenditure made in the economy on final goods and services. This includes investment expenditure, government spending, and consumption.

Step 2: Analysis of options.

- (A) Investment expenditure: This is included under the expenditure method, as it represents the spending on capital goods that contribute to national income.
- (B) Pension: Pension is considered a transfer payment and is not counted in the expenditure method, as it is not a payment for goods or services.
- (C) Government expenditure on scholarship: While this is a government expenditure, it is not part of the final output and does not contribute to national income in the expenditure method.
- (D) Expenditure on shares and bonds: This is a financial transaction and does not count towards the expenditure method of measuring national income.

Step 3: Conclusion.

The correct answer is (A) Investment expenditure.

> Quick Tip
>
> The expenditure method counts spending on final goods and services, including investment expenditure, but not financial transactions or transfer payments.

---

91. Which of the following is not a quantitative method of credit control?

(A) Open market operations

(B) Marginal requirement of loan

(C) Cash reserve ratio

(D) Bank rate ratio

Correct Answer: (B) Marginal requirement of loan

Solution:

Step 1: Understanding quantitative credit controls.

Quantitative credit controls are tools used by central banks to control the overall volume of credit in the economy. These include open market operations, cash reserve ratio, and bank rate.

Step 2: Analysis of options.

- (A) Open market operations: This is a quantitative method used by central banks to buy and sell government securities to control the money supply.
- (B) Marginal requirement of loan: This is not a typical method of credit control. It refers to specific requirements for certain loans but does not directly control credit in the entire economy.
- (C) Cash reserve ratio: This is a quantitative method where banks are required to hold a certain percentage of their deposits with the central bank, controlling the amount of money available for lending.
- (D) Bank rate ratio: This is the interest rate at which central banks lend to commercial banks, influencing the cost of credit in the economy.

Step 3: Conclusion.

The correct answer is (B) Marginal requirement of loan.

> **Quick Tip**
>
> Quantitative methods of credit control include tools like open market operations, cash reserve ratio, and the bank rate, which influence the overall money supply.

---

92. If inflation is to be controlled, the RBI

(A) raises SLR and lowers CRR

(B) lowers SLR and raises CRR

(C) raises both CRR as well as SLR

(D) none of these

Correct Answer: (C) raises both CRR as well as SLR

Solution:

Step 1: Understanding CRR and SLR.

CRR (Cash Reserve Ratio) and SLR (Statutory Liquidity Ratio) are tools used by the RBI to control the money supply. Increasing both CRR and SLR will reduce the amount of money available for lending, thus controlling inflation.

Step 2: Analysis of options.

- (A) Raises SLR and lowers CRR: This would restrict lending, but lowering CRR is not typically done to control inflation.
- (B) Lowers SLR and raises CRR: This would have the opposite effect by increasing money supply, not controlling inflation.
- (C) Raises both CRR as well as SLR: This is the correct method to control inflation by restricting the money supply.
- (D) None of these: This is incorrect because option (C) is correct.

Step 3: Conclusion.

The correct answer is (C) raises both CRR as well as SLR.

> **Quick Tip**
>
> To control inflation, the RBI raises both CRR and SLR to reduce the money supply in the economy.

---

93. When consumption function intersects on the y-axis, then it indicates that

(A) Consumption is zero when income is zero

(B) Saving is negative when income is zero

(C) Consumption is positive when income is zero

(D) Saving is positive when income is zero

Correct Answer: (C) Consumption is positive when income is zero

Solution:

Step 1: Understanding the consumption function.

The consumption function shows the relationship between consumption and income. When the consumption function intersects the y-axis, it indicates that even when income is zero, consumption may still occur, typically funded by savings or credit.

Step 2: Analysis of options.

- (A) Consumption is zero when income is zero: This is incorrect as consumption can still occur even when income is zero.

- (B) Saving is negative when income is zero: This refers to situations where individuals borrow money when they cannot cover consumption, but it doesn't explain the y-axis intersection.

- (C) Consumption is positive when income is zero: This is correct, as the y-axis intersection reflects autonomous consumption.

- (D) Saving is positive when income is zero: This is incorrect, as saving would be zero or negative when income is zero.

Step 3: Conclusion.

The correct answer is (C) Consumption is positive when income is zero.

> **Quick Tip**
>
> The intersection of the consumption function with the y-axis represents autonomous consumption, which occurs even when income is zero.

---

94. If MPC = 1, then what will be the value of multiplier?

(A) Less than 0

(B) Between 0 and 1

(C) 0

(D) Infinity

Correct Answer: (D) Infinity

Solution:

Step 1: Understanding the multiplier.

The multiplier is a measure of how much national income changes in response to a change in autonomous spending. When MPC (marginal propensity to consume) is equal to 1, every additional unit of income will be spent, leading to an infinitely large increase in income.

Step 2: Analysis of options.

- (A) Less than 0: This is incorrect, as the multiplier is positive.
- (B) Between 0 and 1: This is incorrect for an MPC of 1.
- (C) 0: This is incorrect, as the multiplier is positive and would not be zero.
- (D) Infinity: This is correct, as an MPC of 1 leads to an infinite multiplier.

Step 3: Conclusion.

The correct answer is (D) Infinity.

> **Quick Tip**
>
> When MPC is 1, the multiplier is infinite, as all income is spent, leading to an unbounded increase in national income.

---

95. What happens when interest rate goes down?

(A) Decrease in consumption

(B) Borrowing decreases

(C) Savings are encouraged

(D) Increase in borrowing and spending

Correct Answer: (D) Increase in borrowing and spending

Solution:

Step 1: Understanding the impact of interest rates.

When interest rates decrease, borrowing becomes cheaper, and consumers and businesses are more likely to borrow and spend. This typically increases aggregate demand in the economy.

Step 2: Analysis of options.

- (A) Decrease in consumption: This is incorrect, as lower interest rates generally encourage consumption and borrowing.
- (B) Borrowing decreases: This is incorrect, as lower interest rates actually encourage borrowing.

- (C) Savings are encouraged: Lower interest rates discourage saving, as the return on savings is lower.
- (D) Increase in borrowing and spending: This is the correct answer, as lower interest rates stimulate borrowing and spending.

Step 3: Conclusion.

The correct answer is (D) Increase in borrowing and spending.

> **Quick Tip**
>
> Lower interest rates encourage borrowing and spending by reducing the cost of loans, stimulating economic activity.

---

96. What is a fiscal measure of correcting deficient demand?

(A) Decrease in public debt

(B) Deficit financing

(C) Increase in public expenditure and decrease in taxes

(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding fiscal measures.

Fiscal measures to correct deficient demand aim to increase aggregate demand in the economy. This can be done by increasing public expenditure, lowering taxes, or financing the deficit.

Step 2: Analysis of options.

- (A) Decrease in public debt: This would decrease fiscal space and is not a typical measure for correcting deficient demand.
- (B) Deficit financing: This can be used to increase demand by borrowing funds and increasing government spending.
- (C) Increase in public expenditure and decrease in taxes: These are common fiscal

measures used to stimulate demand by increasing government spending and leaving more disposable income in the hands of consumers.

- (D) All of these: This is the correct answer as all of these measures can be used to correct deficient demand.

Step 3: Conclusion.

The correct answer is (D) All of these.

> **Quick Tip**
>
> To correct deficient demand, the government can use fiscal measures such as increasing public spending, reducing taxes, and deficit financing.

---

97. Aggregate demand curve is

(A) Downward sloping

(B) Upward sloping

(C) Both (A) and (B)

(D) None of these

Correct Answer: (A) Downward sloping

Solution:

Step 1: Understanding the aggregate demand curve.

The aggregate demand curve shows the total quantity of goods and services demanded in the economy at different price levels. It is generally downward sloping, meaning that as the price level falls, the quantity of goods and services demanded increases. This inverse relationship is due to the wealth effect, the interest rate effect, and the exchange rate effect.

Step 2: Analysis of options.

- (A) Downward sloping: This is the correct answer, as the aggregate demand curve slopes downward.
- (B) Upward sloping: This is incorrect because the aggregate demand curve does not slope upward.

- (C) Both (A) and (B): This is incorrect, as the aggregate demand curve is only downward sloping.
- (D) None of these: This is incorrect because the aggregate demand curve is indeed downward sloping.

Step 3: Conclusion.

The correct answer is (A) Downward sloping.

> **Quick Tip**
>
> The aggregate demand curve slopes downward because as the price level decreases, the total demand for goods and services in the economy increases.

---

98. Deflationary gap shows the measurement of

(A) Deficient demand

(B) Surplus demand

(C) Full employment

(D) None of these

Correct Answer: (A) Deficient demand

Solution:

Step 1: Understanding the deflationary gap.

A deflationary gap occurs when the actual output in an economy is less than its potential output, which is a result of deficient demand. It indicates that the economy is operating below its full employment level.

Step 2: Analysis of options.

- (A) Deficient demand: This is the correct answer. A deflationary gap is a result of insufficient demand in the economy.
- (B) Surplus demand: This would lead to an inflationary gap, not a deflationary gap.
- (C) Full employment: This is the opposite of a deflationary gap, as full employment means the economy is utilizing all its resources.

- (D) None of these: This is incorrect because deficient demand is the correct answer.

Step 3: Conclusion.

The correct answer is (A) Deficient demand.

> Quick Tip
>
> A deflationary gap arises when actual output is less than potential output due to insufficient demand.

---

99. Which of the following is not a revenue receipt?

(A) Recovery of loans

(B) Fees and fines

(C) Collection of taxes

(D) Foreign grants

Correct Answer: (A) Recovery of loans

Solution:

Step 1: Understanding revenue receipts.

Revenue receipts are receipts that do not create a liability or lead to the creation of an asset. They include taxes, fees, and fines.

Recovery of loans is not a revenue receipt because it involves the repayment of a loan, which does not contribute to national income.

Step 2: Analysis of options.

- (A) Recovery of loans: This is not a revenue receipt, as it is a liability repayment.
- (B) Fees and fines: These are revenue receipts, as they are payments for services or penalties.
- (C) Collection of taxes: Taxes are a primary revenue receipt for the government.
- (D) Foreign grants: These are considered revenue receipts as they are transfers from foreign governments or organizations.

Step 3: Conclusion.

The correct answer is (A) Recovery of loans.

Quick Tip

Revenue receipts are non-repayable receipts like taxes, fees, and fines, while recovery of loans is not considered a revenue receipt.

---

100. What is the correct component of the union budget of India?

(A) Revenue budget

(B) Capital budget

(C) Both (A) and (B)

(D) None of these

Correct Answer: (C) Both (A) and (B)

Solution:

Step 1: Understanding the components of the union budget.

The union budget of India consists of two main components: the revenue budget and the capital budget. The revenue budget deals with the government's current revenue and expenditure, while the capital budget deals with long-term investments and borrowings.

Step 2: Analysis of options.

- (A) Revenue budget: This is one part of the union budget, but the complete budget also includes the capital budget.
- (B) Capital budget: This is the other part of the union budget.
- (C) Both (A) and (B): This is the correct answer, as the union budget includes both the revenue and capital budgets.
- (D) None of these: This is incorrect as the union budget clearly includes both components.

Step 3: Conclusion.

The correct answer is (C) Both (A) and (B).

Quick Tip

The union budget of India includes both the revenue budget and the capital budget, which are essential for managing the country's finances.

PART B

1. What will happen to MP (Marginal Product), when TP (Total Product) increases at an increasing rate?

Solution:

Step 1: Understanding Marginal Product (MP) and Total Product (TP).

Marginal Product is the additional output produced by employing one more unit of input. Total Product refers to the total quantity of output produced by all inputs combined. When TP is increasing at an increasing rate, it indicates that each additional unit of input is contributing more to total output.

Step 2: The relationship between TP and MP.

When TP increases at an increasing rate, MP will also increase, because the additional units of input are more productive as production becomes more efficient. The MP curve initially rises when TP is increasing at an increasing rate.

Step 3: Conclusion.

The correct outcome is that MP will increase when TP increases at an increasing rate.

Quick Tip

In the production process, when TP increases at an increasing rate, MP also increases as each additional input produces more output.

---

2. What do you mean by fixed factors?

Solution:

Step 1: Understanding fixed factors.

Fixed factors are inputs in the production process that cannot be changed in the short term, regardless of the level of output. These factors remain constant even if the level of production increases or decreases. Examples of fixed factors include land, machinery, and buildings. These are inputs that are not variable and are necessary for production, but their quantities do not change with the level of output in the short run.

Step 2: Conclusion.

Fixed factors refer to production inputs that remain unchanged regardless of the output level in the short term.

> **Quick Tip**
>
> Fixed factors of production are inputs that cannot be adjusted in the short run, like capital and land.

---

3. Give two examples of variable costs.

Solution:

Step 1: Understanding variable costs.

Variable costs are costs that change with the level of output produced. These costs increase when production increases and decrease when production decreases. Examples include raw materials, labor costs (wages), and utility costs.

Step 2: Two examples of variable costs.

- Raw materials: The cost of raw materials such as steel, wood, or fabric increases with the level of production.
- Wages: If a company hires more workers to increase production, the total wages paid will increase.

Step 3: Conclusion.

The two examples of variable costs are raw materials and wages.

> **Quick Tip**
>
> Variable costs change with production levels. Examples include raw materials and labor.

4. What is the difference between fixed and flexible rates of exchange?

Solution:

Step 1: Understanding exchange rates.

Exchange rates refer to the value of one currency in terms of another. There are two main types of exchange rates: fixed and flexible (or floating).

Step 2: Fixed exchange rate.

A fixed exchange rate system is one where a country's currency is pegged to another currency (such as the US dollar) or a basket of currencies. The central bank maintains the exchange rate by buying and selling its currency in the foreign exchange market.

Step 3: Flexible exchange rate.

A flexible or floating exchange rate system is one where the value of the currency is determined by market forces of supply and demand. The central bank does not intervene to stabilize the currency.

Step 4: Conclusion.

The key difference is that in a fixed exchange rate system, the value of the currency is pegged to another, while in a flexible system, the currency value fluctuates according to market forces.

> **Quick Tip**
>
> In a fixed exchange rate system, the currency is pegged to another, while in a flexible system, the currency's value fluctuates based on market demand and supply.

---

5. What is the difference between cash credit and overdraft?

Solution:

Step 1: Understanding cash credit and overdraft.

Both cash credit and overdraft are forms of short-term borrowing from banks, but they differ in their features and usage.

Step 2: Cash credit.

Cash credit is a credit facility provided by banks to businesses, allowing them to withdraw funds up to a certain limit for working capital needs. Interest is paid on the amount withdrawn, and the credit limit is determined based on the business's needs and collateral.

Step 3: Overdraft.

An overdraft is a credit facility where the borrower can withdraw more money than their account balance, up to a pre-approved limit. Interest is charged only on the amount withdrawn, and it is typically used for individual or short-term business needs.

Step 4: Conclusion.

The main difference is that cash credit is typically used for business purposes with a predetermined limit for working capital, while overdrafts are more commonly used by individuals for short-term borrowing.

> **Quick Tip**
>
> Cash credit is primarily for business use, while an overdraft is available for both personal and business short-term borrowing.

---

6. Why does the demand curve slope downward?

Solution:

Step 1: Understanding the demand curve.

The demand curve shows the relationship between the price of a good and the quantity demanded by consumers. The demand curve slopes downward due to the law of demand, which states that as the price of a good decreases, the quantity demanded increases, all other factors being constant.

Step 2: Reasons for downward slope.

1. Substitution effect: As the price of a good falls, consumers tend to substitute the good for other, relatively more expensive goods.

2. Income effect: When the price of a good decreases, consumers' real income increases, allowing them to purchase more of the good.

Step 3: Conclusion.

The demand curve slopes downward because of the substitution and income effects that drive consumers to buy more of a good when its price falls.

Quick Tip

The demand curve slopes downward due to the substitution effect and income effect, both of which cause an increase in quantity demanded as price decreases.

---

7. What is statutory liquidity ratio (SLR) called?

Solution:

Step 1: Understanding SLR.

The Statutory Liquidity Ratio (SLR) is the minimum percentage of a commercial bank's net demand and time liabilities (NDTL) that it must maintain in the form of liquid assets, such as cash, gold, or government-approved securities. The SLR is regulated by the central bank of a country (e.g., RBI in India).

Step 2: Significance of SLR.

SLR helps to ensure that commercial banks have sufficient liquidity to meet their obligations and maintain stability in the financial system. It also controls the growth of credit in the economy.

Step 3: Conclusion.

SLR is called a regulatory reserve ratio that ensures the financial stability of banks by mandating them to maintain a minimum percentage of liquid assets.

Quick Tip

The SLR is a tool used by the central bank to control credit growth and ensure that banks have enough liquidity to meet their obligations.

---

8. State two important reasons by which excess demand is generated.

Solution:

Step 1: Understanding excess demand.

Excess demand occurs when the demand for goods and services exceeds their available supply at the prevailing price level. This typically happens when aggregate demand in the economy outstrips the potential output.

Step 2: Reasons for excess demand.

1. Inflationary pressures: When the money supply in the economy increases without a corresponding increase in output, it leads to inflation, increasing demand for goods and services.

2. Increased government expenditure: When the government increases its expenditure without corresponding tax hikes, it can lead to excess demand in the economy, especially if the economy is already operating at or near full capacity.

Step 3: Conclusion.

Excess demand can be generated due to inflationary pressures or increased government expenditure. Both lead to a situation where demand surpasses the available supply of goods and services.

> **Quick Tip**
>
> Excess demand arises when aggregate demand exceeds supply, often due to inflation or increased government spending.

---

9. What is marginal propensity to consume?

Solution:

Step 1: Understanding marginal propensity to consume (MPC).

MPC refers to the proportion of additional income that a household or individual spends on consumption rather than saving. It is calculated as the change in consumption divided by the change in income.

Step 2: Formula and example.

MPC = $\frac{\Delta C}{\Delta Y}$ where ΔC is the change in consumption and ΔY is the change in income. If an individual receives an increase in income and spends 80

Step 3: Conclusion.

MPC measures how much of an additional unit of income is spent on consumption, and it is a key concept in Keynesian economics to explain the consumption function.

> **Quick Tip**
>
> MPC is the ratio of the change in consumption to the change in income, indicating how much people spend from their additional income.

---

10. Why does an economic problem arise?

Solution:

Step 1: Understanding economic problems.

An economic problem arises due to the scarcity of resources and the unlimited nature of human wants. Resources such as land, labor, and capital are limited, whereas human desires are infinite. This leads to the problem of how to allocate scarce resources efficiently to satisfy as many wants as possible.

Step 2: The role of choice.

Because resources are scarce, every society faces the problem of making choices about how to allocate them. This problem involves deciding what to produce, how to produce, and for whom to produce.

Step 3: Conclusion.

The economic problem arises because of the scarcity of resources in relation to unlimited human wants, which forces societies to make choices about resource allocation.

> **Quick Tip**
>
> The economic problem arises from the fundamental issue of scarcity, where limited resources must be allocated to fulfill unlimited wants.

---

11. Define macroeconomics.

Solution:

Step 1: Understanding macroeconomics.

Macroeconomics is the branch of economics that deals with the performance, structure, behavior, and decision-making of an economy as a whole, rather than individual markets. It focuses on aggregate indicators such as GDP, unemployment rates, national income, inflation, and how different sectors of the economy interact.

Step 2: Key focus areas of macroeconomics.

Macroeconomics looks at large-scale economic phenomena, such as economic growth, business cycles, and government fiscal policies. It also studies how policies affect overall economic performance.

Step 3: Conclusion.

Macroeconomics is concerned with the economy at large, examining national and global economic issues and policies.

> Quick Tip
>
> Macroeconomics focuses on large-scale economic factors like GDP, inflation, and unemployment rates, influencing the overall economy.

---

12. When does the production possibility curve shift to the right?

Solution:

Step 1: Understanding the production possibility curve (PPC).

The production possibility curve shows the maximum possible output combinations of two goods that an economy can produce, given its resources and technology.

Step 2: Rightward shift in PPC.

The PPC shifts to the right when there is an increase in the economy's resources or improvements in technology. This means that the economy can produce more of both goods.

Step 3: Reasons for the rightward shift.

1. Increase in resources: This could include labor force expansion or an increase in capital stock.

2. Technological advancements: Innovation can increase the efficiency of production, enabling more output from the same resources.

Step 4: Conclusion.

The production possibility curve shifts to the right when the economy's resources increase or when there are technological advancements.

> **Quick Tip**
>
> A rightward shift in the PPC occurs due to resource expansion or technological improvements, allowing more output to be produced.

---

13. What are the two main features of monopoly?

Solution:

Step 1: Understanding monopoly.

A monopoly is a market structure where a single firm or seller dominates the entire market, with no close substitutes for the product. It is a form of imperfect competition.

Step 2: Two main features of monopoly.

1. Single seller: In a monopoly, there is only one seller who controls the entire supply of a good or service. The firm sets the price and output level.

2. Barriers to entry: High barriers to entry prevent other firms from entering the market and competing with the monopoly. These barriers could include legal restrictions, high startup costs, or control over essential resources.

Step 3: Conclusion.

The two main features of a monopoly are the presence of a single seller and high barriers to entry for other firms.

> **Quick Tip**
>
> Monopoly markets are characterized by a single seller and barriers to entry that prevent competition.

14. What is meant by determination of price ceiling?

Solution:

Step 1: Understanding price ceiling.

A price ceiling is a government-imposed limit on how high a price can be charged for a good or service. The aim is to prevent prices from becoming too expensive for consumers.

Step 2: Determination of price ceiling.

The price ceiling is typically set below the market equilibrium price, where supply and demand intersect, to keep prices affordable. However, if the ceiling is set too low, it can lead to shortages as producers are unwilling to supply enough goods at the lower price.

Step 3: Conclusion.

The price ceiling is determined by the government to protect consumers from excessively high prices but can lead to shortages if set too low.

> **Quick Tip**
>
> A price ceiling is a maximum price set by the government to ensure goods remain affordable, but it can lead to shortages if set too low.

---

15. Explain the two main functions of central bank.

Solution:

Step 1: Understanding central banks.

Central banks are national banks that provide financial and banking services for their country's government and commercial banking system. Their main functions are to regulate the money supply and maintain financial stability.

Step 2: Two main functions of a central bank.

1. Monetary policy implementation: The central bank controls the money supply and interest rates to achieve macroeconomic objectives like controlling inflation and ensuring economic growth.

2. Lender of last resort: In times of financial crises, the central bank provides emergency loans to commercial banks to prevent the banking system from collapsing.

Step 3: Conclusion.

The two main functions of a central bank are implementing monetary policy and acting as a lender of last resort to ensure financial stability.

> **Quick Tip**
>
> The central bank's main roles are to regulate the money supply through monetary policy and provide emergency loans to banks as a lender of last resort.

---

16. What is deficit budget?

Solution:

Step 1: Understanding a deficit budget.

A deficit budget occurs when a government's expenditures exceed its revenues, resulting in a budget deficit. This means the government has to borrow money to cover the gap between income and expenditure.

Step 2: Consequences of a deficit budget.

A deficit budget leads to increased public debt as the government borrows funds to finance the deficit. This can lead to higher interest payments and potential future fiscal challenges.

Step 3: Conclusion.

A deficit budget happens when government spending surpasses its revenue, leading to borrowing to finance the gap.

> **Quick Tip**
>
> A deficit budget results when the government's spending exceeds its revenue, requiring borrowing to make up the difference.

---

17. Show the AR and MR curves in monopolistic competition through a diagram.

Solution:

Step 1: Understanding AR and MR curves.

In monopolistic competition, the Average Revenue (AR) curve is the demand curve, and it is downward sloping due to product differentiation. The Marginal Revenue (MR) curve also slopes downward but lies below the AR curve because the firm must lower the price for all units sold in order to sell additional units.

Step 2: Diagram.

Here's a typical diagram illustrating the AR and MR curves in monopolistic competition:

ar_mr_curves.png

Step 3: Conclusion.

In monopolistic competition, the AR curve is the demand curve, and the MR curve lies below the AR curve, both sloping downward due to the price reduction required to increase sales.

Quick Tip

In monopolistic competition, AR and MR curves are downward sloping, with the MR curve below the AR curve due to price reductions for additional units sold.

---

18. Which items are included in balance of trade?

Solution:

Step 1: Understanding balance of trade.

The balance of trade is the difference between the value of a country's exports and imports of goods. It does not include services, capital movements, or financial transactions.

Step 2: Items included in balance of trade.

1. Exports of goods: The total value of goods a country sells to other countries.

2. Imports of goods: The total value of goods a country buys from other countries.

Step 3: Conclusion.

The balance of trade includes only the exports and imports of goods, excluding services and financial transactions.

Quick Tip

Balance of trade considers the difference between the exports and imports of goods, but does not include services or capital movements.

---

19. Out of the three concepts of revenue, which is also known as price?

Solution:

Step 1: Understanding the concepts of revenue.

The three main concepts of revenue are: 1. Total Revenue (TR): The total income a firm receives from selling its goods or services.

2. Average Revenue (AR): The revenue earned per unit of output sold, calculated as Total Revenue divided by the quantity of output. AR is also the price at which goods are sold.

3. Marginal Revenue (MR): The additional revenue earned from selling one more unit of output.

Step 2: Conclusion.

The concept of Average Revenue (AR) is also known as price, because it represents the price per unit at which goods are sold.

Quick Tip

Average Revenue (AR) is also known as price, as it represents the revenue per unit of output sold.

---

20. What are the shapes of AR and MR curves, when each unit is sold at the same price?

Solution:

Step 1: Understanding the relationship between price and revenue.
When each unit is sold at the same price, it means that the firm is operating under perfect competition, where the price is constant regardless of the quantity sold.
Step 2: Shapes of AR and MR curves.
1. AR curve: In perfect competition, the AR curve is a horizontal line at the price level, as price remains constant with each additional unit sold.
2. MR curve: The MR curve is identical to the AR curve in perfect competition because each additional unit sold adds the same amount to total revenue.
Step 3: Conclusion.
In perfect competition, both the AR and MR curves are horizontal and coincide, reflecting constant prices for all units sold.

> **Quick Tip**
> In perfect competition, both AR and MR curves are horizontal because the price remains constant as output increases.

---

21. What is market equilibrium?

Solution:
Step 1: Understanding market equilibrium.
Market equilibrium occurs when the quantity demanded of a good equals the quantity supplied at a particular price. At this point, there is no tendency for the price or quantity to change, as the forces of supply and demand are in balance.
Step 2: Key characteristics.
1. Price Stability: The price at which supply and demand meet is stable, with no upward or downward pressure.
2. No Shortage or Surplus: At equilibrium, there is neither a shortage nor surplus of goods in the market.
Step 3: Conclusion.
Market equilibrium is achieved when the quantity demanded equals the quantity supplied,

resulting in a stable price.

Quick Tip

Market equilibrium is reached when supply equals demand, resulting in a stable price with no excess or shortage of goods.

---

22. Define normative economics with a suitable example.

Solution:

Step 1: Understanding normative economics.

Normative economics is a branch of economics that deals with value judgments and opinions about what ought to be. It focuses on what should be rather than what is, making recommendations based on societal goals.

Step 2: Example of normative economics.

An example of a normative economic statement is: ”The government should increase taxes on the rich to reduce income inequality.” This statement reflects a subjective opinion about what should happen to achieve a specific goal.

Step 3: Conclusion.

Normative economics involves subjective statements about what ought to be done to achieve economic goals, rather than focusing on objective analysis.

Quick Tip

Normative economics involves value judgments about what should happen, such as opinions on income distribution or government intervention.

---

23. Define marginal rate of substitution.

Solution:

Step 1: Understanding marginal rate of substitution (MRS).

The marginal rate of substitution refers to the amount of one good that must be sacrificed to obtain an additional unit of another good, while keeping the overall level of utility constant. It measures the trade-off between two goods.

Step 2: Formula for MRS.

MRS is calculated as:

$$MRS = \frac{\text{Change in quantity of Good 2}}{\text{Change in quantity of Good 1}}$$

This represents how much of Good 2 a consumer is willing to give up to gain one more unit of Good 1.

Step 3: Conclusion.

MRS shows the rate at which a consumer is willing to trade one good for another while maintaining the same level of satisfaction.

> **Quick Tip**
>
> The marginal rate of substitution shows the rate at which a consumer is willing to substitute one good for another while keeping utility constant.

---

24. Why does the budget line slope downward?

Solution:

Step 1: Understanding the budget line.

A budget line represents all combinations of two goods that a consumer can purchase, given their income and the prices of the goods. The budget line slopes downward because as the consumer buys more of one good, they have less income available to spend on the other good.

Step 2: Reason for downward slope.

The slope of the budget line is determined by the relative prices of the two goods. If the price of Good 1 increases, the budget line will become steeper, and the consumer can afford less of Good 1. Conversely, if the price of Good 2 increases, the budget line will flatten.

Step 3: Conclusion.

The budget line slopes downward because of the trade-off between two goods, driven by the consumer's limited income and the relative prices of the goods.

Quick Tip

The budget line slopes downward because if a consumer spends more on one good, they have less income to spend on the other.

---

25. What is the difference between inflationary gap and deflationary gap?

Solution:

Step 1: Understanding inflationary gap.

An inflationary gap occurs when the actual output of an economy exceeds its potential output. In this situation, demand exceeds supply, leading to inflationary pressure. The economy is operating above full employment.

Step 2: Understanding deflationary gap.

A deflationary gap occurs when the actual output is less than the potential output. This situation arises when there is insufficient demand for goods and services, leading to unemployment and underutilization of resources.

Step 3: Conclusion.

The inflationary gap occurs when demand exceeds supply, leading to inflation, while the deflationary gap occurs when demand falls short of supply, leading to unemployment and economic slowdown.

Quick Tip

An inflationary gap arises when actual output exceeds potential output, while a deflationary gap occurs when output is below its potential due to weak demand.

---

26. What is the reason for the backward bending labour supply curve?

Solution:

Step 1: Understanding the labor supply curve.

The labor supply curve shows the relationship between the wage rate and the amount of labor that workers are willing to supply. Normally, as wages increase, more people are willing to work. However, in the case of a backward bending supply curve, workers choose to work less when wages increase beyond a certain point.

Step 2: Explanation for backward bend.

The backward bend occurs because at higher wage rates, workers may prefer leisure over income. This happens due to the income effect, where increased wages provide enough income for workers to maintain their desired standard of living without working as much.

Step 3: Conclusion.

The backward bending labor supply curve is caused by the income effect at higher wage levels, where workers reduce their labor supply to enjoy more leisure time.

> Quick Tip
>
> The backward bending labor supply curve reflects the trade-off between income and leisure at higher wage levels, where people may choose more leisure and less work.

---

27. Explain any two objectives of the government budget.

Solution:

Step 1: Understanding the government budget.

A government budget is a financial plan that outlines the government's expected income and expenditure over a period of time. The budget serves multiple purposes and can help achieve various economic goals.

Step 2: Two objectives of the government budget.

1. Resource Allocation: The government budget allocates resources to different sectors of the economy, such as education, healthcare, and infrastructure. This ensures that resources are distributed efficiently to achieve national priorities.

2. Economic Stability: The budget helps stabilize the economy by adjusting spending and taxation policies to control inflation, reduce unemployment, and stimulate economic growth.

Step 3: Conclusion.

Two key objectives of the government budget are efficient resource allocation and maintaining economic stability through fiscal policies.

Quick Tip

The government budget aims to allocate resources efficiently and stabilize the economy through taxation and spending policies.

---

28. What is ordinal utility?

Solution:

Step 1: Understanding ordinal utility.

Ordinal utility refers to the satisfaction or pleasure a consumer derives from goods and services, ranked in order of preference, without measuring the exact level of satisfaction. It is a qualitative measure of utility rather than a quantitative one.

Step 2: Example of ordinal utility.

For example, if a consumer prefers good A over good B, and good B over good C, ordinal utility simply ranks the goods as A ¿ B ¿ C without specifying how much more the consumer prefers A over B or B over C.

Step 3: Conclusion.

Ordinal utility measures preferences and rankings rather than the exact level of satisfaction, making it a qualitative rather than quantitative approach.

Quick Tip

Ordinal utility ranks preferences based on what a consumer likes more, without measuring how much more they like one option over another.

---

29. What is meant by complementary goods?

Solution:

Step 1: Understanding complementary goods.

Complementary goods are goods that are consumed together. An increase in the consumption of one good leads to an increase in the consumption of the other good. They are typically used together, and their demand is related.

Step 2: Examples of complementary goods.

Examples of complementary goods include cars and gasoline, printers and ink cartridges, or coffee and sugar.

Step 3: Conclusion.

Complementary goods are those that are used together, and their demand moves in tandem. An increase in the demand for one leads to an increase in demand for the other.

> **Quick Tip**
>
> Complementary goods are used together, and an increase in the demand for one typically increases the demand for the other.

---

30. Give the formula for measuring price elasticity of demand according to percentage method.

Solution:

Step 1: Understanding price elasticity of demand.

Price elasticity of demand measures the responsiveness of quantity demanded to a change in the price of a good or service. The formula for calculating price elasticity of demand (PED) according to the percentage method is:

$$PED = \frac{\%\Delta Q}{\%\Delta P}$$

where: - $\%\Delta Q$ is the percentage change in quantity demanded, and - $\%\Delta P$ is the percentage change in price.

Step 2: Example of price elasticity calculation.

If the price of a good increases by 10

$$PED = \frac{-20\%}{10\%} = -2$$

This indicates that demand is elastic, and consumers are relatively responsive to price changes.

Step 3: Conclusion.

Price elasticity of demand is calculated as the percentage change in quantity demanded divided by the percentage change in price.

Quick Tip

The formula for price elasticity of demand is the percentage change in quantity demanded divided by the percentage change in price.

---

31. Explain why an indifference curve is downward sloping and convex to the origin.

Solution:

Step 1: Understanding indifference curves.

An indifference curve represents all combinations of two goods that give the consumer the same level of satisfaction or utility. Consumers are indifferent between the different combinations of goods along the curve.

Step 2: Why is the indifference curve downward sloping?

The indifference curve is downward sloping because of the law of diminishing marginal rate of substitution. This law states that as a consumer substitutes one good for another, the quantity of the good they are willing to give up to obtain more of the other good decreases. Therefore, as you move down along the curve, the quantity of one good decreases while the quantity of the other increases, maintaining the same level of utility.

Step 3: Why is the indifference curve convex to the origin?

The convexity of the indifference curve reflects the diminishing marginal rate of substitution. This means that as the consumer substitutes one good for another, they require increasingly larger amounts of the good they are gaining in order to maintain the same level of satisfaction. The curve bends toward the origin as it reflects the decreasing willingness to trade off one good for another.

Step 4: Conclusion.

The indifference curve is downward sloping because of the trade-off between goods, and it is convex to the origin due to diminishing marginal rate of substitution.

Quick Tip

The indifference curve slopes downward due to the trade-off between goods, and its convex shape reflects diminishing marginal rate of substitution.

---

32. How is technological progress a determinant of supply of a good by a firm? Explain.

Solution:

Step 1: Understanding the concept of technological progress.

Technological progress refers to improvements in the methods of production, leading to more efficient use of resources. It can include innovations in machinery, processes, or techniques that increase productivity and reduce costs.

Step 2: Technological progress as a determinant of supply.

Technological progress directly affects the supply of goods in the following ways: 1. Increased productivity: New technologies allow firms to produce more output with the same amount of inputs, increasing the supply of goods.

2. Cost reduction: With better technology, firms can produce goods at a lower cost. This allows firms to supply more at a given price, shifting the supply curve to the right.

3. Improved quality: Technological improvements often result in better-quality products, which can increase consumer demand, thus increasing supply.

Step 3: Conclusion.

Technological progress enhances the efficiency and cost-effectiveness of production, leading to an increase in the supply of goods. It reduces production costs and increases productivity, enabling firms to offer more at the same price.

Quick Tip

Technological progress increases productivity and reduces costs, which directly increases the supply of goods by firms.

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33. What is the law of diminishing returns? Why does this law become operative?

Solution:

Step 1: Understanding the law of diminishing returns.

The law of diminishing returns states that, in the production process, as additional units of a variable input (like labor) are added to a fixed amount of other resources (like capital), the marginal product of the variable input will eventually decrease after a certain point. Initially, increasing the amount of the variable input increases production, but after a point, the additional output produced by each additional unit of input decreases.

Step 2: Why does this law become operative?

This law becomes operative due to the inefficiency that arises when too many units of a variable input are added to a fixed input. With limited fixed resources (like machinery or land), additional units of the variable input (like labor) will crowd each other out, causing less effective use of resources.

Step 3: Conclusion.

The law of diminishing returns is operative because adding more of a variable input to a fixed resource leads to less efficient production after a certain point.

Quick Tip

The law of diminishing returns states that after a certain point, adding more of a variable input (like labor) will result in less additional output.

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34. Define foreign exchange rate. Differentiate between fixed and flexible exchange rates.

Solution:

Step 1: Understanding foreign exchange rate.

The foreign exchange rate is the rate at which one currency can be exchanged for another. It determines the value of a country's currency relative to others in the global market.

Step 2: Fixed exchange rate.

A fixed exchange rate is a system where a country's currency value is tied or pegged to another major currency, such as the U.S. dollar or gold. The government or central bank maintains the exchange rate by buying and selling its own currency in the foreign exchange market.

- Example: The Hong Kong dollar is pegged to the U.S. dollar.
- Advantages: Provides stability in international prices and avoids fluctuations.
- Disadvantages: Limits the country's ability to adjust to economic changes.

Step 3: Flexible exchange rate.

A flexible or floating exchange rate is determined by the market forces of supply and demand in the foreign exchange market. The currency's value fluctuates based on these forces.

- Example: The U.S. dollar, Euro, and British pound are examples of floating currencies.
- Advantages: Allows for automatic adjustment to economic changes.
- Disadvantages: Can lead to greater volatility and uncertainty in international trade.

Step 4: Conclusion.

Fixed exchange rates are pegged to another currency, while flexible exchange rates fluctuate based on market demand and supply. Each system has its advantages and drawbacks depending on the country's economic conditions.

> **Quick Tip**
>
> Fixed exchange rates are pegged to another currency, while flexible exchange rates are determined by market forces.

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35. Explain the circular flow of income in a two-sector economy.

Solution:

Step 1: Understanding the circular flow of income.

The circular flow of income is an economic model that shows how money moves through an economy. It represents the continuous flow of income between producers (firms) and consumers (households).

Step 2: Two-sector economy.

In a two-sector economy, the flow of income occurs between two sectors: households and firms. The firms produce goods and services and sell them to the households, while households provide factors of production (labor, land, and capital) to firms.

Step 3: The flow process.

- Households to Firms: Households supply factors of production to firms and receive wages, rent, interest, and profits in return. This represents the flow of income from households to firms.
- Firms to Households: Firms use the factors of production to produce goods and services, which they sell to households. The money spent by households on goods and services flows back to firms as revenue.

Step 4: Conclusion.

In a two-sector economy, the circular flow of income shows the exchange of factors of production and goods and services between households and firms, ensuring that income is continuously generated and spent.

> **Quick Tip**
>
> In a two-sector economy, the circular flow of income occurs between households (providing factors of production) and firms (providing goods and services).

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36. Explain with diagram the effect of time element on equilibrium price.

Solution:

Step 1: Understanding equilibrium price.

Equilibrium price is the price at which the quantity demanded equals the quantity supplied. At this price, there is no excess demand or supply in the market, and the forces of supply and demand are in balance.

Step 2: Effect of time element.

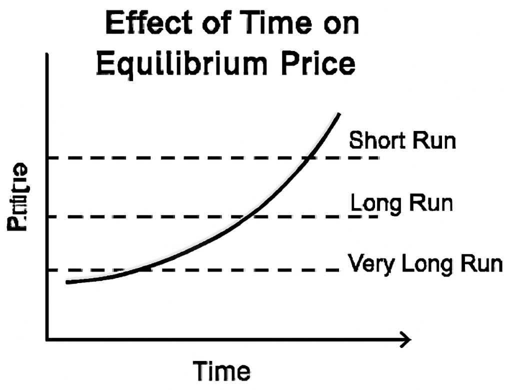
The effect of time on equilibrium price can be explained through three periods: the short run, the long run, and the very long run.

1. Short Run: In the short run, producers can adjust output but not all factors of production can change. If there is an increase in demand, the price will rise, leading to an increase in quantity supplied. However, supply can only respond up to a point as capacity is limited.

2. Long Run: In the long run, all factors of production can be adjusted. If demand continues to increase, firms can expand their production, and prices will stabilize at a higher equilibrium.
3. Very Long Run: In the very long run, new firms may enter the market, increasing competition and driving prices back down to a new equilibrium.

Step 3: Diagram.

Here's a basic diagram showing the effect of time on the equilibrium price:



Step 4: Conclusion.

The equilibrium price changes over time due to supply and demand adjustments in the short, long, and very long run.

> **Quick Tip**
>
> In the short run, price adjustments are quicker, but in the long run, firms can adjust fully, impacting the equilibrium price.

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37. Define investment multiplier. What is the relation between investment multiplier and marginal propensity to consume?

Solution:

Step 1: Understanding the investment multiplier.

The investment multiplier is a concept in Keynesian economics that measures the change in national income resulting from an initial change in investment. When investment increases, income increases, and this leads to further increases in consumption, creating a multiplied effect on the economy. The investment multiplier is given by the formula:

$$k = \frac{1}{1 - MPC}$$

where k is the investment multiplier and MPC is the marginal propensity to consume.

Step 2: Relationship between investment multiplier and marginal propensity to consume (MPC).

The investment multiplier is inversely related to the marginal propensity to save (MPS), which is related to MPC as:

$$MPS = 1 - MPC$$

The higher the MPC (the proportion of income that is spent on consumption), the greater the value of the investment multiplier. This means that as people spend more of their income, any initial increase in investment leads to a larger increase in national income.

Step 3: Conclusion.

The investment multiplier depends on the MPC. A higher MPC means a larger multiplier effect, as increased consumption drives further economic growth.

Quick Tip

The investment multiplier increases with higher marginal propensity to consume (MPC), as more consumption leads to larger economic growth from initial investment.

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38. Explain the law of demand with the help of diagram. Describe any five factors that affect the demand for a commodity.

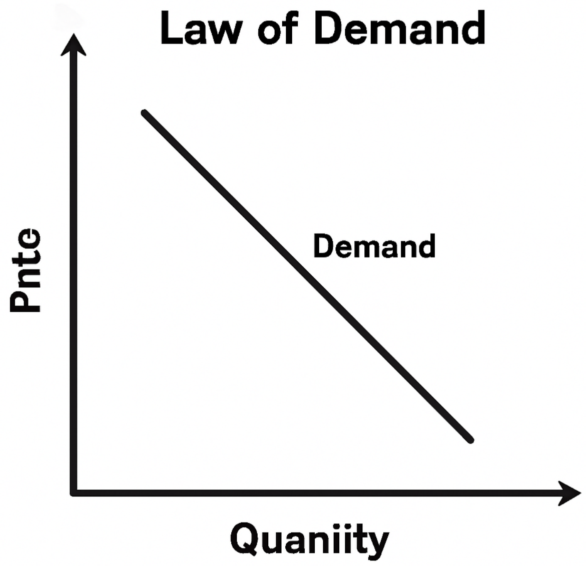
Solution:

Step 1: Understanding the law of demand.

The law of demand states that, all else being equal, as the price of a good increases, the quantity demanded decreases. Conversely, as the price decreases, the quantity demanded increases. This inverse relationship is fundamental in economics.

Step 2: Diagram for the law of demand.

The law of demand can be illustrated through a downward sloping demand curve, as shown in the diagram below:



Step 3: Five factors that affect the demand for a commodity.

The demand for a commodity is influenced by several factors, including:

1. Price of the commodity: As per the law of demand, if the price of a good increases, demand decreases, and vice versa.
2. Income of consumers: Higher income typically increases demand for goods, especially normal goods.
3. Tastes and preferences: If consumers develop a preference for a good, the demand for that good will increase.
4. Prices of related goods: The demand for a good can be affected by the price changes of related goods such as substitutes or complements.
5. Expectations about future prices: If consumers expect prices to rise in the future, they may increase their current demand.

Step 4: Conclusion.

The law of demand shows the negative relationship between price and quantity demanded. Several factors, including price, income, tastes, and the prices of related goods, can shift the demand curve.

Quick Tip

The law of demand shows an inverse relationship between price and quantity demanded, influenced by factors such as income and consumer preferences.
