Bihar Board Class 12 Economics Intermediate Examination 2025 Question Paper with Solutions

Time Allowed :3 Hours 15 Minutes	Maximum Marks :100	Total Questions :138

General Instructions

Read the following instructions very carefully and strictly follow them:

1. The test is of 3 hours 15 Minutes duration.
2. The question paper consists of 138 questions.
3. Candidate must enter his / her Question Booklet Serial No. (10 Digits) in the OMR Answer Sheet.
4. Minimum 30% marks in each subject (30 out of 100 for theory, adjusted for practicals where applicable).
5. Use of any electronic appliances is strictly prohibited.
6. Candidates are required to give their answers in their own words wherever practicable
7. 15 minutes of extra time have been allotted for the candidates to read the questions carefully.

Section - A

1. Into how many periods has Marshall divided production time on the basis of supply ?

(A) Two
(B) Three
(C) Four
(D) Seven

Correct Answer: (C) Four

Solution:

Step 1: Understanding the Concept:
Alfred Marshall, a prominent economist, introduced the concept of time periods in economics to analyze how supply responds to changes in demand.
The ability of producers to adjust their output is constrained by time. The longer the time period, the more flexibility they have to change the scale of production.

Step 2: Detailed Explanation:
Marshall classified the time period into four distinct categories based on the elasticity of supply:
1. **Market Period (or Very Short Period):** This period is so short that the supply is fixed. Firms cannot change their output at all. For example, the supply of fresh fish in a market on a particular day.
2. **Short Period:** In this period, firms can increase output by changing only the variable factors of production (like labor and raw materials), while the fixed factors (like plant and machinery) remain unchanged.
3. **Long Period:** This period is long enough for firms to adjust all factors of production, both variable and fixed. Firms can change their plant size, and new firms can enter or exit the industry.
4. **Very Long Period (or Secular Period):** This refers to a very long time frame where fundamental changes can occur, such as changes in technology, population, and consumer tastes.

Step 3: Final Answer:
Based on this classification, Marshall divided production time into four periods. Therefore, the correct option is (C).

Quick Tip

Remember the key distinction: Very short period (supply is fixed), Short period (only variable factors change), Long period (all factors can change). This is a fundamental concept for understanding market equilibrium and price determination.

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2. Market price is found in

(A) Very short period market
(B) Long period market
(C) Very long period market
(D) None of these

Correct Answer: (A) Very short period market

Solution:

Step 1: Understanding the Concept:
In economics, we distinguish between 'Market Price' and 'Normal Price'.
Market Price is the actual price that prevails in the market at a particular point in time. It is determined by the temporary intersection of demand and supply and is prone to frequent fluctuations.
Normal Price is the long-run equilibrium price that tends to prevail when all factors of production can be adjusted.

Step 2: Detailed Explanation:
The 'Very short period market' (also known as the Market Period) is characterized by a fixed supply.
In this period, producers cannot alter the quantity of the good they offer for sale, regardless of the price.
Therefore, the price is determined solely by the prevailing demand conditions against a fixed supply. This day-to-day, fluctuating price is the market price.
In contrast, the long-period market is associated with the 'Normal Price', where supply can fully adjust to demand.

Step 3: Final Answer:
Market price is determined by the temporary forces of demand and a fixed supply, which is the defining characteristic of the very short period market. Thus, option (A) is correct.

Quick Tip

Associate "Market Price" with immediate, day-to-day fluctuations (like stock prices or daily vegetable prices) and link it to the "Very Short Period". Associate "Normal Price" with long-run stability and the "Long Period".

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3. In very short period, supply will be

(A) perfectly elastic
(B) perfectly inelastic
(C) elastic
(D) none of these

Correct Answer: (B) perfectly inelastic

Solution:

Step 1: Understanding the Concept:
The "very short period," or market period, is a time frame so brief that producers cannot change the quantity of goods they supply to the market. The stock of the commodity is fixed. Price elasticity of supply measures the responsiveness of the quantity supplied to a change in price.

Step 2: Detailed Explanation:
Perfectly inelastic supply occurs when the quantity supplied does not change at all, regardless of any change in price. The price elasticity of supply is zero ($E_s = 0$). Graphically, this is represented by a vertical supply curve.
In the very short period, since the quantity supplied is fixed (e.g., the amount of fresh produce brought to a farmers' market for the day), it cannot be increased even if the price rises significantly.

Therefore, the supply in the very short period is perfectly inelastic.

Step 3: Final Answer:
As the quantity supplied is fixed and unresponsive to price changes in the very short period, the supply is perfectly inelastic. Hence, option (B) is the correct choice.

Quick Tip

Visualize the supply curve. A vertical supply curve means quantity is fixed, which corresponds to "perfectly inelastic". A horizontal supply curve means price is fixed, corresponding to "perfectly elastic". In the immediate market period, supply is always vertical.

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4. In equilibrium situation

(A) The amount to be sold is equal to the amount to be purchased
(B) Market supply is equal to market demand
(C) Neither the firm nor the consumer wants to be destabilised
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
Market equilibrium is a state of balance in a market where the economic forces of supply and demand are equal. At this point, the price and quantity of the good tend to remain stable, as there are no inherent pressures for them to change.

Step 2: Detailed Explanation:
Let's analyze each statement:
(A) **The amount to be sold is equal to the amount to be purchased:** This is the definition of the equilibrium quantity. At the equilibrium price, the quantity that sellers are willing to supply is exactly equal to the quantity that buyers are willing to purchase. This statement is correct.
(B) **Market supply is equal to market demand:** This is the fundamental condition for market equilibrium. The intersection of the market demand curve and the market supply curve determines the equilibrium price and quantity. This statement is correct.
(C) **Neither the firm nor the consumer wants to be destabilised:** This describes the stability of the equilibrium point. At equilibrium, consumers are maximizing their utility (given their budget) and firms are maximizing their profits. Since all parties are optimizing their positions, there is no incentive for anyone to change their behavior, leading to a state of rest. This statement is correct.

Step 3: Final Answer:
Since all three statements accurately describe different facets of a market equilibrium situation, the correct answer is (D) All of these.

Quick Tip

Remember that equilibrium is not just a mathematical point where two lines cross. It's a state of stability or rest where no economic agent (consumer or firm) has an incentive to unilaterally change their decision.

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5. Price of a good is determined at a point where

(A) Demand of the commodity is high
(B) Supply of the commodity is high
(C) Demand of the commodity and supply of the commodity are equal
(D) None of these

Correct Answer: (C) Demand of the commodity and supply of the commodity are equal

Solution:

Step 1: Understanding the Concept:
The price of a good in a competitive market is determined by the interaction of the forces of demand and supply. This is a central tenet of microeconomics.
The demand curve shows the quantity buyers are willing to purchase at various prices, while the supply curve shows the quantity sellers are willing to offer at various prices.

Step 2: Detailed Explanation:
- If demand is greater than supply (a shortage), buyers will compete for the limited goods, bidding the price up.
- If supply is greater than demand (a surplus), sellers will compete for customers, pushing the price down.
- The market reaches a stable point, known as equilibrium, only when the quantity demanded by consumers is exactly equal to the quantity supplied by producers. This point of equality determines the market-clearing price, or equilibrium price.
Options (A) and (B) are incorrect because having high demand or high supply alone doesn't determine a stable price; it's the balance between them that matters.

Step 3: Final Answer:
The price of a good is determined at the equilibrium point where the quantity demanded equals the quantity supplied. Therefore, option (C) is the correct answer.

Quick Tip

Always visualize the standard supply and demand graph. The price is determined not by either curve alone, but by the point where they intersect. This intersection is the only point where demand and supply are equal.

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6. Which of the following statements is correct ?

(A) The demand for labour comes from producers
(B) Demand of labour depends on its productivity
(C) $MP_L = TP_L - TP_{(L-1)}$
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
This question addresses the key principles of the demand for labor in factor markets. The demand for labor is a 'derived demand', meaning it is not demanded for its own sake but for the goods and services it can produce.

Step 2: Detailed Explanation:
Let's analyze each statement:
(A) **The demand for labour comes from producers:** This is correct. Firms (producers) hire labor as an input to produce goods and services which they then sell to consumers. Thus, the demand for labor originates from the production side of the economy.
(B) **Demand of labour depends on its productivity:** This is also correct. A profit-maximizing firm will hire a worker only if the additional revenue generated by that worker (Marginal Revenue Product, MRP_L) is at least equal to the cost of hiring them (the wage rate). Since MRP_L is calculated as Marginal Product of Labor (MP_L) multiplied by Marginal Revenue (MR), the demand for labor is directly dependent on its productivity (MP_L). Higher productivity leads to higher demand for labor.
(C) $MP_L = TP_L - TP_{(L-1)}$**:** This is the correct formula for the Marginal Product of Labor (MP_L). It defines the marginal product as the change in Total Product (TP) that results from employing one additional unit of labor (L). It is the total product with L units of labor minus the total product with $L - 1$ units.

Step 3: Final Answer:
All three statements (A), (B), and (C) are fundamental and correct principles in the theory of labor markets. Therefore, the correct option is (D).

Quick Tip

Remember that the demand for any factor of production (labor, capital, land) is a derived demand and is fundamentally determined by its marginal productivity. The formula in option (C) is the discrete version of calculating the marginal product.

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7. Due to price ceiling, what situation arises in the market ?

(A) Quantity demanded > Quantity supplied
(B) Demand will be larger and deficiency in goods will remain
(C) Black marketing is possible
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
A price ceiling is a government-imposed maximum price that can be charged for a good or service. For it to be effective, a price ceiling must be set *below* the natural market equilibrium price.

Step 2: Detailed Explanation:
Let's analyze the consequences of an effective price ceiling:
- **(A) Quantity demanded > Quantity supplied:** At a price lower than equilibrium, consumers want to buy more of the good (quantity demanded increases), but producers are willing to supply less (quantity supplied decreases). This creates a gap where demand exceeds supply, a situation known as a shortage. This statement is correct.
- **(B) Demand will be larger and deficiency in goods will remain:** This is another way of describing the shortage created by the price ceiling. The lower price increases demand while reducing supply, leading to a persistent deficiency or shortage of the good in the market. This statement is correct.
- **(C) Black marketing is possible:** When there is a shortage, some consumers are willing to pay more than the legally mandated ceiling price to obtain the good. This creates an incentive for sellers to sell the good illegally at higher prices in a "black market". This statement is also a common consequence.

Step 3: Final Answer:
Since all the statements (A), (B), and (C) describe situations that arise from a price ceiling, the correct answer is (D) All of these.

Quick Tip

Remember the simple rule: a price **c**eiling is a **c**ap, and if it's below equilibrium, it causes a shortage. A price **f**loor is a base, and if it's above equilibrium, it causes a surplus (**f**lood). This helps to quickly identify the primary outcome of price controls.

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8. For every market, which condition has to be fulfilled for firm's equilibrium ?

(A) AR = MC
(B) MR = MC
(C) MC curve intersects the MR curve from below
(D) Both (B) and (C)

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

Solution:

Step 1: Understanding the Concept:
A firm's equilibrium is the point at which it maximizes its profits. To find this point, two conditions must be met, regardless of the market structure (perfect competition, monopoly, etc.).

Step 2: Detailed Explanation:
1. **Necessary Condition (MR = MC):** The first condition for profit maximization is that Marginal Revenue (MR) must equal Marginal Cost (MC). Marginal revenue is the additional revenue from selling one more unit, and marginal cost is the additional cost of producing one more unit. As long as MR $>$ MC, the firm can increase its profit by producing more. If MR $<$ MC, the firm can increase its profit by producing less. Profit is therefore maximized where MR = MC. So, statement (B) is a necessary condition.

2. **Sufficient Condition (MC cuts MR from below):** The MR = MC condition alone is not enough. The MC curve must intersect the MR curve from below. This ensures that for output levels beyond the equilibrium point, MC is greater than MR. If the MC curve were cutting the MR curve from above, that point would represent profit minimization (or loss maximization), because at higher outputs, MR would exceed MC. Therefore, statement (C) is also essential.

Step 3: Final Answer:
Both the condition MR = MC and the condition that the MC curve must intersect the MR curve from below are required for a firm to be in a stable, profit-maximizing equilibrium. Therefore, option (D) is the correct answer.

Quick Tip

Think of the MR=MC rule as finding the "peak of the profit hill". The second condition, "MC cuts MR from below," ensures you've found a peak and not a valley (a point of minimum profit). Always check for both conditions.

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9. Which of the following is the reason for a decrease in supply ?

(A) Increase in production cost
(B) Increase in the prices of substitutes
(C) Fall in number of firms in the industry
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
A "decrease in supply" refers to a leftward shift of the entire supply curve. This means that at any given price, producers are willing and able to sell less of the good than before. This shift is caused by factors other than the price of the good itself.

Step 2: Detailed Explanation:
Let's analyze each option as a potential cause for a decrease in supply:
- **(A) Increase in production cost:** If the costs of inputs like labor, raw materials, or energy rise, producing the good becomes less profitable at any given price. This will cause firms to reduce their output, leading to a decrease in supply for the entire market. This is a valid reason.
- **(B) Increase in the prices of substitutes:** This statement is slightly ambiguous, but it typically refers to 'substitutes in production'. For example, if a farmer can grow either wheat or corn, and the price of wheat increases, they will likely devote more land to wheat and less to corn. This would decrease the supply of corn. In this context, it is a valid reason.
- **(C) Fall in number of firms in the industry:** If firms exit the industry, there are fewer producers overall. This directly leads to a reduction in the total market supply at every price level. This is a valid reason.

Step 3: Final Answer:
All three options are standard reasons for a leftward shift in the supply curve. Therefore, the correct answer is (D) All of these.

Quick Tip

Be sure to distinguish between a 'change in supply' (shift of the curve) and a 'change in quantity supplied' (movement along the curve). A change in the good's own price causes a change in quantity supplied. Changes in costs, technology, number of sellers, or prices of related goods cause a change in supply.

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10. Which of the following is a stock ?

(A) Wealth
(B) Saving
(C) Export
(D) None of these

Correct Answer: (A) Wealth

Solution:

Step 1: Understanding the Concept:
In economics, we distinguish between stock variables and flow variables.
- A **stock** variable is measured at a specific point in time. It represents a quantity existing at that moment.
- A **flow** variable is measured over an interval of time. It represents a rate of change.

Step 2: Detailed Explanation:
Let's classify each option:
- **(A) Wealth:** Wealth is the total value of assets a person or country owns at a particular moment in time (e.g., "His wealth as of December 31, 2023, was $1 million"). It is a stock variable.
- **(B) Saving:** Saving is the portion of income that is not spent over a period of time (e.g., "$100 per month"). It is measured over an interval, so it is a flow variable. Saving adds to the stock of wealth.
- **(C) Export:** Exports represent the value of goods and services sold to other countries over a period of time (e.g., "India's exports in the fiscal year 2023-24"). It is a flow variable.

Step 3: Final Answer:
Wealth is the only variable measured at a specific point in time. Therefore, it is a stock. The correct answer is (A).

Quick Tip

A useful analogy is a bathtub. The amount of water in the tub at any given moment is a stock. The water flowing in from the tap (like income or saving) and flowing out from the drain (like consumption) are flows.

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11. Which one of the following is a component of profit ?

(A) Dividend
(B) Undistributed profit
(C) Corporate profit tax
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
Corporate profit (or profits before tax) is the total income of a corporation. After this profit is calculated, it is allocated to different uses. The question asks for the components or allocations of this total profit.

Step 2: Detailed Explanation:
The total profit of a corporation is typically divided into three main parts:
1. **(C) Corporate profit tax:** This is the portion of the profit that is paid to the government as tax.
2. **(A) Dividend:** This is the portion of the after-tax profit that is distributed to the shareholders of the corporation.
3. **(B) Undistributed profit (or Retained Earnings):** This is the portion of the after-tax profit that is kept by the corporation for future investments, expansion, or to cover future contingencies.

Step 3: Final Answer:
Since dividends, undistributed profits, and corporate profit tax are the three main ways corporate profits are allocated, all of them are considered components in the disposition of profit. The correct answer is (D).

Quick Tip

Remember the formula: Corporate Profits = Corporate Tax + Dividends + Undistributed Profits. This relationship is a key part of national income accounting.

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12. Which one of the following is the difficulty of Barter system ?

(A) Lack of double coincidence
(B) Difficulty in division of the goods
(C) Lack of general acceptable measure of value
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
The barter system is a method of exchange where goods or services are directly exchanged for other goods or services without using a medium of exchange, such as money. This system has several significant drawbacks.

Step 2: Detailed Explanation:
Let's examine the listed difficulties:
- **(A) Lack of double coincidence of wants:** This is the most significant problem. For a trade to occur, one person must have what the other wants, and simultaneously, the second person must have what the first person wants. Finding such a match is often difficult and time-consuming.
- **(B) Difficulty in division of the goods:** Many goods are indivisible. For example, if one person has a cow and wants to trade it for a small quantity of wheat, they cannot divide the cow into smaller pieces without destroying its value. This makes exchanging goods of different values very difficult.
- **(C) Lack of general acceptable measure of value:** In a barter economy, there is no common unit to measure the value of different goods. Every good is valued in terms of every other good, leading to a complex and inefficient system of exchange rates (e.g., 1 cow = 20 sacks of wheat = 5 goats, etc.).

Step 3: Final Answer:
All the options listed are major and well-recognized difficulties of the barter system. Therefore, the correct answer is (D) All of these.

Quick Tip

The functions of money directly solve the problems of barter. Medium of exchange solves the 'double coincidence' problem. Unit of account solves the 'measure of value' problem. Store of value solves the problem of storing wealth (as many goods are perishable).

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13. Which one of the following is included in the primary function of money ?

(A) Medium of exchange
(B) Measure of value
(C) Both (A) and (B)
(D) Store of value

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

Solution:

Step 1: Understanding the Concept:
The functions of money are typically categorized into primary (or main) functions and secondary (or derivative) functions. Primary functions are the most fundamental roles that an object must perform to be considered money.

Step 2: Detailed Explanation:
- **(A) Medium of Exchange:** This is the most important function of money. It acts as an intermediary in transactions, eliminating the need for a double coincidence of wants required in a barter system.
- **(B) Measure of Value (or Unit of Account):** Money provides a common denominator for measuring the value of diverse goods and services. It allows us to state prices and record debts in a standardized way.
- **(D) Store of Value:** This is typically considered a secondary function. It means money can be held and saved for future use. While important, other assets can also serve as a store of value. The primary functions are what distinguish money from other assets.

Step 3: Final Answer:
Both Medium of Exchange and Measure of Value are universally recognized as the two primary functions of money. Therefore, the correct option is (C).

Quick Tip

Remember the two "M"s for Primary functions: **M**edium of Exchange and **M**easure of Value. The secondary functions are the two "S"s: **S**tore of Value and **S**tandard of Deferred Payment.

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14. The functions of money include

(A) value determination
(B) store of value
(C) means of exchange
(D) all of these

Correct Answer: (D) all of these

Solution:

Step 1: Understanding the Concept:
This question asks about the general functions of money, without distinguishing between primary and secondary categories. We need to identify which of the listed options are recognized functions of money.

Step 2: Detailed Explanation:
Let's analyze the options:
- **(A) value determination:** This is another term for the 'measure of value' or 'unit of account' function. Money provides the yardstick for measuring the economic value of goods and services. This is a key function.
- **(B) store of value:** Money allows purchasing power to be transferred from the present to the future. It is a way of holding wealth. This is a key function.
- **(C) means of exchange:** This is another term for the 'medium of exchange' function. Money is used to facilitate the buying and selling of goods and services. This is a key function.

Step 3: Final Answer:
Since all three options describe essential functions of money, the correct answer is (D) all of these.

Quick Tip

When a question asks for "functions of money" in general, it usually includes both primary and secondary functions. Read the question carefully to see if it specifies "primary" functions, which would narrow down the correct answer.

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15. Which of the following is the secondary function of commercial banks ?

(A) Agency function
(B) General utility function
(C) Social function
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
The functions of commercial banks are divided into two main categories:
1. **Primary Functions:** These are the core banking activities, namely accepting deposits and advancing loans.
2. **Secondary Functions:** These are all other functions performed by banks. They are further

subdivided into Agency Functions and General Utility Functions.

Step 2: Detailed Explanation:
- **(A) Agency function:** This is a major category of secondary functions where the bank acts as an agent for its customers. Examples include collecting cheques, paying bills, acting as a trustee, etc. This is a secondary function.
- **(B) General utility function:** This is the other major category of secondary functions. These are services provided to the general public and customers. Examples include providing safe deposit lockers, issuing traveller's cheques, and dealing in foreign exchange. This is a secondary function.
- **(C) Social function:** While not always listed under the traditional classification, modern banks are often expected to perform social functions, such as promoting financial inclusion, providing loans to priority sectors (like agriculture or small businesses), and contributing to community development. In a broader context, this can be considered a function of commercial banks.

Step 3: Final Answer:
Agency functions and General utility functions are the two standard categories of secondary functions. Including the broader role of social functions, all the listed options can be considered functions performed by commercial banks beyond their primary roles. Therefore, the most comprehensive answer is (D) All of these.

Quick Tip

Remember the primary functions are simple: Take money (deposits) and give money (loans). Almost everything else a bank does, from transferring funds to providing lockers, falls under secondary functions.

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16. Commercial banks

(A) issue currency notes
(B) accept deposits from customers
(C) provide loan to customers
(D) both (B) and (C)

Correct Answer: (D) both (B) and (C)

Solution:

Step 1: Understanding the Concept:
This question asks to identify the core functions of commercial banks from the given options.

Step 2: Detailed Explanation:
- **(A) issue currency notes:** The authority to issue currency notes is the exclusive right of

a country's Central Bank (e.g., the Reserve Bank of India, the Federal Reserve in the US). Commercial banks cannot issue currency. So, this statement is incorrect.
- **(B) accept deposits from customers:** This is one of the two primary functions of a commercial bank. They accept money from the public in various forms like savings accounts, current accounts, and fixed deposits. This statement is correct.
- **(C) provide loan to customers:** This is the other primary function. Banks use the deposited money to lend to individuals and businesses for various purposes. This statement is correct.

Step 3: Final Answer:
Since commercial banks perform both the functions of accepting deposits and providing loans, option (D), which includes both (B) and (C), is the correct answer.

Quick Tip

A simple way to distinguish a central bank from a commercial bank is the note-issuing function. If it issues currency, it's the central bank. If it deals with the public's deposits and loans, it's a commercial bank.

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17. Commercial banks create credit by

(A) advancing loans
(B) purchasing securities
(C) both (A) and (B)
(D) none of these

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

Solution:

Step 1: Understanding the Concept:
Credit creation is a unique and crucial function of commercial banks. It refers to the process by which banks multiply initial deposits into a much larger volume of credit, effectively increasing the money supply in the economy.

Step 2: Detailed Explanation:
- **(A) advancing loans:** This is the primary way banks create credit. When a bank grants a loan, it typically doesn't hand over cash. Instead, it opens a deposit account in the borrower's name and credits the loan amount to it. This new deposit is a part of the money supply. Since this new deposit was created "out of thin air" and not from a prior cash deposit, it is considered credit creation. The famous phrase is "loans create deposits."
- **(B) purchasing securities:** When a commercial bank buys securities (like government bonds) from the public or an institution, it pays for them by crediting the seller's bank account. This action injects new money into the banking system, creating a new deposit and

thus expanding the money supply. This is also a method of credit creation.

Step 3: Final Answer:
Both advancing loans and purchasing securities are methods through which commercial banks create credit by creating new deposits. Therefore, the correct answer is (C).

Quick Tip

Remember that credit creation is fundamentally about creating new bank deposits. Any action by a bank that results in a new deposit being credited to a customer's account, whether through a loan or a purchase of an asset, is an act of credit creation.

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18. Which of the following statements is true ?

(A) Central bank is the apex bank of the country
(B) The government has the ownership of central bank
(C) Central bank regulates the entire banking system in the country
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
This question asks to identify the true statements regarding the role and nature of a country's Central Bank.

Step 2: Detailed Explanation:
- **(A) Central bank is the apex bank of the country:** This is correct. The central bank is at the top of the financial and banking hierarchy of a country. It oversees all other banks and financial institutions.
- **(B) The government has the ownership of central bank:** This is generally true. Most central banks around the world, like the Reserve Bank of India, are state-owned institutions, ensuring that their policies are aligned with national economic objectives, although they often operate with a degree of autonomy.
- **(C) Central bank regulates the entire banking system in the country:** This is one of the most important functions of a central bank. It sets the rules and regulations under which commercial banks must operate, conducts inspections, and ensures the stability and efficiency of the banking system.

Step 3: Final Answer:
All three statements accurately describe the key features of a central bank. Therefore, the correct answer is (D) All of these.

Quick Tip

Think of the central bank as the "Guardian of the Economy." It is the apex body, it regulates other banks, and it acts as the government's banker and advisor.

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19. Central bank controls credit through

(A) bank rate
(B) open market operations
(C) CRR
(D) all of these

Correct Answer: (D) all of these

Solution:

Step 1: Understanding the Concept:
Credit control, a key component of monetary policy, refers to the mechanisms used by the central bank to regulate the volume of credit created by commercial banks. These mechanisms are known as monetary policy instruments.

Step 2: Detailed Explanation:
The options listed are all major quantitative tools of credit control:
- **(A) bank rate:** The bank rate (or discount rate) is the interest rate at which the central bank lends money to commercial banks. By increasing the bank rate, the central bank makes borrowing more expensive for commercial banks, which in turn leads to higher lending rates for the public, thus contracting credit.
- **(B) open market operations (OMO):** This involves the buying and selling of government securities by the central bank in the open market. Selling securities absorbs liquidity from the system, reducing the lending capacity of banks and controlling credit. Buying securities injects liquidity and expands credit.
- **(C) CRR (Cash Reserve Ratio):** This is the fraction of total deposits that commercial banks are legally required to hold as reserves with the central bank. By increasing the CRR, the central bank reduces the amount of funds available with commercial banks for lending, thereby controlling credit.

Step 3: Final Answer:
Bank rate, open market operations, and CRR are all important instruments used by the central bank to control credit in the economy. Therefore, the correct answer is (D) all of these.

Quick Tip

Remember these as the central bank's "levers". To slow down the economy (tighten credit), they pull the levers up: increase bank rate, increase CRR, and sell securities. To speed it up (loosen credit), they push the levers down.

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20. The major objective(s) of monetary policy is/are

(A) increase in output and employment
(B) stability in foreign exchange rate
(C) price stability
(D) all of these

Correct Answer: (D) all of these

Solution:

Step 1: Understanding the Concept:
Monetary policy refers to the actions undertaken by a central bank to manipulate the money supply and credit conditions to stimulate or restrain economic activity. These actions are guided by a set of key macroeconomic objectives.

Step 2: Detailed Explanation:
Let's evaluate the listed objectives:
- **(A) increase in output and employment:** This is a major objective, often referred to as the economic growth goal. By lowering interest rates and increasing the money supply, monetary policy can encourage investment and consumption, leading to higher output and job creation.
- **(B) stability in foreign exchange rate:** Monetary policy influences interest rates, which in turn affect capital flows and the exchange rate. A stable exchange rate is important for international trade and investment. Central banks often intervene to prevent excessive volatility.
- **(C) price stability:** This is often considered the most important and primary objective of modern central banking. It means controlling inflation and deflation to maintain the purchasing power of the currency and create a stable economic environment.

Step 3: Final Answer:
All three options—promoting growth and employment, ensuring exchange rate stability, and maintaining price stability—are widely recognized as the major objectives of monetary policy. Therefore, the correct answer is (D) all of these.

Quick Tip

The objectives of monetary policy can sometimes conflict. For example, a policy to boost employment (lower interest rates) might cause inflation. The central bank's challenge is to find the right balance between these competing goals based on the current economic conditions.

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21. In Keynesian viewpoint the equilibrium level of income and employment in the economy will be established where

(A) AD > AS
(B) AS > AD
(C) AD = AS
(D) None of these

Correct Answer: (C) AD = AS

Solution:

Step 1: Understanding the Concept:
According to John Maynard Keynes, the equilibrium level of income and employment in an economy is determined at the point where Aggregate Demand (AD) is equal to Aggregate Supply (AS).
- **Aggregate Demand (AD)** is the total spending on goods and services in an economy (AD = C + I + G + (X-M)).
- **Aggregate Supply (AS)** is the total value of goods and services produced in an economy, which is equivalent to the national income (AS = Y).

Step 2: Detailed Explanation:
- If AD > AS, total spending is greater than total output. Inventories will fall, and firms will be incentivized to produce more, leading to an increase in income and employment until AD = AS.
- If AS > AD, total output is greater than total spending. Unsold goods will pile up as inventories, and firms will cut back on production, leading to a decrease in income and employment until AD = AS.
- Equilibrium is achieved only when AD = AS, as there is no tendency for the level of income and output to change. This is also known as the principle of effective demand.

Step 3: Final Answer:
The equilibrium is established where the aggregate demand equals the aggregate supply. Therefore, option (C) is the correct answer.

Quick Tip

Remember the Keynesian cross diagram. The equilibrium is at the intersection of the 45-degree line (representing AS = Y) and the AD curve. At this intersection point, AD = AS.

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22. Keynes theory is associated with

(A) Effective propensity to demand
(B) Propensity to consume
(C) Propensity to save
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
Keynesian economics revolves around the concept of aggregate demand and its components. The theory explains how spending and saving behavior in an economy determines the overall level of economic activity.

Step 2: Detailed Explanation:
Let's analyze the association of each term with Keynes' theory:
- **(A) Effective propensity to demand (Effective Demand):** The "Principle of Effective Demand" is the cornerstone of Keynes's theory. It states that the equilibrium level of employment is determined by the point where aggregate demand equals aggregate supply. This is a central Keynesian concept.
- **(B) Propensity to consume:** The consumption function ($C = a + bY$), which describes the relationship between consumption and income, is a fundamental component of the Keynesian model. The marginal propensity to consume (MPC) is a key determinant of the multiplier.
- **(C) Propensity to save:** The saving function is the counterpart to the consumption function ($S = Y - C$). The marginal propensity to save (MPS) is also crucial for determining the value of the investment multiplier.

Step 3: Final Answer:
Since effective demand, the propensity to consume, and the propensity to save are all integral parts of Keynesian theory, the correct answer is (D) All of these.

Quick Tip

Think of Keynes' theory as a system. Effective Demand is the core principle. Propensity to consume and propensity to save are the key behavioral concepts that drive the components of aggregate demand and determine the multiplier effect.

23. Keynes multiplier theory establishes the relationship between

(A) Investment and total income
(B) Income and consumption
(C) Saving and investment
(D) None of these

Correct Answer: (A) Investment and total income

Solution:

Step 1: Understanding the Concept:
The Keynesian multiplier (specifically, the investment multiplier) is a concept that explains how an initial change in autonomous spending (like investment) leads to a larger final change in the total national income.

Step 2: Detailed Explanation:
The multiplier effect works because an initial injection of spending becomes someone else's income. A portion of this new income is then spent, becoming income for another person, and so on. This chain reaction continues with diminishing increments at each round.
The multiplier establishes a direct quantitative relationship between an initial change in investment (ΔI) and the resulting total change in income (ΔY). The relationship is given by the formula $\Delta Y = K \times \Delta I$, where K is the multiplier.
Thus, the theory connects a change in investment to the resulting change in total income.

Step 3: Final Answer:
The multiplier theory specifically establishes the relationship between investment and total income. Therefore, option (A) is correct.

Quick Tip

The multiplier answers the question: "If the government or a firm invests an extra $1 billion, by how much will the total national income increase?" This clearly links investment to total income.

24. Multiplier can be expressed through which of the following formulae ?

(A) $K = \frac{\Delta S}{\Delta I}$
(B) $K = \frac{\Delta Y}{\Delta I}$
(C) K = I - S
(D) None of these

Correct Answer: (B) $K = \frac{\Delta Y}{\Delta I}$

Solution:

Step 1: Understanding the Concept:
The investment multiplier (K) is defined as the ratio of the change in national income (ΔY) to the change in investment (ΔI) that brought it about.

Step 2: Key Formula or Approach:
The definition of the multiplier directly translates to the formula:

$$K = \frac{\text{Change in Income}}{\text{Change in Investment}}$$

In symbolic terms, this is:

$$K = \frac{\Delta Y}{\Delta I}$$

Step 3: Detailed Explanation:
- Option (A) is incorrect. In equilibrium, $\Delta S = \Delta I$, so this fraction would equal 1, which is not the multiplier.
- Option (B) correctly represents the definition of the investment multiplier.
- Option (C) is dimensionally and conceptually incorrect; it subtracts a flow (saving) from a stock (investment level), which is not meaningful in this context.
The multiplier can also be expressed in terms of the marginal propensities: $K = \frac{1}{1-MPC}$ or $K = \frac{1}{MPS}$. However, the definitional formula is based on the change in income relative to the change in investment.

Step 4: Final Answer:
Based on its definition, the multiplier is expressed as $K = \frac{\Delta Y}{\Delta I}$. So, option (B) is the correct formula.

Quick Tip

Remember the definition: the multiplier tells you how much **Income (Y)** changes for a given change in **Investment (I)**. This makes the formula $K = \Delta Y/\Delta I$ easy to recall.

---

25. Which of the following is included in the qualitative method of controlling credit ?

(A) Change in marginal requirement of loans
(B) Credit rationing
(C) Direct action
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
Central bank credit control methods are divided into two categories:
1. **Quantitative (or General) Methods:** These affect the total volume of credit in the economy. Examples include Bank Rate, CRR, and Open Market Operations.
2. **Qualitative (or Selective) Methods:** These methods aim to regulate the flow of credit for specific purposes or sectors.

Step 2: Detailed Explanation:
Let's analyze the given options:
- **(A) Change in marginal requirement of loans:** The margin is the difference between the market value of a security and the loan value a bank is willing to provide against it. By changing this margin, the central bank can encourage or discourage lending for specific purposes (e.g., against shares). This is a qualitative method.
- **(B) Credit rationing:** This involves the central bank putting a ceiling on the amount of credit available to commercial banks or for specific sectors. It directly controls the allocation of credit. This is a qualitative method.
- **(C) Direct action:** This refers to the directives, warnings, or penalties that the central bank can impose on commercial banks that do not comply with its policies. This can be used to control specific lending practices. This is a qualitative method.

Step 3: Final Answer:
All the listed options are well-known qualitative or selective methods of credit control used by a central bank. Therefore, the correct answer is (D) All of these.

Quick Tip

Think of "Quantitative" as controlling the overall *quantity* or volume of money/credit. Think of "Qualitative" as controlling the *quality*, direction, or use of credit for specific sectors.

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26. Which of the following monetary measures may be adopted to correct deficient demand ?

(A) Reduction in bank rate
(B) Buying securities in open market
(C) Reducing cash reserve ratio
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
Deficient demand (or a deflationary gap) occurs when Aggregate Demand is less than Aggregate Supply at the full employment level. This leads to unemployment and falling output. To correct this, the central bank needs to implement an **expansionary monetary policy** (also known as "cheap money policy") to increase the money supply and encourage spending.

Step 2: Detailed Explanation:
Let's analyze the effects of the given measures:
- **(A) Reduction in bank rate:** Lowering the bank rate makes it cheaper for commercial banks to borrow from the central bank. This encourages them to lower their own lending rates, making loans cheaper for businesses and consumers, thus stimulating investment and consumption. This increases aggregate demand.
- **(B) Buying securities in open market:** When the central bank buys securities, it pays for them by injecting money into the banking system. This increases the reserves of commercial banks, enhancing their capacity to lend. This increases the money supply and aggregate demand.
- **(C) Reducing cash reserve ratio (CRR):** Lowering the CRR means commercial banks have to keep a smaller portion of their deposits as reserves. This frees up more funds for them to lend, which increases the money supply and stimulates aggregate demand.

Step 3: Final Answer:
All three measures are tools of an expansionary monetary policy designed to increase aggregate demand and correct a situation of deficient demand. Therefore, the correct answer is (D) All of these.

Quick Tip

To fight deficient demand (recession), think "expand" or "loosen." All policy actions should make money cheaper and more available: cut rates, buy securities, reduce reserve requirements.

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27. Which fiscal measure is to be adopted in correcting inflationary gap ?

(A) Reduction in public expenditure
(B) Tax increase
(C) Increase in public debts
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
An inflationary gap occurs when Aggregate Demand exceeds Aggregate Supply at the full employment level, leading to rising prices (inflation). To correct this, the government needs to implement a **contractionary fiscal policy** to reduce aggregate demand. Fiscal policy involves the government's use of spending and taxation.

Step 2: Detailed Explanation:
Let's analyze the effects of the given fiscal measures:
- **(A) Reduction in public expenditure:** Government spending (G) is a direct component of Aggregate Demand (AD = C + I + G + (X-M)). Reducing government spending on things like infrastructure projects or subsidies directly lowers AD, helping to close the inflationary gap.
- **(B) Tax increase:** Increasing taxes (especially direct taxes like income tax) reduces the disposable income of households. With less money to spend, consumption (C) falls, which in turn reduces Aggregate Demand.
- **(C) Increase in public debts:** When the government borrows from the public (by selling bonds), it mops up excess purchasing power from the economy. This reduces the funds available for private consumption and investment, thereby helping to curb aggregate demand.

Step 3: Final Answer:
All three measures are tools of a contractionary fiscal policy designed to reduce aggregate demand and combat inflation. Therefore, the correct answer is (D) All of these.

Quick Tip

To fight an inflationary gap (overheating), think "contract" or "tighten." All fiscal policy actions should reduce spending in the economy: cut government expenditure, increase taxes.

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28. Financial year in India is

(A) April 1 to March 31
(B) January 1 to December 31
(C) October 30 to September 1
(D) None of these

Correct Answer: (A) April 1 to March 31

Solution:

Step 1: Understanding the Concept:
A financial year (or fiscal year) is a 12-month period used by governments and businesses for accounting purposes and for preparing annual financial statements and budgets. This period

can be different from the calendar year.

Step 2: Detailed Explanation:
In India, the government and most businesses follow a financial year that starts on the 1st of April and ends on the 31st of March of the following calendar year. For example, the financial year 2023-24 started on April 1, 2023, and ended on March 31, 2024.
Option (B) represents the calendar year. The other options are incorrect.

Step 3: Final Answer:
The correct financial year period in India is from April 1 to March 31. Therefore, option (A) is correct.

Quick Tip

This is a factual question that needs to be memorized. The April-March financial year is a legacy of the British colonial system and is followed by several Commonwealth countries.

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29. Which of the following is a component of Budget ?

(A) Budget Receipts
(B) Budget Expenditure
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
A government budget is an annual financial statement that presents the government's anticipated revenues (income) and estimated expenditures (spending) for a forthcoming financial year.

Step 2: Detailed Explanation:
The budget has two primary components or sides:
1. **(A) Budget Receipts:** This side details all the money the government expects to receive during the financial year. This includes tax revenues, non-tax revenues, and capital receipts like borrowings and disinvestment proceeds.
2. **(B) Budget Expenditure:** This side details all the planned spending by the government during the financial year. This includes spending on defense, salaries, infrastructure projects, subsidies, and interest payments.

Step 3: Final Answer:
Since a budget is fundamentally composed of its receipts and expenditures, both (A) and (B)

are essential components. Thus, the correct answer is (C).

Quick Tip

Think of a budget like a household's financial plan for the year. It has two parts: how much money you will earn (Receipts) and how much you plan to spend (Expenditure).

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30. Which of the following is a component of Budget Receipts ?

(A) Revenue Receipts
(B) Capital Receipts
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
Budget Receipts, which represent the total estimated income of the government, are further classified into two main categories based on whether they create a liability or reduce an asset for the government.

Step 2: Detailed Explanation:
The two components of Budget Receipts are:
1. **(A) Revenue Receipts:** These are receipts that do not create any liability and do not cause any reduction in the assets of the government. They are regular and recurring in nature. Examples include tax revenues (income tax, GST) and non-tax revenues (interest, dividends).
2. **(B) Capital Receipts:** These are receipts that either create a liability for the government (e.g., borrowings) or cause a reduction in its assets (e.g., disinvestment, recovery of loans). They are generally non-recurring.

Step 3: Final Answer:
The total Budget Receipts are the sum of Revenue Receipts and Capital Receipts. Therefore, both (A) and (B) are components of Budget Receipts. The correct answer is (C).

Quick Tip

To distinguish between Revenue and Capital receipts, ask two questions: 1. Does it create a liability (like a loan)? 2. Does it reduce an asset (like selling a company)? If the answer to both is "no," it's a Revenue Receipt. Otherwise, it's a Capital Receipt.

31. Macroeconomics studies

(A) Full employment
(B) Aggregate price level
(C) Gross National Product
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
Macroeconomics is the branch of economics that studies the behavior and performance of an economy as a whole. It focuses on aggregate variables and economic issues that affect the entire country.

Step 2: Detailed Explanation:
Let's examine the options:
- **(A) Full employment:** The overall level of employment and unemployment in an economy is a central topic of macroeconomics. Theories like the Keynesian model are primarily focused on determining the level of employment.
- **(B) Aggregate price level:** Macroeconomics studies the overall price level in the economy and its changes, i.e., inflation and deflation.
- **(C) Gross National Product (GNP):** GNP, along with GDP, represents the total income or output of an entire nation. The study of national income and its determinants is the core of macroeconomics.

Step 3: Final Answer:
All the given options—full employment, aggregate price level, and Gross National Product—are aggregate concepts that are studied at the level of the economy as a whole. They are all central themes of macroeconomics. Thus, the correct answer is (D).

Quick Tip

Remember, "Macro" means large-scale. If the topic applies to the entire economy (like national income, inflation, unemployment), it's macroeconomics. If it applies to an individual, a firm, or a single market, it's microeconomics.

32. Which of the following is studied under macroeconomics ?

(A) National income
(B) Full employment

(C) Total production
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
As in the previous question, this question asks to identify topics that fall under the scope of macroeconomics. Macroeconomics deals with economic aggregates.

Step 2: Detailed Explanation:
Let's analyze the options in the context of macroeconomics:
- **(A) National income:** The measurement, determination, and growth of national income (like GDP and GNP) are fundamental subjects of macroeconomic analysis.
- **(B) Full employment:** Macroeconomic theories are used to understand the causes of unemployment and to devise policies to achieve full employment.
- **(C) Total production:** This refers to the aggregate output of all goods and services in an economy, which is essentially what national income measures. It is a key macroeconomic variable.

Step 3: Final Answer:
All three topics—national income, full employment, and total production—are core areas of study in macroeconomics. Therefore, the correct answer is (D) All of these.

Quick Tip

This question reinforces the scope of macroeconomics. Any term that has an "aggregate" or "total" nature, like total output, national income, or overall employment, is a macroeconomic concept.

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33. Which one of the following is included in circular flow ?

(A) Real flow
(B) Monetary flow
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
The circular flow of income is a model that illustrates how money, goods, services, and factors of production move between different sectors of the economy, typically households and firms. This flow has two complementary parts.

Step 2: Detailed Explanation:
The two flows in the circular flow model are:
1. **(A) Real Flow (or Product Flow):** This is the flow of actual goods, services, and factors of production. It includes the flow of factor services (labor, land, capital) from households to firms and the flow of finished goods and services from firms to households.
2. **(B) Monetary Flow (or Money Flow):** This is the flow of money payments corresponding to the real flow. It includes the flow of factor payments (wages, rent, interest) from firms to households and the flow of consumption expenditure from households to firms.
The real flow and monetary flow move in opposite directions but are equal in value.

Step 3: Final Answer:
The complete circular flow model includes both the real flow of goods and services and the monetary flow of payments. Therefore, the correct answer is (C).

Quick Tip

Visualize the circular flow diagram. The inner loop is typically the 'real' flow (actual stuff), and the outer loop is the 'monetary' flow (the money that pays for the stuff). You need both loops to complete the model.

---

34. Which one of the following is included in stock ?

(A) Quantity of money
(B) Wealth
(C) Quantity of wheat stored in warehouse
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
A stock variable is a quantity that is measured at a specific point in time. In contrast, a flow variable is measured over a period of time. We need to determine which of the given options are measured at a point in time.

Step 2: Detailed Explanation:
- **(A) Quantity of money:** The total amount of money in an economy (the money supply) is measured on a specific day, e.g., "The M3 money supply on March 31, 2024, was...". It is a

stock.
- **(B) Wealth:** A person's or a nation's wealth is the total value of their assets at a particular moment. It is a stock.
- **(C) Quantity of wheat stored in warehouse:** The amount of wheat in a warehouse is measured at a point in time (e.g., "There were 100 tons of wheat in storage on Monday morning"). It is a stock. (The flow would be the wheat being added to or removed from the warehouse per day).

Step 3: Final Answer:
Since all three items—quantity of money, wealth, and goods in storage—are measured at a specific point in time, they are all stock variables. Therefore, the correct answer is (D) All of these.

Quick Tip

To test if something is a stock or a flow, ask yourself if it makes sense to add "per hour" or "per year" to it. You can have "income per year" (flow), but not "wealth per year". You have wealth at a point in time. This makes it a stock.

---

35. Which of the following is included in real flow ?

(A) Flow of goods
(B) Flow of services
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
The real flow in the circular flow of income model represents the movement of actual, non-monetary things between firms and households. It is the physical flow of resources and products.

Step 2: Detailed Explanation:
The real flow consists of two parts:
1. The flow of factor services (like labor, land, capital, and entrepreneurship) from households to firms. These are the inputs for production.
2. The flow of final goods and services from firms to households. These are the outputs of production that households consume.
The options given are:
- **(A) Flow of goods:** This is part of the real flow from firms to households.
- **(B) Flow of services:** This can refer to both the factor services flowing from households to firms and the final services (like banking, teaching) flowing from firms to households. This is

also part of the real flow.

Step 3: Final Answer:
Since the real flow includes the movement of both goods and services between the sectors of the economy, the correct answer is (C) Both (A) and (B).

Quick Tip

Remember, "Real Flow" is about real things you can see or experience—goods (like cars and bread) and services (like a haircut or a doctor's visit). "Monetary Flow" is about the money that pays for them.

---

36. Which one is true ?

(A) GNP = GDP + Depreciation
(B) NNP = GNP + Depreciation
(C) NNP = GNP - Depreciation
(D) GNP = NNP - Depreciation

Correct Answer: (C) NNP = GNP - Depreciation

Solution:

Step 1: Understanding the Concept:
This question deals with the relationship between "Gross" and "Net" concepts in national income accounting. The difference between the two is always depreciation.
- **Gross National Product (GNP):** The total market value of all final goods and services produced by the nationals of a country during a year. It includes the value of capital goods produced.
- **Depreciation (or Consumption of Fixed Capital):** The wear and tear, or reduction in the value of capital assets (like machinery and buildings) during the production process.
- **Net National Product (NNP):** The value of GNP after deducting the value of depreciation. It represents the actual net addition to the economy's output.

Step 2: Key Formula or Approach:
The fundamental relationship is:

$$\text{Net} = \text{Gross} - \text{Depreciation}$$

Applying this to National Product:

$$NNP = GNP - \text{Depreciation}$$

Step 3: Final Answer:
Based on the standard definitions in national income accounting, the correct formula is NNP

= GNP - Depreciation. Therefore, option (C) is true.

Quick Tip

Remember that "Gross" is the big, total value, while "Net" is the smaller value after accounting for wear and tear (depreciation). So, to get from Gross to Net, you always **subtract** depreciation.

---

37. What is consumption of fixed capital called ?

(A) Capital formation
(B) Depreciation
(C) Investment
(D) All of these

Correct Answer: (B) Depreciation

Solution:

Step 1: Understanding the Concept:
"Consumption of fixed capital" is the formal term used in national income accounting to describe the decline in the value of the stock of fixed assets owned by an enterprise, government, or households during an accounting period.

Step 2: Detailed Explanation:
This decline in value is a result of physical deterioration, normal obsolescence, or accidental damage. In simpler terms, it represents the wear and tear on capital goods like machinery, buildings, and equipment.
- **Depreciation** is the common term for this concept.
- **Capital formation** and **Investment** refer to the addition of new capital to the existing stock, which is the opposite of the consumption of capital.
Therefore, "consumption of fixed capital" is synonymous with "depreciation."

Step 3: Final Answer:
The consumption of fixed capital is called depreciation. Hence, option (B) is the correct answer.

Quick Tip

Remember the key relationship in national income accounts: Gross Value - Depreciation = Net Value. For example, Gross Domestic Product (GDP) - Consumption of Fixed Capital = Net Domestic Product (NDP).

38. Which of the following affects national income ?

(A) Goods and services tax
(B) Corporation tax
(C) Subsidies
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
National Income (specifically Net National Product at Factor Cost, NNP_{FC}) is the sum of all factor incomes earned by the normal residents of a country. Its calculation is affected by various taxes and subsidies as we move from market price concepts to factor cost concepts.

Step 2: Detailed Explanation:
- **(A) Goods and services tax (GST):** This is an indirect tax. Indirect taxes increase the market price of goods and services. To get to factor cost from market price, indirect taxes are subtracted. So, it affects the calculation.
- **(B) Corporation tax:** This is a direct tax on the profits of companies. Profits are a component of national income (under the income method). Corporation tax is a part of these profits and is included in the national income calculation before it is paid out.
- **(C) Subsidies:** These are government grants that reduce the market price of goods. To calculate national income at factor cost, subsidies are added to the market price figures (as part of Net Indirect Taxes which is subtracted).

Step 3: Final Answer:
All three items are integral to the calculation and definition of different aggregates of national income. They all affect the final value of national income, particularly the relationship between factor cost and market price. Therefore, the correct answer is (D).

Quick Tip

Remember the formula: National Income (NNP_{FC}) = NNP at Market Price - (Indirect Taxes - Subsidies). This shows clearly how GST (an indirect tax) and subsidies directly affect the calculation. Corporate tax is part of the "profits" component of income.

39. Which one of the following services is included in secondary sector ?

(A) Insurance
(B) Manufacturing

(C) Trade
(D) Banking

Correct Answer: (B) Manufacturing

Solution:

Step 1: Understanding the Concept:
An economy is typically divided into three sectors based on the nature of activities:
1. **Primary Sector:** Involves the extraction of raw materials from nature (e.g., agriculture, mining, fishing).
2. **Secondary Sector:** Involves the processing of raw materials into finished goods. This is also known as the industrial sector.
3. **Tertiary Sector:** Involves providing services (e.g., banking, transport, education). This is also known as the service sector.

Step 2: Detailed Explanation:
Let's classify the given options:
- (A) Insurance: This is a financial service, so it belongs to the Tertiary Sector.
- (B) Manufacturing: This involves converting raw materials into finished products (e.g., making cars from steel). This is the core activity of the Secondary Sector.
- (C) Trade: Buying and selling goods is a service, belonging to the Tertiary Sector.
- (D) Banking: This is a financial service, belonging to the Tertiary Sector.

Step 3: Final Answer:
Manufacturing is the only activity listed that falls under the secondary sector. Thus, option (B) is correct.

Quick Tip

A simple way to remember: Primary = Raw materials, Secondary = Making things (manufacturing), Tertiary = Doing things for others (services).

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40. Which one is included in primary sector ?

(A) Land
(B) Forest
(C) Mining
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
The primary sector of the economy is concerned with activities that involve the direct use and extraction of natural resources. This includes agriculture, forestry, fishing, and mining.

Step 2: Detailed Explanation:
Let's analyze the options:
- **(A) Land:** Land is the fundamental natural resource upon which primary activities like agriculture and forestry depend.
- **(B) Forest:** Forestry, which involves managing and harvesting products from forests, is a key primary sector activity.
- **(C) Mining:** The extraction of minerals and ores from the earth is a classic example of a primary sector activity.
Since all the options are either natural resources themselves or activities directly related to their extraction, they are all included within the scope of the primary sector.

Step 3: Final Answer:
Land, Forest-related activities (forestry), and Mining are all integral parts of the primary sector. Therefore, the most appropriate answer is (D) All of these.

Quick Tip

If an economic activity involves harvesting, growing, or extracting something directly from the earth, it belongs to the primary sector.

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41. Microeconomics includes

(A) individual unit
(B) small variables
(C) individual price determination
(D) all of these

Correct Answer: (D) all of these

Solution:

Step 1: Understanding the Concept:
Microeconomics is the branch of economics that studies the behavior of individual economic agents, such as households, firms, and their interactions in specific markets.

Step 2: Detailed Explanation:
Let's evaluate the given options:
- **(A) individual unit:** This is the core focus of microeconomics. It analyzes the decisions of a single consumer, a single producer, or a single firm. This is correct.
- **(B) small variables:** While the term is not standard, in the context of micro vs. macro,

it refers to variables that are not aggregates. Microeconomics deals with individual prices, individual outputs, and individual incomes, as opposed to the aggregate price level or national income. This is correct in context.
- **(C) individual price determination:** A central theme of microeconomics is price theory, which explains how the price of a single commodity or a single factor of production is determined in the market. This is correct.

Step 3: Final Answer:
All the given options describe key aspects of the subject matter of microeconomics. Therefore, the correct answer is (D) all of these.

Quick Tip

Remember the "i" in Microeconomics stands for individual. It studies individual units, individual markets, and individual prices.

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42. Microeconomics studies

(A) Product price determination
(B) Factor price determination
(C) Economic welfare
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
Microeconomics has a broad scope, often summarized as the study of "Price Theory". This includes analyzing how prices of both products and factors of production are determined and the efficiency of these outcomes.

Step 2: Detailed Explanation:
The major areas of study within microeconomics are:
1. **(A) Product price determination:** This involves the theory of demand (consumer behavior) and the theory of production and cost (producer behavior), which together explain how prices are set in product markets.
2. **(B) Factor price determination:** This involves explaining how the rewards for factors of production—wages for labor, rent for land, interest for capital, and profit for entrepreneurship—are determined in factor markets. This is also known as the theory of distribution.
3. **(C) Economic welfare:** This branch of microeconomics, known as welfare economics, evaluates the efficiency of market outcomes and resource allocation.

Step 3: Final Answer:
All three options are major components of the scope of microeconomics. Therefore, the correct answer is (D) All of these.

Quick Tip

Think of the scope of microeconomics as answering three main questions: What to produce (product pricing), how to produce (factor pricing), and is the outcome efficient (welfare economics)?

---

43. Who was the father of Economics ?

(A) J. B. Say
(B) Malthus
(C) Adam Smith
(D) Joan Robinson

Correct Answer: (C) Adam Smith

Solution:

Step 1: Understanding the Concept:
The title "Father of Economics" is traditionally bestowed upon the individual whose work is considered foundational to the discipline as a modern, systematic science.

Step 2: Detailed Explanation:
Adam Smith, a Scottish economist and philosopher, is widely regarded as the father of modern economics. His magnum opus, *An Inquiry into the Nature and Causes of the Wealth of Nations* (published in 1776), is considered the first comprehensive work of modern economics. It introduced key concepts like the division of labor, the "invisible hand" of the market, and the benefits of free trade, laying the groundwork for classical economics.
The other economists listed made significant contributions but are not considered the "father" of the entire discipline.

Step 3: Final Answer:
Adam Smith holds the title of the "Father of Economics." Therefore, option (C) is correct.

Quick Tip

Associate Adam Smith with the year 1776 and the book "The Wealth of Nations". This is a cornerstone fact in the history of economic thought.

44. Which of the following statements is true ?

(A) Human wants are infinite
(B) Resources are limited
(C) Scarcity problem gives birth to choice
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
This question addresses the fundamental economic problem, which is the basis for the entire discipline of economics.

Step 2: Detailed Explanation:
Let's analyze each statement, as they form the logical sequence of the economic problem:
- **(A) Human wants are infinite:** This is a basic premise of economics. Human desires for goods, services, and leisure are endless and insatiable.
- **(B) Resources are limited:** The means to satisfy these infinite wants—land, labor, capital, and entrepreneurship (factors of production)—are scarce or finite.
- **(C) Scarcity problem gives birth to choice:** The conflict between unlimited wants and limited resources is known as scarcity. Because we cannot have everything we want, we are forced to make choices. We must decide how to allocate our scarce resources to satisfy the most pressing wants.

Step 3: Final Answer:
All three statements are true and together they define the fundamental problem of economics. Therefore, the correct answer is (D) All of these.

Quick Tip

Remember the chain of reasoning: Infinite Wants + Limited Resources $\rightarrow$ Scarcity $\rightarrow$ Need for Choice. This is the definition of economics.

---

45. To which factor, is economic problem basically related to ?

(A) Choice
(B) Consumer's selection
(C) Firm selection
(D) None of these

Correct Answer: (A) Choice

Solution:

Step 1: Understanding the Concept:
The economic problem arises from scarcity—the fact that we have unlimited wants but limited resources. This scarcity forces us to decide which wants to satisfy and which to leave unsatisfied.

Step 2: Detailed Explanation:
The very essence of the economic problem is the need to make a **choice**.
- "Consumer's selection" and "Firm selection" are specific examples of this broader problem. A consumer must choose how to spend their limited income, and a firm must choose what to produce with its limited resources.
- However, the fundamental issue underlying all economic problems, whether for consumers, firms, or governments, is the necessity of making a choice. Economics is often called the science of choice.

Step 3: Final Answer:
The economic problem is fundamentally related to the problem of choice. Therefore, option (A) is the correct answer.

Quick Tip

If a question asks for the most "basic" or "fundamental" concept, look for the most general answer. "Consumer selection" and "Firm selection" are specific types of the general problem of "Choice".

---

46. Which economy has a co-existence of private and public sectors ?

(A) Capitalist
(B) Socialist
(C) Mixed
(D) None of these

Correct Answer: (C) Mixed

Solution:

Step 1: Understanding the Concept:
Economic systems are categorized based on the ownership of the means of production and the mechanism for resource allocation.

Step 2: Detailed Explanation:
- **Capitalist Economy:** Characterized by private ownership of resources and production, with

resource allocation determined by the market mechanism (price signals). The role of the state is minimal.
- **Socialist Economy:** Characterized by public (state) ownership of the means of production, with resource allocation determined by a central planning authority.
- **Mixed Economy:** This system combines elements of both capitalism and socialism. It features the co-existence of a private sector, where individuals and firms own resources and operate for profit, and a public sector, where the government owns and operates certain enterprises and provides public goods. Most modern economies, including India and the US, are mixed economies.

Step 3: Final Answer:
The defining feature of a mixed economy is the co-existence of private and public sectors. Therefore, option (C) is correct.

Quick Tip

Think of it as a spectrum: Pure Capitalism on one end, Pure Socialism on the other. A Mixed Economy lies somewhere in between, incorporating features of both.

---

47. Which of the following is a characteristic of utility ?

(A) Utility is a psychological phenomenon
(B) Utility is subjective
(C) Utility is a relative concept
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
In economics, utility refers to the satisfaction or benefit that a consumer derives from consuming a good or service. It is not an inherent quality of the good itself but a reflection of the consumer's perception.

Step 2: Detailed Explanation:
Let's analyze the characteristics:
- **(A) Utility is a psychological phenomenon:** Utility is a feeling of satisfaction, pleasure, or well-being. It exists in the mind of the consumer and cannot be objectively measured like weight or height.
- **(B) Utility is subjective:** The satisfaction derived from a good varies from person to person. For example, a non-smoker derives no utility from a cigarette, while a smoker does. It depends on individual tastes and preferences.

- **(C) Utility is a relative concept:** The utility of a good is not absolute but changes depending on the time, place, and circumstances. For instance, an umbrella has high utility during a rainstorm but very little on a sunny day.

Step 3: Final Answer:
All the listed statements are well-established characteristics of the economic concept of utility. Therefore, the correct answer is (D) All of these.

Quick Tip

Remember that utility is not the same as usefulness. A harmful product like a cigarette can have utility for a smoker if it satisfies their want, even though it is not useful. This highlights its subjective and psychological nature.

---

48. Consumer's behaviour is studied in

(A) Microeconomics
(B) Macroeconomics
(C) Income theory
(D) None of these

Correct Answer: (A) Microeconomics

Solution:

Step 1: Understanding the Concept:
The study of consumer behavior seeks to understand how individual consumers make decisions about what to buy, given their preferences and budget constraints. This involves analyzing concepts like utility, demand, indifference curves, and budget lines.

Step 2: Detailed Explanation:
- **(A) Microeconomics:** This branch of economics focuses on the behavior of individual economic units. The theory of consumer behavior is a fundamental and core component of microeconomics, as it forms the basis for deriving individual and market demand curves.
- **(B) Macroeconomics:** This branch studies the economy as a whole, dealing with aggregates like national income, inflation, and unemployment. It might study aggregate consumption, but not the behavior of an individual consumer.
- **(C) Income theory:** The theory of income and employment determination is a central part of macroeconomics, not microeconomics.

Step 3: Final Answer:
The study of an individual consumer's behavior is a central topic in microeconomics. Therefore, option (A) is the correct choice.

Quick Tip

Microeconomics builds from the ground up: it starts with the individual consumer and the individual firm. Macroeconomics looks from the top down: it starts with the entire economy. Consumer behavior is a "ground-up" topic.

---

49. Who basically propounded the concept of Law of Equimarginal utility ?

(A) Marshall
(B) Gossen
(C) Ricardo
(D) Mill

Correct Answer: (B) Gossen

Solution:

Step 1: Understanding the Concept:
The Law of Equi-marginal Utility states that a consumer will allocate their income among various goods in such a way that the marginal utility derived from the last unit of money spent on each good is equal. This is the condition for maximizing total utility.

Step 2: Detailed Explanation:
While Alfred Marshall refined, popularized, and gave the law its modern form, the original idea was first formulated by the German economist Hermann Heinrich Gossen (1810-1858). This law is also known as "Gossen's Second Law". Since the question asks who "basically propounded" the concept, the credit goes to the original contributor, H.H. Gossen. Marshall later elaborated on it extensively in his book "Principles of Economics".

Step 3: Final Answer:
The concept was basically propounded by H.H. Gossen. Therefore, option (B) is the correct answer.

Quick Tip

Remember Gossen's two fundamental laws: 1st Law is the Law of Diminishing Marginal Utility, and the 2nd Law is the Law of Equi-marginal Utility. Marshall is famous for popularizing these concepts, but Gossen was the originator.

---

50. The capacity of a commodity to satisfy human wants is

(A) Consumption
(B) Utility
(C) Quality
(D) Taste

Correct Answer: (B) Utility

Solution:

Step 1: Understanding the Concept:
This question asks for the economic term that defines the want-satisfying power of a good or service.

Step 2: Detailed Explanation:
- **Utility** is the correct term. It is defined as the satisfaction, pleasure, or benefit that a consumer gets from consuming a commodity.
- **Consumption** is the act of using a good or service.
- **Quality** refers to the characteristics or standard of a commodity.
- **Taste** refers to a consumer's individual preference.
The direct definition of the capacity of a commodity to satisfy a want is utility.

Step 3: Final Answer:
The correct term for the want-satisfying capacity of a commodity is utility. Hence, option (B) is correct.

Quick Tip

This is a core definition in microeconomics. Simply remember the phrase: "Utility is the want-satisfying power of a commodity."

---

51. For controlling inflation, bank rate is

(A) increased
(B) decreased
(C) kept constant
(D) is made zero

Correct Answer: (A) increased

Solution:

Step 1: Understanding the Concept:
Inflation is a situation of persistent rise in the general price level, often caused by excess money

supply or aggregate demand. To control inflation, the central bank implements a contractionary monetary policy (or dear money policy) to reduce the availability of credit and curb demand.

Step 2: Detailed Explanation:
The bank rate is the interest rate at which the central bank lends to commercial banks.
- When the central bank **increases** the bank rate, borrowing becomes more expensive for commercial banks.
- Commercial banks, in turn, increase their own lending rates for the public and businesses.
- Higher interest rates discourage borrowing for consumption and investment.
- This leads to a reduction in aggregate demand, which helps to control inflation.
Decreasing the bank rate would have the opposite effect and would be used to combat a recession, not inflation.

Step 3: Final Answer:
To control inflation, the central bank increases the bank rate to make credit more expensive. Therefore, option (A) is correct.

Quick Tip

A simple rule to remember: To cool down an "overheating" economy (inflation), the central bank raises interest rates. To stimulate a "sluggish" economy (recession), it lowers interest rates.

---

52. Where is the headquarters of RBI ?

(A) New Delhi
(B) Mumbai
(C) Kolkata
(D) Chennai

Correct Answer: (B) Mumbai

Solution:

Step 1: Factual Information:
This is a general knowledge question about the location of the headquarters of the Reserve Bank of India (RBI), which is India's central bank.

Step 2: Detailed Explanation:
The Reserve Bank of India was established on April 1, 1935. Its central office was initially established in Calcutta (now Kolkata) but was permanently moved to Mumbai in 1937. The RBI's central office is where the Governor sits and where policies are formulated.

Step 3: Final Answer:
The headquarters of the Reserve Bank of India is located in Mumbai. Therefore, option (B) is the correct answer.

Quick Tip

Mumbai is known as the financial capital of India. It hosts the headquarters of the RBI, as well as major stock exchanges like the BSE and NSE. Associating Mumbai with finance can help you remember this fact.

---

53. 14 big scheduled commercial banks in India were nationalised in

(A) 1949
(B) 1955
(C) 1969
(D) 2000

Correct Answer: (C) 1969

Solution:

Step 1: Factual Information:
This question asks for the year of the first major bank nationalization event in post-independence India.

Step 2: Detailed Explanation:
On July 19, 1969, the Government of India, under Prime Minister Indira Gandhi, nationalised 14 of the largest privately-owned commercial banks in the country. This was a landmark economic event aimed at giving the government more control over credit delivery to promote development goals.
- In 1949, the RBI was nationalised.
- In 1955, the Imperial Bank of India was nationalised and renamed the State Bank of India (SBI).
A second round of nationalization, involving 6 more banks, occurred in 1980.

Step 3: Final Answer:
The nationalization of 14 major commercial banks took place in 1969. Therefore, option (C) is correct.

Quick Tip

Remember the two key dates for bank nationalization in India: 1969 (14 banks) and 1980 (6 banks). The 1969 event was the first and most significant one.

---

54. Narasimham Committee Report is related to reform of which of the following ?

(A) Taxation reform
(B) Administrative reform
(C) Banking reform
(D) Trade reform

Correct Answer: (C) Banking reform

Solution:

Step 1: Understanding the Context:
The Narasimham Committee was a high-level committee established by the Indian government to recommend changes to the country's financial system.

Step 2: Detailed Explanation:
There were two Narasimham Committees, one in 1991 and a second in 1998, both chaired by Maidavolu Narasimham. Both committees proposed wide-ranging recommendations for the reform of the entire financial sector, with a primary and very strong focus on the **banking sector**. Their reports are considered blueprints for banking reforms in India, leading to increased efficiency, competition, and stability in the banking industry.

Step 3: Final Answer:
The Narasimham Committee Reports are fundamentally related to banking and financial sector reforms. Hence, option (C) is the correct answer.

Quick Tip

This is a very common question in exams on the Indian economy. The name "Narasimham" is almost synonymous with "Banking Reforms" in this context.

---

55. How many banks were nationalised on April 15, 1980 ?

(A) 20
(B) 6
(C) 8

(D) 10

Correct Answer: (B) 6

Solution:

Step 1: Factual Information:
This question refers to the second major wave of bank nationalizations in India.

Step 2: Detailed Explanation:
Following the first round of nationalization in 1969 (where 14 banks were nationalized), the Government of India nationalized a second set of banks on April 15, 1980. In this second phase, **six** more privately-owned banks with deposits over a certain threshold were brought under government ownership.

Step 3: Final Answer:
On April 15, 1980, 6 commercial banks were nationalised. Therefore, option (B) is the correct answer.

Quick Tip

Memorize the two phases of bank nationalization: Phase 1 (1969) = 14 banks; Phase 2 (1980) = 6 banks.

---

56. "Supply creates its own demand." Who propounded this law ?

(A) J. B. Say
(B) J. S. Mill
(C) Keynes
(D) Ricardo

Correct Answer: (A) J. B. Say

Solution:

Step 1: Identifying the Law:
The statement "Supply creates its own demand" is the popular summary of a central proposition in classical economics.

Step 2: Attributing the Law:
This proposition is known as **Say's Law of Markets**. It was propounded by the French classical economist **Jean-Baptiste Say** (1767-1832). The law suggests that the act of producing goods (supply) generates an equivalent amount of income (in the form of wages, rent, interest,

and profit), which is then used to purchase the goods produced (demand). According to this law, general overproduction or a general glut in the market is impossible. This law was a cornerstone of classical economic thought until it was famously challenged by John Maynard Keynes.

Step 3: Final Answer:
The law was propounded by J. B. Say. Therefore, option (A) is correct.

Quick Tip

Remember the dichotomy: Classical Economics (J.B. Say) believed "Supply creates its own demand." Keynesian Economics (J.M. Keynes) argued the opposite, that "Demand creates its own supply."

---

57. Effective demand is dependent on

(A) Aggregate demand
(B) Aggregate supply
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
The "Principle of Effective Demand" is the core concept of Keynesian theory of income and employment. It is not just any level of demand but the specific level of demand that is actually realized in the market.

Step 2: Detailed Explanation:
According to Keynes, the equilibrium level of income and employment is determined at the point where the Aggregate Demand Function (ADF) intersects the Aggregate Supply Function (ASF). This point of intersection is called the point of **effective demand**. At this point, the entrepreneurs' expectations of profit are maximized, and they have no tendency to change the level of output or employment. Since effective demand is the point where AD equals AS, it is determined by, and therefore dependent on, both aggregate demand and aggregate supply.

Step 3: Final Answer:
Effective demand is determined by the intersection of aggregate demand and aggregate supply, so it is dependent on both. Thus, option (C) is correct.

Quick Tip

Visualize the Keynesian Cross diagram. The point of equilibrium (effective demand) can only be found where the two lines—the aggregate demand curve and the aggregate supply curve (the 45-degree line)—cross. You need both lines to find the point.

---

58. If MPC is 0.2, then MPS will be

(A) 0.8
(B) 0.2
(C) 0.4
(D) -0.2

Correct Answer: (A) 0.8

Solution:

Step 1: Understanding the Concept:
Any additional (marginal) income received by an individual can only be used for two purposes: it can either be consumed or it can be saved.
- **Marginal Propensity to Consume (MPC)** is the fraction of additional income that is consumed ($\Delta C/\Delta Y$).
- **Marginal Propensity to Save (MPS)** is the fraction of additional income that is saved ($\Delta S/\Delta Y$).

Step 2: Key Formula or Approach:
Because there are only two uses for additional income, the sum of the fractions must be equal to 1.

$$MPC + MPS = 1$$

Step 3: Detailed Explanation:
We are given that MPC = 0.2. Using the formula:

$$0.2 + MPS = 1$$
$$MPS = 1 - 0.2$$
$$MPS = 0.8$$

Step 4: Final Answer:
If MPC is 0.2, then MPS will be 0.8. Therefore, option (A) is correct.

Quick Tip

MPC and MPS are two sides of the same coin (an extra dollar of income). They must always add up to 1. If you know one, you can find the other instantly by subtracting it from 1.

---

59. Average propensity to consume is equal to

(A) $\frac{\Delta C}{\Delta Y}$
(B) S + C
(C) $\frac{C}{Y}$
(D) $\frac{S}{Y}$

Correct Answer: (C) $\frac{C}{Y}$

Solution:

Step 1: Understanding the Concept:
The Average Propensity to Consume (APC) measures the proportion of total income that is spent on consumption. It gives a general idea of consumption behavior at a certain level of income.

Step 2: Key Formula or Approach:
The formula for APC is derived directly from its definition:

$$APC = \frac{\text{Total Consumption}}{\text{Total Income}}$$

In symbolic terms, this is written as:

$$APC = \frac{C}{Y}$$

Step 3: Detailed Explanation:
Let's analyze the options:
- (A) $\frac{\Delta C}{\Delta Y}$ is the formula for the Marginal Propensity to Consume (MPC).
- (B) S + C is equal to total income (Y), not APC.
- (C) $\frac{C}{Y}$ is the correct formula for APC.
- (D) $\frac{S}{Y}$ is the formula for the Average Propensity to Save (APS).

Step 4: Final Answer:
The correct formula for the average propensity to consume is $\frac{C}{Y}$. Hence, option (C) is correct.

Quick Tip

Remember the difference between "Average" and "Marginal". Average always relates total values (C/Y), while Marginal always relates the change in values ($\Delta C/\Delta Y$).

---

60. Which one of the following is the determining factor of equilibrium income in Keynesian viewpoint ?

(A) Aggregate demand
(B) Aggregate supply
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
This question asks about the factors that determine the point of equilibrium for national income in the Keynesian model.

Step 2: Detailed Explanation:
In the Keynesian framework, the equilibrium level of income and employment is established where the total spending in the economy (Aggregate Demand, AD) is exactly equal to the total output or income (Aggregate Supply, AS).
- Aggregate Demand (AD) shows what buyers are willing to spend at different income levels.
- Aggregate Supply (AS) shows the total output that producers are willing to supply, which in the Keynesian model is assumed to be equal to national income (AS=Y).
The equilibrium is found at the unique point where the AD curve intersects the AS curve. Therefore, both AD and AS are necessary to determine this equilibrium point. One curve alone is not sufficient.

Step 3: Final Answer:
The equilibrium level of income is determined by the interaction of both aggregate demand and aggregate supply. Therefore, option (C) is the correct answer.

Quick Tip

In economics, equilibrium is almost always determined by the interaction of two opposing forces, typically demand and supply. This is true for a single market (micro) and for the economy as a whole (macro).

---

61. Which element is essential for demand ?

(A) Desire to consume
(B) Given price
(C) Willingness to spend factor
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
In economics, "demand" is more than just a simple desire or want. It is an "effective desire," which means the desire must be backed by the ability and willingness to pay for the commodity.

Step 2: Detailed Explanation:
The essential elements for a desire to become economic demand are:
1. **Desire to consume:** There must be a want or desire for the specific good or service.
2. **Ability to Pay (Purchasing Power):** The consumer must have sufficient money or resources to buy the commodity at a given price.
3. **Willingness to spend:** The consumer must be ready to part with their money to acquire the commodity.
4. **Price of the Commodity:** Demand is always expressed with reference to a particular price (*Givenprice*).
5. **Time Period:** Demand is expressed per unit of time (e.g., per day, per week).
The given options cover the core aspects: (A) covers desire, (C) covers willingness to spend (which also implies ability), and (B) correctly notes that demand is always price-specific.

Step 3: Final Answer:
All the listed elements are essential for constituting demand in the economic sense. Therefore, the correct answer is (D) All of these.

Quick Tip

Remember that demand is not just a wish. For a poor person's desire for a luxury car to become demand, they must also have the money and be willing to spend it on the car. All components are necessary.

---

62. In which type of goods, price fall does not make any increase in demand ?

(A) Necessary goods
(B) Comfort goods
(C) Luxurious goods

(D) None of these

Correct Answer: (A) Necessary goods

Solution:

Step 1: Understanding the Concept:
The Law of Demand states that a fall in price leads to an increase in quantity demanded. However, the magnitude of this increase (the elasticity) varies for different types of goods. The question asks for goods where a price fall causes little to no increase in demand.

Step 2: Detailed Explanation:
- **Necessary goods** (or necessities) are items that consumers need for basic survival, like salt, staple foods, and life-saving medicines. The demand for these goods is highly inelastic. People buy a certain required quantity regardless of the price. If the price of salt falls, a household is unlikely to start consuming significantly more salt. Therefore, a price fall does not cause a noticeable increase in demand.
- **Comfort goods** and **Luxurious goods** have relatively elastic demand. A fall in their prices would make them more affordable to a larger group of people, leading to a significant increase in demand.

Step 3: Final Answer:
For necessary goods, a fall in price does not lead to any significant increase in demand. Therefore, option (A) is the correct answer.

Quick Tip

Think about your own consumption. If the price of salt is halved, would you buy more? Probably not. If the price of a movie ticket is halved, would you go to the movies more often? Probably yes. This illustrates the difference in elasticity between necessities and comforts/luxuries.

---

63. For normal goods, Law of Demand states the ..... relationship between price of goods and quantity of goods.

(A) Direct
(B) Positive
(C) Inverse
(D) None of these

Correct Answer: (C) Inverse

Solution:

Step 1: Understanding the Concept:
The Law of Demand describes the relationship between the price of a good and the quantity that consumers are willing and able to purchase, holding other factors constant (ceteris paribus).

Step 2: Detailed Explanation:
For **normal goods**, the law states that as the price of a good increases, the quantity demanded decreases. Conversely, as the price of a good decreases, the quantity demanded increases. This means that price and quantity demanded move in opposite directions.
- A relationship where two variables move in opposite directions is called an **inverse** or negative relationship.
- A "Direct" or "Positive" relationship (options A and B) would mean that as price increases, quantity demanded also increases, which violates the Law of Demand for normal goods.

Step 3: Final Answer:
The Law of Demand states an inverse relationship between the price and quantity demanded of a normal good. Thus, option (C) is correct.

Quick Tip

Visualize the demand curve. It slopes downwards from left to right, graphically showing that as price (on the Y-axis) goes down, quantity demanded (on the X-axis) goes up. This downward slope represents an inverse relationship.

---

64. The examples of substitute goods are

(A) Tea and sugar
(B) Shoes and socks
(C) Pen and ink
(D) Tea and coffee

Correct Answer: (D) Tea and coffee

Solution:

Step 1: Understanding the Concept:
- **Substitute goods** are goods that can be used in place of each other to satisfy a particular want. An increase in the price of one substitute good leads to an increase in the demand for the other.
- **Complementary goods** are goods that are used together. An increase in the price of one complementary good leads to a decrease in the demand for the other.

Step 2: Detailed Explanation:
Let's classify the pairs:
- (A) Tea and sugar: These are used together. They are complementary goods.

- (B) Shoes and socks: These are typically worn together. They are complementary goods.
- (C) Pen and ink: An ink pen needs ink to function. They are complementary goods.
- (D) Tea and coffee: These are beverages that can be consumed in place of each other to satisfy the want for a hot drink. They are substitute goods. If the price of tea rises, people might switch to drinking more coffee.

Step 3: Final Answer:
Tea and coffee are a classic example of substitute goods. Therefore, option (D) is correct.

Quick Tip

To test for substitutes, ask: "If the price of A goes up, would I buy more of B?" If the answer is yes, they are substitutes. For complements, ask: "If I buy A, do I also need to buy B?" If yes, they are complements.

---

65. Price elasticity of demand for Giffen goods is

(A) Negative
(B) Positive
(C) Zero
(D) None of these

Correct Answer: (B) Positive

Solution:

Step 1: Understanding the Concept:
A **Giffen good** is a special type of inferior good that violates the Law of Demand. For a Giffen good, an increase in its price leads to an increase in the quantity demanded, and a decrease in its price leads to a decrease in the quantity demanded.
Price elasticity of demand measures the responsiveness of quantity demanded to a change in price. For normal goods, it is negative because price and quantity move in opposite directions.

Step 2: Detailed Explanation:
Since for a Giffen good, price and quantity demanded move in the **same direction** (price increases $\rightarrow$ quantity increases), the relationship between them is positive.
Therefore, the price elasticity of demand for a Giffen good is **positive**. This is because the strong negative income effect (due to the good being highly inferior) outweighs the substitution effect.

Step 3: Final Answer:
The price elasticity of demand for Giffen goods is positive. Therefore, option (B) is the correct answer.

Quick Tip

Giffen goods are the rare exception to the Law of Demand. Their demand curve slopes upwards, which means there is a positive relationship between price and quantity demanded, leading to a positive price elasticity.

---

66. The factor affecting elasticity of demand is

(A) Nature of goods
(B) Price level
(C) Income level
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
Price elasticity of demand measures how much the quantity demanded of a good responds to a change in its price. This responsiveness is influenced by several factors.

Step 2: Detailed Explanation:
Let's analyze the influence of each factor:
- **(A) Nature of goods:** The elasticity of demand depends heavily on whether the good is a necessity, a comfort, or a luxury. Necessities (like salt) have inelastic demand, while luxuries (like sports cars) have elastic demand.
- **(B) Price level:** Goods that are very cheap or very expensive tend to have inelastic demand. For a low-priced good like a matchbox, a price change is insignificant. For a high-priced good, only the very rich buy it, and they are less sensitive to price changes. Demand is more elastic for goods in the middle price range.
- **(C) Income level:** The elasticity of demand for a good can differ between high-income and low-income consumers. Rich consumers are less affected by price changes for most goods, so their demand is more inelastic compared to poor consumers.
Other factors include the availability of substitutes, the proportion of income spent on the good, and the time period.

Step 3: Final Answer:
Since the nature of the good, its price level, and the consumer's income level all affect the price elasticity of demand, the correct answer is (D) All of these.

Quick Tip

When asked for factors affecting elasticity, think broadly. Almost any characteristic of the good itself, the consumer, or the market context can influence how sensitive demand is to price changes.

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67. If the demand for a good changes by 60% due to 40% change in price, the elasticity of demand will be

(A) 0.5
(B) 1.5
(C) 1
(D) 0

Correct Answer: (B) 1.5

Solution:

Step 1: Understanding the Concept:
Price elasticity of demand (E_d) measures the responsiveness of quantity demanded to a change in price.

Step 2: Key Formula or Approach:
The formula for price elasticity of demand is:

$$E_d = \frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}$$

By convention, we take the absolute value of the result, as the price elasticity for normal goods is always negative.

Step 3: Detailed Explanation:
We are given:
- % Change in Quantity Demanded = 60%
- % Change in Price = 40%

Plugging these values into the formula:

$$E_d = \frac{60\%}{40\%}$$
$$E_d = 1.5$$

Step 4: Final Answer:
The elasticity of demand is 1.5. Therefore, option (B) is correct.

Quick Tip

Remember the formula as "response over stimulus". The response is the change in quantity, and the stimulus is the change in price. Here, the response (60%) is greater than the stimulus (40%), so the elasticity must be greater than 1.

---

68. Which of the following laws explains the short-run production function ?

(A) Law of demand
(B) Law of variable proportion
(C) Law of returns to scale
(D) Elasticity of demand

Correct Answer: (B) Law of variable proportion

Solution:

Step 1: Understanding the Concept:
A production function shows the relationship between inputs and output.
- A **short-run production function** is a situation where at least one factor of production is fixed (e.g., capital), while other factors are variable (e.g., labor).
- A **long-run production function** is a situation where all factors of production are variable.

Step 2: Detailed Explanation:
- **Law of Variable Proportions** (also known as the Law of Diminishing Returns) explains the behavior of output when one input is varied while other inputs are kept fixed. This directly corresponds to the definition of a short-run production function.
- **Law of Returns to Scale** explains the behavior of output when all inputs are changed in the same proportion. This corresponds to the long-run production function.
- Law of demand and Elasticity of demand are related to consumer behavior, not production.

Step 3: Final Answer:
The short-run production function is explained by the Law of Variable Proportions. Therefore, option (B) is correct.

Quick Tip

Associate "short-run" with "variable proportions" because in the short run, you can only vary the proportion of inputs (e.g., add more workers to a fixed-size factory). Associate "long-run" with "returns to scale" because in the long run, you can change the entire scale of operations (e.g., build a bigger factory and hire more workers).

---

69. In which stage of production a rational producer likes to operate in the condition short-run production ?

(A) First stage
(B) Second stage
(C) Third stage
(D) None of these

Correct Answer: (B) Second stage

Solution:

Step 1: Understanding the Concept:
The Law of Variable Proportions has three stages of production:
- **Stage I (Increasing Returns):** Total Product (TP) increases at an increasing rate. Marginal Product (MP) is positive and rising. Average Product (AP) is also rising.
- **Stage II (Diminishing Returns):** TP increases at a diminishing rate until it reaches its maximum. MP is positive but falling. AP is also falling. This stage ends when MP becomes zero.
- **Stage III (Negative Returns):** TP starts to decline. MP becomes negative.

Step 2: Detailed Explanation:
A rational producer will not operate in:
- **Stage I:** because the marginal product of the variable factor is still increasing. This means the producer can increase output more efficiently by adding more units of the variable factor. The fixed factor is being underutilized.
- **Stage III:** because the marginal product of the variable factor is negative. Adding more units of the variable factor actually reduces the total output. This is irrational.
Therefore, a rational producer will always choose to operate in **Stage II**. In this stage, both MP and AP are positive but diminishing. The producer will operate somewhere within this stage to maximize output and profits. This is the stage of economic operation.

Step 3: Final Answer:
A rational producer operates in the second stage of production. Thus, option (B) is correct.

Quick Tip

Think of the stages like this: Stage 1 is "Keep going, it's getting better!". Stage 3 is "Stop! You're making things worse!". Stage 2 is the "sweet spot" where production is economically feasible, and the producer has to decide the optimal point within this stage.

---

70. Which factors among the following we find in short-run production process ?

(A) Fixed factors
(B) Variable factors
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
The short run in production theory is defined as a period of time during which at least one factor of production is fixed, while others can be varied.

Step 2: Detailed Explanation:
- **Fixed Factors** are those inputs whose quantity cannot be changed in the short run, regardless of the level of output. Examples include plant, machinery, and factory buildings.
- **Variable Factors** are those inputs whose quantity can be changed in the short run to alter the level of output. Examples include raw materials and casual labor.
The very definition of the short run requires the presence of **both** fixed and variable factors. If all factors were variable, it would be the long run. If all factors were fixed, production could not be changed at all.

Step 3: Final Answer:
In the short-run production process, we find both fixed factors and variable factors. Therefore, the correct answer is (C).

Quick Tip

Short Run = Some Fixed + Some Variable. Long Run = All Variable. This is a fundamental distinction in the theory of production.

---

71. Firm gets profit when

(A) AR > AC
(B) AC > AR
(C) AR = AC
(D) None of these

Correct Answer: (A) AR > AC

Solution:

Step 1: Understanding the Concept:
Profit is the difference between total revenue and total cost. To determine if a firm is making a profit on a per-unit basis, we compare the revenue per unit with the cost per unit.
- **Average Revenue (AR)** is the revenue per unit of output (AR = Total Revenue / Quantity). It is always equal to the price of the good.
- **Average Cost (AC)** is the cost per unit of output (AC = Total Cost / Quantity).

Step 2: Detailed Explanation:
There are three possible scenarios:
1. **AR > AC (Supernormal Profit):** If the revenue per unit is greater than the cost per unit, the firm is making a profit on each unit sold.
2. **AC > AR (Loss):** If the cost per unit is greater than the revenue per unit, the firm is incurring a loss on each unit sold.
3. **AR = AC (Normal Profit / Break-even):** If revenue per unit exactly equals cost per unit, the firm is earning zero economic profit. This is known as the break-even point.

Step 3: Final Answer:
A firm earns a profit (specifically, a supernormal or economic profit) when its Average Revenue is greater than its Average Cost. Therefore, option (A) is correct.

Quick Tip

Think simply: Profit = Revenue - Cost. For a per-unit comparison, this becomes Profit per unit = Average Revenue - Average Cost. For profit to be positive, AR must be greater than AC.

---

72. Supply is associated with which of the following ?

(A) A time period
(B) Price
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
Supply is an economic concept that refers to the quantity of a good that a producer is willing and able to offer for sale. This concept is not defined in isolation; it is always specified in relation to other variables.

Step 2: Detailed Explanation:
The formal definition of supply always includes two crucial elements:

1. **(B) Price:** The quantity supplied of a good is fundamentally dependent on its price. The Law of Supply states that, ceteris paribus, a higher price leads to a higher quantity supplied. Thus, supply is always stated at a particular price.
2. **(A) A time period:** Supply is a flow concept, meaning it is measured over a period of time. One must specify the time frame, for example, "supply of 10,000 cars per month". Supply of 10,000 cars has no meaning without the time dimension.

Step 3: Final Answer:
Since the definition of supply is meaningless without reference to both a specific price and a specific time period, it is associated with both. Therefore, the correct answer is (C).

Quick Tip

Just like demand, supply must be defined in terms of price and time. A correct statement would be: "At a price of $2 per liter, the supply of milk is 1 million liters per week." It includes the quantity, the price, and the time period.

---

73. Which of the following functions shows the Law of Supply ?

(A) S = f(P)
(B) $S = f(\frac{1}{P})$
(C) S = f(Q)
(D) None of these

Correct Answer: (A) S = f(P)

Solution:

Step 1: Understanding the Concept:
The Law of Supply describes the relationship between the quantity supplied (S) of a good and its price (P), holding other factors constant. The law states that there is a positive or direct relationship between price and quantity supplied.

Step 2: Detailed Explanation:
A function is a mathematical representation of a relationship between variables.
- The statement "Quantity Supplied is a function of Price" means that the value of S depends on the value of P. This is written as $S = f(P)$.
- The Law of Supply specifies that this functional relationship is positive (when P increases, S increases). The function $S = f(P)$ represents this general relationship.
- Option (B) $S = f(\frac{1}{P})$ would imply an inverse relationship (as P increases, 1/P decreases, so S would decrease), which represents the Law of Demand.
- Option (C) is nonsensical as it states supply is a function of quantity.

Step 3: Final Answer:
The function that represents the relationship where quantity supplied depends on price is $S = f(P)$. This is the correct representation of the supply function, which illustrates the Law of Supply. Thus, option (A) is correct.

Quick Tip

In functional notation $y = f(x)$, y is the dependent variable and x is the independent variable. In the Law of Supply, quantity supplied (S) depends on price (P), so the correct notation is $S = f(P)$.

---

74. The measurement of the elasticity of supply is made known as

(A) $\frac{\Delta Q_s}{Q_s} \div \frac{\Delta P}{P}$
(B) $\frac{Q_s}{\Delta P} \times 1$
(C) $\frac{Q_s}{\Delta Q_s} \times \Delta P$
(D) $\frac{\Delta P}{Q_s} \times \frac{P}{\Delta Q_s}$

Correct Answer: (A) $\frac{\Delta Q_s}{Q_s} \div \frac{\Delta P}{P}$

Solution:

Step 1: Understanding the Concept:
Price elasticity of supply (E_s) measures the degree of responsiveness of the quantity supplied of a good to a change in its price.

Step 2: Key Formula or Approach:
The definition is:

$$E_s = \frac{\text{Percentage Change in Quantity Supplied}}{\text{Percentage Change in Price}}$$

Mathematically, this is expressed as:

$$E_s = \frac{\frac{\Delta Q_s}{Q_s} \times 100\%}{\frac{\Delta P}{P} \times 100\%}$$

Simplifying by canceling the 100% gives:

$$E_s = \frac{\Delta Q_s}{Q_s} \div \frac{\Delta P}{P}$$

This can be rearranged to the more common point elasticity formula:

$$E_s = \frac{\Delta Q_s}{\Delta P} \times \frac{P}{Q_s}$$

Step 3: Detailed Explanation:
Let's analyze the options:
- Option (A) directly matches the definitional formula for elasticity (% change in Qs divided by % change in P).
- Options (B) and (C) are incorrect formulations.
- Option (D) is the reciprocal of the correct point elasticity formula.
Thus, option (A) is the most accurate representation based on the fundamental definition.

Step 4: Final Answer:
The correct formula representing the definition of price elasticity of supply is given in option (A).

Quick Tip

The structure for all elasticity formulas is the same: % change in the "quantity" variable divided by the % change in the "causal" variable. For price elasticity of supply, it's (% ΔQ_s) / (% ΔP).

---

75. The elasticity of a straight line supply curve originating from the origin of the axes is

(A) Less than unity
(B) Greater than unity
(C) Equal to unity
(D) Equal to zero

Correct Answer: (C) Equal to unity

Solution:

Step 1: Understanding the Concept:
This question concerns the geometric measurement of the price elasticity of supply (E_s) for a specific type of supply curve.

Step 2: Key Formula or Approach:
The point elasticity of supply formula is:

$$E_s = \frac{\Delta Q_s}{\Delta P} \times \frac{P}{Q_s}$$

For a linear (straight line) supply curve, the term $\frac{\Delta Q_s}{\Delta P}$ is constant and represents the reciprocal of the slope of the curve.

Step 3: Detailed Explanation:
A straight line supply curve starting from the origin (0,0) has the equation $Q_s = mP$, where

m is a positive constant (the slope with Q on the y-axis, but here Q is on the x-axis, so P/Q = slope). The key property of this line is that for any point (P, Qs) on the line, the ratio $\frac{P}{Q_s}$ is constant and equal to the reciprocal of the slope $\frac{\Delta Q_s}{\Delta P}$.
Let's re-examine the elasticity formula: $E_s = \frac{\Delta Q_s}{\Delta P} \times \frac{P}{Q_s}$.
For a straight line from the origin, the slope is $\frac{P-0}{Q_s-0} = \frac{P}{Q_s}$. But the slope in the P-Q plane is $\frac{\Delta P}{\Delta Q_s}$. Therefore, $\frac{\Delta P}{\Delta Q_s} = \frac{P}{Q_s}$.
This means that $\frac{\Delta Q_s}{\Delta P} = \frac{Q_s}{P}$.
Substituting this into the elasticity formula:

$$E_s = \left(\frac{Q_s}{P}\right) \times \left(\frac{P}{Q_s}\right) = 1$$

Therefore, the elasticity of supply at any point on a straight line supply curve originating from the origin is exactly equal to 1 (unity).

Step 4: Final Answer:
The elasticity is equal to unity. Therefore, option (C) is correct.

Quick Tip

For linear supply curves, there's a simple geometric trick: - If the curve starts from the origin, $E_s = 1$. - If the curve intersects the Y-axis (price axis), $E_s > 1$. - If the curve intersects the X-axis (quantity axis), $E_s < 1$.

---

76. Under ceteris paribus if the quantity supplied of a good increases by 6% due to an increase in its price by 5% then what will be the value of price elasticity of supply of the good ?

(A) 30
(B) 0.83
(C) 1.2
(D) 2

Correct Answer: (C) 1.2

Solution:

Step 1: Understanding the Concept:
Price elasticity of supply (E_s) measures the responsiveness of quantity supplied to a change in price.

Step 2: Key Formula or Approach:
The formula for price elasticity of supply is:

$$E_s = \frac{\% \text{ Change in Quantity Supplied}}{\% \text{ Change in Price}}$$

Step 3: Detailed Explanation:
We are given the following information:
- % Change in Quantity Supplied = 6%
- % Change in Price = 5%
Now, we plug these values into the formula:

$$E_s = \frac{6\%}{5\%}$$
$$E_s = 1.2$$

Step 4: Final Answer:
The value of the price elasticity of supply is 1.2. Therefore, option (C) is correct.

Quick Tip

This is a direct application of the elasticity formula. Always place the percentage change in quantity in the numerator and the percentage change in price in the denominator.

---

77. Market situation where there is only one buyer is

(A) Monopoly
(B) Monopsony
(C) Duopoly
(D) None of these

Correct Answer: (B) Monopsony

Solution:

Step 1: Understanding Market Structures:
Market structures are classified based on the number of buyers and sellers in the market.

Step 2: Detailed Explanation:
- **Monopoly:** A market with a single **seller** and many buyers. (e.g., a local utility company).
- **Monopsony:** A market with a single **buyer** and many sellers. The single buyer has significant market power to influence the price of the good or service. A classic example is a large company that is the sole employer in a small town (a monopsony in the labor market).
- **Duopoly:** A market with two **sellers** and many buyers. It is a specific type of oligopoly.

Step 3: Final Answer:
A market situation with only one buyer is called a monopsony. Therefore, option (B) is correct.

Quick Tip

Remember the Greek roots: - "Mono" = single - "Poly" = seller - "Psony" = buyer So, Mono + Poly = Single Seller (Monopoly). Mono + Psony = Single Buyer (Monopsony).

---

78. In which market is product differentiation found?

(A) Pure competition
(B) Perfect competition
(C) Monopoly
(D) Monopolistic competition

Correct Answer: (D) Monopolistic competition

Solution:

Step 1: Understanding the Concept:
Product differentiation is a marketing strategy where firms attempt to make their product appear unique and different from competing products in the minds of consumers. This can be achieved through branding, packaging, design, quality, or advertising.

Step 2: Detailed Explanation:
Let's analyze the market structures:
- **Perfect competition** and **Pure competition** are characterized by a large number of firms selling a **homogeneous** (identical) product. There is no product differentiation.
- **Monopoly** features a single seller of a product with no close substitutes. While the product is unique, the concept of "differentiation" is less relevant as there are no direct competitors to differentiate from.
- **Monopolistic competition** is the market structure where product differentiation is the key feature. It consists of a large number of firms, each selling a slightly different version of a product. Examples include restaurants, hair salons, and the clothing industry. Each firm has a mini-monopoly over its specific brand but faces competition from other similar brands.

Step 3: Final Answer:
Product differentiation is the defining characteristic of monopolistic competition. Therefore, option (D) is correct.

Quick Tip

The name itself is a clue: "Monopolistic Competition". It's a mix of monopoly and competition. The "monopoly" part comes from each firm having a unique, differentiated product. The "competition" part comes from the large number of firms.

---

79. The concept of monopolistic competition is given by

(A) Hicks
(B) Chamberlin
(C) Mrs. Robinson
(D) Samuelson

Correct Answer: (B) Chamberlin

Solution:

Step 1: Factual Information:
This question asks for the economist who is credited with developing the theory of monopolistic competition.

Step 2: Detailed Explanation:
The theory of monopolistic competition was developed independently by two economists in the 1930s.
- **Edward Chamberlin**, an American economist, published his book *The Theory of Monopolistic Competition* in 1933. His work is considered the primary source for the modern understanding of this market structure, with a strong emphasis on product differentiation and selling costs (advertising).
- **Joan Robinson** (Mrs. Robinson), a British economist, published *The Economics of Imperfect Competition* in the same year. While her work on "imperfect competition" is closely related and also revolutionary, the specific concept and term "monopolistic competition" is more strongly associated with Chamberlin.
Given the options, Chamberlin is the most direct and widely accepted answer.

Step 3: Final Answer:
The concept of monopolistic competition is primarily attributed to Edward Chamberlin. Therefore, option (B) is the correct answer.

Quick Tip

Remember the two key figures of the "imperfect competition revolution" of 1933: Chamberlin (Monopolistic Competition) and Joan Robinson (Imperfect Competition). Chamberlin is most famous for the specific term in the question.

---

80. What is the type of demand curve of monopoly ?

(A) Inelastic
(B) Elastic
(C) Perfectly elastic

(D) Perfectly inelastic

Correct Answer: (A) Inelastic

Solution:

Step 1: Understanding the Concept:
A monopoly is a market with a single seller. The monopolist faces the entire market demand curve for its product. Since the product has no close substitutes, consumers do not have alternative options if the price increases.

Step 2: Detailed Explanation:
The demand curve for a monopolist is downward sloping, just like the market demand curve. This means that to sell more, the monopolist must lower the price. However, the key feature is the elasticity.
- Because there are no close substitutes, the demand for the monopolist's product is relatively **inelastic**. This means that the percentage change in quantity demanded is less than the percentage change in price. Consumers are not very responsive to price changes because they lack alternatives.
- "Elastic" (B) would imply high responsiveness. "Perfectly elastic" (C) is a horizontal demand curve, which is the case for perfect competition. "Perfectly inelastic" (D) is a vertical demand curve, which is a theoretical extreme and not typical for a monopoly.
A rational monopolist will always operate on the elastic portion of its demand curve, but the curve itself is characterized as being relatively inelastic compared to more competitive markets. Among the given choices, "Inelastic" (A) is the best description of the general character of a monopolist's demand.

Step 3: Final Answer:
The demand curve for a monopoly is relatively inelastic due to the lack of close substitutes. Hence, option (A) is the most appropriate answer.

Quick Tip

Think about substitutes. Lots of substitutes (perfect competition) means demand is very elastic. No close substitutes (monopoly) means demand is relatively inelastic.

---

81. What will be the investment multiplier if MPC is 0.2 ?

(A) 200
(B) 5
(C) 2
(D) 1.25

Correct Answer: (D) 1.25

Solution:

Step 1: Understanding the Concept:
The investment multiplier (K) measures the total change in income resulting from a change in investment. Its value depends on the Marginal Propensity to Consume (MPC).

Step 2: Key Formula or Approach:
The formula for the investment multiplier in terms of MPC is:

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

Alternatively, it can be calculated using the Marginal Propensity to Save (MPS), where MPS = 1 - MPC.

$$K = \frac{1}{MPS}$$

Step 3: Detailed Explanation:
We are given MPC = 0.2.
First, let's find MPS:

$$MPS = 1 - MPC = 1 - 0.2 = 0.8$$

Now, we can calculate the multiplier (K):

$$K = \frac{1}{MPS} = \frac{1}{0.8}$$

To calculate 1/0.8, we can write it as 10/8:

$$K = \frac{10}{8} = \frac{5}{4} = 1.25$$

Step 4: Final Answer:
The investment multiplier is 1.25. Therefore, option (D) is correct.

Quick Tip

It's often easier to first calculate MPS (1 - MPC) and then find the multiplier (1 / MPS). This avoids mistakes in the '1 - MPC' calculation. Here, 1 - 0.2 = 0.8, and 1 / 0.8 = 1.25.

---

82. Foreign exchange rate is determined by

(A) Demand of foreign currency
(B) Supply of foreign currency
(C) Demand and supply in foreign exchange market

(D) None of these

Correct Answer: (C) Demand and supply in foreign exchange market

Solution:

Step 1: Understanding the Concept:
The foreign exchange rate is the price of one currency in terms of another. In a flexible or floating exchange rate system, this price is determined by market forces, just like the price of any other commodity.

Step 2: Detailed Explanation:
The foreign exchange market consists of buyers (demanders) and sellers (suppliers) of a particular currency.
- **Demand for foreign currency** arises from residents who need it to buy foreign goods, services, or assets.
- **Supply of foreign currency** arises from foreigners who need the domestic currency to buy domestic goods, services, or assets.
The equilibrium exchange rate is determined at the point where the quantity of a foreign currency demanded is equal to the quantity supplied. Therefore, both demand and supply forces are crucial. Demand or supply alone (Options A and B) cannot determine the rate.

Step 3: Final Answer:
The foreign exchange rate is determined by the interaction of demand and supply in the foreign exchange market. Therefore, option (C) is the correct answer.

Quick Tip

Remember that the price of almost everything in a free market—whether it's apples, cars, or currencies—is determined by the interaction of demand and supply.

---

83. Who determines the foreign exchange rate ?

(A) Government
(B) Bargaining
(C) World Bank
(D) Demand and supply forces

Correct Answer: (D) Demand and supply forces

Solution:

Step 1: Understanding the Concept:
This question asks about the primary mechanism that determines the foreign exchange rate in a modern, flexible exchange rate system.

Step 2: Detailed Explanation:
- In a **floating exchange rate system**, which is the most common system today, the value of a currency is determined by the market forces of **demand and supply**. Governments and central banks may intervene, but the primary determinant is the market. So, option (D) is the best answer.
- The **Government** (A) or central bank determines the rate in a **fixed exchange rate system**, but this is not the general case.
- **Bargaining** (B) is too vague and not the systematic mechanism.
- The **World Bank** (C) is a development institution and does not determine exchange rates.

Step 3: Final Answer:
Under the prevailing floating exchange rate regime, the foreign exchange rate is determined by the forces of demand and supply. Therefore, option (D) is correct.

Quick Tip

Unless a question specifies a "fixed" or "managed" exchange rate system, assume it's referring to a flexible/floating system where market forces (demand and supply) are the primary determinants.

---

84. During Breton Woods system most countries had

(A) Fixed Exchange Rate
(B) Pegged Exchange Rate
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
The Bretton Woods system was an international monetary framework established in 1944 that governed currency relations among member states until its collapse in the early 1970s.

Step 2: Detailed Explanation:
The core feature of the Bretton Woods system was an "adjustable peg" system.
- The value of the U.S. dollar was fixed to gold at a rate of $35 per ounce.
- The values of all other member currencies were then **pegged** to the U.S. dollar at a specific rate.

- This created a system of **fixed exchange rates**. The rates were "fixed" because countries were obliged to intervene in the currency markets to maintain their currency's value within a narrow band of the pegged rate.
Since a pegged exchange rate is a type of fixed exchange rate, both terms accurately describe the system. The system was a "pegged" rate system, which resulted in "fixed" exchange rates. Therefore, both (A) and (B) are correct descriptions.

Step 3: Final Answer:
The Bretton Woods system was a pegged exchange rate system, which is a form of a fixed exchange rate system. Thus, both terms apply. The correct option is (C).

Quick Tip

For the Bretton Woods system, remember the key phrase "pegged to the dollar, which was pegged to gold." This established a worldwide system of fixed exchange rates.

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85. Which one of the following is included in the invisible items of balance of payment ?

(A) Banking
(B) Shipping
(C) Communication
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
The Balance of Payments (BoP) current account is divided into two main parts:
1. **Visible Trade (or Merchandise Trade):** This includes the export and import of physical goods.
2. **Invisible Trade:** This includes the export and import of items that cannot be seen or touched. It mainly comprises services, international income (investment income), and unilateral transfers.

Step 2: Detailed Explanation:
The question asks for items included in the "invisible" part of the BoP. Let's analyze the options:
- **(A) Banking:** Banking and insurance are financial services. The export and import of services are a major component of invisibles.
- **(B) Shipping:** Transportation and shipping services are also part of the trade in services, included in invisibles.
- **(C) Communication:** Services related to communication (like telecommunication, software

services) are also part of invisibles.

Step 3: Final Answer:
Since banking, shipping, and communication are all types of services whose trade is recorded under invisible items in the Balance of Payments, the correct answer is (D) All of these.

Quick Tip

Remember: "Visibles" = Goods (things you can drop on your foot). "Invisibles" = Services (banking, tourism), Income (profits, interest), and Transfers (gifts, remittances).

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86. Which one of the following is included in the item of Capital Account ?

(A) Government transaction
(B) Private transaction
(C) Foreign Direct Investment
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
The Capital Account of the Balance of Payments records all international transactions that involve a change in the assets or liabilities of a country's residents. It tracks the flow of capital for investment and loans.

Step 2: Detailed Explanation:
The main components of the capital account include:
- **Investments:** This is the largest component and includes Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI).
- **Loans:** This includes external commercial borrowings (ECBs) and external assistance.
- **Banking Capital:** Changes in the foreign assets and liabilities of commercial banks.
These transactions can be undertaken by both the government and the private sector.
- **(A) Government transaction:** Such as the government taking a loan from the World Bank. This is a capital account transaction.
- **(B) Private transaction:** Such as a private company borrowing from abroad. This is a capital account transaction.
- **(C) Foreign Direct Investment (FDI):** A foreign company setting up a factory in the country is a key capital account transaction.

Step 3: Final Answer:
Since the capital account includes investments like FDI, as well as capital transactions by both

the private and government sectors, the correct answer is (D) All of these.

Quick Tip

To distinguish between current and capital accounts, ask: "Does this transaction create a future claim or liability?" If yes (like a loan or an investment), it's on the capital account. If no (like payment for goods or a one-way gift), it's on the current account.

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87. Which of the following does not come in Capital Account ?

(A) Government transaction
(B) Direct investment
(C) Unilateral transfer
(D) None of these

Correct Answer: (C) Unilateral transfer

Solution:

Step 1: Understanding the Concept:
We need to distinguish between items recorded in the Current Account and the Capital Account of the Balance of Payments.
- **Capital Account:** Records transactions that create or reduce a country's assets or liabilities (e.g., loans, investments).
- **Current Account:** Records transactions related to trade in goods and services, investment income, and one-way transfers.

Step 2: Detailed Explanation:
- **(A) Government transaction:** If it is a capital transaction like borrowing or lending, it comes under the Capital Account.
- **(B) Direct investment (FDI):** This is a core component of the Capital Account as it involves the acquisition of assets.
- **(C) Unilateral transfer:** These are one-way payments, like gifts, grants, or personal remittances, where nothing is expected in return. They do not create any asset or liability. Therefore, they are recorded as a part of the **Current Account**, not the Capital Account.

Step 3: Final Answer:
Unilateral transfers are part of the current account, not the capital account. Therefore, option (C) is the correct answer.

Quick Tip

"Unilateral" means "one-sided". One-sided payments like gifts and remittances are always on the Current Account because there's no "quid pro quo" (something in return) that creates an asset or liability.

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88. The formula for deflationary gap is

(A) Potential GDP - Actual GDP
(B) Potential GDP + Actual GDP
(C) Both (A) and (B)
(D) None of these

Correct Answer: (A) Potential GDP - Actual GDP

Solution:

Step 1: Understanding the Concept:
- **Potential GDP (or Full-Employment GDP):** The level of output that an economy can produce when all its resources (labor, capital) are fully employed.
- **Actual GDP:** The current output level of the economy.
- **Deflationary Gap (or Recessionary Gap):** A situation where the actual GDP is less than the potential GDP. This means the aggregate demand is insufficient to support the full-employment level of output, leading to unemployment.

Step 2: Key Formula or Approach:
The gap represents the shortfall of actual GDP from potential GDP. The formula is:

$$\text{Deflationary Gap} = \text{Potential GDP} - \text{Actual GDP}$$

The result is a positive value that indicates the amount by which actual output needs to increase to reach the full-employment level. It can also be defined in terms of spending, as the shortfall of aggregate demand from the full-employment level of aggregate supply.

Step 3: Final Answer:
The correct formula to measure the deflationary gap is Potential GDP - Actual GDP. Therefore, option (A) is correct.

Quick Tip

Remember: - **Deflationary/Recessionary Gap**: Potential ¿ Actual (Economy is underperforming). Gap = Potential - Actual. - **Inflationary Gap**: Actual ¿ Potential (Economy is overheating). Gap = Actual - Potential.

89. Which of the following is a reason of appearing surplus demand ?

(A) Increase in public expenditure
(B) Increase in money supply
(C) Fall in taxes
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
"Surplus demand" (or excess demand) occurs when the aggregate demand in an economy exceeds the aggregate supply at the full-employment level. This situation leads to an inflationary gap. We need to identify which of the given factors would cause an increase in aggregate demand.

Step 2: Detailed Explanation:
Aggregate Demand (AD) = C + I + G + (X-M). Let's see how each option affects AD:
- **(A) Increase in public expenditure:** Government spending (G) is a direct component of AD. An increase in G will directly increase AD.
- **(B) Increase in money supply:** An increase in the money supply usually leads to lower interest rates. This encourages both private consumption (C) and investment (I), thus increasing AD.
- **(C) Fall in taxes:** A reduction in taxes increases the disposable income of households. This leads to an increase in consumption (C), which in turn increases AD.

Step 3: Final Answer:
All three options—an increase in public expenditure, an increase in money supply, and a fall in taxes—are causes of an increase in aggregate demand, which can lead to a situation of surplus demand. Therefore, the correct answer is (D) All of these.

Quick Tip

Think of surplus demand as "too much money chasing too few goods." Any policy that puts more spending power into the hands of the government (higher spending), consumers (lower taxes), or businesses (cheaper loans from higher money supply) will contribute to this.

90. The difference between aggregate demand at above full employment and aggregate demand at full employment expresses

(A) Inflationary gap
(B) Deflationary gap
(C) Both (A) and (B)
(D) None of these

Correct Answer: (A) Inflationary gap

Solution:

Step 1: Understanding the Concept:
This question asks to identify the term for a specific macroeconomic situation defined by the levels of aggregate demand.
- **Aggregate demand at full employment:** The level of total spending required to purchase the full-employment level of output.
- **Aggregate demand at above full employment:** The actual level of spending in the economy is higher than what is needed to purchase the full-employment output.

Step 2: Detailed Explanation:
When the actual aggregate demand is above the aggregate demand required for full employment, it means there is "too much spending" in the economy relative to its capacity to produce. This excess demand pulls up the general price level, causing inflation. This gap or difference is known as the **Inflationary Gap**.
A **Deflationary Gap** is the opposite situation, where actual aggregate demand is below the level required for full employment.

Step 3: Final Answer:
The difference described in the question defines an inflationary gap. Therefore, option (A) is correct.

Quick Tip

Remember the names are descriptive. "Inflationary" gap leads to inflation. "Deflationary" gap leads to deflation or recession.

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91. What is/are the factor(s) of production ?

(A) Land
(B) Labour
(C) Capital
(D) All of these

Correct Answer: (D) All of these

Solution:

Step 1: Understanding the Concept:
Factors of production (or economic resources) are the inputs used in the production process to produce output—that is, finished goods and services.

Step 2: Detailed Explanation:
Traditionally, economists classify the factors of production into four main categories:
1. **(A) Land:** This includes not just the land itself but all natural resources like minerals, water, and forests.
2. **(B) Labour:** This refers to the human effort, both mental and physical, used in production.
3. **(C) Capital:** This refers to man-made goods used to produce other goods, such as machinery, tools, and buildings. It is distinct from financial capital.
4. **Entrepreneurship (or Enterprise):** This refers to the skill of combining the other three factors to produce a good or service, and it involves taking risks.
The options provided list the first three of these four classical factors.

Step 3: Final Answer:
Land, Labour, and Capital are all essential factors of production. Therefore, the correct answer is (D) All of these.

Quick Tip

Remember the four factors of production with the acronym CELL: Capital, Entrepreneurship, Land, Labour.

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92. With the increase in production the difference between total and total fixed cost

(A) remains constant
(B) increases
(C) decreases
(D) both increases and decreases

Correct Answer: (B) increases

Solution:

Step 1: Understanding the Concept:
We need to understand the relationship between different types of costs:
- **Total Cost (TC):** The sum of all costs incurred in production.
- **Total Fixed Cost (TFC):** Costs that do not change with the level of output (e.g., rent).
- **Total Variable Cost (TVC):** Costs that change directly with the level of output (e.g., raw materials).

The fundamental relationship is: $TC = TFC + TVC$.

Step 2: Key Formula or Approach:
The question asks about the difference between Total Cost and Total Fixed Cost:

$$\text{Difference} = TC - TFC$$

From the relationship above, we can rearrange it to find this difference:

$$TC - TFC = TVC$$

So, the question is effectively asking: "What happens to Total Variable Cost (TVC) as production increases?"

Step 3: Detailed Explanation:
By definition, Total Variable Costs are the costs that vary with the level of production. To increase production (output), a firm must use more variable inputs like raw materials and labor. This means the cost of these variable inputs will rise. Therefore, as production increases, Total Variable Cost (TVC) increases.

Step 4: Final Answer:
Since the difference between total cost and total fixed cost is equal to total variable cost, and total variable cost increases with production, the difference increases. Therefore, option (B) is correct.

Quick Tip

Immediately translate "the difference between total and total fixed cost" into "total variable cost". Then the question becomes simple: what happens to variable costs when you produce more? They go up.

---

93. Which of the following factors are there in short-run production process ?

(A) Fixed factors
(B) Variable factors
(C) Both (A) and (B)
(D) None of these

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

Solution:

Step 1: Understanding the Concept:
The short run in production theory is a period of time where it is not possible to change all

the inputs to production. It is defined by the presence of at least one input that is fixed.

Step 2: Detailed Explanation:
- **Fixed Factors** are inputs whose quantity cannot be altered in the short run, such as machinery, factory buildings, etc.
- **Variable Factors** are inputs whose quantity can be changed in the short run to adjust the level of output, such as labor and raw materials.
The very definition of the short-run production process requires the co-existence of both fixed and variable factors. A producer alters the variable factors in combination with the fixed factors to change the level of output.

Step 3: Final Answer:
In the short run, both fixed and variable factors of production are present. Therefore, option (C) is the correct answer.

Quick Tip

This is a fundamental concept. Remember: - Short Run = At least one factor is fixed. (So, you have both fixed and variable factors). - Long Run = All factors are variable.

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94. The alternative name of opportunity cost is

(A) Economic cost
(B) Equilibrium price
(C) Marginal cost
(D) Average cost

Correct Answer: (A) Economic cost

Solution:

Step 1: Understanding the Concept:
- **Opportunity Cost** is the value of the next-best alternative that must be forgone in order to pursue a certain action. It is a fundamental concept in economics.
- **Economic Cost** is the total cost of an action, including not only the explicit (monetary) costs but also the implicit costs, which are the opportunity costs.

Step 2: Detailed Explanation:
While not perfectly synonymous, "Economic Cost" is the term that most fully incorporates the concept of "Opportunity Cost". Economic Cost = Explicit Costs + Implicit Costs (Opportunity Costs). When economists refer to "cost," they are generally referring to economic cost, which is fundamentally based on the idea of opportunity cost. The other options are distinct concepts:
- Equilibrium price is the market-clearing price.

- Marginal cost is the cost of producing one additional unit.
- Average cost is the total cost per unit of output.
Thus, Economic cost is the best alternative name among the choices.

Step 3: Final Answer:
The alternative name for opportunity cost, in the context of total cost analysis, is Economic cost. Therefore, option (A) is correct.

Quick Tip

Remember that an "economist's" view of cost is always about opportunity. The Economic Cost is the true cost of making a decision, which includes what you give up (opportunity cost).

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95. TFC + TVC = ?

(A) Total cost
(B) Average cost
(C) Marginal cost
(D) None of these

Correct Answer: (A) Total cost

Solution:

Step 1: Understanding the Concept:
This question asks for the result of adding Total Fixed Cost (TFC) and Total Variable Cost (TVC).

Step 2: Detailed Explanation:
By definition, the costs of production are categorized into two types in the short run:
- **Total Fixed Cost (TFC):** Costs that do not vary with the level of output.
- **Total Variable Cost (TVC):** Costs that vary directly with the level of output.
The sum of these two components gives the **Total Cost (TC)** of production.

$$\text{Total Cost (TC)} = \text{Total Fixed Cost (TFC)} + \text{Total Variable Cost (TVC)}$$

Step 3: Final Answer:
The sum of TFC and TVC is equal to Total cost. Therefore, option (A) is the correct answer.

Quick Tip

This is a fundamental cost identity that you must memorize: TC = TFC + TVC. All other cost concepts (like average and marginal costs) are derived from these three.

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96. In which market may Marginal Revenue become zero or negative ?

(A) Monopoly
(B) Monopolistic competition
(C) Both (A) and (B)
(D) Perfect competition

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

Solution:

Step 1: Understanding the Concept:
Marginal Revenue (MR) is the additional revenue generated from selling one more unit of a good. The behavior of MR depends on the firm's demand curve.

Step 2: Detailed Explanation:
- In **Perfect competition**, a firm is a price taker and faces a perfectly elastic (horizontal) demand curve. Price is constant, so Price = Average Revenue = Marginal Revenue (P = AR = MR). Since the price is always positive, MR is also always positive.
- In both **Monopoly** and **Monopolistic competition**, firms face a downward-sloping demand curve. To sell an additional unit, the firm must lower the price not just for that unit, but for all previous units as well. This causes the MR to be less than the price (MR ¡ P). As the firm continues to lower the price to sell more, the MR curve falls more steeply than the demand curve. At the point where the demand curve is unit elastic, Total Revenue is maximized and MR becomes zero. If the firm lowers the price further into the inelastic portion of the demand curve, TR will fall, and MR will become negative.

Step 3: Final Answer:
Since both Monopoly and Monopolistic Competition have downward-sloping demand curves, their Marginal Revenue can become zero or negative. Thus, option (C) is the correct answer.

Quick Tip

Remember the relationship between the demand curve (AR curve) and the MR curve. For any market with a downward-sloping demand curve, the MR curve lies below it. When the AR curve is a straight line, the MR curve will have twice the slope and will cut the x-axis halfway to where the demand curve cuts it. This means MR can be zero or negative.

97. Which of the following will be true for both Monopoly and Monopolistic competition ?

(A) P > MR
(B) P = MR
(C) P = MC
(D) P = AC

Correct Answer: (A) P > MR

Solution:

Step 1: Understanding the Concept:
This question asks for a relationship between Price (P) and Marginal Revenue (MR) that is common to both monopoly and monopolistic competition. This relationship is determined by the shape of the demand curve faced by the firms in these markets.

Step 2: Detailed Explanation:
- In both **Monopoly** and **Monopolistic Competition**, firms face a downward-sloping demand curve. A monopolist faces the entire market demand curve, and a monopolistically competitive firm faces a downward-sloping demand curve due to product differentiation.
- To sell one more unit of output, a firm in either of these markets must lower the price. This lower price applies not only to the last unit sold but to all units sold.
- Consequently, the additional revenue from selling one more unit (Marginal Revenue, MR) is always less than the price (P or Average Revenue, AR) at which the unit is sold.
- Therefore, the condition **P > MR** holds true for both market structures.
- P = MR is the condition for a perfectly competitive firm.

Step 3: Final Answer:
For both Monopoly and Monopolistic Competition, the price is greater than the marginal revenue. Thus, option (A) is correct.

Quick Tip

The key takeaway is: a downward-sloping demand curve always implies that P ¿ MR. Only a horizontal demand curve (perfect competition) implies P = MR.

98. Average Revenue equals to

(A) Total revenue divided by the quantity produced
(B) Price
(C) Both (A) and (B)

(D) None of these

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

Solution:

Step 1: Understanding the Concept:
Average Revenue (AR) is the revenue a firm receives per unit of output sold.

Step 2: Key Formula or Approach:
The definition of Average Revenue is:

$$AR = \frac{\text{Total Revenue (TR)}}{\text{Quantity (Q)}}$$

This matches option (A).
We also know that Total Revenue (TR) is calculated as the price per unit (P) multiplied by the quantity sold (Q):

$$TR = P \times Q$$

Substituting this into the AR formula:

$$AR = \frac{P \times Q}{Q}$$

By canceling out Q, we get:

$$AR = P$$

This shows that Average Revenue is always equal to the price of the good. This matches option (B).

Step 3: Final Answer:
Since Average Revenue is equal to both "Total revenue divided by the quantity produced" and "Price," both statements (A) and (B) are correct. Therefore, the answer is (C).

Quick Tip

Remember this fundamental identity: The demand curve for a firm is also its Average Revenue (AR) curve, because AR is always equal to the Price (P).

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99. The necessary condition for a firm's equilibrium is

(A) MR = MC
(B) MR > MC
(C) MR < MC

(D) MR = MC = 0

Correct Answer: (A) MR = MC

Solution:

Step 1: Understanding the Concept:
A firm's equilibrium refers to the level of output at which it maximizes its profits. To find this point, we compare the additional revenue from selling one more unit (MR) with the additional cost of producing it (MC).

Step 2: Detailed Explanation:
- If **MR > MC**, it means the revenue from producing one more unit is greater than its cost. A rational producer would increase production to add to their total profit.
- If **MR < MC**, it means the cost of producing the last unit was greater than the revenue it generated. A rational producer would decrease production to increase their total profit.
- Therefore, the profit is maximized (and the firm is in equilibrium) only at the point where the firm has no incentive to change its output. This occurs when the revenue from the last unit is exactly equal to its cost, i.e., **MR = MC**.
This is the necessary, or first-order, condition for profit maximization. (The sufficient, or second-order, condition is that the MC curve must cut the MR curve from below).

Step 3: Final Answer:
The necessary condition for a firm's equilibrium is MR = MC. Thus, option (A) is correct.

Quick Tip

Think of MR = MC as the "golden rule" of profit maximization for any firm in any market structure. It's the point where you stop expanding production because the next unit won't be profitable.

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100. Net profit = ?

(A) TR - TC
(B) MR + MC
(C) Both (A) and (B)
(D) None of these

Correct Answer: (A) TR - TC

Solution:

Step 1: Understanding the Concept:
Net profit (or economic profit) is the most basic measure of a firm's success. It represents the surplus amount a firm is left with after paying all its costs of production.

Step 2: Key Formula or Approach:
The definition of profit is the difference between what a firm earns (its revenue) and what it spends (its costs).
- **Total Revenue (TR)** is the total amount of money received from the sale of output.
- **Total Cost (TC)** is the total economic cost of production, including both explicit and implicit costs.
The formula for net profit is:

$$\text{Profit} = \text{Total Revenue (TR)} - \text{Total Cost (TC)}$$

Step 3: Detailed Explanation:
- Option (A) correctly states this fundamental formula.
- Option (B) is incorrect. Adding marginal revenue and marginal cost does not yield profit. The condition MR = MC is used to find the profit-maximizing level of output, but MR + MC itself is not a measure of total profit.

Step 4: Final Answer:
Net profit is calculated as Total Revenue minus Total Cost. Therefore, option (A) is the correct answer.

Quick Tip

This is the most fundamental formula for profit. Don't confuse the condition for maximizing profit (MR=MC) with the calculation of total profit (TR-TC).

Section - B

1. Define secondary sector of the economy.

Solution:

Step 1: Understanding the Concept:
The economy is broadly divided into three sectors: primary, secondary, and tertiary. The secondary sector is the part of the economy that transforms raw materials from the primary sector into finished goods.

Step 2: Detailed Explanation:
The secondary sector of the economy is also known as the industrial sector. It includes all industries that are involved in the manufacturing, construction, and processing of goods.

This sector takes the output of the primary sector (like raw cotton, wood, or iron ore) and manufactures finished goods suitable for use by other businesses, for export, or for sale to domestic consumers.
Key activities included in the secondary sector are:

- **Manufacturing:** Turning raw materials into products, such as making cars, textiles, chemicals, and electronics.
- **Construction:** Building infrastructure like roads, bridges, and buildings.
- **Electricity, Gas, and Water Supply:** These are also considered part of the secondary sector as they involve processing resources.

Step 3: Final Answer:
The secondary sector of the economy is the sector that converts raw materials produced by the primary sector into finished goods. It is often referred to as the manufacturing or industrial sector and includes activities like manufacturing, construction, and utilities.

Quick Tip

Remember the flow: Primary (extraction of raw materials) → Secondary (manufacturing/processing) → Tertiary (services). This simple chain helps in distinguishing between the three sectors.

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2. What do you mean by Gross Domestic Product ?

Solution:

Step 1: Understanding the Concept:
Gross Domestic Product (GDP) is one of the most common indicators used to track the health of a nation's economy. It represents the total value of all goods and services produced over a specific time period within a country's borders.

Step 2: Detailed Explanation:
Gross Domestic Product (GDP) is the total monetary or market value of all the **final** goods and services produced within a country's borders in a specific time period.
Key aspects of this definition are:

- **Monetary Value:** GDP sums up the market value of all goods and services, using prices as the common denominator.
- **Final Goods and Services:** It only includes the value of final goods—those meant for final consumption. Intermediate goods (used to produce other goods) are excluded to

avoid double counting.

- **Produced Within a Country's Borders:** GDP measures production within a country's geographical boundaries, regardless of the nationality of the producer.

- **Specific Time Period:** GDP is measured over a specific interval, typically a quarter (three months) or a year.

GDP can be calculated using three approaches: the expenditure approach, the income approach, and the production (or output) approach.

Step 3: Final Answer:
Gross Domestic Product (GDP) is the total market value of all final goods and services produced within the geographical boundaries of a country during a specific period of time, usually a year or a quarter. It serves as a comprehensive measure of a country's economic output and health.

Quick Tip

To remember GDP, think of it as the "economic snapshot" of a country. It measures what's made *inside* the country, distinguishing it from GNP (Gross National Product), which measures what's made by the country's *citizens*, regardless of location.

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3. Give two examples each for Consumption goods and Capital goods.

Solution:

Step 1: Understanding the Concept:
Goods produced in an economy can be classified based on their end use. Consumption goods directly satisfy consumer wants, while capital goods are used in the production of other goods.

Step 2: Detailed Explanation:
Consumption Goods:
These are final goods that are purchased by households to directly satisfy their wants and needs. They are not used for further production. They can be durable (like a car) or non-durable (like food).
Examples of Consumption Goods:

1. **Food items:** Bread, milk, vegetables, which are consumed directly.
2. **Clothing:** Shirts, pants, and other apparel bought for personal use.

Capital Goods:
These are durable goods used in the production process to produce other goods and services. They are not consumed directly by households but are used by businesses.
Examples of Capital Goods:

1. **Machinery:** A lathe machine in a factory or a tractor on a farm.
2. **Tools and Equipment:** A computer used in an office or a hammer used by a carpenter.

Step 3: Final Answer:
Two examples of Consumption goods are:
1. Food (e.g., Bread)
2. Clothing
Two examples of Capital goods are:
1. Machinery (e.g., Tractor)
2. Tools (e.g., Computer for office work)

Quick Tip

A simple way to differentiate is to ask: "Is this good used up by a consumer, or is it used to make something else?" If it's used by a consumer, it's a consumption good. If it's used by a business to produce, it's a capital good.

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4. Mention two contingent functions of money.

Solution:

Step 1: Understanding the Concept:
The functions of money are typically divided into three categories: primary (or main), secondary (or derivative), and contingent. Contingent functions are those that are not fundamental but have become associated with money in modern, complex economies.

Step 2: Detailed Explanation:
Contingent functions of money facilitate various economic activities and decision-making. Two important contingent functions are:

1. **Basis of the Credit System:** Modern economies are heavily reliant on credit. Commercial banks create credit money based on their primary deposits of cash. Money serves as the foundation for the entire credit system. Banks can lend money because they are confident it will be repaid in the same monetary unit. Without money, the vast network of borrowing and lending that fuels investment and consumption would not be possible.

2. **Distribution of National Income:** National income is generated through the combined efforts of factors of production (land, labor, capital, enterprise). Money helps in distributing the rewards to these factors in the form of rent, wages, interest, and profit. It provides a convenient way to calculate and pay each factor its share of the total output.

Step 3: Final Answer:
Two contingent functions of money are:
1. **Basis of the Credit System:** Money is the foundation upon which the entire structure of credit is built.
2. **Distribution of National Income:** Money facilitates the distribution of income among the factors of production as rent, wages, interest, and profit.

Quick Tip

Remember that Primary functions are the core roles (Medium of Exchange, Measure of Value). Secondary functions build on these (Store of Value, Standard of Deferred Payments). Contingent functions are modern, facilitation roles like the basis for credit and income distribution.

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5. What do you mean by Demand deposits ?

Solution:

Step 1: Understanding the Concept:
Demand deposits are a core component of a country's money supply. They represent the most liquid form of bank deposits because the funds can be accessed at any time by the depositor.

Step 2: Detailed Explanation:
Demand deposits are funds held in bank accounts from which deposited funds can be withdrawn at any time, without advance notice. These deposits are "payable on demand".
The key features of demand deposits are:

- **High Liquidity:** They can be easily and quickly converted into cash.
- **Withdrawal on Demand:** Depositors can withdraw their money using cheques, Automated Teller Machines (ATMs), or online banking services whenever they wish.
- **Chequable Deposits:** Because cheques can be drawn against these accounts, they are also known as chequable deposits. They function as a medium of exchange.

- **Interest:** They typically earn very low or no interest compared to other types of deposits like fixed or time deposits.

The most common types of accounts that hold demand deposits are current accounts and savings accounts.

Step 3: Final Answer:
Demand deposits are bank deposits that can be withdrawn by the depositor at any time without prior notice. They are highly liquid and serve as a medium of exchange through instruments like cheques and debit cards. Examples include funds in current accounts and savings accounts.

Quick Tip

Think of the name: "Demand" deposits. The money is available on your "demand." This distinguishes them from "Time" deposits (like Fixed Deposits), which require you to wait for a specific period of time to withdraw without penalty.

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6. What is Statutory Liquidity Ratio (SLR) ?

Solution:

Step 1: Understanding the Concept:
The Statutory Liquidity Ratio (SLR) is a monetary policy tool used by the central bank (like the Reserve Bank of India) to control the amount of credit available in the economy. It is a reserve requirement for commercial banks.

Step 2: Detailed Explanation:
The Statutory Liquidity Ratio (SLR) is the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid assets at the close of business every day.
These liquid assets can be:

- **Cash:** Cash in hand or with other banks.
- **Gold:** Gold valued at a price not exceeding the current market price.
- **Unencumbered approved securities:** Government securities (G-Secs) and other approved bonds that are not pledged as collateral for any loan.

The SLR is determined and maintained by the central bank. By changing the SLR, the central bank can regulate the credit-creating capacity of banks.

- **Increasing SLR:** Reduces the funds available for banks to lend, thus contracting credit in the economy.

- **Decreasing SLR:** Increases the funds available for banks to lend, thus expanding credit in the economy.

Step 3: Final Answer:
Statutory Liquidity Ratio (SLR) is the proportion of a commercial bank's Net Demand and Time Liabilities (NDTL) that it must maintain in the form of cash, gold, or government-approved securities before providing credit to customers. It is a tool used by the central bank to control liquidity and ensure the solvency of banks.

Quick Tip

Differentiate SLR from CRR (Cash Reserve Ratio). CRR must be kept as cash with the central bank (e.g., RBI). SLR can be kept by the bank itself in the form of cash, gold, or approved securities. SLR ensures bank solvency, while CRR is primarily for liquidity control.

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7. When the second Narasimham Committee was appointed ?

Solution:

Step 1: Understanding the Concept:
The Narasimham Committees were expert groups set up by the Government of India to recommend reforms for the Indian financial system, particularly the banking sector, following the economic liberalization of 1991.

Step 2: Detailed Explanation:
The first Narasimham Committee (Committee on the Financial System) was appointed in 1991 and submitted its report the same year. It laid the foundation for the first generation of banking sector reforms in India.
To review the progress of the first phase of reforms and to chart the course for the next phase, a second committee was formed.
The second Narasimham Committee, officially known as the Committee on Banking Sector Reforms, was appointed by the government in **1998**. The committee was chaired by Maidavolu Narasimham again. It submitted its report to the Finance Minister in April 1998. This committee focused on issues like strengthening the banking system, structural reforms, and dealing with non-performing assets (NPAs).

Step 3: Final Answer:
The second Narasimham Committee was appointed in 1998.

Quick Tip

Remember the two key dates for the Narasimham Committees: The first was in 1991, right at the start of India's economic liberalization. The second was in 1998, to review progress and suggest second-generation reforms.

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8. What is meant by aggregate demand ?

Solution:

Step 1: Understanding the Concept:
Aggregate Demand (AD) is a macroeconomic concept that represents the total demand for all final goods and services produced in an economy at a given overall price level and in a given time period.

Step 2: Key Formula or Approach:
The components of Aggregate Demand are represented by the formula:

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

Where:

- **C** = Consumption expenditure by households.
- **I** = Investment expenditure by firms.
- **G** = Government expenditure on goods and services.
- **(X - M)** = Net Exports, which is the difference between exports (X) and imports (M).

Step 2: Detailed Explanation:
Aggregate Demand is the total amount of spending on domestic goods and services in an economy. It shows the relationship between the overall price level and the quantity of output that is demanded by households, firms, the government, and the rest of the world.
The aggregate demand curve is downward sloping, which means that as the overall price level in the economy falls, the quantity of goods and services demanded increases, and vice versa. This is due to the wealth effect, interest rate effect, and exchange rate effect.

Step 3: Final Answer:
Aggregate Demand (AD) is the total demand for final goods and services in an economy at a given time. It is the sum of all planned expenditures in the economy, which includes consumption (C), investment (I), government spending (G), and net exports (X-M).

Quick Tip

Don't confuse Aggregate Demand with market demand. Market demand is for a single good or service. Aggregate Demand is for *all* goods and services in the entire economy.

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9. What is Say's law of market ?

Solution:

Step 1: Understanding the Concept:
Say's Law of Markets is a principle of classical economics attributed to the French economist Jean-Baptiste Say. It forms a central pillar of classical economic thought, which posits that economies naturally tend towards full employment.

Step 2: Detailed Explanation:
Say's Law of Markets states that "**supply creates its own demand**".
The core idea behind this law is that the very act of producing goods and services generates an equivalent amount of income for the factors of production (in the form of wages, rent, interest, and profit). This income is then used to purchase the goods and services that were produced. According to this law:

- Production is the source of demand. To demand something, one must first supply (produce) something of value.
- There cannot be a general overproduction or glut of goods in the entire economy, as the production process itself creates the purchasing power to buy all that is produced.
- If there is an oversupply of a particular good, it is only a temporary disequilibrium. The price of that good will fall, and resources will shift to produce other goods that are in higher demand.
- The law assumes a flexible price and wage system and implies that government intervention is unnecessary to correct unemployment or gluts.

This law was later challenged by John Maynard Keynes during the Great Depression.

Step 3: Final Answer:
Say's Law of Markets is the principle that "supply creates its own demand." It argues that the total value of goods and services produced in an economy (supply) will generate an equal amount of income, which in turn is used to purchase those goods and services (demand), thus making a general glut of products impossible.

Quick Tip

A simple way to remember Say's Law is to think of a barter economy. A baker doesn't bake bread to hoard it; he bakes it to trade (demand) for shoes or other goods. His supply of bread is his demand for other things. Say extended this logic to a money-based economy.

---

10. What is meant by Fixed cost?

Solution:

Step 1: Understanding the Concept:
In production theory, costs are divided into two main types based on how they behave with changes in the level of output: fixed costs and variable costs. Fixed costs are the expenses that remain constant regardless of the quantity of goods or services produced.

Step 2: Detailed Explanation:
Fixed Costs (FC), also known as supplementary costs or overhead costs, are the costs that do not vary with the level of output in the short run. A firm has to incur these costs even if its output is zero.
Key characteristics of fixed costs are:

- They are associated with the fixed factors of production (e.g., buildings, machinery).
- They remain constant over a certain range of production.
- They exist even when production is halted temporarily.
- Examples include: Rent for the factory building, salaries of permanent staff, insurance premiums, interest on loans, and depreciation of machinery.

The total cost (TC) of a firm is the sum of its Total Fixed Costs (TFC) and Total Variable Costs (TVC).

$$TC = TFC + TVC$$

Graphically, the Total Fixed Cost curve is a horizontal line parallel to the x-axis (output axis), indicating it does not change with output.

Step 3: Final Answer:
Fixed costs are production expenses that do not change with the quantity of output produced. These costs must be paid by a company even if it produces nothing. Examples include rent, salaries of administrative staff, and insurance.

Quick Tip

To identify a fixed cost, ask the question: "Does the company have to pay this even if it shuts down for a day or a week?" If the answer is yes (like rent), it's a fixed cost. If the answer is no (like raw materials), it's a variable cost.

---

11. Explain the relation between Total Revenue and Marginal Revenue.

Solution:

Step 1: Understanding the Concept:
Total Revenue (TR) is the total amount of money a firm receives from selling its output. Marginal Revenue (MR) is the additional revenue generated from selling one more unit of output. The relationship between them depends on the market structure (perfect competition or imperfect competition).

Step 2: Detailed Explanation:
The relationship between Total Revenue (TR) and Marginal Revenue (MR) can be summarized as follows:

1. **When TR is increasing, MR is positive:** As long as selling an additional unit adds to the total revenue (even if it adds less than the previous unit), the marginal revenue is positive. The TR curve slopes upwards.

2. **When TR reaches its maximum, MR is zero:** The point where total revenue is at its peak is the point where selling one more unit adds nothing to the total revenue. At this point, the MR curve intersects the x-axis.

3. **When TR is decreasing, MR is negative:** If a firm has to lower its price on all units to sell an additional unit, the total revenue may start to fall. When this happens, the revenue from the extra unit sold is less than the revenue lost from the price cut on all previous units, making the marginal revenue negative. The TR curve slopes downwards.

Under Perfect Competition:
A firm can sell any quantity at the prevailing market price. Thus, Price = Average Revenue (AR) = Marginal Revenue (MR). The MR is constant and positive, so the TR curve is a straight line sloping upwards from the origin.

Under Imperfect Competition (Monopoly/Monopolistic Competition):
A firm must lower its price to sell more units. Both AR and MR curves slope downwards. The MR curve is always below the AR curve. The relationship described in the three points above holds true, with the TR curve first rising, reaching a maximum, and then falling.

Step 3: Final Answer:
The relationship between Total Revenue (TR) and Marginal Revenue (MR) is:

- As long as MR is positive, TR increases.
- When MR is zero, TR is at its maximum.
- When MR becomes negative, TR starts to decrease.

Quick Tip

Visualize the curves. For a typical monopoly, the TR curve is an inverted 'U' shape. The MR curve is a downward-sloping line that crosses the x-axis exactly where the TR curve peaks. This visual connection makes the relationship easy to remember.

---

12. What is meant by producer's equilibrium ?

Solution:

Step 1: Understanding the Concept:
Producer's equilibrium refers to the level of output at which a producer maximizes their profit. At this point, the producer has no incentive to either increase or decrease the level of production.

Step 2: Key Formula or Approach:
The conditions for producer's equilibrium are generally stated using the Marginal Revenue (MR) and Marginal Cost (MC) approach. A producer is in equilibrium when:

1. **MR = MC** (Marginal Revenue equals Marginal Cost)
2. **MC curve must cut the MR curve from below.** (Or, MC must be rising at the point of intersection).

Step 2: Detailed Explanation:
Producer's equilibrium is the state of output where the firm's profits are maximized.

- **Condition 1: MR = MC:** Profit is the difference between Total Revenue (TR) and Total Cost (TC). Profit is maximized when the addition to total revenue from selling one more unit (MR) is exactly equal to the addition to total cost from producing that unit (MC). If MR > MC, the producer can increase profit by producing more. If MR < MC, the producer is making a loss on the last unit and should produce less. Thus, profit is maximized only when MR = MC.

- **Condition 2: MC curve cuts MR from below:** This is a necessary secondary condition. If MC cuts MR from above, it means that beyond the intersection point, MC is less

than MR, and the producer could increase profit by producing more. This point (where MC cuts MR from above) is actually a point of profit minimization (or loss maximization). The equilibrium must be where the MC curve is rising, ensuring that for any output beyond the equilibrium point, MC > MR.

Step 3: Final Answer:
Producer's equilibrium is the level of output where a firm maximizes its profit. This occurs when two conditions are met: (1) Marginal Revenue (MR) is equal to Marginal Cost (MC), and (2) The Marginal Cost (MC) curve is rising and cuts the Marginal Revenue (MR) curve from below.

Quick Tip

Think of it as a balancing act. The producer keeps increasing output as long as the extra revenue from a unit (MR) is greater than its extra cost (MC). They stop at the exact point where the extra revenue just covers the extra cost (MR = MC). Producing beyond this point would mean the extra cost is higher than the extra revenue, reducing overall profit.

---

13. What is Investment Multiplier ?

Solution:

Step 1: Understanding the Concept:
The Investment Multiplier is a key concept in Keynesian economics. It explains how an initial change in investment spending leads to a proportionally larger change in the total national income.

Step 2: Key Formula or Approach:
The Investment Multiplier (k) is calculated as the ratio of the change in national income (ΔY) to the change in investment (ΔI).

$$k = \frac{\Delta Y}{\Delta I}$$

It can also be expressed in terms of the Marginal Propensity to Consume (MPC) or the Marginal Propensity to Save (MPS).

$$k = \frac{1}{1 - MPC} \quad \text{or} \quad k = \frac{1}{MPS}$$

Where MPC is the proportion of extra income that is spent, and MPS is the proportion of extra income that is saved. (MPC + MPS = 1)

Step 2: Detailed Explanation:
The investment multiplier effect occurs because an initial increase in investment leads to an increase in income for those who receive the investment spending. These recipients, in turn,

spend a portion of their new income (determined by the MPC). This spending becomes income for another group of people, who then also spend a portion of it, and so on. This chain reaction of spending continues, with each round being smaller than the last, but the cumulative effect on total income is much larger than the initial investment.
For example, if the MPC is 0.8, the multiplier would be k = 1 / (1 - 0.8) = 1 / 0.2 = 5. This means that an initial investment of $100 million would lead to a total increase in national income of $500 million.

Step 3: Final Answer:
The Investment Multiplier is the ratio by which a change in investment spending causes a larger change in total national income. Its value is determined by the formula k = 1 / (1 - MPC), where MPC is the Marginal Propensity to Consume. It demonstrates that an initial injection of investment has a magnified effect on the overall economy.

Quick Tip

Remember that the size of the multiplier depends on the MPC. A higher MPC means people spend more of their extra income, leading to a larger multiplier effect. A lower MPC (and thus higher MPS) means more of the income "leaks" into savings at each stage, resulting in a smaller multiplier.

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14. What is meant by recession ?

Solution:

Step 1: Understanding the Concept:
A recession is a phase in the business cycle characterized by a significant and widespread decline in economic activity. It is a period of negative economic growth.

Step 2: Detailed Explanation:
A recession is a macroeconomic term that refers to a significant decline in general economic activity in a designated region. It is typically recognized after two consecutive quarters of negative economic growth, as measured by the country's Gross Domestic Product (GDP).
The key characteristics of a recession include:

- **Falling GDP:** The real (inflation-adjusted) GDP of the country decreases.
- **Rising Unemployment:** As businesses cut back on production, they lay off workers, leading to higher unemployment rates.
- **Decline in Income and Retail Sales:** People's incomes fall, and consumer spending decreases.
- **Reduced Industrial Production and Manufacturing:** Factories produce less due to lower demand.

A recession is less severe than a depression, which is a sustained, long-term downturn in economic activity. Recessions are a normal, albeit painful, part of the business cycle.

Step 3: Final Answer:
A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that a recession occurs when a country's Gross Domestic Product (GDP) declines for two consecutive quarters. It is characterized by falling output, rising unemployment, and declining real income.

Quick Tip

The most common definition to remember for exams is "two consecutive quarters of negative GDP growth." While the official declaration of a recession can be more complex, this definition is widely used and accepted.

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15. What is meant by Fiscal policy ?

Solution:

Step 1: Understanding the Concept:
Fiscal policy is one of the two main tools used by governments to influence a country's economic performance, the other being monetary policy. It involves the use of government spending and taxation.

Step 2: Detailed Explanation:
Fiscal policy refers to the use of government spending levels and tax rates to monitor and influence a nation's economy. It is the means by which a government adjusts its spending levels and tax policies to influence economic conditions, especially macroeconomic conditions, including aggregate demand, employment, inflation, and economic growth.
The two main instruments of fiscal policy are:

1. **Government Expenditure:** This includes government spending on infrastructure, defense, subsidies, salaries, etc.
2. **Taxation:** This includes direct taxes (like income tax) and indirect taxes (like Goods and Services Tax - GST).

Types of Fiscal Policy:

- **Expansionary Fiscal Policy:** Used to combat a recession. It involves increasing government spending or decreasing taxes to boost aggregate demand. This often leads to a budget deficit.

- **Contractionary Fiscal Policy:** Used to combat inflation. It involves decreasing government spending or increasing taxes to reduce aggregate demand. This can lead to a budget surplus.

Step 3: Final Answer:
Fiscal policy is the economic policy in which the government uses its spending and taxation powers to influence the economy. Its primary goals are to achieve economic stability, control inflation, reduce unemployment, and promote economic growth.

Quick Tip

Remember the difference: **Fiscal Policy** is about government **T**axing and **S**pending (think T&S). **Monetary Policy** is managed by the central bank and deals with **M**oney **S**upply and interest rates (think M&S).

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16. Define market equilibrium.

Solution:

Step 1: Understanding the Concept:
Market equilibrium is a fundamental concept in microeconomics that describes a state of balance in a market between the forces of supply and demand.

Step 2: Detailed Explanation:
Market equilibrium is a situation in a market where the quantity of a good or service demanded by consumers is exactly equal to the quantity supplied by producers. This state of balance occurs at a specific price, known as the equilibrium price, and a specific quantity, known as the equilibrium quantity.
At the equilibrium point:

- **Quantity Demanded (Qd) = Quantity Supplied (Qs)**
- There is no tendency for the price to change. The market is said to "clear".
- There is no shortage (where demand exceeds supply) or surplus (where supply exceeds demand).

Graphically, market equilibrium is found at the intersection of the market demand curve and the market supply curve. The price corresponding to this intersection is the equilibrium price (P*), and the quantity is the equilibrium quantity (Q*). If the price is above equilibrium, there will be a surplus, pushing the price down. If the price is below equilibrium, there will be a shortage, pushing the price up.

Step 3: Final Answer:
Market equilibrium is a market state where the quantity demanded for a product or service is

equal to the quantity supplied. This occurs at the equilibrium price, where the demand and supply curves intersect, and there is no inherent tendency for the price or quantity to change.

Quick Tip

Think of equilibrium as the "sweet spot" of the market. It's the only price where both buyers and sellers are satisfied to the extent that everyone who wants to buy at that price can find a seller, and everyone who wants to sell at that price can find a buyer.

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17. What are the two forces in determining the price of the goods ?

Solution:

Step 1: Understanding the Concept:
In a free market economy, the price of a good is not determined arbitrarily. It is the result of the interaction between two opposing economic forces.

Step 2: Detailed Explanation:
The two most important and fundamental forces that determine the price of a good in a market economy are:

1. **Demand:** This represents the consumers' side of the market. Demand is the quantity of a good that buyers are willing and able to purchase at various prices during a given period. Generally, according to the law of demand, as the price of a good falls, the quantity demanded increases, and vice versa. Demand is influenced by factors like consumer income, tastes and preferences, and the prices of related goods.

2. **Supply:** This represents the producers' or sellers' side of the market. Supply is the quantity of a good that producers are willing and able to offer for sale at various prices during a given period. Generally, according to the law of supply, as the price of a good rises, the quantity supplied increases. Supply is influenced by factors like the cost of production, technology, and government policies.

The price of a good adjusts until the quantity that consumers want to buy equals the quantity that producers want to sell. This point of intersection is the equilibrium price.

Step 3: Final Answer:
The two fundamental forces that determine the price of goods in a market are **Demand** and **Supply**.

Quick Tip

Alfred Marshall famously compared supply and demand to the two blades of a pair of scissors. It is futile to ask whether the upper or the lower blade cuts the paper; both are necessary. Similarly, both demand and supply are essential in determining the price.

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18. Define flow.

Solution:

Step 1: Understanding the Concept:
In economics, variables are often categorized as either a 'stock' or a 'flow'. This distinction is crucial for understanding economic models and data. A flow variable is one that is measured over a period of time.

Step 2: Detailed Explanation:
A flow is an economic variable that is measured over a specific interval of time. A flow variable must have a time dimension; it is expressed as a certain quantity per unit of time (e.g., per hour, per day, per year).
The key characteristic of a flow is that it represents a movement or rate of change.
Examples of flow variables include:

- **Income:** We speak of income per month or per year.
- **Expenditure:** A person's spending is measured over a week or a month.
- **GDP:** Gross Domestic Product is the value of production in a year or a quarter.
- **Investment:** It is defined as capital formation over a period.
- **Depreciation:** The loss in value of an asset over time.

This contrasts with a 'stock' variable, which is measured at a specific point in time (e.g., wealth on a particular date, capital stock on Dec 31st).

Step 3: Final Answer:
A flow is a variable that is measured over a period of time. It has a time dimension and represents a rate of change, such as income per month or production per year.

Quick Tip

To distinguish between stock and flow, think of a bathtub analogy. The amount of water **in** the tub at any moment is a **stock**. The water pouring **into** the tub from the tap (per minute) is a **flow**. The water going **out** of the drain (per minute) is also a **flow**.

19. What is meant by demand?

Solution:

Step 1: Understanding the Concept:
Demand is a fundamental economic principle referring to a consumer's desire to purchase goods and services and their willingness to pay a price for a specific good or service.

Step 2: Detailed Explanation:
In economics, 'demand' has a precise meaning. It is not just a desire or want for a good. Demand for a commodity is the quantity of that commodity that a consumer is **willing and able** to purchase at a given price during a specific period of time.
The definition of demand includes three essential elements:

1. **Desire for the commodity:** The consumer must want the good.
2. **Ability to pay (Purchasing Power):** The consumer must have enough money to buy it.
3. **Willingness to pay:** The consumer must be ready to spend the money on that good.

Therefore, demand is always expressed with reference to a particular price and a particular period of time. For example, the statement "the demand for milk is 10 liters" is meaningless. A correct statement would be "at a price of $50 per liter, the demand for milk is 10 liters per day."

Step 3: Final Answer:
Demand refers to the quantity of a good or service that consumers are willing and able to buy at various possible prices during a given period, other factors remaining constant. It represents effective desire, backed by purchasing power and the willingness to spend.

Quick Tip

Remember that demand is more than just wanting something. In economics, it's "effective demand." You might desire a luxury sports car, but if you don't have the money (ability to pay), it doesn't count as economic demand.

20. When the elasticity of demand is unitary ?

Solution:

Step 1: Understanding the Concept:
Price elasticity of demand measures the responsiveness of the quantity demanded of a good to a

change in its price. Unitary elasticity is a specific case where the change in quantity demanded is proportionally equal to the change in price.

Step 2: Key Formula or Approach:
The formula for price elasticity of demand (Ed) is:

$$E_d = \frac{\%\text{ Change in Quantity Demanded}}{\%\text{ Change in Price}}$$

The elasticity of demand is unitary when $|E_d| = 1$.

Step 2: Detailed Explanation:
The elasticity of demand is unitary, or equal to one, when the percentage change in the quantity demanded of a good is exactly equal to the percentage change in its price.
For example, if the price of a product increases by 10%, and as a result, the quantity demanded decreases by exactly 10%, the price elasticity of demand is unitary.

$$E_d = \frac{-10\%}{+10\%} = -1$$

The absolute value is $|E_d| = 1$.
A key implication of unitary elastic demand is that any change in price (either an increase or a decrease) will leave the total expenditure by the consumer (or total revenue for the seller) unchanged. The effect of the price change is perfectly offset by the effect of the quantity change. Graphically, a demand curve with unitary elasticity at all points is a rectangular hyperbola.

Step 3: Final Answer:
The elasticity of demand is unitary when a given percentage change in the price of a commodity leads to an exactly equal percentage change in the quantity demanded. In this case, the elasticity coefficient is equal to 1.

Quick Tip

Remember the Total Expenditure Test for elasticity. If a price change causes no change in total expenditure, the demand is unitary elastic. If price and total expenditure move in opposite directions, it's elastic (>1). If they move in the same direction, it's inelastic (<1).

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21. What is meant by production function ?

Solution:

Step 1: Understanding the Concept:
A production function is a fundamental concept in economics that describes the relationship between the inputs used in a production process and the resulting output. It is a technical

relationship, not an economic one.

Step 2: Key Formula or Approach:
A production function is typically represented in a mathematical form as:

$$Q = f(L, K)$$

Where:

- **Q** is the maximum quantity of output.
- **f** denotes the functional relationship.
- **L** represents the quantity of labor input.
- **K** represents the quantity of capital input.

Other inputs like land and raw materials can also be included.

Step 2: Detailed Explanation:
A production function is a technological relationship that specifies the maximum amount of output that can be produced with a given combination of inputs, assuming a given state of technology.
Key aspects of a production function are:

- **Technical Relationship:** It shows the physical relationship between inputs and output. It does not involve prices or costs.
- **Given Technology:** The production function is defined for a specific state of technology. If technology improves, a new production function is created, allowing more output from the same inputs.
- **Maximum Output:** It represents the maximum possible output, implying that the firm is operating efficiently and not wasting resources.

Economists use production functions to analyze concepts like marginal product, returns to scale, and the optimal combination of inputs for a firm. It can be a short-run production function (where at least one input is fixed) or a long-run production function (where all inputs are variable).

Step 3: Final Answer:
A production function is a mathematical or technical expression that shows the relationship between the quantity of inputs (like labor and capital) used in production and the maximum quantity of output that can be obtained from them, given the current state of technology.

Quick Tip

Think of a production function as a recipe. The inputs (L, K) are the ingredients, and the output (Q) is the finished dish. The function (f) is the recipe itself, which tells you the maximum amount of the dish you can make with a certain amount of ingredients, using the best cooking technique (technology).

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22. Define Government Budget.

Solution:

Step 1: Understanding the Concept:
A government budget is a financial plan that outlines the government's estimated revenues and proposed expenditures for a specific period, typically one year. It is a key instrument of the government's fiscal policy.

Step 2: Detailed Explanation:
A Government Budget is an annual financial statement that presents the government's anticipated revenue and proposed expenditure for the forthcoming financial year. It is a comprehensive document that reflects the government's financial policies and priorities.
The main components of a government budget are:

1. **Revenue Budget:** This deals with the revenue receipts of the government and the expenditure met from these revenues.
    - **Revenue Receipts:** These are receipts that do not create a liability or cause a reduction in assets. They include tax revenues (e.g., income tax, GST) and non-tax revenues (e.g., fees, fines, profits of public sector enterprises).
    - **Revenue Expenditure:** This is expenditure that does not create any assets or cause a reduction in liability. Examples include salaries, pensions, subsidies, and interest payments.
2. **Capital Budget:** This consists of capital receipts and capital expenditure.
    - **Capital Receipts:** These are receipts that either create a liability (e.g., borrowing) or reduce an asset (e.g., disinvestment).
    - **Capital Expenditure:** This is expenditure that either creates an asset (e.g., building roads, hospitals) or reduces a liability (e.g., repayment of loans).

The budget also outlines the government's plan to finance any gap between its expenditure and revenue, known as the fiscal deficit.

Step 3: Final Answer:
A government budget is an annual statement of the estimated receipts and estimated expenditures of the government for a financial year. It serves as a tool for implementing fiscal policy

and outlines the government's economic and social priorities.

Quick Tip

Remember the budget is not just a record of accounts, but a statement of intent. It shows where the government plans to get its money (receipts) and where it plans to spend it (expenditure) in the upcoming year to achieve its policy goals.

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23. State two sources of supply of foreign exchange.

Solution:

Step 1: Understanding the Concept:
The supply of foreign exchange refers to the inflow of foreign currency into a country's economy. This inflow occurs for various reasons, primarily through transactions with other countries.

Step 2: Detailed Explanation:
The supply of foreign exchange in a country comes from all transactions that result in payments from foreign countries to the home country. Two primary sources are:

1. **Exports of Goods and Services:** When a country sells its goods (like textiles, machinery) or services (like software development, tourism) to other countries, it receives payment in foreign currency. This is typically the largest source of foreign exchange supply. For example, when an Indian company exports software to the USA, it earns US dollars, which increases the supply of foreign exchange in India.

2. **Foreign Investment:** When foreign companies or individuals invest in the domestic economy, they bring in foreign currency. This can be in the form of:
   - **Foreign Direct Investment (FDI):** Setting up factories or businesses in the country.
   - **Foreign Portfolio Investment (FPI):** Buying shares, bonds, or other financial assets in the country's stock markets.

   Both forms of investment lead to an inflow of foreign currency.

Other sources include remittances from citizens working abroad, foreign aid, and external borrowings.

Step 3: Final Answer:
Two major sources of the supply of foreign exchange are:
1. **Exports of goods and services.**
2. **Foreign investment** (including both Foreign Direct Investment and Foreign Portfolio Investment).

Quick Tip

Think about how foreign money comes *into* your country. The most common ways are by selling things *to* foreigners (exports) or when foreigners bring their money *to* invest. These are the main drivers of supply. Conversely, demand comes from activities where money flows *out* (imports, investing abroad).

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24. Which items are included in balance of trade ?

Solution:

Step 1: Understanding the Concept:
The Balance of Trade (BoT) is a component of a country's Balance of Payments (BoP). It focuses specifically on the trade of tangible goods.

Step 2: Detailed Explanation:
The Balance of Trade (BoT), also known as the trade balance or merchandise balance, includes only the value of a country's exports and imports of **visible goods** (also called merchandise).

- **Visible Goods:** These are physical, tangible items that can be seen and touched when they cross a country's borders, such as cars, machinery, electronics, agricultural products, and raw materials.

The Balance of Trade does **not** include:

- **Invisible Items:** Trade in services (like banking, insurance, tourism, software services), unilateral transfers (gifts, remittances), and capital flows (investments, loans). These are recorded in other parts of the Balance of Payments account, such as the Current Account and Capital Account.

The formula for BoT is:

$$\text{Balance of Trade} = \text{Value of Visible Exports} - \text{Value of Visible Imports}$$

- If Exports $>$ Imports, it is a **Trade Surplus**.
- If Imports $>$ Exports, it is a **Trade Deficit**.

Step 3: Final Answer:
The Balance of Trade includes only the export and import of visible goods (merchandise). It does not include trade in services or capital transactions.

Quick Tip

Remember that Balance of **Trade** is narrow and deals only with **T**angible goods. The Balance of **Payments** is the broader concept, which is a systematic record of **ALL** economic transactions between the residents of a country and the rest of the world.

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25. What is Market Supply ?

Solution:

Step 1: Understanding the Concept:
Market supply is the aggregate of the quantities of a good or service that all individual producers in a market are willing and able to sell at different prices during a given period.

Step 2: Detailed Explanation:
Market Supply is the total quantity of a commodity that all firms or sellers in the market are willing to offer for sale at a given price over a specific period. It is derived by horizontally summing up the individual supply curves of all the firms in the industry.
For example, if there are two firms, A and B, in the market for shoes:

- At a price of \$50, Firm A is willing to supply 100 pairs.
- At the same price of \$50, Firm B is willing to supply 150 pairs.
- The market supply at \$50 would be the sum of their individual supplies: $100 + 150 = 250$ pairs.

The **Law of Supply** states that, other factors remaining constant, the quantity supplied of a good increases as its price increases. Therefore, the market supply curve is typically upward sloping. Factors that can shift the market supply curve include changes in input prices, technology, number of sellers, and government policies (like taxes and subsidies).

Step 3: Final Answer:
Market supply is the total quantity of a good or service that all producers in a market are willing and able to sell at a given price during a specific period of time. It is the horizontal summation of the individual supply schedules of all firms in the market.

Quick Tip

Distinguish between **individual supply** and **market supply**. Individual supply is what one firm is willing to sell. Market supply is what all firms in the market combined are willing to sell. To get from individual to market supply, you simply add up the quantities supplied by each firm at every price level.

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26. Mention the four determinants of elasticity of supply.

Solution:

Step 1: Understanding the Concept:
Price elasticity of supply measures the responsiveness of the quantity supplied of a good to a change in its price. It indicates how quickly and easily producers can change the quantity they produce when the price changes. Several factors determine whether supply is elastic or inelastic.

Step 2: Detailed Explanation:
Four key determinants of the elasticity of supply are:

1. **Time Period:** This is the most important factor. In the very short run (market period), supply is perfectly inelastic as production cannot be changed. In the short run, supply is relatively inelastic as firms can only change variable inputs (like labor). In the long run, supply is highly elastic because firms can change all factors of production, and new firms can enter the market.

2. **Nature of the Commodity:** The supply of durable goods (like furniture) is relatively elastic as they can be stored and their supply can be adjusted to price changes. The supply of perishable goods (like fresh vegetables) is inelastic because they cannot be stored for long and must be sold regardless of the price.

3. **Production Technology and Input Availability:** If production requires complex technology or specialized inputs that are scarce, supply will be inelastic. Conversely, if production uses simple technology and readily available inputs, producers can quickly increase output, making supply more elastic.

4. **Factor Mobility:** If the factors of production (labor, capital) can be easily moved from one industry to another, the supply of a good will be more elastic. If factors are highly specialized and immobile, supply will be inelastic. For example, if workers can easily switch from making shirts to making trousers, the supply of trousers is more elastic.

Step 3: Final Answer:
Four determinants of the elasticity of supply are:
1. **Time Period** (short run vs. long run)
2. **Nature of the Commodity** (durable vs. perishable)
3. **Production Technology and Input Availability**
4. **Factor Mobility**

Quick Tip

The core idea behind supply elasticity is **flexibility**. Anything that gives producers more flexibility to change their output level in response to a price change will make supply more elastic. Time is the ultimate source of flexibility.

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27. Define perfect competition.

Solution:

Step 1: Understanding the Concept:
Perfect competition is a theoretical market structure that serves as a benchmark against which other, real-world market structures are compared. It represents an ideal state of competition.

Step 2: Detailed Explanation:
Perfect competition is a market structure characterized by a large number of well-informed buyers and sellers of a homogeneous product, with no single buyer or seller having any control over the market price. The price is determined by the industry's supply and demand forces. The key features or assumptions of a perfectly competitive market are:

1. **Large Number of Buyers and Sellers:** There are so many participants that no single individual can influence the market price. Each firm is a "price taker".
2. **Homogeneous Product:** All firms sell identical products. From the buyer's perspective, the product of one firm is a perfect substitute for the product of another.
3. **Free Entry and Exit of Firms:** There are no barriers (legal, technical, or economic) to a new firm entering the market or an existing firm leaving it.
4. **Perfect Knowledge:** Both buyers and sellers have complete information about the market conditions, including prices and quality of the product.
5. **Perfect Mobility of Factors of Production:** Resources like labor and capital can move freely between industries to seek the highest returns.
6. **No Transport Costs:** It is assumed that there are no costs for transporting goods from one place to another.

Step 3: Final Answer:
Perfect competition is a market structure where there are a large number of buyers and sellers, all firms produce a homogeneous product, there is free entry and exit of firms, and all participants have perfect knowledge of market conditions. In such a market, firms are price takers.

Quick Tip

While no real-world market is perfectly competitive, some agricultural markets (like for wheat or corn) come close. Use this as a mental model: many farmers selling an identical product, where no single farmer can set the price.

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28. What is economic activity?

Solution:

Step 1: Understanding the Concept:
Economics is the study of how humans make choices to allocate scarce resources. Economic activities are the actions related to these choices.

Step 2: Detailed Explanation:
An economic activity is any action that involves the production, distribution, and consumption of goods and services. The primary motive behind an economic activity is to earn a livelihood or generate income to satisfy human wants.
Human activities can be broadly classified into two categories:

1. **Economic Activities:** These are undertaken with an economic motive, i.e., to earn money and create wealth. They are concerned with the use of scarce resources. Examples include:
   - A worker working in a factory.
   - A doctor treating patients in a clinic.
   - A shopkeeper selling goods.
   - A farmer growing crops for sale.
2. **Non-Economic Activities:** These are performed out of love, affection, sympathy, or other social or psychological reasons. They are not intended to generate income. Examples include:
   - A mother cooking for her family.
   - A person helping an elderly individual cross the road.
   - A student playing sports for leisure.

The core of economics is the study of these economic activities.

Step 3: Final Answer:
An economic activity is an activity undertaken to earn a livelihood, involving the production, distribution, exchange, and consumption of goods and services. It is concerned with allocating scarce resources to satisfy unlimited human wants.

Quick Tip

To determine if an activity is economic, ask a simple question: "Is money being earned or is wealth being created?" If the answer is yes, it's an economic activity. If it's done for personal satisfaction or social obligation, it's non-economic.

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29. What do you mean by Mixed Economic System ?

Solution:

Step 1: Understanding the Concept:
Economic systems describe how societies organize the production and distribution of goods and services. A mixed economy is a system that blends elements of the two extremes: capitalism (market economy) and socialism (command economy).

Step 2: Detailed Explanation:
A mixed economic system is an economy that incorporates elements of both private enterprise and government intervention. In a mixed economy, both the private sector (individuals and firms) and the public sector (government) play significant roles in the allocation of resources and economic decision-making.
Key features of a mixed economy include:

- **Co-existence of Private and Public Sectors:** Some industries are owned and managed by private individuals with a profit motive, while others, often those of strategic importance (like defense, railways, power), are owned and operated by the state for social welfare.
- **Economic Planning:** The government often uses economic planning to guide the country's development and set national priorities, but it does not dictate all economic activity as in a command economy.
- **Price Mechanism and Government Regulation:** The price mechanism (forces of supply and demand) is allowed to operate, but the government intervenes to regulate prices of essential goods and correct market failures through taxes, subsidies, and regulations.
- **Protection of Individual Freedom:** Individuals have the freedom to choose their occupation and consume goods of their choice, but this freedom is subject to reasonable restrictions in the interest of social welfare.

Most modern economies, including India, the USA, and the UK, are mixed economies, though the degree of mixing varies.

Step 3: Final Answer:
A mixed economic system is an economic model that combines features of both a market economy (capitalism) and a command economy (socialism). It allows for private ownership and economic freedom while also allowing for government intervention and regulation to achieve

social goals.

Quick Tip

Think of economic systems on a spectrum. On one end is pure capitalism (no government), and on the other is pure socialism/communism (total government control). A mixed economy lies somewhere in the middle, which is where virtually every country in the world operates today.

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30. Define Utility.

Solution:

Step 1: Understanding the Concept:
Utility is a central concept in microeconomics, particularly in the theory of consumer behavior. It provides a basis for understanding how consumers make choices.

Step 2: Detailed Explanation:
In economics, utility is defined as the want-satisfying power of a commodity or a service. It is the measure of satisfaction, pleasure, or benefit that a consumer derives from the consumption of a particular good or service.
Key characteristics of utility are:

- **Subjective:** Utility is subjective and differs from person to person. A cup of coffee may provide high utility to a coffee lover but little to no utility to someone who dislikes coffee.
- **Not the same as Usefulness:** A good does not have to be useful to have utility. For example, a cigarette is harmful to health (not useful) but provides utility to a smoker.
- **Ethically Neutral:** The concept of utility is morally or ethically neutral. It simply refers to the satisfaction derived, regardless of whether the good is considered good or bad.
- **Measurability:** There are two main approaches to measuring utility:
  1. **Cardinal Utility:** Assumes that utility can be measured and expressed in numerical units called 'utils'.
  2. **Ordinal Utility:** Assumes that utility cannot be measured numerically, but a consumer can rank their preferences (e.g., prefer A over B).

The concept is fundamental to the Law of Diminishing Marginal Utility, which states that the marginal utility from consuming each additional unit of a commodity declines.

Step 3: Final Answer:
Utility is the want-satisfying capacity of a good or service. It is the subjective satisfaction or

benefit that a consumer receives from consuming a product.

Quick Tip

Do not confuse utility with price or value in the everyday sense. A good can have high utility but a low price (like water), while another can have low utility for most people but a high price (like a diamond). Utility is about personal satisfaction.

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31. Explain the importance of the study of Microeconomics.

Solution:

Step 1: Understanding the Concept:
Microeconomics is the branch of economics that studies the behavior of individual economic units, such as households, firms, and individual markets. Its study is crucial for understanding how these units make decisions and how they interact.

Step 2: Detailed Explanation:
The importance of studying microeconomics can be understood through the following points:

- **Understanding the Economy:** It helps in understanding the working of a capitalist economy where individual units have the freedom to make their own economic decisions.
- **Price Determination:** Microeconomics explains how the prices of individual goods and services are determined by the forces of demand and supply. It also explains how the prices for factors of production (rent, wages, interest, profit) are determined.
- **Business Decision-Making:** It provides tools that are essential for business managers. Concepts like demand analysis, cost theory, and market structures help firms in making crucial decisions regarding pricing, production levels, and investment.
- **Basis for Economic Policies:** The government uses microeconomic principles to formulate economic policies. For example, understanding price elasticity helps in designing taxation policies, and market structure analysis helps in regulating monopolies.
- **Efficient Allocation of Resources:** Microeconomics deals with the problem of resource allocation. It suggests conditions for achieving efficiency in production and consumption, leading to maximum social welfare.

- **Foundation for Macroeconomics:** The study of aggregate economic behavior (macroeconomics) is not possible without a thorough understanding of the behavior of individual units. Microeconomics provides the foundation upon which macroeconomics is built.

Step 3: Final Answer:
The study of microeconomics is important because it explains how prices are determined, helps businesses make optimal decisions, provides a basis for government economic policy, helps in the efficient allocation of resources, and serves as the foundation for macroeconomic analysis.

Quick Tip

Remember, "micro" means small. Microeconomics looks at the individual trees (consumers, firms) to understand how the entire forest (the economy) works. It's the bottom-up view of the economy.

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32. Explain the Law of Demand. What are its assumptions ?

Solution:

Step 1: Understanding the Concept:
The Law of Demand is a fundamental principle of microeconomics that describes the relationship between the price of a good and the quantity consumers are willing to buy.

Step 2: Detailed Explanation:
The Law of Demand:
The Law of Demand states that, *other things being equal (ceteris paribus)*, the quantity demanded of a commodity is inversely related to its price. In simpler terms, when the price of a good falls, its quantity demanded increases, and when its price rises, its quantity demanded decreases. This inverse relationship is why the demand curve slopes downwards from left to right.

Assumptions of the Law of Demand:
The phrase "other things being equal" refers to a set of assumptions that must hold true for the law to be valid. These assumptions are:

- **No change in the consumer's income:** The income of the consumer is assumed to be constant. If income increases, a consumer might buy more of a good even at a higher price, violating the law.

- **No change in tastes and preferences:** The consumer's preferences for the good remain unchanged.

- **Prices of related goods are constant:** The prices of substitute goods (like tea and coffee) and complementary goods (like cars and petrol) are assumed to be constant.

- **No expectation of future price changes:** Consumers do not expect the price of the commodity to change in the near future. If they expect a price rise, they might buy more now even at a higher current price.

- **No change in the size or composition of the population:** The number of buyers and their demographic profile are assumed to remain constant.

Step 3: Final Answer:
The Law of Demand states that there is an inverse relationship between the price of a good and its quantity demanded, assuming other factors are held constant. Its key assumptions are that consumer income, tastes, prices of related goods, and expectations about future prices do not change.

Quick Tip

The key to the Law of Demand is the "ceteris paribus" clause. The list of assumptions is simply an explanation of what "ceteris paribus" means in this context. Always mention this condition when stating the law.

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33. Define supply. Mention the causes which determine the supply of a commodity.

Solution:

Step 1: Understanding the Concept:
Supply is a fundamental economic concept that describes the total amount of a specific good or service that is available to consumers.

Step 2: Detailed Explanation:
Definition of Supply:
Supply refers to the quantity of a commodity that a producer or seller is willing and able to offer for sale at a given price during a specific period of time. It is important to note that supply is not the same as the total stock of a commodity; it is only that part of the stock which is offered for sale at a particular price.

Causes/Determinants of Supply:
The supply of a commodity is influenced by several factors. The main causes that determine supply are:

- **Price of the Commodity:** This is the most direct determinant. According to the Law of Supply, a higher price generally leads to a higher quantity supplied, and vice versa.

- **Price of Inputs (Cost of Production):** If the cost of raw materials, labor, or other inputs increases, production becomes less profitable, and firms will supply a smaller quantity at any given price.

- **Technology:** Improvements in technology can reduce production costs and increase productivity, which leads to an increase in the supply of the commodity.

- **Government Policies:** Government actions can significantly affect supply. Taxes on a good increase the cost of production and reduce supply, while subsidies decrease costs and increase supply.

- **Prices of Related Goods:** If the price of a substitute good in production (e.g., wheat for a farmer who can also grow corn) increases, the producer might switch production to that good, thus decreasing the supply of the original commodity.

- **Number of Firms in the Market:** An increase in the number of producers in the market will lead to an increase in the total market supply.

Step 3: Final Answer:
Supply is the quantity of a good that producers are willing and able to sell at a certain price over a period. The main causes determining supply are the price of the good itself, the cost of production inputs, the state of technology, government policies like taxes and subsidies, prices of related goods, and the number of firms in the industry.

Quick Tip

To easily remember the determinants of supply, think from a seller's point of view. Ask yourself: "What factors would make me want to produce and sell more, or less, of my product?" The answers will be the determinants of supply.

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34. What is Monopoly ? What are its main features ?

Solution:

Step 1: Understanding the Concept:
Monopoly is a market structure that is the polar opposite of perfect competition. The term is derived from Greek words: 'mono' meaning single, and 'poly' meaning seller.

Step 2: Detailed Explanation:
What is a Monopoly?
A monopoly is a market structure characterized by a single seller, selling a unique product in the market. In a monopoly market, the seller faces no competition, as they are the sole seller of goods with no close substitute. The monopolist has significant market power and can influence the price of the product.

Main Features of Monopoly:

- **Single Seller:** There is only one firm that produces and sells the entire output of a commodity. The firm and the industry are one and the same.

- **No Close Substitutes:** The product sold by the monopolist has no close substitutes available in the market. This makes the cross elasticity of demand for the monopolist's product zero or very low.

- **Barriers to Entry:** There are strong barriers that prevent new firms from entering the market. These barriers can be natural (e.g., control over a key resource), legal (e.g., patents, licenses), or technological.

- **Price Maker:** Unlike in perfect competition, a monopolist is a price maker. The firm has control over either the price or the quantity supplied. By setting the quantity, it can influence the market price.

- **Possibility of Price Discrimination:** Since the monopolist is the sole seller and controls the market, they can charge different prices from different customers for the same product. This is known as price discrimination.

Step 3: Final Answer:
A monopoly is a market with a single seller of a product that has no close substitutes. Its main features are a single firm, strong barriers to entry for new firms, no close substitutes for the product, and the ability of the firm to act as a price maker.

Quick Tip

The word "Monopoly" itself is the biggest clue. "Mono" means one. Every other feature of this market structure—being a price maker, having no competition, and facing high entry barriers—stems from the fact that there is only one seller.

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35. What is meant by Macroeconomics ? Discuss its scope.

Solution:

Step 1: Understanding the Concept:
Macroeconomics is the branch of economics that studies the behavior and performance of an economy as a whole. It focuses on aggregate changes in the economy such as unemployment, growth rate, gross domestic product, and inflation.

Step 2: Detailed Explanation:
Meaning of Macroeconomics:
Macroeconomics is the study of the economy in its entirety. Instead of focusing on individual economic agents (like microeconomics), it examines economy-wide phenomena and variables. It deals with the major economic issues and problems that a country faces, such as unemployment, poverty, inflation, and economic growth.

Scope of Macroeconomics:
The scope of macroeconomics is wide and covers the following major areas of study:

- **Theory of National Income:** It studies the concepts of national income, such as GDP, GNP, and NNP, and the methods for their measurement. It also explains the causes of fluctuations in national income.

- **Theory of Employment:** Macroeconomics analyzes the problems of unemployment and determines the factors that influence the level of employment in an economy. It includes the study of different theories of employment, like the classical and Keynesian theories.

- **Theory of Money:** This area deals with the functions of money and the role of the central bank. It examines how the supply and demand for money affect the economy.

- **Theory of General Price Level:** It is concerned with the causes and effects of inflation and deflation. It seeks to explain why the general price level fluctuates and how these fluctuations can be controlled.

- **Theory of Economic Growth:** Macroeconomics studies the factors and policies that contribute to the long-run economic growth and development of a country.

- **Theory of International Trade:** It analyzes a country's trade and financial relationships with other countries, including topics like the balance of payments and foreign exchange rates.

Step 3: Final Answer:
Macroeconomics is the study of the economy as a whole, focusing on aggregate variables like national income, unemployment, and inflation. Its scope includes the theory of national income, employment, money, general price level, economic growth, and international trade.

Quick Tip

Think of "macro" as meaning "large scale." Macroeconomics deals with the big economic issues you hear about in the news every day—GDP growth, the national unemployment rate, and the inflation rate.

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36. Explain the importance of National Income.

Solution:

Step 1: Understanding the Concept:
National Income is the total value of all final goods and services produced by a country during a specific period, usually one year. Its measurement and analysis are vital for assessing the economic health and progress of a nation.

Step 2: Detailed Explanation:
The importance of National Income accounting is as follows:

- **Indicator of Economic Performance:** National income figures are the most important indicator of a country's economic health and performance. A rising national income signifies economic growth.

- **Policy Formulation:** Governments rely on national income data to formulate economic policies. For instance, data on income distribution helps in creating policies to reduce inequality, and sectoral contribution data helps in planning for balanced growth.

- **International Comparisons:** National income statistics, particularly per capita income, are used to compare the standard of living and level of economic development across different countries.

- **Understanding Economic Structure:** National income accounts reveal the structure of the economy by showing the contribution of different sectors (primary, secondary, and tertiary) to the total output. This helps in identifying the strengths and weaknesses of the economy.

- **Business Forecasting:** Businesses use national income data to forecast future demand for their products and to plan their investment and production activities accordingly.

- **Guide to Economic Planning:** For developing countries, national income data is crucial for creating long-term and short-term economic plans to achieve specific growth targets.

Step 3: Final Answer:
The importance of national income lies in its role as a key indicator of a country's economic performance and health. It is essential for government policy formulation, international comparisons of living standards, understanding the economic structure, and for business forecasting and economic planning.

Quick Tip

Think of National Income as the "annual report card" for a country's economy. It tells policymakers and citizens how the economy has performed over the year, allowing them to make informed decisions for the future.

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37. What are the main functions of money ?

Solution:

Step 1: Understanding the Concept:
Money is defined as anything that is generally accepted as a medium of exchange. Its functions are what it does in an economy, and they are typically categorized as primary and secondary functions.

Step 2: Detailed Explanation:
The main functions of money are classified into two broad categories:
A) Primary Functions
These are the most fundamental functions that money must perform in any economy.

1. **Medium of Exchange:** This is the most important function of money. It acts as an intermediary in the exchange of goods and services, thereby overcoming the difficulties of the barter system, such as the need for a "double coincidence of wants".

2. **Measure of Value (or Unit of Account):** Money serves as a common denominator to measure and express the value of all goods and services. It allows for a meaningful accounting system by providing a standard unit to state prices and record debts.

B) Secondary Functions
These functions are derived from the primary functions.

1. **Store of Value:** Money acts as a way to store wealth or purchasing power over time. Unlike perishable goods, money can be held and used for future purchases, though its value can be eroded by inflation.

2. **Standard of Deferred Payments:** Money is used as a standard for payments that are to be made in the future. This function facilitates borrowing and lending, as loan contracts can be specified in monetary terms for future repayment.

Step 3: Final Answer:
The four main functions of money are:
1. **Medium of Exchange** (facilitates transactions)
2. **Measure of Value** (acts as a unit of account)
3. **Store of Value** (allows saving of purchasing power)
4. **Standard of Deferred Payments** (enables credit transactions)

Quick Tip

A popular and easy way to remember the functions of money is with the rhyme: "Money is a matter of functions four: a medium, a measure, a standard, a store."

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38. Define central bank and explain its functions.

Solution:

Step 1: Understanding the Concept:
A central bank is the apex financial institution of a country. It is responsible for overseeing the monetary system, implementing monetary policy, and ensuring the stability of the financial system.

Step 2: Detailed Explanation:
Definition of a Central Bank:
A central bank is a government-owned financial institution that occupies a central position in the country's banking and financial structure. It does not deal directly with the public but acts as the banker to the government and other commercial banks. Its primary objective is to maintain economic stability and promote economic growth. Examples include the Reserve Bank of India (RBI) and the Federal Reserve of the United States.

Functions of a Central Bank:

- **Bank of Issue (Sole authority to issue currency):** The central bank has the exclusive right to issue currency notes. This ensures uniformity in the currency and allows the central bank to control the money supply.

- **Banker, Agent, and Advisor to the Government:** It maintains the government's accounts, manages public debt, makes and receives payments on behalf of the government, and provides advice on monetary and financial matters.

- **Banker's Bank and Supervisor:** The central bank acts as a banker for all commercial banks. It holds part of their cash reserves, lends them funds when needed (acting as the "lender of last resort"), and supervises and regulates their activities to ensure they operate on sound principles.

- **Controller of Money Supply and Credit:** This is a crucial function. The central bank uses various monetary policy tools (like the repo rate, reverse repo rate, Cash Reserve Ratio (CRR), and open market operations) to control the amount of credit created by commercial banks, thereby managing inflation and influencing economic activity.

- **Custodian of Foreign Exchange Reserves:** The central bank manages the country's official reserves of foreign currencies and gold. It also manages the exchange rate to ensure stability in the foreign exchange market.

- **Clearing House Function:** It facilitates the settlement of mutual claims between commercial banks, making inter-bank transfers smooth and efficient.

Step 3: Final Answer:
A central bank is the apex institution of a country's financial system, responsible for regulating the money supply and supervising the banking system. Its main functions include issuing currency, acting as the government's banker, being the banker's bank, controlling credit, and managing foreign exchange reserves.

Quick Tip

Think of the central bank as the "guardian" of the economy's financial system. It doesn't serve individual customers but instead serves the government and the entire banking sector to keep the economy stable.
