

PRACTICE SET - 1

- (b) Planning methods when labour is in short supply
(c) Growth process of the industrial sector
(d) A neo-classical framework of growth analysis

10. Consider the following statements :
1. The Solow model explains a capital/labour ratio which does not grow under equilibrium conditions.
2. Substituting capital for labour is possible in the Solow model.
Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

11. Consider the following statements :
1. Dualism refers to the existence and persistence of increasing divergences between rich and poor nations and rich and poor people at various levels.
2. Dualism is the political division of the society into two broad groups of the rightists and the leftists in modern democracy.
Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

12. Consider the following statements regarding argument for free trade :
1. Free trade leads to maximisation of output, income and employment.
2. Free trade prevents monopoly.
3. Free trade protects domestic industries.
Which of the statements given above is/are correct?
(a) 1 only (b) 1 and 2 only
(c) 2 and 3 only (d) 1, 2 and 3

13. If the producer pays the price for each of the inputs that it uses, equal to its value of marginal product, then which one of the following does it earn?
(a) Positive supernormal profit
(b) Zero supernormal profit
(c) Negative supernormal profit
(d) Monopoly profit

14. Marshall- Lerner condition states that the foreign exchange market would be stable if the sum of the price elasticities of the demand for imports and the demand for exports is :
(a) Greater than one (b) Less than one
(c) Equal to one (d) Equal to zero

15. Consider the following statements :
Under flexible exchange rate system, balance of payments disequilibria are corrected by
1. Changes in the exchange rates.
2. International flow of money and reserves.
Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

16. Which of the following is implied by interest parity?
(a) Interest rates are at par in all the countries
(b) Movements in spot rates and forward rates in the foreign exchange market are same
(c) Potential holders of foreign currency deposits view them as not equally desirable asset
(d) A condition that the expected returns on deposits of any two countries are equal when measured in the same currency

17. Which one of the following best describes the nineteenth century gold standard system?
(a) Regulated system with floating exchange rates
(b) Automatic system with fixed exchange rates
(c) Regulated system with fixed exchange rates
(d) Automatic system with floating exchange rates

18. Consider the following statements regarding the features of the World Bank :
1. The Board of Governors is the supreme body
2. The voting power of the governor of a member country is related to the financial contribution of the country concerned.
3. It gives short-term loan to its members to correct their temporary balance of payments disequilibrium.
Which of the statements given above is/are correct?

- (a) 1 only (b) 1 and 2 only
 (c) 2 and 3 only (d) 1, 2 and 3
19. Which of the following is/are the reasons for the collapse of Bretton- Woods system?
1. the refusal by the U.S. Treasury to convert short term liability into gold.
 2. The U.S. move to make dollar inconvertible.
 3. The devaluation of U.S. dollar in 1973.
- Select the correct answer using the code given below :
- (a) 1 only (b) 1 and 2 only
 (c) 2 and 3 only (d) 1, 2 and 3
20. Tarification refers to :
- (a) Replacement of quotas by tariffs only
 - (b) Replacement of all existing non-tariff restrictions by tariff
 - (c) Scaling down of tariffs in general
 - (d) Obtaining sanction to increase tariff rates
21. Which one of the following is not correct in the context of IS and LM framework of the theory of interest?
- (a) It integrates money, interest and income into a general equilibrium model of product and money market
 - (b) Investment and interest are the two important variables in the model.
 - (c) the theory is propounded by J.F. Hicks
 - (d) IS represents the money market equilibrium and LM represents the product market equilibrium
22. The accelerator model predicts that the changes in investment is determined by the changes in
- (a) Inventory (b) Capital
 - (c) Interest (d) Output
23. If ΔY = change in national income, ΔI = change in investment, and k = value of multiplier, then the relationship can be written as
- (a) $\Delta Y = \Delta I / k$ (b) $\Delta Y = \Delta I \cdot k$
 - (c) $\Delta Y = k / \Delta I$ (d) $\Delta Y = I \cdot \Delta k$
24. Given, $MPC = 0.8$ and the threshold consumption = 100, which one of the following is the corresponding saving function?
- (a) $100 + 0.2 Y$ (b) $-100 + 0.8 Y$
 - (c) $-100 + 0.2 Y$ (d) $400 + 0.2 Y$
25. According to the classical theory of employment, deviations from the state of full employment are of
- (a) Permanent nature
 - (b) Purely temporary nature
 - (c) Imaginary situations
 - (d) Normal situations
26. The costs of factors of production, supplies by the entrepreneur himself are known as
- (a) Implicit costs (b) Explicit costs
 - (c) Fixed costs (d) Variable costs
27. Effective demand is that level of demand at which
- (a) Aggregate demand is more than aggregate supply
 - (b) Aggregate demand is less than aggregate supply
 - (c) Aggregate demand is equal to aggregate supply
 - (d) Output is maximum
28. Consider the following two demand curves DD_1 and DD_2 . Supposing $km = mn$, which one of the following is the price elasticity of demand at point m ?
- Price
-
- Quantity Demanded
- (a) It is the same as the price elasticity of demand at point n
 (b) It is greater than the price elasticity of demand at point n
 (c) It is smaller than the price elasticity of demand at point n
 (d) It is half the price elasticity of demand at point n
- Direction:**
 All the Assertion (A) – Reason (R) questions in are to be answered based on the options given below:
- Codes:**

- (a) Both A and R are individually true and R is the correct explanation of A
 (b) Both A and R are individually true but R is not the correct explanation of A
 (c) A is true but R is false
 (d) A is false but R is true

29. **Assertion (A)** : Marginal cost curve is U shaped.
Reason (R) : The law of variable proportions operates in production sphere.

30. **Assertion (A)** : A firm under monopolistic competition incurs extra expenditure on advertisement.
Reason (R) : There is free entry and free exit of firms under monopolistic competition.

31. **Assertion (A)** : The money creation multiplier is equal to the reciprocal of the minimum reserve ratio.
Reason (R) : The banking system as a whole can grant new credit up to an amount of excess reserves.

32. **Assertion (A)** : Inflationary gap is caused by excess demand.
Reason (R) : Excess demand is due to scarcity of supply of money.

33. **Assertion (A)** : The doctrine of unbalanced growth is based on creation of imbalances in the economy in a conscious manner.
Reason (R) : Unequal development of various sectors often generates conditions for rapid development.

34. The Production function of a commodity is given by $Q = 10\sqrt{LK}$, where Q is the quantity of Output, L is the quantity of Labour and K is the quantity of Capital. Given the above information, which one of the following is the nature of return to scale throughout the function ?
 (a) Constant return to scale
 (b) Decreasing return to scale only
 (c) Increasing return to scale only
 (d) Both decreasing and increasing return to scale.

35. Elasticity of substitution in the case of linear homogeneous production function equals to
 (a) unity (b) more than unity
 (c) less than unity (d) zero

36. Which of the following are the components of foreign capital ?
 1. Grants and loans
 2. External commercial borrowings
 3. Foreign direct investment
 4. Deposits from non-residents

Select the correct answer using the code given below :

(a) 1, 2, 3 and 4 (b) 1, 2 and 4 only
 (c) 1 and 2 only (d) 3 and 4 only

37. Consider the following statements :
 The kinked demand curve analysis helps to explain price inflexibility (rigidity) because it implies that an oligopolist would

 1. gain few additional customers from a price reduction since the firm's competitors would also reduce price.
 2. lose many of its customers if it raised its prices since rivals would not follow suit.
 3. often find that $MR = MC$ at the same output level after costs had increased.

Which of the statements given above is/are correct?

(a) 1 only (b) 1 and 2 only
 (c) 2 and 3 only (d) 1, 2 and 3

38. Consider the following diagram :

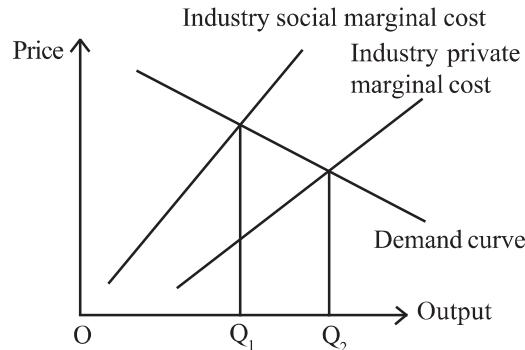
Industry social marginal cost
 Industry private marginal cost
 Price ↑
 Demand curve
 Output →

The policies which will bring a Pareto optimal position may be

 1. a corrective tax on the industry
 2. a production quota by the government.
 3. a subsidy to the industry

Which of the above is/are correct ?

(a) 1 only (b) 1 and 2 only
 (c) 1, 2 and 3 (d) 2 and 3 only



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