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OBJECTIVE ECONOMICS FOR COMPETITIVE EXAMINATIONS

Dr. M. John Kennedy

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OBJECTIVE ECONOMICS FOR COMPETITIVE EXAMINATIONS

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PREFACE TO THE FOURTH EDITION

I feel great pleasure in keeping the Fourth Revised Edition of this book before my esteemed readers and well-wishers. The overwhelming support and appreciation received from the academicians in all regions of the country have given me one more opportunity to revise and update the book. I am confident that the new edition of the book will prove all the more relevant and useful to students, scholars and teachers. Suggestions for further refinement are most welcome.

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Dr. M. John Kennedy

PREFACE TO THE FIRST EDITION

Throughout my 25 years of experience in teaching and training students for various competitive examinations in economics, I have always seen students feel the need for a single comprehensive book to meet their requirements. The books available currently still do not satisfy the students who are looking for an overall holistic approach. For this purpose, this book has been prepared. It consists of more than 5000 objective type questions. The answer key is also given.

The book is divided into seven sections. The first section deals with Microeconomics and second section deals with Macroeconomics. The third, fourth, fifth, sixth and seventh sections deals with Money and Banking, Planning and Development, International Economics, Public Finance and Indian Economy.

I sincerely thank Rev Dr. G. Puspharaj, S.J., Principal Arul Anandar College, Rev Fr Xavier Joseph Fredrick, Rector, Rev Dr. M. Arockia Samy S.J. Secretary, and my department friends Dr. K. Alamar, Dr. S. Michael John Peter, Dr. N. Murali, Dr. M. James Antony, Dr. M. Joseph Selvaraj, Dr. M. Jeyabal, Dr. I. Jeyaraj and Dr. D. Antony Singh Dhas for their inspiring encouragement in my academic pursuits.

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I will fail in my duty if I forget the services rendered by Dr. R. Bernard Shaw, Former Head, Department of Economics, S.V.N. College, Madurai who is my friend, philosopher and guide for correcting the entire manuscript and suggesting suitable modifications in certain chapters.

I must also thank my wife Smt. G. Christie Clare Avila, my son Marcel Tino and daughter Renee Miriam for their forbearance with me during my long periods of silence on the days I was preoccupied with the writing of this book.

My thanks are due to the publishers for their excellent co-operation and the quick and neat execution of the book. I must also thank Sri Niraj Pandey, Himalaya Publishing House Pvt. Ltd., and K. Sivadasan, Area Manager, Ernakulam for their kind efforts in getting the book published.

I shall feel amply rewarded if the book is found useful by those for whom it is meant. I crave the indulgence of the readers for the errors that might have crept in inadvertently.

The suggestions for further improvement of the book from both fellow teachers and students will be heartily welcome.

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CONTENTS

1. MICROECONOMICS

PART - 1

PART - 2

PART - 3

PART - 4

PART - 2

PART - 3

PART - 4

PART - 5

PART - 6

3. MONEY AND BANKING

PART - 1

PART - 2

PART - 3

PART - 4

PART - 5

4. PLANNING AND DEVELOPMENT

5. INTERNATIONAL ECONOMICS

7. INDIAN ECONOMY

PART - 1

PART - 2

PART - 3

Microeconomics

Part – 1

INTRODUCTION

1. DEFINITION OF ECONOMICS

1. The term Economics is derived from a
   (a) Latin word (b) Greek word
   (c) Russian word (d) Indian word (b)

2. Adam Smith book's "An Enquiry into the Nature and Causes of Wealth of Nations" was published in
   (a) 1576 (b) 1874
   (c) 1776 (d) 1930 (c)

3. Marshall defines economics as
   (a) The study of mankind in the ordinary business of life
   (b) The study of human behaviour as a relationship between ends and scarce resources
   (c) An enquiry into the nature and causes of wealth of nations
   (d) None of these (a)

4. "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." These lines are attributed to
   (a) Samuelson (b) Lionel Robbins
   (c) Robertson (d) Marshall (b)

5. Robbins's definition is superior to the earlier definitions because
   I. It is more scientific.
   II. It takes into account all types of human wants, material or non-material, as well as of all types of persons whether living in society or not.
   III. It widened the scope of economics.
   IV. It is a positive science.

   Of these statements:
   (a) I and II are correct (b) II and III are correct
   (c) II and IV are correct (d) All are correct (d)

6. Who among the following called Economics as "Gospel of Mammon"?
   (a) Ruskin (b) Scitovsky
   (c) Thomas Carlyle (d) Marx (c)

7. Economics is "On the one side, a study of wealth; and on the other, and more important side, part of a study of man". This is stated by
   (a) Adam Smith (b) Alfred Marshall
   (c) Robbins (d) Samuelson (b)

8. In economics, 'Ends' refers to
   (a) Human wants (b) Scarcity
   (c) Surplus (d) Alternative uses (a)

9. (A) There is similarity between Robbins's definition and Samuelson's definition.
   (B) Samuelson's definition is not only dynamic in content; it is also wider in scope.

   Of these statements:
   (a) (A) is true, but (B) is false
   (b) (A) is false, but (B) is true
   (c) Both (A) and (B) are true
   (d) Both (A) and (B) are false (c)

10. Match List I with List II and choose the correct answer using the codes given below:

List I (Economist)	**List II (Definition)**
A. Adam Smith	1. Welfare
B. Marshall	2. Wealth
C. Robbins	3. Growth
D. Samuelson	4. Scarcity

Codes:

	A	B	C	D
(a)	2	1	4	3
(b)	2	3	1	4
(c)	1	2	3	4
(d)	4	3	2	1

(a)

11. Match List I with List II and choose the correct answer using the codes given below:

List I (Economist)	**List II (Book)**
A. Adam Smith	1. Economics
B. Marshall	2. Wealth of Nations

C. Robbins	3.	Nature and Significance of Economic Science
D. Samuelson	4.	Principles of Economics

Codes:

	A	B	C	D	
(a)	2	1	4	3	
(b)	2	4	3	1	
(c)	1	2	3	4	
(d)	4	3	2	1	(b)

12. Economics has been called a 'Science of Choice' because
    (a) The human wants are unlimited, so choice making is essential
    (b) Economics is a social science
    (c) Economics is a study of material welfare
    (d) Economics is a study of man and choice (a)
13. Pigou was an ardent supporter of
    (a) Wealth definition (b) Welfare definition
    (c) Scarcity definition (d) Growth definition (b)
14. The most prominent member of the Neo-classical school of economics is
    (a) Adam Smith (b) Milton Friedman
    (c) Robert E. Lucas (d) Alfred Marshall (d)
15. Scarcity exists
    (a) When people consume beyond their needs
    (b) Only in poor countries
    (c) In all countries of the world
    (d) Only in socialistic countries (c)
16. "Economics is what economists do" was remarked by
    (a) Marshall (b) Jacob Viner
    (c) Keynes (d) Adam Smith (b)
17. Which one of the following is correctly matched?
    (a) Wealth of Nations — Marshall
    (b) Principles of Economics — Crowther
    (c) Ten Great Economists — J.A. Schumpeter
    (d) An Outline of Money — J.M. Keynes (c)
18. "Economics is the oldest of the arts, newest of the sciences, indeed the Queen of social sciences." This is remarked by
    (a) Haberler (b) Hicks
    (c) Jacob Viner (d) Samuelson (d)
19. "If you took all the economists in the country and laid them end to end, they'd never reach a conclusion" is remarked by
    (a) Okun (b) George Bernard Shaw
    (c) Stigler (d) Robertson (b)
20. Match List I with List II and choose the correct answer using the codes given below:

List I (Economists)	List II (Country)
A. Adam Smith	1. Sweden
B. Gustav Cassel	2. England
C. Edward Chamberlain	3. Russia
D. A.K. Sen	4. America
E. Slutsky	5. India

Codes:

	A	B	C	D	E	
(a)	2	1	4	5	3	
(b)	1	4	5	3	2	
(c)	2	4	5	1	3	
(d)	3	5	1	4	2	
(e)	3	5	4	2	1	(a)

21. Which of the following definitions of economics includes the economic concept of 'scale of preferences'?
    (a) Wealth definition (b) Welfare definition
    (c) Scarcity definition (d) None of the above (c)
22. An economic problem is said to exist whenever scarce means are pitted against alternative
    (a) Ends (b) Scarcity
    (c) Means (d) Resources (a)
23. Adam Smith is known as "Father of Economics" because
    (a) He is the founder of Classical school who theorized economic theory
    (b) He emphasizes production and expansion of wealth
    (c) He introduced the concept of division of labour
    (d) He published his book "Wealth of Nations" (a)
24. Wealth and welfare are one and the same, is considered by
    (a) Pigou (b) Marshall
    (c) Adam Smith (d) J.S. Mill (c)

2. METHODS AND NATURE OF ECONOMIC LAWS

1. "Economics is neutral between ends" was remarked by
   (a) Robbins (b) List
   (c) Samuelson (d) Hazlitt (a)
2. Which of the branches of economics listed below do not necessarily involve value judgements?
   (a) Welfare economics (b) Positive economics
   (c) Policy economics (d) None of the above (b)
3. An economist notices that sunspot activity is high just prior to recessions and concludes that sunspots cause recessions. The economist has

(a) Confused association with causation
(b) Misunderstood the *ceteris paribus* assumption
(c) Used normative economics to answer a positive question
(d) Built an untestable model (a)

4. Which of the following is a statement of normative economics?
(a) The minimum wage is good because it raises wages for the working poor.
(b) The minimum wage is supported by unions.
(c) The minimum wage reduces jobs for less skilled workers.
(d) The minimum wage encourages firms to substitute capital for labour. (a)

5. Select the normative statement that completes the following sentence: If the minimum wage is raised rapidly, then
(a) Inflation increases in the economy
(b) Workers will gain their rightful share of total income
(c) Profits will fall for business enterprises
(d) Unemployment will rise among the labour force (b)

6. A proposed relationship of cause and effect
(a) Assumptions (b) Variables
(c) Hypothesis (d) Theory (d)

7. Economic laws are
(a) Basic statement of consumer behaviour
(b) Statement of economic tendencies
(c) Guiding principles of a free market economy
(d) Accepted norms in a society (b)

8. *"Ceteris paribus"* means
(a) Other things being equal
(b) Other things do not remain the same
(c) Equilibrium
(d) Increasing cost condition (a)

9. Economics, according to Robbins, is a
(a) Positive science (b) Normative science
(c) Neutral science (d) Experimental science (a)

10. The deductive approach to establish economic generalizations was extensively used by
(a) Classical and Neo-classical economists
(b) Post-Keynesian economists
(c) Physiocrats
(d) Mercantilists (a)

11. The term "invisible hand'' is mainly associated with the name of
(a) Stigler (b) Marshall
(c) Lipsey (d) Adam Smith (d)

12. Holding all other influencing variables constant is often the equivalent Latin phrase
(a) *Sine qua non* (b) *Vis-a-vis*
(c) *Ceteris paribus* (d) *Laissez-faire* (c)

13. "Theories without facts may be barren, but facts without theories are meaningless." This statement is given by
(a) Stigler (b) Musgrave
(c) K.E. Boulding (d) Richard G. Lipsey (c)

14. "The role of the economist is not only to analyse the consequences of a proposed policy (or to compare two or more policies) but also to suggest policies applicable for certain specific issues". This is remarked by
(a) John F. Due (b) Watson
(c) Maurice (d) Richard G. Lipsey (d)

15. A theory expresses
(a) The behaviour of people
(b) A negative relationship between dependent and independent variables
(c) The causal relationship between cause and effect
(d) All of the above (c)

16. Bearing in mind the assertion that economics is a "positive" and not a "normative" science, with which of the following problems would an economist as economist be concerned?
I. The unfairness of the distribution of wealth
II. The effect on prices due to speculation in raw materials
III. The results of union pressure for increased wages
IV. The rights and wrongs of exaggerated advertising claims
(a) I only (b) II and III
(c) I and III (d) I, II, III and IV (b)

17. "The laws of economics are to be compared with the laws of the tides, rather than with the simple and exact law of gravitation." This is remarked by
(a) Marshall (b) Robbins
(c) J.N. Keynes (d) R.T. Bye (a)

18. Induction is the process of reasoning from
(a) Individual to universal
(b) Particular to general
(c) A part to the whole
(d) All of the above (d)

19. As a scientist, the economist is usually at a disadvantage as compared with a physicist for a number of reasons. Which of the following could be included in those reasons?
    I. Economics is a relatively young science.
    II. The study of physics is worldwide.
    III. The economist can rarely make controlled experiments.
    IV. The behaviour of people is not as consistent as that of inanimate matter.

    Codes:
    (a) I and II (b) I and III
    (c) III and IV (d) I, II, III and IV (c)
20. Formulation of an economic theory involves
    (a) Statement of various assumptions or postulates
    (b) Logical deduction from the assumptions made
    (c) Testing the hypotheses against empirical evidence
    (d) All of the above (d)
21. "An economist's impulse is not the philosopher's impulse, knowledge for the sake of knowledge, but rather the physiologist's impulse, knowledge for the healing that knowledge may help to bring." This is stated by
    (a) Pigou (b) Marshall
    (c) Lipsey (d) Harvey (a)
22. Identify the aspect of taxation, which is related to normative economics.
    (a) Incidence of tax on production
    (b) Effect of tax on consumption
    (c) Equity of tax
    (d) None of the above (c)
23. "Induction and deduction are both necessary for the science, just as the right and left foot are needed for walking" is remarked by
    (a) Robbins (b) Schmoller
    (c) Robertson (d) Samuelson (b)
24. The leader of the "Newer Historical School"
    (a) Pareto (b) List
    (c) Samuelson (d) Schmoller (d)
25. A function refers to
    (a) The demand for a commodity
    (b) The supply of a commodity
    (c) The demand and supply of a commodity, service or resources
    (d) The relationship between one dependent variable and one or more independent variables (d)
26. Which one of the following is correctly matched?
    (a) What is? — Microeconomics
    (b) What ought to be? — Normative economics
    (c) Individual units — Macroeconomics
    (d) Aggregates — Positive economics (b)
27. "Economics is a positive science." Whose view is this?
    (a) Classical economists
    (b) J.M. Keynes
    (c) L. Robbins
    (d) None of them (c)
28. The statement that "economics is positive and not normative" means
    (a) That the human wants are unlimited
    (b) That economics tells the policy makers which alternative to choose from among several efficient ones
    (c) That statement involves value judgements
    (d) None of the above (b)
29. Econometric models by definition are
    (a) Exact (b) Deterministic
    (c) Stochastic (d) Non-stochastic (c)
30. Which of the following statements that refer to the price mechanism is not true?
    (a) High prices results in allocation of scarce goods in accordance with effective demand of consumers.
    (b) Higher prices and profits tend to attract resources from less productive activities.
    (c) Immobility of factors makes the price mechanism less perfect as an allocative device.
    (d) In a private enterprise economy, the sovereignty of the consumer is absolute. (d)
31. **Assertion (A):** Economic laws are conditional.

    Reason (R): Economic laws are based on other things remaining the same.

    Of these statements:
    (a) (A) and (R) are true and (R) is the correct explanation for A
    (b) (A) and (R) are true, but (R) is not the correct explanation for A
    (c) (A) is true, but (R) is false
    (d) (A) is false, but (R) is true (a)

3. MICROECONOMICS

1. Microeconomics deals primarily with
    (a) Comparative statics, general equilibrium and positive economics
    (b) Comparative statics, partial equilibrium and normative economics
    (c) Dynamics, partial equilibrium and positive economics
    (d) Comparative statics, partial equilibrium and positive economics (d)

2. Microeconomic approach is
   (a) Total (b) Individualistic
   (c) Aggregative (d) None of the above (b)
3. Microeconomics approaches the study of economics from the viewpoint of
   (a) Individual or specific markets
   (b) World markets
   (c) Economy-wide effects
   (d) The national economy (a)
4. Microeconomics deals with
   (a) Individual firm, individual consumer
   (b) General economy as a whole
   (c) Total demand and total supply
   (d) None of the above (a)
5. Which of the following is concerned with microeconomics?
   (a) The size of national output
   (b) The level of employment
   (c) Change in the general level of prices
   (d) None of the above (d)
6. Since microeconomics splits up the entire economy into smaller parts for the purpose of intensive study, it is also known as
   (a) Slicing method
   (b) Bulldozer method
   (c) Micro-macro method
   (d) Micro foundation of macro method (a)
7. The expansion of microeconomics into other social sciences has caused economics to be called as the
   (a) Imperialist social science
   (b) Queen of social science
   (c) Traditional social science
   (d) Inter-disciplinary social science (a)
8. Which one of the following is not true?
   (a) Microeconomics is the study of the allocation of scarce resources.
   (b) Economists use models to make testable predictions.
   (c) Individuals, governments, and firms use micro economic models and predictions in decision-making.
   (d) Microeconomics is often called income theory to emphasize the important role that prices play. (d)
9. Micro analysis deals with the
   (a) Allocation of resources of the economy as between production of different goods and services
   (b) Determination of prices of goods and services
   (c) Behaviour of individual decision-makers
   (d) All of the above (d)
10. Who has termed microeconomics as an "imperialist social science"?
    (a) Samuelson (b) Roy J. Ruffin
    (c) Benham (d) Lerner (b)
11. "The relationship between macroeconomics and microeconomics is like a two-way street." The above statement is remarked by
    (a) Paul Samuelson (b) Gardner Ackley
    (c) Pigou (d) Keynes (b)
12. Microeconomic theory studies how a free enterprise economy determines
    (a) The price of goods
    (b) The price of services
    (c) The price of economic resources
    (d) All of the above (d)
13. "There is really no opposition between micro and macroeconomics, both are absolutely vital. And you are only half-hearted, if you understand the one, while being ignorant of the other." This is stated by
    (a) Ragner Frisch (b) J.K. Mehta
    (c) Ackley (d) Samuelson (d)
14. "The line between microeconomic and macroeconomic theory cannot be precisely drawn. A true general theory of the economy would clearly embrace both." This is remarked by
    (a) Ackley (b) Stigler
    (c) Sweezy (d) Hall (a)
15. Which is not a study under microeconomics?
    (a) Consumer (b) Producer
    (c) Firm (d) General Employment (d)

4. ECONOMY – ITS VITAL PROCESSES AND BASIC PROBLEMS

1. On a production possibilities curve, the opportunity cost of good X in terms of good Y is represented by
   (a) The distance to the curve from the vertical axis
   (b) The distance to the curve from the horizontal axis
   (c) The movement along the curve
   (d) All of the above (c)
2. Any point inside the production possibilities curve is a (an)
   (a) Efficient point
   (b) Non-feasible point
   (c) Inefficient point
   (d) Maximum output combination (c)

3. Using a production possibilities curve, unemployment is represented by a point located
   (a) Near the middle of the curve
   (b) At the top corner of the curve
   (c) Outside the curve
   (d) Inside the curve (d)
4. Along a production possibilities curve, an increase in the production of one good can be accomplished only by
   (a) Decreasing the production of another good
   (b) Increasing the production of another good
   (c) Holding constant the production of another good
   (d) Producing a point on the corner of the curve (a)
5. The fundamental or central economic problem of every society is
   (a) What to produce
   (b) How to produce
   (c) For whom to produce
   (d) All of the above (d)
6. The central economic problem of every society is
   (a) To maintain peace in the world
   (b) To prevent famine in rural areas
   (c) The scarcity of economic resources
   (d) Decentralization of power (c)
7. Producing the most wanted products in the least costly way is
   (a) Full employment (b) Fair income distribution
   (c) Economic growth (d) Economic efficiency (d)
8. In a free enterprise economy, the question of what, how and for whom to produce are solved by
   (a) The price mechanism
   (b) A planning forum
   (c) The elected representatives of the people
   (d) None of the above (a)
9. A production possibility curve shows
   (a) How much of the resources of the society are used to produce a particular commodity
   (b) The various alternative combinations of two commodities that can be produced
   (c) The rate of unemployment in the economy
   (d) The rate of inflation in the economy (b)
10. Of the three fundamental questions in economics, the "distribution" question has to do with
    (a) Who will receive the output
    (b) How the output will be shipped from the place of production to the consumer
    (c) How economic resources are distributed to producers
    (d) What products will be produced (a)
11. Production possibility curve under increasing cost condition is
    (a) Concave to the origin
    (b) Convex to the origin
    (c) Straight line curve
    (d) All of the above (a)
12. Which of the following problem can be explained with the help of production possibility curve?
    (a) Economic growth (b) Technical progress
    (c) Unemployment (d) All of the above (d)
13. The slope of the production possibility frontier measures
    (a) The marginal cost of one good in terms of the other
    (b) The marginal cost of substitutes
    (c) The marginal rate of transformation
    (d) The ratio of input prices (c)
14. The basic economic problem confronting all societies is how to allocate scarce resources between
    (a) Alternative uses
    (b) Rich and poor
    (c) Agricultural sector and industrial sector
    (d) None of the above (a)
15. The production possibility curve
    (a) Falls from left to right
    (b) Falls from right to left
    (c) Is a rectangular hyperbola
    (d) Is concave to the origin (d)
16. The typical product transformation curve is
    (a) Concave (b) Convex
    (c) Vertical (d) Horizontal (a)
17. Society faces economic problems because of
    (a) Abundance
    (b) Scarcity
    (c) Both scarcity and abundance
    (d) Neither abundance nor scarcity (c)
18. Production possibility curve has its application in
    (a) Theory of production
    (b) International trade
    (c) Economics of growth
    (d) All of the above (d)
19. The fundamental economic problem is
    (a) Decision-making
    (b) Eradication of poverty

(c) Multiplicity of wants and scarcity of means
(d) Welfare of the people (c)

20. Subject-matter of economics includes
(a) Price theory
(b) Income and employment theory
(c) Growth theory
(d) All of these (d)

21. Allocation of resources in a market economy is guided by
(a) Planning mechanism
(b) Market mechanism
(c) Government
(d) None of these (b)

22. A graphical representation showing the maximum quantity of goods and services that can be produced using limited resources to the fullest extent possible
(a) Indifference curve
(b) Isoquant curve
(c) Production possibility curve
(d) Laffer curve (c)

23. The production possibility curve is also called
(a) Opportunity cost curve
(b) Transformation curve
(c) Production possibility frontier
(d) All of these (d)

24. Match the following:

List I	List II
A. Problem of resource allocation	1. How to produce
B. Problem of choice of techniques	2. For whom to produce
C. Problem of income distribution	3. Scarcity
D. Problem of choice	4. What to produce

Codes:

	A	B	C	D	
(a)	4	1	2	3	
(b)	4	2	1	3	
(c)	3	1	2	4	
(d)	1	2	3	4	(a)

25. A switching back and forth between a situation of high production and low price and one of low production and high price
(a) Cartel (b) Cobweb cycle
(c) Co-determination (d) Closed shop (b)

26. The system whereby prices and the interaction of demand and supply help to answer the major economic questions – "What will be produced?", "How?" and "For whom?"
(a) Market power (b) Market failure
(c) Merit good (d) Market mechanism (d)

27. Which of the following statement is incorrect?
(a) Microeconomics is primarily concerned with the problem of what, how and when to produce.
(b) Microeconomics is primarily concerned with the economic behaviour of individual decision-making units when at equilibrium.
(c) Microeconomics is primarily concerned with the time, path and process by which one equilibrium position evolves into another.
(d) Microeconomics is primarily concerned with comparative statics rather than dynamics. (c)

5. CONCEPT OF EQUILIBRIUM

1. A simultaneous equilibrium of all the markets in the economy
(a) General equilibrium (b) Partial equilibrium
(c) Market equilibrium (d) Firm equilibrium (a)

2. General equilibrium approach was developed by Leon Walras in
(a) 1874 (b) 1880
(c) 1920 (d) 1936 (a)

3. Partial equilibrium theory deals with
(a) One or a few aspects of the economy
(b) All sectors of the economy
(c) Neutral equilibrium
(d) Aggregates (a)

4. A ship with a heavy keel is in
(a) Stable equilibrium
(b) Unstable equilibrium
(c) Neutral equilibrium
(d) None of the above (a)

5. An egg poised on one of its ends is in
(a) Neutral equilibrium (b) Unstable equilibrium
(c) Stable equilibrium (d) Full equilibrium (b)

6. The Cobb-web theorem is based on
(a) Lag concept (b) Demand concept
(c) Utility concept (d) Cost concept (a)

7. Which of the following statement is most closely associated with general equilibrium analysis?
(a) *Ceteris paribus*
(b) Other things remaining the same
(c) Man's equal capacity for satisfaction
(d) Everything depends on everything else (d)

8. The intersection of the market demand and supply curves for a commodity determines
   (a) The equilibrium price of the commodity
   (b) The equilibrium quantity
   (c) The point of neither surplus nor shortage for the commodity
   (d) All of the above (d)
9. Which of the following statements is not true with regard to a price above the equilibrium price?
   (a) There is a shortage of the commodity
   (b) The quantity supplied exceeds the quantity demanded of the commodity
   (c) The pressure on the commodity price is downward
   (d) There is a surplus of the commodity (a)
10. Walras' general equilibrium model uses a
   (a) System of equations
   (b) System of simultaneous linear equations
   (c) System of simultaneous equations
   (d) System of linear equations (c)
11. An upward shift in the market demand for a commodity results in which of the following changes in its equilibrium price and quantity.
   (a) The price rises and the quantity falls
   (b) The price falls and the quantity rises
   (c) Price and quantity both rise
   (d) Price and quantity both fall (c)
12. Which of the following is a problem connected with general equilibrium analysis?
   (a) Existence problem (b) Uniqueness problem
   (c) Stability problem (d) All of the above (d)
13. Of the following economists, whom do you consider to be the Master of Partial Equilibrium Analysis?
   (a) Alfred Marshall (b) Robbins
   (c) Pigou (d) Leon Walras (a)
14. Which one of the following statements is most closely associated with general equilibrium analysis?
   (a) Everything depends on everything else
   (b) *Ceteris paribus*
   (c) The equilibrium price of a good or service depends on the balancing of the forces of demand and supply for that good or service
   (d) The equilibrium price of a factor depends on the balancing of the forces of demand and supply for that factor (a)
15. "Concentrating on decisions in a particular segment of the economy in isolation of what is happening in other sectors, under *ceteris paribus* assumption" is
   (a) Neutral equilibrium (b) Unique equilibrium
   (c) Partial equilibrium (d) General equilibrium (c)
16. When both the demand and the supply curves slope downwards and the demand curve is steeper than the supply curve, the equilibrium is
   (a) Stable in both Marshallian and Walrasian sense
   (b) Unstable in both Marshallian and Walrasian sense
   (c) Stable in the Marshallian sense but unstable in the Walrasian sense
   (d) Unstable in the Marshallian sense but stable in the Walrasian sense (c)
17. The general equilibrium analysis was propounded first by
   (a) Keynes (b) Marshall
   (c) Quesnay (d) Walras (c)

6. ECONOMIC STATICS AND DYNAMICS

1. The process of change between initial equilibrium to the new equilibrium is called
   (a) Macro static (b) Macro comparative static
   (c) Macroeconomics (d) Macro dynamics (d)
2. Economic dynamics deals with:
   (a) Input-output relationship
   (b) Least-cost combination
   (c) Two equilibrium positions
   (d) A changed situation (c)
3. The branch of economics concerned with whether an economic system in disequilibrium reaches an equilibrium position, how long it takes, and the path it follows to do this is
   (a) Dynamic (b) Static
   (c) Comparative static (d) None of the above (a)
4. In micro-static model, supply and demand relationships determine prices at a
   (a) Point of time
   (b) Period of time
   (c) Over a period of time
   (d) Regular intervals (a)
5. Example of Micro-dynamic analysis is
   (a) The Cobweb model
   (b) The demand-supply model at a point of time
   (c) The income-consumption model
   (d) All of the above (a)
6. Economic static means
   (a) A motionless state
   (b) Functional relationship between any two variables at a point of time

(c) Absence of state of balance

(d) Functional relationship between any two variables over a period of time (b)

7. According to Harrod, economic dynamics deals with

(a) Change in output (b) Change in employment

(c) Rate of change (d) Stagnation (c)

8. Starting with the earliest, arrange the following in chronological order of development of General Theory of Equilibrium:

I. R. Cantillon II. Quesnay

III. L. Walras IV. W. Leontief

Codes:

(a)	IV	I	II	III	
(b)	III	IV	I	II	
(c)	I	II	III	IV	
(d)	II	III	IV	I	(c)

9. Match List - I with List - II and select the correct answer using the codes given below:

List - I	List - II
A. False-cause fallacy	1. Assumption that what is true for each part taken separately is also true for the whole
B. Fallacy of composition	2. Assumption that because two events occur together, one event has caused the other
C. Occam's Razor fallacy	3. Unrestricted trade would lead to the loss of gold
D. Mercantilist fallacy	4. The simplest workable theories are also the most useful and best

Codes:

	A	B	C	D	
(a)	II	I	IV	III	
(b)	II	I	III	IV	
(c)	I	II	III	IV	
(d)	IV	III	II	I	(a)

10. Match the following:

List - I	List - II
A. The demand curve cuts the supply curve from above	1. Unstable equilibrium
B. The demand curve cuts the supply curve from below	2. Stable equilibrium
C. The demand curve cuts the supply curve more than once	3. No equilibrium
D. The demand and supply curves cut only the horizontal axis at different points	4. Multiple equilibrium

Codes:

	A	B	C	D	
(a)	1	2	3	4	
(b)	2	3	1	4	
(c)	2	1	4	3	
(d)	4	1	3	2	(c)

11. Which among the following are true for excess demand function for an individual?

(a) Homogeneous of degree zero in all prices.

(b) These obey Walras' law.

(c) Both (a) and (b) are true.

(d) Neither (a) nor (b) are true. (c)

12. Which of the following statements is/are true for Arrow-Debreu model of general equilibrium?

(a) Goods are identified where they are to be delivered.

(b) Goods are identified when they are to be delivered.

(c) Both (a) and (b)

(d) None of these (c)

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