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Question 1

Incorrect

Marked out of 1.00

Consider the three statements – I. Consumer surplus is maximized. II. Producer surplus is maximized. III. Total surplus is maximized. Which of the following is TRUE at the equilibrium in a competitive market?

Select one:

- a. II only
- b. I and II only
- c. I, II, and III ✖
- d. I only
- e. III only

The correct answer is: III only

Question 2

Incorrect

Marked out of 1.00

If households do not consume all their incomes and put the unspent amount into a bank, they are, in national income and product terms:

Select one:

- a. saving but not investing.
- b. saving, but investing only to the extent that they buy securities. ✖
- c. neither saving nor investing.
- d. both saving and investing.
- e. investing but not saving.

The correct answer is: saving but not investing.

Question 3

Correct

Marked out of 1.00

When a firm is producing zero output, the total cost equals

Select one:

- a. variable cost.
- b. marginal cost.
- c. fixed cost. ✓
- d. average total cost.
- e. zero.

The correct answer is: fixed cost.

Question 4

Incorrect

Marked out of 1.00

Which of the following statements is/are CORRECT?

Select one:

- a. All the above are correct.
- b. The duration of unemployment tends to increase during recession. ✗
- c. Unemployment rates are generally different for different demographic categories of people
- d. Unemployment rates tend to move in tandem as an economy proceeds through the business cycles.
- e. An increase in frictional unemployment is not necessarily bad.

The correct answer is: All the above are correct.

Question 5

Incorrect

Marked out of 1.00

Which of the following is NOT a regulatory mechanism for a natural monopoly?

Select one:

- a. use of price control
- b. public ownership
- c. breaking it up using antitrust laws
- d. prevention of its formation
- e. none of the options is correct ✗

The correct answer is: prevention of its formation

Question 6

Correct

Marked out of 1.00

According to the statistical evidence, which of the following characterizes the aggregate consumption behavior?

Select one:

- a. A decreasing proportion of income is spent on consumption as income increases. ✓
- b. The same proportion of income is spent on consumption at all except very low income levels.
- c. The same proportion of income is spent on consumption at all except very high income levels.
- d. An increasing proportion of income is spent on consumption as income increases.
- e. The same proportion of income is spent on consumption at all income levels.

The correct answer is: A decreasing proportion of income is spent on consumption as income increases.

Question 7

Correct

Marked out of 1.00

An IIT graduate joins a family business immediately after graduation. The unemployment rate would:

Select one:

- a. information provided is insufficient
- b. fluctuate slightly, first up and then down.
- c. go down slightly. ✓
- d. not change at all.
- e. go up slightly.

The correct answer is: go down slightly.

Question 8

Correct

Marked out of 1.00

Which of the following statements is TRUE regarding Stocks and bonds?

Select one:

- a. highly-liquid financial assets; therefore, they are considered to be money
- b. not financial assets; therefore, they are not considered to be money
- c. financial assets; therefore, they are considered to be money
- d. not highly-liquid financial assets; therefore, they are not considered to be money
- e. widely accepted means of payment; therefore, they are considered to be money

The correct answer is: not highly-liquid financial assets; therefore, they are not considered to be money

Question 9

Correct

Marked out of 1.00

A shock that could trigger a recession is a

Select one:

- a. sudden decrease in the interest rate
- b. large increase in oil prices
- c. stock market bubble
- d. large decrease in oil prices
- e. sudden increase in military spending

The correct answer is: large increase in oil prices

Question 10

Incorrect

Marked out of 1.00

A major virus strikes a country's computers severely affecting all hard drives. What would happen in the labor market?

Select one:

- a. The real wage would decrease and employment would decrease.
- b. The real wage would increase and employment would be unaffected.
- c. The real wage would increase and so would employment.
- d. The real wage would decrease and employment would be unaffected.
- e. The real wage would increase and employment would decrease.

The correct answer is: The real wage would decrease and employment would decrease.

Question 11

Correct

Marked out of 1.00

Which of the following three lead(s) to a more inelastic price elasticity of supply – I. the use of inputs that are easily obtained. II. a high degree of substitutability between inputs III. a shorter time period in which to supply the good?

Select one:

- a. I, II, and III
- b. III only ✓
- c. I and II only
- d. II only
- e. I only

The correct answer is: III only

Question 12

Incorrect

Marked out of 1.00

NAIRU implies

Select one:

- a. The rate of growth of nominal GDP is constant
- b. The unemployment rate is zero
- c. The rate of growth of real GDP is constant
- d. None of the options is correct. ✗
- e. Inflation is constant

The correct answer is: Inflation is constant

Question 13

Correct

Marked out of 1.00

The demand curve for a commodity X has shifted to the left. The shift could occur because:

Select one:

- a. the price of X has fallen, so people have decided to buy more of it than they did before.
- b. none of the options is correct. ✓
- c. consumer tastes have shifted in favor of this commodity, and they want to buy more of it than they did before at any given price.
- d. the supply of X has decreased for some reason.
- e. the price of X has increased, so people have decided to buy less of it than they did before.

The correct answer is: none of the options is correct.

Question 14

Correct

Marked out of 1.00

The main difference between nominal and real GDP is that:

Select one:

- a. nominal GDP is adjusted for price changes while real is not.
- b. real GDP increases more during periods of inflation.
- c. nominal GDP is better for comparing output across several years.
- d. nominal GDP is calculated often incorrectly but not the real GDP.
- e. real GDP is adjusted for price changes while nominal is not. ✓

The correct answer is: real GDP is adjusted for price changes while nominal is not.

Question 15

Incorrect

Marked out of 1.00

The three fundamental questions of economic organization are:

Select one:

- a. not nearly as important today as they were at the dawn of civilization.
- b. all the options are correct.
- c. what, how, and why.
- d. closely related to the concept of scarcity. ✗
- e. land, labor, and capital.

The correct answer is: what, how, and why.

Question 16

Correct

Marked out of 1.00

The investment multiplier of 3 implies that when:

Select one:

- a. consumption increases by Rs 3, investment increases by Rs 1.
- b. investment increases by Rs 1, income increases by Rs 3. ✓
- c. income increases by Rs 3, investment increases by Rs 1.
- d. investment increases by Rs 3, income increases by Rs 1.
- e. income increases by Rs 1, investment increases by Rs 3.

The correct answer is: investment increases by Rs 1, income increases by Rs 3.

Question 17

Correct

Marked out of 1.00

Consider the three statements – I. Marginal cost is the change in total cost generated by one additional unit of output. II. Marginal cost is the change in variable cost generated by one additional unit of output. III. The marginal cost curve must cross the minimum of the average total cost curve. Which of the following is CORRECT?

Select one:

- a. I, II, and III ✓
- b. I only
- c. III only
- d. I and II only
- e. II only

The correct answer is: I, II, and III

Question 18

Correct

Marked out of 1.00

Governments often subsidize research as it benefits all citizens, including those not actively involved in research. Research is a(n):

Select one:

- a. public good ✓
- b. efficient good
- c. equity good
- d. private good
- e. negative externality.

The correct answer is: public good

Question 19

Correct

Marked out of 1.00

The institution charged with creating and regulating the money supply is the

Select one:

- a. Ministry of Commerce
- b. Securities and Exchange Board of India
- c. Security Printing & Minting Corporation of India Limited
- d. Reserve Bank of India ✓
- e. Ministry of Finance

The correct answer is: Reserve Bank of India

Question 20

Correct

Marked out of 1.00

The supply curve of a commodity describes:

Select one:

- a. a cyclical relationship between consumption and savings.
- b. a positive relationship between price and quantity supplied. ✓
- c. an inverse relationship between income and quantity supplied.
- d. a positive relationship between income and quantity supplied.
- e. an inverse relationship between price and quantity supplied.

The correct answer is: a positive relationship between price and quantity supplied.

Question 21

Correct

Marked out of 1.00

The break-even point on a family's consumption function is the point at which:

Select one:

- a. its saving equals its income.
- b. its income equals its consumption. ✓
- c. the marginal propensity to consume equals 1.
- d. its saving equals its consumption.
- e. its consumption equals its investment.

The correct answer is: its income equals its consumption.

Question 22

Correct

Marked out of 1.00

Suppose, for simplicity, that a bank uses a single interest rate for loans and deposits, there is no inflation, and all unspent money is deposited in the bank. The interest rate measures which of the following? I. the cost of using a dollar today rather than a year from now II. the benefit of delaying the use of a dollar from today until a year from now III. the price of borrowing money calculated as a percentage of the amount borrowed

Select one:

- a. I and II only
- b. I only
- c. III only
- d. II only
- e. I, II, and III ✓

The correct answer is: I, II, and III

Question 23

Correct

Marked out of 1.00

If the price a firm obtains for its output is higher than the marginal cost associated with that particular output, then maximum-profit rules require that the firm:

Select one:

- a. increase its output in perfect but not necessarily in imperfect competition. ✓
- b. increase its output in both perfect and imperfect competition.
- c. increase its output in imperfect but not necessarily in perfect competition.
- d. increase price, not output, in both perfect and imperfect competition.
- e. decrease its output in both perfect and imperfect competition.

The correct answer is: increase its output in perfect but not necessarily in imperfect competition.

Question 24

Incorrect

Marked out of 1.00

Consider three statements regarding how a monopoly differs from a perfectly competitive industry with the same costs – I. Monopoly produces a smaller quantity. II. Monopoly charges a higher price. III. Monopoly earns normal profits in the long run. Which of the following is CORRECT?

Select one:

- a. I, II, and III ✗
- b. I and II only
- c. II only
- d. III only
- e. I only

The correct answer is: I and II only

Question 25

Correct

Marked out of 1.00

Which of the statements is CORRECT regarding the consumer price index (CPI)?

Select one:

- a. The CPI is a price index that included the prices of all goods and services produced in the country (consumption, investment, government purchases, and net exports).
- b. The CPI is a measure of the average price level for consumers for a market basket of consumer goods and services. ✓
- c. The CPI is calculated as the ratio of nominal to real GDP.
- d. The CPI is equally weighted average of food, housing, and gas prices.
- e. The CPI measures the level of prices at the wholesale or producer stage and mainly includes the prices of foods, manufactured product, and mining products.

The correct answer is: The CPI is a measure of the average price level for consumers for a market basket of consumer goods and services.

Question 26

Correct

Marked out of 1.00

Suppose the government imposes an additional tax of Rs 1 per packet of cigarettes. This results in the rise of the market price from Rs 20 to Rs 20.6 per packet. Based on this information, you can say that:

Select one:

- a. the supply curve is relatively more inelastic than the demand curve.
- b. the sellers bear the entire burden of the tax.
- c. price elasticity of demand and supply are equal.
- d. the demand curve is relatively more inelastic than the supply curve. ✓
- e. none of the options is correct.

The correct answer is: the demand curve is relatively more inelastic than the supply curve.

Question 27

Correct

Marked out of 1.00

The "life cycle" and "permanent income" theories of consumption share which of the following features?

Select one:

- a. consumption spending depends on wealth
- b. consumers look ahead to the future in making current spending decisions. ✓
- c. consumption spending should fluctuate widely from year to year.
- d. all the options are correct
- e. consumption spending depends on interest rates

The correct answer is: consumers look ahead to the future in making current spending decisions.

Question 28

Correct

Marked out of 1.00

A consumer spends all her income and receives 10 utils from the consumption of the last unit of good A and 8 utils from good B. The price of good A is Rs 2 and the price of good B is Rs 1. Assuming that the consumer maximises her total utility, she should buy:

Select one:

- a. more of good B. ✓
- b. more of both goods.
- c. less of both goods.
- d. more of good A.
- e. the consumer is already maximizing her utility

The correct answer is: more of good B.

Question 29

Correct

Marked out of 1.00

In the theory of production, which of the following time periods is always considered as the long run?

Select one:

- a. 5 years and above
- b. 1 month
- c. none of the options is correct ✓
- d. 1 year
- e. 2 years

The correct answer is: none of the options is correct

Question 30

Correct

Marked out of 1.00

If the Aggregate Demand schedule had shifted to the right in order to accommodate an OPEC oil shock, then:

Select one:

- a. domestic oil prices would have fallen.
- b. both prices and output would have remained stable.
- c. output would have increased and prices decreased.
- d. none of the options is correct
- e. output would have remained the same and prices increased. ✓

The correct answer is: output would have remained the same and prices increased.

Question 31

Incorrect

Marked out of 1.00

Which of the following will DECREASE the demand for money?

Select one:

- a. an increase in the interest rate ❌
- b. an increase in the availability of ATMs
- c. none of the options is correct
- d. inflation
- e. an increase in real GDP

The correct answer is: an increase in the availability of ATMs

Question 32

Correct

Marked out of 1.00

Which of the following statements is NOT correct regarding technological change?

Select one:

- a. it can be measured as the change in production due to the change in capital ✔️
- b. it results in a shift in the production function
- c. it could occur due to product innovation
- d. it may result in an increase in the productivity of the factors of production
- e. it could occur due to process innovation

The correct answer is: it can be measured as the change in production due to the change in capital

Question 33

Correct

Marked out of 1.00

The fraction of bank deposits actually held as reserves is known as the

Select one:

- a. monetary base.
- b. excess reserve ratio.
- c. required reserve ratio.
- d. reserve ratio. ✔️
- e. mandatory reserve ratio.

The correct answer is: reserve ratio.

Question 34

Incorrect

Marked out of 1.00

If we look to any particular kind of spending as a key factor in accounting for business cycles, we find it in:

Select one:

- a. net investment, specifically spending on durable goods.
- b. variations in spending by state and local governments.
- c. net exports
- d. consumer spending.
- e. none of the above, the point stressed being that no single type of spending plays any key role. ✘

The correct answer is: net investment, specifically spending on durable goods.

Question 35

Incorrect

Marked out of 1.00

The supply curve of a firm in perfect competition is the same as:

Select one:

- a. a part of its marginal cost curve.
- b. none of the options is correct.
- c. its entire marginal cost curve. ✘
- d. its average cost curve.
- e. the region of its average cost curve over which AC rises or remains constant as output increases.

The correct answer is: a part of its marginal cost curve.

Question 36

Correct

Marked out of 1.00

Which of the following pairs of policy objectives seems to be mutually contradictory?

Select one:

- a. high rates of growth in actual GDP and balance in foreign trade.
- b. price stability and rapid growth in potential GDP.
- c. price stability and balance in foreign trade.
- d. low unemployment and high rates of growth in actual GDP.
- e. low inflation and low unemployment. ✔

The correct answer is: low inflation and low unemployment.

Question 37

Incorrect

Marked out of 1.00

If the government announces a surcharge of 10 % on the income tax for the next year only and the RBI announces that it will keep interest rates constant. Based on the theory of consumption, what effect do you think it will have?

Select one:

- a. households will spend a lot more this year, causing a temporary boom
- b. households will curtail their spending and aggregate demand will decline significantly ✖
- c. households will reduce their spending significantly starting next year
- d. households will save a lot more this year so they won't have to reduce their spending next year
- e. households will not significantly alter their spending behavior this or next year and the effect on the economy will be minimal

The correct answer is: households will not significantly alter their spending behavior this or next year and the effect on the economy will be minimal

Question 38

Incorrect

Marked out of 1.00

In the national accounts statistics, the value of housing services, in which the houses are occupied by their owners, is:

Select one:

- a. counted in GDP using an estimate of rental value.
- b. not counted, since property services are not considered production.
- c. not counted, since such property services are included in the value of the house itself. ✖
- d. not counted in GDP, but it does appear in NDP using an arbitrary estimate of rental value.
- e. counted in NDP, but not in GDP.

The correct answer is: counted in GDP using an estimate of rental value.

Question 39

Correct

Marked out of 1.00

In a monopoly, the deadweight loss:

Select one:

- a. is always positive
- b. is maximum when the monopolist is a perfect price discriminator
- c. is always zero
- d. bears no relationship with the degree of price discrimination
- e. is minimum when the monopolist is a perfect price discriminator ✓

The correct answer is: is minimum when the monopolist is a perfect price discriminator

Question 40

Correct

Marked out of 1.00

There would be double counting in the computation of GDP if statisticians were to sum the:

Select one:

- a. net value added by the iron-mining industry and the net value added by the steel manufacturing industry.
- b. net increase in inventories of flour mills and the net increase in inventories of bakeries.
- c. value added by bakers and the value of flour mills.
- d. total output of iron ore and the total output of iron. ✓
- e. total of consumer services purchased and the total of investment goods produced.

The correct answer is: total output of iron ore and the total output of iron.

Question 41

Correct

Marked out of 1.00

The main difference between a recession and a depression is that:

Select one:

- a. recessions tend to be caused by inappropriate fiscal policy, while depressions are usually caused by poor monetary policy.
- b. unemployment is higher and lasts longer during a depression. ✓
- c. depressions usually precede recessions.
- d. recessions are considered part of the business cycle, while depressions are not.
- e. economic forecasters do a better job of predicting depressions.

The correct answer is: unemployment is higher and lasts longer during a depression.

Question 42

Incorrect

Marked out of 1.00

Consider a firm operating under the perfectly competitive market and the three statements – I. The marginal revenue curve is the demand curve. II. The firm maximizes profit when price equals marginal cost. III. The market demand curve is horizontal. Which of the following is CORRECT?

Select one:

- a. III only
- b. I, II, and III
- c. I only
- d. I and II only
- e. II only ✘

The correct answer is: I and II only

Question 43

Correct

Marked out of 1.00

Suppose that the government spending rises. Assuming that the economy is operating at potential GDP, the long-run effect of this policy change should be:

Select one:

- a. lower prices with higher output.
- b. higher prices with lower output.
- c. higher prices with higher output.
- d. lower prices with no change in output.
- e. higher prices with no change in output ✔

The correct answer is: higher prices with no change in output

Question 44

Correct

Marked out of 1.00

In a perfectly competitive market, a firm earns the daily total revenue of Rs 5000. The firm is maximizing its profit. The firm's average total cost is Rs 8, its marginal cost is Rs 10, and its average variable cost is Rs 5. Its daily output is:

Select one:

- a. 200
- b. 500 ✓
- c. 1000
- d. information provided is not sufficient
- e. 625

The correct answer is: 500

Question 45

Correct

Marked out of 1.00

Which of the following will happen in response if perfectly competitive firms are earning positive economic profit?

Select one:

- a. Market price will increase.
- b. The short-run industry supply curve will shift left.
- c. The short-run industry supply curve will shift right. ✓
- d. none of the options is correct.
- e. Firms will exit the industry.

The correct answer is: The short-run industry supply curve will shift right.

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