INTRODUCTION TO INDIAN ECONOMY BASED INDIAN ECONOMY MCQ PRACTICE QUESTIONS AND ANSWERS PDF WITH EXPLANATION

For All Competitive SSC, Bank, IBPS, UPSC, Railway, IT & Other Govt. Exams

Created By Careericons Team

Q1. ICI is the name associated with

a) Indian Cement Industry

b) a MNC which manu-factures chemicals

c) Chamber of Commerce and Industry

d) a private sector bank

Q2. Which one is **not** the main objective of fiscal policy in India?

a) To promote price stability

b) To increase liquidity in the economy

c) To minimize the inequalities of income & wealth

d) To promote employment opportunity

Q3. What is a bank rate ?

a) Rate at which banks advance loans to the customers

b) Rate at which Central bank of a country advances loans to other banks in the country

c) Rate at which banks lend among themselves

d) Rate at which banks lend to money lenders

Q4. Indian Economy is a/an :

a) Mixed Economy

b) Independent Economy

c) Capitalist Economy

d) Communist Economy

Q5. The system of issuing and monitoring of money in the market is known as–

a) Fixed reserve ratio

b) Proportional reserve ratio

c) Minimum reserve ratio

d) Floating reserve ratio

Q6. Which one of the following disburses long term loans to private industry in India ?

a) Life Insurance Corporation of India

b) Food Corporation of India

c) Primary Credit Society

d) Land Development Banks

Q7. The second plan gave priority to

a) Services

b) Agriculture

c) Heavy Industry

d) Foreign Trade

Q8. Gross domestic product is a measure of :

a) A country's domestic economic activities

b) A country's international economic activities

c) A country’s financial position

d) A country’s industrial output

Q9. The fish catch by Indian fishermen in the international waters are part of the GDP of

a) India and Sri Lanka

b) Sri Lanka

c) India

d) India and Indonesia

Q10. Who estimated national income in India first?

a) R.C. Dutt

b) D.R. Gadgil

c) V.K. R.V. Rao

d) Dadabhai Naoroji

Q11. The system of “Memorandum of Understanding” (MoU) was introduced in

a) 1988 – 89

b) 1990 – 91

c) 1987 – 88

d) 1989 – 90

Q12. Consider the following statements relating to the estimation of National Income.

- Foreigners working in India Embassies are normal residents of India.
- Foreigners working in the office of WHO, World Bank, UNO etc, located in India are not normal residents of India.
- Indians working in foreign embassies in India are not normal residents of India.

Which of the statements given above is/are **not correct**?
a) Only 3

b) 1 and 3

c) Only 1

d) All of these

Q13. Which of the following is **not** a necessary condition for the development of India ?

a) Resource discovery

b) Capital Accumulation

c) Population growth

d) Technological develop-ment

Q14. Consider the following reasons for the continuous decline in average land-holding size in India :

A. Law of inheritance
B. Consolidation
C. Farm mechanisation
D. The desire of land ownership

Pick the **correct** answer from the options given below :

a) A, C and D

b) A, B, C and D

c) A and D

d) A and B

Q15. What is the maximum amount of investment in the shares or debentures of notified companies like the ICICI, the IDBI etc. that will entitle a rebate in income tax up to 20% of the amount invested?

a) Rs.60000

b) Rs.80000

c) Rs.20000

d) Rs.10000

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Answers to the above questions :

Q1. Answer: (b)

Imperial Chemical Industries (ICI) was a British chemical company, taken over by a number of chemical companies, including Huntsman Corporation, a United States-based company, and AkzoNobel, a Dutch conglomerate, two of the largest chemical producers in the world.

In its heyday, ICI was the largest manufacturing company in the British Empire, and commonly regarded as a “bellwether of the British economy. It produced paints and speciality products (including ingredients for foods, speciality polymers, electronic materials, fragrances and flavours).

Q2. Answer: (b)

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation’s economy. It is used to stabilize the economy over the course of the business cycle.

Fiscal policy is the sister strategy to monetary policy through which a central bank influences a nation’s money supply.

Q3. Answer: (b)

Bank Rate refers to the official interest rate at which RBI will provide loans to the banking system which includes commercial/cooperative banks, development banks etc.

Such loans are given out either by direct lending or by rediscounting (buying back) the bills of commercial banks and treasury bills. Thus, the bank rate is also known as the discount rate.

INTRODUCTION TO INDIAN ECONOMY

PLANNING, ECONOMIC DEVELOPMENT & FIVE YEAR PLANS

NATIONAL INCOME & HUMAN DEVELOPMENT INDEX

AGRICULTURE SECTOR, SUBSIDY AND FOOD PROCESSING

INDUSTRIES, MANUFACTURING & SERVICE SECTORS

INCLUSIVE GROWTH, SUSTAINABLE DEVELOPMENT AND EMPLOYMENT

POVERTY & UNEMPLOYMENT INTRODUCTION TO MICRO ECONOMICS

INTRODUCTION TO MACRO ECONOMICS

MACRO FUNDAMENTALS, GDP, INVESTMENT, GROWTH

DEMAND & SUPPLY, PROFIT LOSS, INFLATION & PRICE INDEX

FISCAL POLICY, PUBLIC FINANCE AND MONETARY POLICY

MONEY SUPPLY, BANKING AND FINANCIAL INSTITUTIONS

TAXES TYPES, METHODS & BUDGETING PROCESS

BANKING, SECURITY MARKET & INSURANCE

Q4. Answer: (a)

All developing countries like India are mixed economies. A mixed economy is neither pure capitalism nor pure socialism but a mixture of the two systems.

The features of a mixed economy which exist in India are:

1. Private ownership of means of production;
2. The important role of market mechanism;
3. Presence of a large public sector along with free enterprise;
4. Economic planning

Q5. Answer: (c)

The reserve requirement (or cash reserve ratio) is a central bank regulation that sets the minimum reserves each commercial bank must hold (rather than lend out) of customer deposits and notes. These required reserves are normally in the form of cash stored physically in a bank vault (vault cash) or deposits made with a central bank.

The required reserve ratio is sometimes used as a tool in monetary policy, influencing the country’s borrowing and interest rates by changing the number of funds available for banks to make loans with.

The main objective of minimum reserves is the stabilisation of money market rates. Minimum reserves allow credit institutions to smooth out fluctuations in liquidity such as those caused by the demand for banknotes.

Q6. Answer: (d)

The medium and long term loans are disbursed to the farmers through Primary Land Development Banks who draw their finances from Central Land Development Banks who in turn draw their finances from NABARD.

As for the short term credit, this is disbursed to the farmers through Primary Agricultural Credit Societies who draw their finances from Central Cooperative Banks who in turn draw their finances from the State Cooperative Banks.

Q7. Answer: (c)

The Second Plan between years 1956-1961 was focused on the development of India by establishing heavy industries under the public sector.

The total money allotted for this 5-year plan was 48 Billion rupees. The plan followed the Mahalanobis model of economic development.

Q8. Answer: (a)

Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a year.

GDP can be determined in three ways: the production (or output) approach, the income approach, or the expenditure approach.

Q9. Answer: (c)

Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a given period of time.

The United Nations Conference on the Law of the Sea has defined sovereign rights over international waters by defining such concepts as Internal Waters, exclusive economic zones (EEZs), continental shelf jurisdiction, etc. According to this law, the income generated by Indian fishermen would be accounted for in the GDP of India.

Q10. Answer: (d)

Dadabhai Naoroji had estimated national income in India first. National income estimate before independence was prepared by Dada Bhai Naoroji in 1876.

He estimated national income by estimating the value of agricultural production and then adding some percentage of non–agricultural production. This method was non–scientific.

Q11. Answer: (c)

The System of Memorandum of Understanding was introduced in the Public Sector Enterprises during the year 1987-88 in India. It was based on the report of the Arjuna Sengupta Committee (1984).

Q12. Answer: (b)

Only statement 2 is correct.

Statements 1 & 3 are wrong.

Q13. Answer: (c)

The rising population can be a virtue or can be vice with regards to the economic development of a country.

In India, the demerits of population growth outweigh its merits. Due to the large population size and its rate of growth, our per capita income continues to be stagnant at a low level. Since First Five Year Plan, our national income has increased about 11 times but our per capita income has increased only about three and half times, thanks to the rise in population.

Also, large population size has tended to reduce the landman ratio in India which reduces the productivity of land and labour. The growing population has also reduced the per capita availability of cereals and pulses.

Further, due to the high growth rate of the population, unemployment is assuming monstrous proportions. Lack of employment opportunities outside agriculture builds pressure on farming as a source of subsistence. Consequently, disguised unemployment in the farming sector is emerging as a serious challenge.

Q14. Answer: (c)

Indian agriculture is a structurally small farm and small farmer based. The overall average size of operational holding in India declined from 2.63 hectares in 1960-61 to 1.33 hectares in 2002-03. Over 80% of the landholdings in India are classified as small and marginal landholdings with a farm size of less than 2 ha.

This implies that over 80% of the farmers in India hold just 39% of the total cultivated land. The Law of inheritance leads to fragmentation of land among the inheritors of the land.

Again, the desire for land ownership could also be attributed to the fragmentation of land. Owning of land is more social status in India, than an economic exigency.

Q15. Answer: (b)

A salaried employee can claim a tax rebate under section 88. The amount of tax rebate is 20% of the gross qualifying amount (Rs.80000) or Rs.16000, whichever is lower.

If a person invests only in other securities, excluding shares, debentures and units of the infrastructure sector; then the maximum rebate is only Rs.12000 (20% of Rs.60000).

This rebate may be extended up to Rs.16000 on further investment up to Rs.20000 in shares and debentures. By investing in shares, debentures and infrastructure units a maximum rebate of Rs.16000 (i.e., 20% of Rs.80000) may be claimed.