

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

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Q1. Imputed gross rent of owneroccupied buildings is a part of

- a) intermediate consumption
 - b) consumer durable
 - c) final consumption
 - d) capital formation
-

Q2. The self-employed in a developing country who are engaged in small scale labour intensive work belong to the

- a) Secondary sector
 - b) Tertiary sector
 - c) Primary sector
 - d) Informal sector
-

Q3. When average product of an input is at its maximum then : (AP= Average product) (MP= Marginal product)

- a) $AP > MP$
 - b) $AP < MP$
 - c) $AP = MP$
 - d) $AP = 0$
-

Q4. What will be the effect on inferior commodities when income of the consumer rises?

- a) No effect

- b) First increase then decrease
- c) Positive effect
- d) Negative effect

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Q5. Who propounded the 'market law' ?

- a) T.R. Malthus
- b) David Ricardo
- c) J.B. Say
- d) Adam Smith

Q6. Which one of the following items is included in the national income account?

- a) Services of Sadhus
- b) Services of night-watchmen
- c) Income of smugglers
- d) Services of housewives

Q7. While estimating national income which of the following is **not** taken into account?

- a) Services of a housewife
- b) Services of a maid servant
- c) Services of a doctor
- d) Services of a teacher

Q8. Backward bending supply curve belongs to which market?

- a) Money
 - b) Inventories
 - c) Labour
 - d) Capital
-

Q9. Which among the following statements is **not** true when there is an increase in interest rate in an economy ?

- a) increase in production cost
 - b) increase in capital return
 - c) decrease in loan
 - d) increase in saving
-

Q10. Value of out put and value added can be distinguished if we know:

- a) the value of the sales
 - b) the value of consumption of fixed capital
 - c) the value of net indirect taxes
 - d) the value of intermediate consumption
-

Q11. Capital output ratio of a commodity measures

- a) the ratio of capital depreciation to quantity of output
 - b) the ratio of working capital employed to quantity of output
 - c) the amount of capital invested per unit of output
 - d) its per unit cost of production
-

Q12. Excise duty is levied on

- a) import of goods
- b) export of goods
- c) production of goods

d) sale of goods

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Q13. The incomes of Indians working abroad are a part of

- a) net domestic product of India
- b) gross domestic product of India
- c) income earned from Abroad
- d) domestic income of India

Q14. National Income Estimates in India are prepared by:

- a) National Income Committee
- b) Central Statistical Organisation
- c) National Productivity Council
- d) National Development Council

Q15. In accounting terms, what constitutes the 'closing stock'?

- a) Opening Stock-Capital Losses
- b) Opening Stock + Net Investment – Capital Losses
- c) Gross Investment-Capital Losses
- d) Net Investment

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Answers to the above questions :

Q1. Answer: (c)

The figure of final private consumption expenditure includes the imputed gross rent of owner-occupied dwellings, consumption of own-account production and payment by households of wages and salaries in kind valued at cost, e.g., provision for food, shelter and clothing to the employees, wherever they exist.

Production for self-consumption is a part of the production and hence an income and is also a part of final consumption expenditure.

Q2. Answer: (c)

Such a scenario is seen in the case of primary economic activities such as agriculture in the developing countries like India. Most of the primary activities are labour intensive where the volume of manpower substitutes the lack of technology. Besides, farmers are 'self-employed.'

Q3. Answer: (c)

There is a close relationship between marginal product and average product because both are derived from the total product. When marginal product is equal to average product, the average product is at its maximum.

In the short-run production function, since marginal product starts off as greater than average product and then falls below average product, we can assume that at the "cross-over point," when $MP = AP$, AP is at its maximum.

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MACRO FUNDAMENTALS, GDP, INVESTMENT, GROWTH

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Q4. Answer: (d)

In economics, an inferior good is a good that decreases in demand when consumer income rises (or rises in demand when consumer income decreases), unlike normal goods, for which the opposite is observed.

Normal goods are those for which consumers' demand increases when their income increases. Cheaper cars are examples of inferior goods.

Q5. Answer: (c)

Say's law, or the law of market, is an economic principle of classical economics named after the French businessman and economist Jean-Baptiste Say (1767–1832), who stated that "products are paid for with products" and "a glut can take place only when there are too many means of production applied to one kind of product and not enough to another.

Q6. Answer: (b)

National income is the total value of a country's final output of all new goods and services produced in one year.

Services provided by housewives, the income of smugglers and services of sadhus can be categorized as non-economic services and thus cannot be accounted for.

Q7. Answer: (a)

Services provided by housewives can be categorized as non-economic services and thus cannot be accounted in national income which is the sum total of all the goods and services produced in a country, in a particular period of time.

Q8. Answer: (c)

In economics, the backward bending supply curve is related to labour.

Also known as the backwards-bending supply curve of labour, This curve models a situation where workers choose to substitute leisure time for work time, i.e. wages, thus reducing the pool of labour available.

It shows how the change in real wage rates affects the number of hours worked by employees.

Q9. Answer: (b)

Interest rates increase the cost of borrowing, which results in lesser investment activity and the purchase of consumer durables.

In a low interest-rate environment, shares become a more attractive buy, raising households' financial assets. This may also contribute to higher consumer spending, and makes companies' investment projects more attractive.

Lower interest rates also tend to cause currencies to depreciate: Demand for domestic goods rises when imported goods become more expensive. All of these factors raise output and employment as well as investment and consumer spending.

Q10. Answer: (d)

Intermediate consumption is an accounting flow that consists of the total monetary value of goods and services consumed or used up as inputs in production by enterprises, including raw materials, services and various other operating expenses.

Intermediate consumption (unlike fixed assets) is not normally classified in national accounts by type of good or service, because the accounts will show net output by sector of activity.

Because this value must be subtracted from Gross Output to arrive at GDP, how it is exactly defined and estimated will importantly affect the size of the GDP estimate.

Q11. Answer: (c)

Capital Output Ratio is the ratio of capital used to produce output over a period of time. This ratio has a tendency to be high when capital is cheap as compared to other inputs.

For instance, a country with abundant natural resources can use its resources in lieu of capital to boost its output; hence the resulting capital-output ratio is low. The capital-output ratio tends to increase if the capital available in a country is cheaper than the other inputs.

Therefore, the countries that are rich in natural resources have a low capital-output ratio. This is because they can easily substitute capital with natural resources in order to increase the output. When countries use their natural resources instead of capital then COR reduces.

Q12. Answer: (c)

Excise duty is a tax on manufacture or production of goods. Excise duty on alcohol, alcoholic preparations, and narcotic substances is collected by the State Government and is called "State Excise" duty. The Excise duty on rest of goods is called "Central Excise" duty.

Q13. Answer: (a)

Domestic Product is the gross money value of all final goods and services produced in the domestic territory of a country during a year.

National Product is the gross money value of all final goods and services produced by the normal residents of a country during a year. It includes net factor income from abroad.

Q14. Answer: (b)

Since 1955 the national income estimates are being prepared by Central Statistical Organization.

The CSO uses different methods like the Product Method, Income Method and Expenditure method for various sectors in the process of estimating the National Income.

Q15. Answer: (b)

Closing stock refers to the goods remaining unsold during the year. It includes finished products, raw materials, or work in progress and is deducted from the period's costs in the balance sheets.

The amount of closing stock (properly valued) is used to arrive at the cost of goods sold in a periodic inventory system with the following calculation:

Opening stock + Purchases - Closing stock = Cost of goods sold.

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