INTRODUCTION TO MACRO ECONOMICS 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. Market segmentation is:

a) Market Division

b) Market Space

c) Dividing target groups as per their needs

d) Group of Sales Persons

Q2. If a change in all inputs leads to a proportionate change in output, it is case of

a) Increasing returns to scale

b) Variable returns to scale

c) Diminishing returns to scale

d) Constant returns to scale

Q3. When aggregate supply exceeds aggregate demand

a) inventories accumulate

b) unemployment develops

c) prices rise

d) unemployment falls

Q4. The innovation theory of profit was proposed by

a) Schumpeter

b) Joan Robbinson

c) Clark

d) Marshall

Q5. If total product is at its maximum then: (AP= Average product) (MP= Marginal product)

a) MP = 0

b) AP = MP = 0

c) AP < 0

d) AP = 0

Q6. Which one of the following is **not** a feature of monopoly ?

a) Barriers to entry of new firms

b) Price discriminations

c) Heavy selling costs

d) Single seller of the product

Q7. Which one of the following is **not** a method of estimating National Income ?

a) Matrix method

b) Income method

c) Product method

d) Expenditure method

Q8. Which of the following relations always holds true ?

a) Saving = Investment

b) Income = Consumption + Saving + Investment

c) Income = Consumption + Saving

d) Income = Consumption + Investment

Q9. Investment and savings are kept equal through a change in the level of

a) Government expenditure

b) Income

c) Investment

d) Consumption

Q10. An economy which does **not** have any relation with the rest of the world is known as

a) Open economy

b) Mixed economy

c) Closed economy

d) Socialist economy

Q11. ‘Personal Income’ equals

a) Personal disposable income plus miscellaneous receipts of the Goverment

b) All of the above

c) Private income minus savings of the corporate sector minus corporation tax

d) The household sector’s income

Q12. The sum total of incomes received for the services of labour, land or capital in a country is called :

a) Gross domestic income

b) Gross national income

c) National income

d) Gross domestic product

Q13. Economic profit or normal profit is the same as :

a) maximum profit

b) net profit

c) accounting profile

d) optimum profit

Q14. An employer goes on employing more and more of a factor units until :

a) the Diminishing Marginal Returns sets into operation.

b) the Marginal Revenue Productivity of a factor becomes equal to its reward.

c) the Marginal Revenue Productivity becomes zero.

d) the Average Revenue Productivity becomes equal to Marginal Revenue Productivity.

Q15. Which of the following costs is related to marginal cost?

a) Prime Cost

b) Fixed Cost

c) Implicit Cost

d) Variable Cost

Read More introduction to macro economics Question and Answes »

Answers to the above questions :

Q1. Answer: (c)

Market segmentation is a marketing strategy that refers to the aggregating of prospective buyers into groups, or segments, having similar needs, wants, or demand characteristics.

Its objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment.

Q2. Answer: (d)

If output increases by that same proportional change as all inputs change then there are constant returns to scale (CRS).

If output increases by less than that proportional change in inputs, there are decreasing returns to scale (DRS). If output increases by more than that proportional change in inputs, there are increasing returns to scale (IRS).

Q3. Answer: (a)

Deflation sets in when aggregate supply exceeds aggregate demand. Recession sets in.

This will lead to a buildup in stocks (inventories) and this sends a signal to producers either to cut prices (to stimulate an increase in demand) or to reduce output so as to reduce the buildup of excess stocks.

Either way - there is a tendency for output to move closer to the current level of demand.

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)

The Innovation Theory of Profit was proposed by Joseph. A. Schumpeter, who believed that an entrepreneur can earn economic profits by introducing successful innovations.

In other words, the innovation theory of profit posits that the main function of an entrepreneur is to introduce innovations and the profit in the form of reward is given for his performance.

Q5. Answer: (a)

Total product (TP) is the total output a production unit can produce, using different combinations of factors of production.

When marginal product =0 (at point D in the figure), the total product is at its maximum (as seen at point C in the figure given below). Then en as the marginal product becomes negative, the total product starts going down.

Q6. Answer: (c)

Heavy selling cost is one of the defining features of an oligopoly. Firms resort to heavy selling costs to attract customers.

Under this market form, the firms have to compete to promote their sale by largely homogenous products, differentiated mainly by heavy advertising and promotional expenditure that ultimately adds to the total selling cost.

Q7. Answer: (a)

The matrix method is a structural analysis method used as a fundamental principle in many applications in civil engineering. The method is carried out, using either a stiffness matrix or a flexibility matrix.

Primarily there are three methods of measuring national income. The methods are product method, income method and expenditure method.

Q8. Answer: (c)

Consumers do one of two things with their disposable income: They save it or they spend it. So Income = Consumption + Saving.

Q9. Answer: (d)

Desired savings are kept equal to desired investment by responses to interest rate changes.

Savings identity or the savings-investment identity is a concept in National Income Accounting stating that the amount saved (S) in an economy will be the amount invested (I). This identity only holds true because investment here is defined as including inventories.

Thus, should consumers decide to save more, and spend less, the fall in demand would lead to an increase in business inventories. The change in inventories brings savings and investment into balance without any intention by the business to increase investment.

Q10. Answer: (c)

A Closed economy is an economy in which no activity is conducted with outside economies.

A closed economy is self-sufficient, meaning that no imports are brought in and no exports are sent out. The goal is to provide consumers with everything that they need from within the economy's borders.

Q11. Answer: (a)

Disposable income is total personal income minus personal current taxes (or plus receipts of the government).

In national accounts, definitions, personal income, minus personal current taxes equals disposable personal income. Subtracting personal outlays (which includes the major category of personal (or, private) consumption expenditure) yields personal (or, private) savings

Q12. Answer: (a)

The Gross Domestic Income (GDI) is the total income received by all sectors of an economy within a nation. It includes the sum of all wages, profits, and taxes, minus subsidies.

Since all income is derived from production (including the production of services), the gross domestic income of a country should exactly equal its gross domestic product (GDP).

Q13. Answer: (b)

Normal profit or economic profit is an economic condition occurring when the difference between a firm’s total revenue and the total cost is equal to zero. Simply put, normal profit is the minimum level of profit needed for a company to remain competitive in the market.

In a sense, normal profit is the same as net profit which is calculated by subtracting a company’s total expenses from total revenue, thus showing what the company has earned (or lost) in a given period of time.

Accounting profit occurs when revenues are greater than costs, and not equal, as in the case of normal profit.

Q14. Answer: (b)

According to the Marginal Productivity Theory, the reward or the price of a factor unit depends upon its productivity or its contribution to the total product. While employing a factor, an employer compares the marginal revenue productivity (MRP) of the lost unit and the marginal cost of the factor.

He will employ a factor up to the point where the reward (marginal cost of the factor) paid to the factor equals its MRP.

If MRP is more than the marginal cost, the employer increases its profits by employing more units of the factor; on the other hand, if the marginal cost of the factor is greater than MRP, it will reduce employment to reduce its loss.

Q15. Answer: (d)

In economics, marginal cost is the change in the total cost that arises when the quantity produced is incremented by one unit.

That is, it is the cost of producing one more unit of a good. Marginal cost is independent of the fixed cost and depends on the changes in the variable factors.

Since fixed costs do not change with output, there are no marginal fixed costs when output is increased in the short run.

It is only the variable costs that vary with output in the short run. Therefore, the marginal costs are in fact due to the changes in variable costs, and whatever the amount of fixed cost, the marginal cost is unaffected by it.