MACRO FUNDAMENTALS, GDP, INVESTMENT, GROWTH 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. Which of the following are included as part of India's GDP?

i. Activities in Indian embassies and consulates in other countries
ii. Air India services between two different countries
iii. Value addition in India's economic territory
iv. Economic activities of residents of India in international waters

Select the **correct** answer using the code given below:
a) (ii) & (iii) only

b) (iii) only

c) (i) & (ii) only

d) All of the above

Q2. In India, which of the following have the highest share in the disbursement of credit to agriculture and allied activities?

a) Micro Finance Institution

b) Commercial Banks

c) Co-operative Banks

d) Regional Rural Banks

Q3. If a country's growth rate is good but there is no corresponding growth in employment, then which of the following could be the reasons:

a) The growth is coming from both as a result of increase in investment and increase in capacity utilization

b) The growth is coming from increase in investment but not because of better utilization of existing capacity

c) The growth is coming from better utilization of existing capacity and not because of increase in investment

d) None of the above

Q4. Green Revolution made the country self-sufficient in food production but had some fallouts. Consider the following statements.

- It is successful in the case of wheat, but not in the case of pulses.
- Brought inter-state disparities.
- Help in restoring soil fertility.
- The reduced water table in some states.

Select the **correct** statements from the codes given below.
a) Only 2 and 4

b) 1, 2 and 4

c) All are correct

d) 1, 3 and 4

Q5. Despite being a high saving economy, capital formation may **not** result in significant increase in output due to:

a) high population density

b) illiteracy

c) weak administrative machinery

d) high capital-output ratio

Q6. The importance of agriculture in Indian economy is indicated by its contribution to which of the following?

a) Industrial development and international trade

b) National income and employment

c) All of the above

d) Supply of food grains

Q7. Who among the following is associated with ‘White revolution’?

a) Verghese Kurien

b) P.J. Kurien

c) M.S. Raghanathan

d) M.S. Swaminathan

Q8. The Concept of ‘Navratna’ is associated with

a) selected export - oriented units

b) selected categories of technical manpower

c) selected Public Sector Enterprises

d) selected food - processing industries

Q9. In the last one decade, which one among the following sectors has attracted the highest foreign direct investment inflows into India?

a) Services Sector

b) Chemicals other than fertilizers

c) Telecommunication

d) Food processing

Q10. For a sustained high growth, which of the following statements will be true:

a) Increasing capital output ratio and keeping investment at a constant rate

b) Raising the investment and incremental capital output ratio both

c) Raising the investment by keeping the incremental capital output ratio minimum

d) All of the above

Q11. If a country is experiencing recession, then which of the following shall be true:

a) Decrease in rate of growth of GDP

b) Decrease in nominal GDP

c) Decrease in real GDP

d) All of the above

Q12. Which one of the following is **not** the problem of Small Scale Industries (SSIS)?

a) Marketing

b) Finances

c) Strikes and lockouts

d) Raw material

Q13. Consider the following statements regarding **CPI and WPI**:

i. CPI includes indirect taxes
ii. WPI includes indirect taxes

Select the **correct** answer using the code given below:
a) Both (i) & (ii)

b) (ii) only

c) (i) only

d) Neither (i) nor (ii)

Q14. Which of the following statements are true regarding **'Terms of trade' (ToT)** of a country with another country:

i. It is ratio of export price index to import price index
ii. It is a ratio of value of exports to value of imports
iii. It is a measure of how much imports a country can get for a unit of exported goods
iv. ToT increases with increase in price of exported goods

Select the **correct** answer using the code given below:
a) (i), (iii) & (iv) only

b) (ii) & (iv)

c) (i) only

d) (ii), (iii) & (iv) only

Q15. Who is known as 'Father of White Revolution' in India?

a) V. Kurien

b) M.S. Swaminathan

c) B.P. Pal

d) K.N. Bhat

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Answers to the above questions :

Q1. Answer: (d)

GDP is the total final value of goods and services produced within the domestic territory of a country in a specified time period (generally a financial year).

The concept of domestic territory (economic territory) is different from the geographical or political territory of a country.

The domestic territory of a country includes the following:

1. Political frontiers of the country including its territorial waters.
2. Ships, and aircrafts operated by the residents of the country between two or more countries, for example, Air India's services between different countries.
3. Fishing vessels, oil and natural gas rigs and floating platforms operated by the residents of the country in the international waters or engaged in extraction in areas where the country has exclusive rights of operation.
4. Embassies, consulates and military establishments of the country located in other countries, for example, the Indian embassy in the U.S.A., Japan etc. It excludes all embassies, consulates and military establishments of other countries and offices of international organisations located in India.

Thus, the domestic territory may be defined as the political frontiers of the country including its territorial waters, ships, aircraft, fishing vessels operated by the residents of the country, embassies and consulates located abroad etc.

Q2. Answer: (b)

Q3. Answer: (c)

Higher economic growth comes from

additional investment, or

increase in capacity utilization of the capital stock (factory)

When economic growth comes from new investment then generally more jobs are created but when economic growth comes from better utilization of the existing capacity (which was earlier not utilized properly) then jobs may not get created in the economy.

Q4. Answer: (b)

Q5. Answer: (d)

First, let us develop the general concept of (average) productivity and marginal productivity.

1. 1 Acre Land
2. 5 Labourers
3. 2 Tonne production

If one acre of land produces 2 Tonnes of food grains, then; Productivity of Land = $\text"Output"/\text"Input(land)"$ ${2\text"Tonne"}/{1 \text"acre"}$ = 2 Tonne/acre

Productivity of Labour =$\text"Output"/\text"Input(labour)" = {2\text"Tonne"}/{5\text"labourer"}$ = 0.4 Tonne/labour

The above two are basically average productivity.

If by adding one extra labour, production increases by 0.2 tonne, then

Marginal productivity of labour = $\text"change in output"/\text"Change in labour" = {0.2\text"tonne"}/{1 \text"labour"}$ = 0.2 tonne/labour

In the same way, productivity of capital = $\text"Output"/\text" Capital"$ Higher is the productivity of capital, it is good for the economy. The inverse of “productivity of capital” is Capital/Output ratio.

A higher capital/output ratio is bad for the economy. If the Capital/Output ratio is 3/1, that means Rs. 1 unit of output is produced from Rs. 3 units of capital. And if the Capital/Output ratio is 4/1, that means to produce Rs. 1 unit of output, Rs. 4 units of capital is required. So, 3/1 is better than 4/1 for the economy.

Generally, if an economy has higher savings, higher capital formation happens. But if the Capital/Output ratio in the economy is high, then that means the productivity of the capital is low, so output production may not increase much even if capital formation is high.

So, the answer is (d)

Q6. Answer: (c)

Q7. Answer: (a)

Q8. Answer: (c)

Q9. Answer: (a)

Q10. Answer: (c)

% change in GDP = $\text"Investment %"/\text" Incremental Capital Output Ratio (ICOR)"$

So, for higher growth rate, we require more investment and less ICOR

Q11. Answer: (c)

Real GDP growth measures growth in quantity only and nominal GDP measures growth in value (which includes quantity as well as price).

Now, suppose an economy produces wheat and rice. The quantities produced and the market price is given in the following table.

The base year for the calculation of GDP is 2011-12. So, if we want to calculate India's Real GDP for 2014-15 then we will have to take the quantities produced in 2014-15 and the prices of 2011-12 (base year). And if we want to calculate the Nominal GDP of 2014-15 then we will have to take the quantities produced in 2014-15 and the market prices of the same year i.e. 2014-15.

In India, economic growth is measured by the change in real GDP i.e. GDP at constant Market Prices as per the global best practices.

So, Real GDP is steadily/consistently increasing from 2011-12 to 2014-15 but "change in real GDP" is decreasing from 11.2% to 4.6% and change in nominal GDP is also decreasing from 2011-12 to 2014-15.

The above is a case of economic growth as real GDP is increasing. But since the rate of change of real GDP is decreasing (but not negative), we say that economic growth is slowing down. When the "real GDP" decreases or "change in real GDP" is negative then it is a case of recession.

And if the prices are decreasing more but the production quantity is increasing then the nominal GDP may decrease but Real GDP may increase. So, in case of economic growth, nominal GDP may decrease.

Q.No.9, only (i) statement is the required criteria. Because even if (iii) statement is not true (as in the above example), a country may experience economic growth.

Q12. Answer: (c)

Q13. Answer: (c)

CPI includes indirect taxes. So, when government increases the GST rate, it is captured in the CPI data.

But in the new series of WPI (2011-12), the government has excluded indirect taxes while measuring WPI. This is in consonance with international practices and will make the new WPI conceptually closer to the Producer Price Index (PPI).

Q14. Answer: (a)

Consider an example: If a country is exporting only apples and importing only oranges, then the terms of trade (TOT) are simply the ratio of the price of apples to the price of oranges. Suppose the price of an apple is Rs. 120/kg and Oranges is Rs. 40/kg

So, TOT = $\text"Export Price"/\text"Import Price" = 120/40$ = 3

This means if India is exporting apples and importing oranges then for one kg of apples exported, we can import 3kg of oranges. In other words, how many oranges can we import for a unit of export of apples?

So, TOT is a measure of how much imports an economy can get for a unit of exported goods. Since economies typically export and import many goods, measuring the TOT requires defining price indices for exported and imported goods and comparing the two.

A rise in the prices of exported goods in international markets would increase the TOT, while a rise in the prices of imported goods would decrease it. So, statements (i), (iii) & (iv) are true.

Q15. Answer: (a)