

DEMAND & SUPPLY, PROFIT LOSS, INFLATION & PRICE INDEX BASED INDIAN ECONOMY MCQ PRACTICE QUESTIONS AND ANSWERS PDF WITH EXPLANATION

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Q1. In a perfectly competitive economy production and consumption will both be Pareto optimal, if the economy operates at a point where

- a) output levels are above equilibrium
 - b) there is general equilibrium
 - c) output levels are below equilibrium
 - d) consumption is less than output
-

Q2. Who among the following has suggested migration to accrual accounting system from cash based accounting system in India?

- a) D.N. Ghosh
 - b) R.H. Patil
 - c) C. Rangarajan
 - d) I.V. Reddy
-

Q3. Which one of the following terms is used in Economics to denote a technique for avoiding risk by making a counteracting transaction?

- a) Hedging
 - b) Discounting
 - c) Deflating
 - d) Dumping
-

Q4. Inflation is caused by

- a) Decrease in money supply

- b) Increase in supply of goods
- c) Increase in cash with the government
- d) Increase in money supply

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Q5. The price at which the Government purchase foodgrains for maintaining the public distribution system and for building up buffer stocks are known as

- a) Procurement prices
- b) Issue prices
- c) Minimum support prices
- d) Coiling prices

Q6. The production function of a firm will change whenever

- a) the firm increases its level of output
- b) input price changes
- c) the firm employs more of any input
- d) the relevant technology changes

Q7. Which of the following fixed the four percent inflation target in India with tolerance level of ± 2 percent for the period 2016 to 2021?

- a) NITI Aayog
- b) Fourteenth Finance Commission
- c) Reserve Bank of India
- d) Government of India

Q8. A 'closed economy' is an economy in which

- a) only exports take place.
 - b) the money supply is fully controlled.
 - c) deficit financing takes place.
 - d) neither exports nor imports take places.
-

Q9. The income elasticity of demand for inferior goods is

- a) less than zero
 - b) equal to one
 - c) less than one
 - d) greater than one
-

Q10. Consider the following factors regarding an industry :

- Capital Investment
- Business Turnover
- Labour Force
- Power Consumption

Which of these determine the nature and size of the industry?

- a) 2, 3 and 4
 - b) 1, 3 and 4
 - c) 1, 2 and 4
 - d) 2 and 3
-

Q11. Which one of the following statements is an appropriate description of deflation?

- a) It is a persistent fall in the general price level of goods and services
 - b) It is a fall in the rate of inflation over a period of time
 - c) It is a sudden fall in the value of a currency against other currencies
 - d) It is persistent recession in both the financial and real sectors of economy
-

Q12. Who recommends the MSP and issue prices?

- a) Planning commission
- b) Commission for Agricultural Costs and Prices
- c) Ministry of agriculture
- d) NABARD

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Q13. Which of the following is **not** a 'Public Good'?

- a) National Defence
- b) Light House
- c) Electricity
- d) Public Parks

Q14. A rapid increase in the rate of inflation is sometimes attributed to the 'base effect'. What 'base effect'?

- a) It is the impact of the price levels of previous year on the calculation of inflation rate
- b) None of the statements (A), (B) and (C) given above is correct in this content
- c) It is the impact of drastic deficiency in supply due to failure of crops
- d) It is the impact of the surge in demand due to rapid economic growth

Q15. In India, in the overall Index of Industrial Production, the indices of eight core industries have a combined weight of 37-90%. Which of the following are among those eight core industries?

- Cement
- Fertilisers
- Natural gas
- Refinery products
- Textiles

Select the **correct** answer using the codes given below.

- a) Only 1, 2, 3 and 4
- b) 1, 2, 3, 4 and 5
- c) Only 1 and 5
- d) Only 2, 3 and 4

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Answers to the above questions :

Q1. Answer: (b)

General equilibrium involving both production and consumption also ensures the achievement of Pareto efficiency.

Pareto efficiency in this regard requires that the marginal rate of transformation should be equal to the marginal rate of substitution of the individuals.

Q2. Answer: (c)

Q3. Answer: (a)

Hedging is used in limiting or offsetting the probability of loss from fluctuations in the prices of commodities, currencies or securities.

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Q4. Answer: (d)

Inflation is increased in the prices of commodities. It is caused due to decrease in supply and an increase in demand for commodities.

So when the money supply in the economy increases it means people have more purchasing capacity and thus demand increases which result in inflation. Some factors affecting inflationary pressure.

Q5. Answer: (a)

The price at which the Government purchases foodgrains for maintaining the public distribution system and for building up buffer stocks are known as procurement prices.

Minimum support price: It is a form of market Intervention by Govt. of India to insure agricultural producers against any sharp fall in farm price. M.S.P. was announced by the Govt of India.

Issue price: It is the price at which shares are offered to retail investors in the IPO issue.

Q6. Answer: (d)

Q7. Answer: (d)

Q8. Answer: (d)

This is an economy that does not interact with the economy of any other country. A closed economy prohibits imports and exports and prohibits any other country from participating in their stock market.

Q9. Answer: (a)

Inferior goods have a negative (less than 0) income elasticity of demand meaning that demand falls as income rises.

Q10. Answer: (b)

The factors which are responsible for the industry are capital investment, labour force and power consumption.

However, the nature and size of business are not determined by the turnover of the business.

Q11. Answer: (a)

Q12. Answer: (b)

CACP was set up in 1985 and recommends for MSP, issue prices as well as procurement prices.

Q13. Answer: (c)

Electricity is not public good but it is club good including roads, bridges, gas, sewage, wires, telecom.

Q14. Answer: (a)

Q15. Answer: (a)

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