

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

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

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Q1. Index 'Residex' is associated with

- a) Price Index
 - b) Land Prices
 - c) Share Prices
 - d) Mutual Fund Prices
-

Q2. Devaluation usually causes the internal price to

- a) Rise
 - b) Remain unchanged
 - c) Fall
 - d) None of these
-

Q3. Consider the following statements in regard to the **Money market in India**:

- It is a market for short-term funds with maturity ranging from overnight to one year.
- It acts as an instrument of liquidity adjustment for the Central Bank.

Which of the statements given above is/are **correct**?

- a) Both 1 and 2
 - b) 1 only
 - c) 2 only
 - d) Neither 1 nor 2
-

Q4. Which of the following statements are **correct**?

- When marginal revenue is positive, total revenue increases with increase in output.

- When marginal revenue is zero, total revenue is maximum.
- When marginal revenue becomes negative, total revenue falls with increase in output.

Select the **correct** answer using the code given below:

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

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Q5. The basis of determining dearness allowance (D.A.) to government employees in India is

- a) Standard of living
- b) National income
- c) Consumer Price Index
- d) Per capita income

Q6. With reference to India, consider the following statements

- WPI is available on a monthly basis only.
- As compare to Consumer Price Index for the Industrial Worker (CPIIW), the WPI gives less weightage to food articles.

Which of the statements given above is/are **correct**?

- a) Only 2
- b) Both 1 and 2
- c) Only 1
- d) Neither 1 nor 2

Q7. During period of inflation, rates should

- a) Remain constant
 - b) Increase
 - c) Decrease
 - d) Fluctuate
-

Q8. Inflation rate based on consumer price index increases if

- a) Statutory Liquidity ratio is increased
 - b) Repo rate is increased
 - c) Bank rate is decreased
 - d) Reverse repo rate is decreased
-

Q9. Assertion (A) :

Investment has a demand effect.

Reason (R):

Investment augments the productivity and income in the economy.

Codes:

- a) (A) is correct, but (R) is incorrect.
 - b) Both (A) and (R) are correct, and (R) is the correct explanation of (A).
 - c) Both (A) and (R) are correct, but (R) is not the correct explanation of (A).
 - d) (A) is incorrect, but (R) is correct.
-

Q10. The supply-side economics lays greater emphasis on the point of view of :

- a) global economy
 - b) consumer
 - c) producer
 - d) middle-man
-

Q11. In the parlance of economy / commerce, what is 'Gilt-edged market'?

- a) Market of safe securities
 - b) Gold and Silver market
 - c) Industrial securities market
 - d) Market of software technology products
-

Q12. The base year for All-India Wholesale Price Index (WPI) has been changed by the Government of India from 2004-05 to

- a) 2012-13
- b) 2013-14
- c) 2010-11
- d) 2011-12

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Q13. Which one among the following is the total amount of money available in an economy at a specific time ?

- a) Money volume
 - b) Near money
 - c) Narrow money
 - d) Money stock
-

Q14. Which of the following price index number are used for calculation of Central Government employee wage compensation?

- a) Consumer price index for agricultural labourers
 - b) None of the above
 - c) Wholesale price index
 - d) Consumer price index for industrial workers
-

Q15. An exceptional demand curve is one that slopes

- a) upward to the right
- b) horizontally
- c) downward to the right
- d) upward to the left

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Answers to the above questions :

Q1. Answer: (b)

Q2. Answer: (b)

Devaluation is a deliberate downward adjustment to the value of a country's currency, relative to another currency, group of currencies. Since it is relative to other currencies so the internal price remains unchanged.

It causes a country's exports to become less expensive and imports more expensive.

Devaluation is a monetary policy tool used by countries that have a fixed exchange rate or semi-fixed exchange rate. It is often confused with Depreciation and is the opposite of revaluation.

Q3. Answer: (a)

The money market consists of financial institutions and dealers in money or credit who wish to either borrow or lend.

Participants borrow and lend for short periods of time, typically up to twelve months. Money market trades in short-term financial instruments commonly called "paper."

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Q4. Answer: (d)

Q5. Answer: (c)

The basis of determining dearness allowance (D.A.) to government employees in India is the consumer price index. Dearness Allowance (DA) is an allowance paid to employees to compensate them for the erosion of real income/wage due to inflation.

The increase in the cost of living and the consequent erosion of income is measured in terms of a consumer price index number and, DA to be sanctioned to employees is determined on the basis of the percentage increase in that index.

Dearness Allowance - D.A. is calculated as a percentage of an Indian citizen's basic salary to mitigate the impact of inflation on people.

Q6. Answer: (a)

This rise in wholesale food prices was not captured by WPI as the weightage for food articles is just 14.3% compared to 65% for manufactured products in this index.

On the other hand, the weightage for food is 57% in CPI items which captures the impact of food prices better.

Further, wholesale prices do not take into account the substantial margins at the retail level, which tend to rise when there are shortages.

Q7. Answer: (b)

During inflation interest rates should increase so that the investor invests more in lieu of higher interest-earning thus money supply reduces which can reduce inflation.

Similarly higher interest rates mean credit becomes costly so that again supply of money reduces which helps in curbing inflation.

Q8. Answer: (c)

Q9. Answer: (b)

Investment in capital and labour will increase productivity and production which will cause either rise in wages or the creation of employment or both thus the overall income will rise.

Q10. Answer: (c)

Supply-side economics lays greater emphasis on the point of view of the producer whereas the demand side economics lays emphasis on the interest of the consumer.

Q11. Answer: (a)

In the parlance of economy, Gilt-edged market is called market of safe securities. "Gilt-edged" denotes high-grade securities, consequently carrying low yields.

Q12. Answer: (d)

Q13. Answer: (d)

The money supply or money stock, is the total amount of monetary assets available in an economy at a specific time. It includes currency in circulation and demand deposits.

Near money: assets which can readily be converted into cash, such as bills of exchange.

Narrow money: Money in forms that can be used as a medium of exchange generally notes, coins and certain balances held by banks.

Q14. Answer: (d)

Q15. Answer: (a)

When the curve slopes downwards from left to right; higher prices reduce the quantity demanded.

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