

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. The average fixed cost curve will always be

- a) a downward sloping convex to the origin curve
 - b) a downward sloping straight line
 - c) a rectangular hyperbola
 - d) a U-shaped curve
-

Q2. Consider the following statements and state which is/are **correct**?

- The sub-prime crisis which hit the U.S. economy was caused by sudden increase in oil prices.
- The crisis led to default in home loan repayment.
- It led to failure of some U.S. Banks.
- Sub-prime crisis caused crash in Indian stock market.

Choose your answer from the given codes.

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

Q3. The way total output changes due to change in all inputs in same proportion is known as law of

- a) Increasing returns
 - b) Returns to scale
 - c) Diminishing returns
 - d) Constant returns
-

Q4. Economic growth is usually coupled with

- a) Hyper inflation
- b) Deflation
- c) Inflation
- d) Stagflation

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Q5. A market in which there are large numbers of sellers of a particular product, but each seller sells somewhat differentiated but close products is termed as

- a) Monopolistic competition
- b) Perfect competition
- c) Monopoly
- d) Oligopoly

Q6. Which one of the following causes the condition in which prices increase rapidly as a currency loses its value ?

- a) Stealth inflation
- b) Stagflation
- c) Conflation
- d) Hyper inflation

Q7. Match List-I with List-II and select answers using the codes given below in the lists.

List	List II
A. Boom	1. Business activities are at a high level with increasing income, output and employment at the macro level.

B. Recession	2. Gradual fall of income, output and employment with business activity in a low gear.
C. Depression	3. Unprecedented level of underemployment and unemployment, drastic fall in income, output.
D. Recovery	4. Steady rise in the general level of prices, income, output and employment.

Codes: A B C D

a) 2 1 4 3

b) 2 1 3 4

c) 1 2 3 4

d) 1 2 4 3

Q8. Which of the following statements is true about supply-side economics?

a) The Laffer Curve says that, if marginal tax rates fall, tax revenues will rise, and the budget deficit will decrease

b) If the tax laws of 1981 and 1986 had had their intended effect, consumption would have risen, causing an increase in both real GDP and in the price level

c) The main change made by the tax laws of 1981 and 1986 was to increase marginal tax rates in order to balance the budget

d) All of these

Q9. Consider the following statements in regard to **Headline inflation** :

- It provides an accurate picture of the inflation in the country.
- It is affected by short term transitory effects on the prices of products.

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

Q10. Gilt-edged market means

a) Market dealing with metals

- b) Market of government securities
 - c) Bullion market
 - d) Market dealing with exports
-

Q11. Assertion (A):

The rate of inflation in India has come down in the last three years.

Reason (R):

The country has received a large amount of foreign capital during these years.

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

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

Q12. In India, inflation is measured by the :

- a) consumers price Index for agricultural
 - b) wholesale price Index Number
 - c) consumers price Index for urban non-manual workers
 - d) National Income Deflation
-

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Q13. If the average total cost is declining then

- a) total cost must be constant
 - b) the average fixed cost curve must be above the average variable cost curve
 - c) the marginal cost must be less than the average total cost
 - d) the marginal cost must be greater than the average total cost
-

Q14. Many times we read a term “Free Market” in newspapers. What does it mean?

- It is a market where pricing is driven by the laws of supply and demand.
- In free market things are available without restraints of the government.
- In such market, goods are free from extraneous influences such as buffer or quotas.

Codes :

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

Q15. When economic development takes place

- a) Market imperfections increase
- b) Specialisation increases
- c) Commercialisation decreases
- d) None of the above

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Answers to the above questions :

Q1. Answer: (c)

Total fixed costs are constant, so the average fixed cost curve diminishes with the output. Thus, the average fixed cost curve is a rectangular hyperbola.

Q2. Answer: (a)

Q3. Answer: (b)

The way total output changes due to change in all inputs in the same proportion is known as “law of return to scale”.

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Q4. Answer: (c)

With the increase in GDP, aggregate demand increases, because more production means people have more disposable income, which means more consumer spending.

As a result, prices rise in response, and in conclusion, because aggregate demand grows faster than long-term aggregate supply, economic growth will be coupled with inflation.

Hyperinflation - In economics, hyperinflation occurs when a country experiences very high and usually actuarially rates of inflation. Economic growth is usually coupled with inflation.

Q5. Answer: (a)

Monopolistic competition is a form of market in which there are large numbers of sellers of a particular products but each seller sells somewhat differentiated but close products.

Q6. Answer: (d)

Hyperinflation occurs when a country experiences very high and usually accelerating rates of monetary and price inflation, causing the population to minimize their holdings of money.

Under such conditions, the general price level within an economy increases rapidly as the official currency quickly loses real value.

Stagflation: Persistent high inflation combined with high unemployment.

Conflation: The merging of two or more sets of information texts, ideas etc into one.

Stealth inflation: It is a type of charge or fee created by the business to gain extra profit and revenue from its customers.

Q7. Answer: (c)

Q8. Answer: (a)

The Laffer Curve says that, if marginal tax rates fall, tax revenues will rise, and the budget deficit will decrease.

Supply-side economics is a macroeconomic theory that gives economic growth can be most effectively created by investing in capital and by lowering barriers to the production of goods and services.

Q9. Answer: (c)

Headline inflation also called as WPI inflation is a measure of the total inflation within an economy and is affected by areas of the market which may experience sudden inflationary spikes such as food or energy.

As a result, headline inflation may not present an accurate picture of the current state of the economy as it doesn't take account of the service sector.

Q10. Answer: (b)

The gilt-edged market refers to the market for Government and semi-government securities, backed by the Reserve Bank of India (RBI).

Government securities are tradeable debt instruments issued by the Government for meeting its financial requirements. The term gilt-edged means 'of the best quality'.

Q11. Answer: (d)

Q12. Answer: (b)

In India, inflation is measured by the wholesale price Index . The wholesale prices of commodities of base year are compared with wholesale prices of current year to compute inflation.

Q13. Answer: (c)

When marginal cost is less than average cost, average cost must be falling. When marginal cost exceeds average cost must be rising. The marginal cost and average cost curves are related to each other.

Q14. Answer: (d)

Q15. Answer: (b)

When economic development takes place, specialisation increases. Economic development typically involves improvements in a variety of indicators such as literacy rates, life

expectancy and poverty rates.

GDP does not take into account other aspects such as leisure time, environmental quality, freedom, or social justice; alternative measures of economic well-being have been proposed.

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