



**Question Bank - Multiple Choice Questions (MCQs)**

**Unit: 1 Basic concepts of Macro economics**

- 1) Who is credited with bringing the term "the invisible hand" in economics?  
a) Adam Smith  
b) John Maynard Keynes  
c) F. Hayek  
d) Samuelson
- 2) Macroeconomics as a separate branch came to be studied after the contributions of which economist?  
a) Adam Smith  
b) John Maynard Keynes  
c) F. Hayek  
d) Samuelson
- 3) When did the Great Depression hit the United States?  
a) 2007  
b) 1929  
c) 1936  
d) 2001
- 4) Consider the following statements:  
1. In a Capitalist economy there is private ownership of means of production  
2. In a communist nation, the means of production are owned by the State  
3. In a free-market economy there is minimum role of the Government
- Which of the above 3 statement is/are true?
- a) Only 1 and 3  
b) Only 2 and 3  
c) Only 3  
d) All are true
- 5) Macroeconomics is a study of economics that deals with which 4 major factors:  
a) households, firms, government, and demand-supply  
b) households, firms, government and external sector  
c) firms, government, free-market, and regulations  
d) none of the above



- 6) What are consumption goods?
- a) Goods used for consumption in the production process
  - b) Goods such as tools, machinery, etc which are used to create final consumption goods
  - c) Goods and services that are consumed fully when purchased by the consumers
  - d) None of the above
- 7) What are Capital goods?
- a) Goods used for consumption in the production process
  - b) Goods such as tools, machinery, etc which are used to create final consumer goods
  - c) Goods and services that are consumed fully when purchased by the consumers
  - d) None of the above
- 8) Intermediate goods are not included to calculate the final output because:
- a) they do not have value
  - b) they have unknown value
  - c) their value is included in final goods so they are not added to avoid the problem of double counting
  - d) none of the above
- 9) What does the term Gross investment mean while denoting a nation's economy?
- a) Gross investment= Net investment + Depreciation
  - b) Gross investment= Net investment - Depreciation
  - c) Gross investment= Depreciation - Net investment
  - d) None of the above
- 10) What does the term free-market denote in terms of economy?
- a) Minimal government intervention in trade and minimum regulations
  - b) Maximum government intervention in trade and maximum regulations
  - c) Means of production owned by the state
  - d) None of the above
- 11) \_\_\_\_\_ economics can study the problem of Inflation in the country.
- a) Micro
  - b) Macro
  - c) Static
  - d) Dynamic



12) The credit of development of macroeconomic approach must go to \_\_\_\_\_.

- a) Dr. Marshall
- b) Prof. Pigou
- c) Lord Keynes
- d) Mrs. Joan Robinson)

13) Macroeconomics does not study \_\_\_\_\_.

- a) whole economy
- b) national income
- c) aggregate supply
- d) product pricing)

14) \_\_\_\_\_ is the subject matter of Macroeconomics.

- a) Growth theory
- b) Factory Pricing
- c) Market Structure
- d) Individual Incomes

15) Micro and Macro approaches are \_\_\_\_\_.

- a) Competitive
- b) Alternative
- c) Substitutes
- d) Complementary

State the following statements are true or false:

16) Increase in national income is a Micro- Economic goal.

True / False

17) Macro-Economic adopts lumping method.

True / False

18) Study of price determination is a subject matter of Macro-Economics.

True / False

19) Micro-Economics deals with the study of aggregates.

True / False



- 20) For economists, statements about the world are of two types:
- Assumptions and theories
  - Positive statements and negative statements
  - Positive statements and normative statements
  - Specific statements and general statements
- 21) The opportunity cost of going to university is:
- The total spent on food, clothing, books, transportation, tuition, lodging and other expenses
  - Zero for students who are fortunate enough to have all of their university expenses paid by someone else
  - Zero, since a university education will allow a student to earn a higher income after graduation
  - The value of the best opportunity a student gives up to attend university
- 22) In a market economy:
- Households decide which firms to work for and what to buy with their incomes
  - Profit and self-interest guide the decisions of firms and households
  - Firms decide whom to hire and what to produce.
  - All of the above are true
- 23) Statistics such as GDP, the unemployment rate, the rate of inflation and the trade balance are:
- Macro, since they tell us something about the entire economy
  - Neither macro nor micro, but properly in the realm of political science
  - Both micro and macro
  - Micro, since they affect individual households and firms
- 24) What do you mean by a mixed economy?
- Modern and traditional industries
  - Public and private sectors
  - Foreign and domestic investments
  - Commercial and subsistence farming
- 25) "Capitalism" refers to?
- The use of market
  - Government ownership of capital
  - Private ownership of capital goods



d) Private ownership of homes & cars

26) In Economics, a good is something which,

- a) Is a service
- b) Can be a service
- c) Appears appealing
- d) Satisfies wants and needs

27) The basic factors of production are land, labour, capital and,

- a) Enterprise
- b) Investment
- c) Machinery
- d) Resources

28) Macroeconomics became popular after-----

- a) Great depression of 1929- 33
- b) 1972-73
- c) 1996- 97
- d) 2006- 07

29) The term 'macro' has been derived from-----

- a) Greek word 'makros' which means large
- b) English word 'makros' which means large
- c) Greek word 'makros' which means small
- d) French word 'makros' which means large

30) In macroeconomics, we study about -----

- a) Theory of National Income & Employment
- b) Theory of Money Supply & Price Level
- c) Theory of International Trade & Eco growth
- d) All of the above.

31) Which of the following is/are the goals of macroeconomics-----?

- a) To Achieve Higher Level of GDP
- b) To Achieve Higher Level of Employment
- c) Stability of Prices
- d) all the above

32) The study of groups and broad aggregates of the economy is known as-----

- a) Microeconomics
- b) Macroeconomics
- c) International Economics



d) None of the above.

State the following statements are true or false:

**33)** The term microeconomics and macroeconomics were first given by Ragner Frisch in 1933.  
True / False

**34)** Prof. J.M. Keynes is known as father of modern macroeconomics.  
True / False

**35)** Macroeconomics became popular after great depression of 1929- 33.  
True / False

**36)** Prof. J. M. Keynes wrote the book General Theory of Employment, Interest and Money in 1936.  
True / False

**37)** Price is the main determinant of macroeconomics.  
True / False

**38)** Income is the main determinant of microeconomics.  
True / False

**39)** Partial equilibrium analysis is used in microeconomics.  
True / False

**40)** General equilibrium analysis is applied in microeconomics.  
True / False

**41)** Keynesians believe in free- market economy.  
True / False

**42)** Microeconomics and macroeconomics are independent to each other.  
True / False





**Unit 1 Answer Keys**

1-a	2-b	3-b	4-d	5-b	6-c	7-b	8-c	9-a	10-a
11-b	12-c	13-d	14-a	15-d	16-F	17-T	18-F	19-T	20-c
21-d	22-d	23-a	24-b	25-c	26-d	27-a	28-a	29-a	30-d
31-d	32-b	33-T	34-T	35-T	36-T	37-F	38-F	39-T	40-F
41-F	42-F								

**Unit: 2 National Income accounting**

- 1) The average income of a country is called
  - a) Per capita income
  - b) Disposable income
  - c) Inflation rate
  - d) Real national income
- 2) The value of NNP at production point is called
  - a) NNP at factor cost
  - b) NNP at market price
  - c) GNP at market price
  - d) GNP at factor cost
- 3) The value of NNP at consumer point is called the
  - a) NNP at factor cost
  - b) NNP at market price
  - c) GNP at market price
  - d) GNP at factor cost
- 4) When depreciation is deducted from GNP, the net value is
  - a) Net national product (NNP)
  - b) Net domestic product
  - c) Gross national product
  - d) Disposable income
- 5) Consider the following statements and identify the right ones.
  - i. While calculating GNP, income generated by foreigners in a country is taken into consideration



- ii. While calculating GNP, income generated by nationals of a country outside the country is taken into account
- a) i only
  - b) ii only
  - c) both
  - d) none
- 6) What is the net value of GDP after deducting depreciation from GDP(Gross domestic product)?
- a) Net national product
  - b) Net domestic product
  - c) Gross national product
  - d) Disposable income
- 7) Consider the following statements and identify the right ones.
- i. National income is the monetary value of all final goods and services produced.
  - ii. Depreciation is deducted from gross value to get the net value
- a) i only
  - b) ii only
  - c) both
  - d) none
- 8) Which of the following is considered as financial year in India?
- a) April 1 to March 31
  - b) January 1 to December 31
  - c) March 1 to April 30
  - d) March 16 to March 15
- 9) Which is not added in the calculation of national income of India?
- a) The value of goods and services
  - b) The sold value of the old fridge
  - c) Services rendered by the housewives
  - d) Both [B] & [C]
- 10) Which sector contributes the most to India's economy in terms of GDP?
- a) Service sector
  - b) Manufacturing sector
  - c) Agricultural sector
  - d) Small scale industries
- 11) Which Ministry is responsible for calculating GDP in India?
- a) Ministry of Finance
  - b) Ministry of Commerce and Industry





- c) Ministry of Central Statistical and Program Implementation (Central statistical organization)  
d) Ministry of consumer Affairs
- 12) Which statement is true?  
a) National Expenditure = National income  
b) National Expenditure = National income + National savings  
c) National Expenditure = National income + Taxes  
d) National Expenditure = National income – Taxes
- 13) Which statement is true?  
a) National Income = National expenditure - indirect taxes  
b) NI = GNP - NNP  
c) NI = NNP - indirect taxes (because, from NNP if we minus the indirect taxes it will give us NNP@FC which is equal to NI)  
d) NI = PI
- 14) There are methods of measuring national income:  
a) 5  
b) 2  
c) 1  
d) 3
- 15) If we compare GDP and GNP, then:  
a) GNP = GDP - net income from abroad  
b) GNP = GDP + net income from abroad (R-P) ..... GDP+(R-P)  
c) GNP = NNP - net income from abroad  
d) GNP = NNP + net income from abroad
- 16) Select the correct statement:  
a) Transfer payment are included in national income  
b) Depreciation allowance is a part of GNP  
c) Taxes are not included in NNP  
d) GDP means Gross Direct Production
- 17) Which is the largest figure:  
a) NNP  
b) GNP  
c) PI (Disposable Personal Income)  
d) PI (personal income)
- 18) Which is a flow concept:  
a) Number of my shirts  
b) My total wealth  
c) My monthly income  
d) Money supply



19) To avoid double counting when GDP is estimated, economists:

- a) Use GDP deflator
- b) Calculate value added at each stage of production
- c) Use retail prices
- d) Use price of only intermediate goods

20) Personal income includes:

- a) Direct taxes
- b) Indirect taxes
- c) Depreciation
- d) None of these

21) Personal income includes:

- a) Transfer payments
- b) Indirect taxes
- c) Depreciation
- d) All of the above

22) If savings exceed investment then:

- a) National income rises
- b) National income falls
- c) National income is not affected
- d) None of the above

23) This statement is true

- a)  $NI = \text{rent} + \text{interest} + \text{wages} + \text{profit}$
- b)  $NI = \text{rent} + \text{interest} + \text{wages} + \text{taxes}$
- c)  $NI = \text{Govt. expenditure} + \text{interest} + \text{wages} + \text{profit}$
- d)  $NI = \text{rent} + \text{interest} + \text{wages} + \text{pensions}$

24) Which Ministry is responsible for calculating GDP in India?

- a) Ministry of Finance
- b) Ministry of Commerce and Industry
- c) Ministry of Central Statistical and Program Implementation
- d) Ministry of consumer Affairs

**Explanation:** The work of computing the GDP is done by the Central Statistical Organization (CSO) which is under the Ministry of Statistical and Program Implementation.



25) Which state of India currently has the highest Per Capita Income?

- a) Goa
- b) Delhi
- c) Maharashtra
- d) Punjab

26) How much does the primary sector contribute to India's GDP?

- a) 26%
- b) 20%
- c) 53%
- d) 14%

**Explanation:** The contribution of primary sector in India's GDP is 19.83%.

27) Which sector contributes the most to India's economy?

- a) Service sector
- b) Manufacturing sector
- c) Agricultural sector
- d) Small scale industries

**Explanation:** The service sector contributes 60% of India's economy.

28) If the contribution of the agricultural sector is decreasing in a country's economy, then what conclusion can be drawn?

- a) The country is growing in the direction of being a developed nation
- b) The country is moving towards becoming developing nation
- c) The country is moving towards becoming less developed nation
- d) The economic growth rate of the country has stopped

**Explanation:** The country is growing in the direction of being a developed nation. Contribution of Agriculture in the GDP of developed nations decreases and the contribution of service and manufacturing sector is very high.

29) Which is not added in the calculation of national income of India?

- a) The value of goods and services
- b) The sold value of the old fridge
- c) Services rendered by the housewives
- d) Both b & c

**Explanation:** In the calculation of national income, the value of goods and services produced in a year is added, while the value of old sold goods and the services of the Housewife are not added.



30) Output means. ....unless stated otherwise

- a) Gross output at MP (GDPmp)
- b) Net output at MP
- c) Gross output at FC
- d) None

31) Which of the following is not a component of domestic income?

- a) Operating surplus
- b) Compensation of employees
- c) Net factor income from abroad
- d) Mixed income

32) If factor cost is greater than marker price, it means that

- a) Indirect taxes < subsidies (Subsidy> indirect taxes)
- b) Indirect taxes > subsidies
- c) I.T = subsidies
- d) None

33) An Indian farmer produces wheat without incurring cost of inputs all

sells for Rs. 1,000 to a miller who grinds wheat into flour and sells for Rs 1,200 to baker. The baker sells bread to consumers for Rs. 1,600. Total added is Rs.

- a) 1,600
- b) 2,200
- c) 1,000
- d) 1,400

34) Which of the following is not true about final goods ?

- a) Final gods satisfy wants of ultimate consumers and producers.
- b) Final goods have direct demand as they satisfy the wants directly.
- c) Final goods are subject to further transformation in the process of production.
- d) Final goods are neither used up as raw-material nor for resale in the same year.



35) Following is an example of final good:

- a) Flour used by a banker in making biscuits
- b) Unsold stock of goods lying with the sellers
- c) Tyres purchased by a transport company
- d) Mobile sets purchased by a mobile dealer

36) Which out of the following is not included in estimation of NI?

- a) Subsidized Lunch
- b) Old-age Pension
- c) Free Medical facilities
- d) Construction of a house

37) Which of the following is a synonym of “Undistributed Profits”?

- a) Savings of private corporate sector
- b) Reserves and Surplus
- c) Retained Earnings
- d) All of these

38) Piyush’s mother is a teacher. She also teaches Piyush. How would you treat this while calculating national income and domestic income ?

- a) It will be included in the national income, but not in the domestic income.
- b) It will be included in the domestic income, but not in the national income.
- c) It will be included in domestic income as well as national income.
- d) It will neither be included in the domestic income nor in the national income.

39) Subsidy implies Selling the product

- a) To the government at higher prices
- b) Below the cost of production.
- c) Selling the product at loss.



d) Selling the product at cost plus indirect taxes.

(40) Which of the following is correct?

- a) If national income rises, per capita income must also rise.
- b) If population rises, per capita income must fall.
- c) If national income rises, welfare of the people must rise.
- d) None of the above.

41) Goods which are not used in the production of other goods are called:

- a) Capital goods
- b) Consumption goods
- c) Producer goods
- d) Intermediate goods

42) Depreciation is the:

- a) Loss of value of fixed assets in use due to normal wear and tear
- b) Loss of value of fixed assets in use due to normal rate of accidental damages
- c) Loss of value of fixed assets in the due to foreseen obsolescence
- d) All of these

43) Which of following is not included in national income ?

- a) Factor income
- b) Rent
- c) Operating surplus
- d) Transfer income

44) Which of following is not a capital good?

- a) Use of Machine tools
- b) Raw Material





- c) Advocate's Services
- d) Heavy Machinery

45) Which of following is not an intermediate goods?

- a) Wheat
- b) Gold
- c) Service of Doctor
- d) Sand and Bricks

46) Which of following is not a final good?

- a) Machinery purchased by dealer
- b) Machinery purchased by a factory
- c) Use of petrol
- d) Washing machine

47) Which of following is not a part of national income?

- a) Depreciation
- b) Net factor income from abroad
- c) Operating surplus
- d) Mixed income

Ans: A (explanation...NI= NNP @ fc...N means net and Gross- depreciation will give you net income

48) Product method of calculating national income is also known as:

- a) Income method
- b) Value added method
- c) Expenditure method
- d) Distribution method



49) Transfer payments refer to payments, which are made:

- a) Without any exchange of goods and services
- b) To workers on transfer from one job to another
- c) As compensation to employees
- d) None

50) National Income differs from Net National Product at market price by the amount of:

- a) Current transfers from rest of the world
- b) Net Indirect Taxes (difference between Indirect tax and subsidy)
- c) National debt interest
- d) it does not differ

51) Net national product at factor cost is also known as:

- a) Net Domestic product
- b) Gross National product
- c) National Income
- d) Personal Income

52) In GNP calculation which of the following should be excluded?

- a) Rental incomes
- b) Interest payments
- c) Dividends
- d) Government transfer payment

53) National Income differs from Net National Product at market price by the amount of:

- a) Current transfers from rest of the world
- b) Net Indirect Taxes
- c) National debt interest
- d) it does not differ



**Unit 2: Answer Key**

1-a	2-a	3-b	4-a	5-b	6-b	7-c	8-a	9-d	10-a
11-c	12-a	13-c	14-d	15-b	16-b	17-b	18-c	19-b	20-a
21-a	22-b	23-a	24-c	25-a	26-b	27-a	28-a	29-d	30-a
31-c	32-a	33-a	34-c	35-b	36-b	37-d	38-d	39-b	40-d
41-b	42-d	43-d	44-c	45-c	46-a	47-a	48-b	49-a	50-b
51-c	52-d	53-b							

**Unit: 3 Theory of Income and Employment**

1. Excess demand for money, according to Say's law in the Economy:
  - a) Is greater
  - b) Is very less
  - c) Is equal to zero
  - d) There is no relationship between excess demand for money and Say's Law
2. Which of the following is not an assumption of classical theory?
  - a) Price flexibility
  - b) Unemployment
  - c) Say's law
  - d) Neutrality of money
3. In classical theory the equality between saving and investment is brought about by:
  - a) Rate of interest
  - b) Income
  - c) Consumption
  - d) Multiplier
4. The normal condition of a capitalist economy in classical theory is:
  - a) Underemployment
  - b) Full employment
  - c) General unemployment
  - d) Frictional unemployment



5. In classical theory of employment, there is the possibility of:

- a) Voluntary unemployment
- b) No unemployment
- c) Involuntary unemployment
- d) Disguised unemployment

6. "Supply creates its own demand" is a law of:

- a) Investment
- b) Inflation
- c) Consumption
- d) Market

7. According to classical economists, variations in savings are due to:

- a) Level of investment
- b) Rate of interest
- c) Level of employment
- d) None of the above

8. Supply creates its own demand is the Basis of:

- a) Classical economics
- b) Keynesian economics
- c) Monetarism
- d) None of these

9. Which policy is effective in the Keynesian range?

- a) Monetary policy
- b) Fiscal policy
- c) Incomes policy
- d) None of these

10. When output exceeds spending:

- a) There is unsold output, and level of output will fall
- b) There is unsold output, and level of output will rise
- c) There is unsold output, and level of spending will rise
- d) There is no unsold output since the level of spending will rise

11. Saving is a function of

- a) Export
- b) Import



- c) Investment
- d) Income

12. Entrepreneurs will have no tendency to expand or contract output and employment when

- a)  $AD > AS$
- b)  $AD < AS$
- c)  $AD = AS$
- d) None of the above

13. The slope of the consumption function is called

- a) MPC
- b) MPS
- c) APC
- d) APS

14. The concept of effective demand is associated with the name of

- a) Marshall
- b) Keynes
- c) Krugman
- d) Say

15. Psychological law of consumption states that the value of MPC lies between zero and

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

16. Net investment is also known as

- a) Depreciation
- b) Induced investment
- c) Autonomous investment
- d) Capital formation

17. In the saving function  $S = -a + (b)Y$ , the term 'b' denotes

- a) Saving
- b) MPC
- c) MPS
- d) APS



18. Who propounded Psychological law of consumption

- a) Adam Smith
- b) Ricardo
- c) Keynes
- d) Pigou

19. When  $MPS = 0.2$ ,  $MPC$  will be

- a) 0.8
- b) 0.2
- c) 1.2
- d) 20

20) In the linear consumption function  $C = a + bY$ , coefficient 'a' denotes

- a) MPC
- b) APC
- c) Autonomous consumption
- d) Induced consumption

21. In the equation  $C = 60 + 0.6 Y$ ,  $MPC$  is

- a) 60
- b) 0.6
- c) 0
- d) 1

22. Keynes assumed the presence of ----- economy for the fundamental law of

consumption

- a) Capitalistic
- b) Socialistic
- c) Planned
- d) None of the above





**Unit 3: Answer Key**

1-d	2-b	3-a	4-b	5-a	6-d	7-b	8-a	9-b	10-a
11-d	12-c	13-a	14-b	15-a	16-d	17-b	18-c	19-a	20-c
21-b	22-a								

**Unit: 4 Business Cycle, inflation and deflation**

1. Demand-pull inflation may be caused by:
  - a) An increase in costs
  - b) A reduction in interest rates
  - c) A reduction in government spending
  - d) An outward shift in aggregate supply
2. Inflation:
  - a) Always reduces the cost of living
  - b) Always reduces the standard of living
  - c) Reduces the price of products
  - d) Reduces the purchasing power of a Rupee
3. An increase in injections into the economy may lead to:
  - a) An outward shift of aggregate demand and demand-pull inflation
  - b) An outward shift of aggregate demand and cost-push inflation
  - c) An outward shift of aggregate supply and demand-pull inflation
  - d) An outward shift of aggregate supply and cost-push inflation
4. According to the Phillips curve, unemployment will return to the natural rate when:
  - a) Nominal wages are equal to expected wages
  - b) Real wages are back at long-run equilibrium level
  - c) Nominal wages are growing faster than inflation
  - d) Inflation is higher than the growth of nominal wages



5. What is the cause of inflation?
  - a. If money supply increases.
  - b. If the production rate falls.
  - c. If money supply increases and production falls.
  - d. Both money supply and production decreases.
  
6. What does the inflation imply?
  - a) Rise in budget deficit
  - b) Rise in prices of consumer goods.
  - c) rise in money supply.
  - d) Rise in general price index.
  
7. How the inflation can be checked temporarily?
  - a) Increase in money supply
  - b) Decrease in money supply
  - c) Increase in wages
  - d) Decrease in Tax
  
8. Which groups are not protected from inflation?
  - a) Industrial worker
  - b) Agricultural farmers
  - c) Government pensioners
  - d) Saving bank account holders
  
9. Which of the following cannot be included among the remedies of inflation?
  - a) Better capacity utilization
  - b) by making low bank rate
  - c) by reducing budget deficit
  - d) by making high bank rate
  
10. What is Cost-Push inflation?
  - a) Increasing money supply
  - b) Increasing indirect tax
  - c) Population increase
  - d) expenditure increase unnecessarily.



11. Inflation is the state in which .....
  - a) The value of money decreases
  - b) The value of money increases
  - c) The value of the money increases first and then decreases
  - d) The value of money decreases first and increases later
  
12. Which of the following class will not be negatively affected by the higher inflation?
  - a) The consumer class
  - b) The debtor class
  - c) Pensioner class
  - d) Business class
  
13. Which of the following is an effect of inflation?
  - a) Erosion in purchasing power
  - b) Affects relative price of goods
  - c) Increase in inequalities of income
  - d) All the above
  
14. The trough of a business cycle occurs when \_\_\_\_\_ hits its lowest point.
  - a) inflation
  - b) the money supply
  - c) aggregate economic activity
  - d) the unemployment rate
  
15. The low point in the business cycle is referred to as the
  - a) expansion.
  - b) boom.
  - c) trough.
  - d) peak.
  
- 16). When aggregate economic activity is increasing, the economy is said to be in
  - a) an expansion.
  - b) a contraction.
  - c) a peak.
  - d) a turning point.
  
17. In a boom:
  - a) Unemployment is likely to fall
  - b) Prices are likely to fall
  - c) Demand is likely to fall
  - d) Imports are likely to fall



- 18) Peaks and troughs of the business cycle are known collectively as
- a) volatility.
  - b) turning points.
  - c) equilibrium points.
  - d) real business cycle events.
19. When aggregate economic activity is declining, the economy is said to be in
- a) a contraction.
  - b) an expansion.
  - c) a trough.
  - d) a turning point.
20. Industries that are extremely sensitive to the business cycle are the
- a) durable goods and service sectors.
  - b) nondurable goods and service sectors.
  - c) capital goods and nondurable goods sectors.
  - d) capital goods and durable goods sectors.
21. Economists use the term shocks to mean
- a) unexpected government actions that affect the economy.
  - b) typically, unpredictable forces that have major impacts on the economy.
  - c) sudden rises in oil prices.
  - d) the business cycles.

**Unit 4: Answer Key**

1-b	2-d	3-a	4-b	5-c	6-d	7-b	8-b	9-b	10-b
11-a	12-d	13-d	14-c	15-c	16-a	17-a	18-b	19-a	20-d
21-b									



**Unit: 5 Macro Economic Policies**

1. The government spending multiplier is as higher as:
  - a. Higher is the government spending
  - b. Higher is the MPC
  - c. Lower is the MPC
  - d. Lower is the tax revenue
2. Point out which of the following is not an instrument of fiscal policy:
  - a. An increase in the interest rate
  - b. A cut in unemployment compensation
  - c. An increase in tobacco taxes
  - d. A cut in the marginal rates of IRPF
3. The function of investment spending shifts to the left if:
  - a. The interest rate rises
  - b. The interest rate falls
  - c. Business expectations improve
  - d. Business expectations get worse
4. An increase in the interest rate<sup>1</sup>
  - a. Shifts the aggregate demand curve to the left
  - b. Shifts the aggregate demand curve to the right
  - c. Has no effect
  - d. Moves the economy along the aggregate demand curve
5. A cut in direct taxes on households' income<sup>1</sup>
  - a. Has no effect
  - b. Shifts the aggregate demand curve to the left
  - c. Shifts the aggregate demand curve to the right
  - e. Moves the economy along the aggregate demand curve
6. As higher is the MPS
  - a. Lower is the multiplier.
  - b. Higher is the investment spending
  - c. Higher is the equilibrium income.
  - d. All the answers are right
7. A decrease in the MPC may cause:
  - a. A fall in the equilibrium income
  - b. An increase in the equilibrium income.
  - c. It does not affect the equilibrium income



- d. The government spending multiplier rise
8. To increase the money supply, the bank central could:
- Cut taxes
  - Purchase bonds in the open-market
  - Encourage people to held more cash (currency in circulation)
  - Increase the government spending
9. The variable that connect the market of money and the market of goods via investment spending is:
- The MPC
  - The interest rate
  - The MPS
  - The CPI
10. Point out the monetary policy instrument:
- An increase in direct taxes
  - Open-market operations
  - Freezing pensions
  - A cut in government purchase of goods and services
11. Monetary Policy is a regulatory policy by which the \_\_\_\_\_ or monetary authority of a country controls the supply of money, availability of bank credit and cost of money that is the rate of interest:
- Central Bank (RBI)
  - SBI
  - IBA
  - None of These
12. \_\_\_\_\_ controls the supply of money and bank credit:
- RBI
  - Indian Banking Association
  - SEBI
  - None of These
13. The main objective of monetary policy in India is \_\_\_\_\_:
- Growth with Stability
  - Reduce Poverty and Achieve Stability
  - Overall Monetary Stability
  - None of These





14. The Cash Reserve Ratio is an effective instrument of credit control. Under the RBI Act, 1934 every \_\_\_\_\_ bank has to keep certain minimum cash reserves with RBI:

- a) Public Bank
- b) Commercial Bank
- c) Industrial and Agricultural Banks
- d) None of These

15. If RBI wants to increase the credit flow it buys \_\_\_\_\_:

- a) Government Securities
- b) Shares and Debentures
- c) Other Local and Short-term securities
- d) None of These

**Unit 5: Answer Key**

1-b	2-a	3-d	4-a	5-c	6-a	7-a	8-b	9-b	10-b
11-a	12-a	13-a	14-b	15-a					