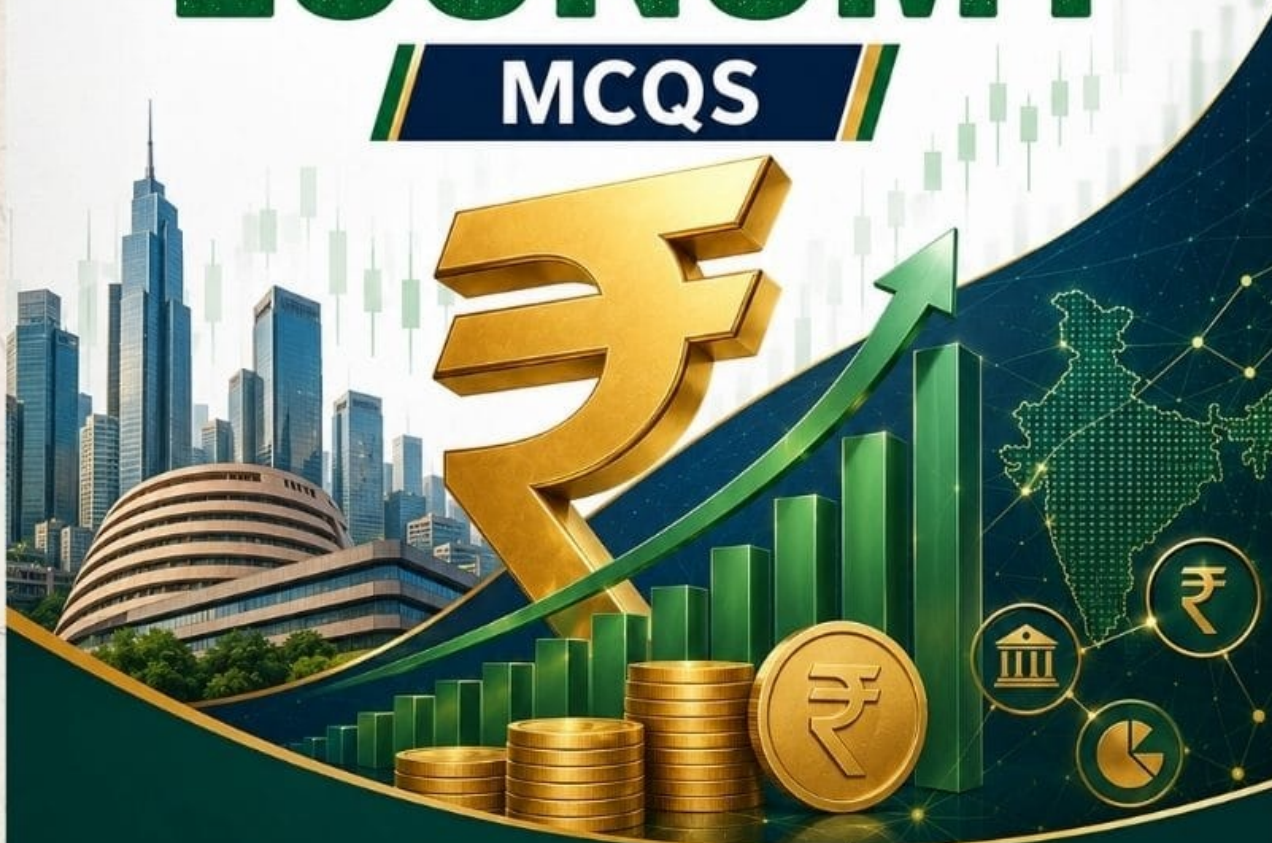


— OBJECTIVE —

INDIAN ECONOMY

MCQS



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Indian Economy MCQs

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1. Important Concepts in Micro & Macroeconomics

1. Which of the following pairings does not represent a set of complementary goods?

- [A] Printers and Ink Cartridges
- [B] Tea and Sugar
- [C] Mobile Phones and SIM cards
- [D] Tea and Coffee

Answer: Tea and Coffee

Complementary goods, defined by their negative cross elasticity of demand, are products whose demand is influenced by one another. When the price of a good declines, the demand for its complementary good rises. Printers need ink cartridges, tea is often consumed with sugar, and mobile phones require SIM cards for operation. However, tea and coffee are substitutes, not complements, as they are consumed separately and often in place of one another, hence they are not complementary goods.

2. If demand and supply increase equally, what happens to market price?

- [A] Remain stable
- [B] Increase
- [C] Decrease
- [D] Cannot be determined without more information

Answer: Remain stable

When demand and supply increase equally at every price, the demand and supply curves shift rightward by the same amount. The upward price pressure from demand is offset exactly by downward pressure from supply. The new equilibrium price remains the same, but the equilibrium quantity increases. This is a standard result in microeconomics related to simultaneous shifts in demand and supply curves.

3. A rise in the price of one commodity leads to a fall in the demand for another commodity. Such commodities are called:

- [A] Complementary
- [B] Supplementary
- [C] Competing
- [D] Auxiliary

Answer: Complementary

Complementary goods are used together, such

as tea and sugar or printers and ink. If the price of one good rises, demand for its complement often falls because the two goods are consumed jointly.

4. Which among the following is a most suitable example of double counting in national income ?

- [A] Wages of bus and train drivers
- [B] Cotton output and cotton cloth output
- [C] Electricity output and water output
- [D] Tax receipts and earnings of inland revenue officials

Answer: Cotton output and cotton cloth output

While estimating the national income, the problem of double counting occurs when the value of some goods and services are counted more than once. Cotton output and cotton cloth output both the raw material and the final result are counted.

5. Which among the following is considered to be the best measure of an increase in a country's economic efficiency?

- [A] Increase in annual private investment
- [B] Increase in real national income
- [C] Increase in real per capita income
- [D] Increase in net annual investment

Answer: Increase in real per capita income

Per capita income is a measure of the average income earned per person in a given area (usually in a country) in a particular year. When this figure is adjusted for inflation, the real per capita income is obtained, which gives the best measure of an increase in a country's economic efficiency.

6. Why the Transfer incomes are not included in the national income accounts?

- [A] They do not represent payment for economic activity
- [B] There is now way of calculating them correctly
- [C] They are already included in the total of personal income
- [D] They are already included in company earnings

Answer: They do not represent payment for economic activity

Transfer payments made by the Government including subsidies, government aid, social



security assistance such as health insurance payment and scholarship are not included in the national income. Because they do not represent any economic activity.

7. An autonomous increase in expenditure should result in an increase in a country's real GNP only if ?

- [A] The country's balance of trade is negative
- [B] The country's economy is working under conditions of less than full employment
- [C] It is government expenditure
- [D] The multiplier is at least 1.5

Answer: The country's economy is working under conditions of less than full employment

When the economy is working under conditions of less than full employment, the GDP gap is positive and the economy operates at less than potential. At this point, an increase in expenditure would result in an increase in a country's real GNP.

8. Which among the following is considered the main determinant of the level of income and output in Keynesian theory?

- [A] Level of taxation
- [B] Aggregate demand (aggregate expenditure)
- [C] Planned saving
- [D] Factor mobility

Answer: Aggregate demand (aggregate expenditure)

In Keynesian macroeconomics, equilibrium national income is determined by aggregate demand, also called aggregate expenditure. At the equilibrium level, total planned spending equals output and income. Taxation can influence aggregate demand, but it is not the primary direct determinant in the basic income-determination model.

9. A systematic record of all economic transactions completed between residents of a country and the rest of the world in a year is known as..?

- [A] Net Capital Flow
- [B] Balance of Payment
- [C] Balance of Trade
- [D] Absolute Flow

Answer: Balance of Payment

The Balance of International payments or Balance of Payments refers to the systematic and summary record of a country's economic and financial transactions with the rest of the world, over a period of time.

The three main components of BoP are Current Account, Capital Account and Official Reserve Transactions

10. Which economic law states "bad money drives out good money"?

- [A] Wagner's law
- [B] Keynes' law
- [C] Grimm's law
- [D] Gresham's law

Answer: Gresham's law

Gresham's law, enunciated by Sir Thomas Gresham, states that inferior currency (bad money) in circulation displaces valuable or superior currency (good money) if both are accepted at same face value, as people hoard the good currency and spend the bad.

11. Which among the following is a suitable term for the state of economy in which economic activity is slowing down but wages and prices continue to rise ?

- [A] Inflation
- [B] Deflation
- [C] Skweflation
- [D] Stagflation

Answer: Stagflation

Stagflation refers to persistent high inflation coupled with high unemployment and stagnant demand /growth in economy.

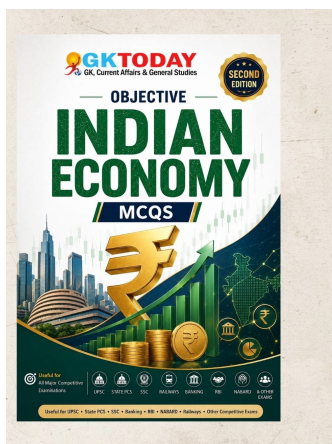
High Inflation + Low Economic Growth {or conditions of recession} + Low Employment Generation = Stagflation

12. Which among the following bodies estimates the national income of India?

- [A] Office of the Economic Advisor
- [B] National Statistical Office (NSO)
- [C] Central Statistical Office
- [D] Ministry of Finance

Answer: National Statistical Office (NSO)

India's national income and related macroeconomic estimates are now compiled by the National Statistical Office (NSO) under the



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