

PRACTICE PAPER - 3

1. Which of the following is NOT to be included in national product ?
 - a) Wheat produced by the farmer and consumed by him.
 - b) house built by the owner himself.
 - c) Income from the sale of old car
 - d) Machine made by firm A and sold to B
2. In general, most of the production functions measure-
 - a) The productivity of factors of production
 - b) The relation between the factors of production
 - c) The economies of scale
 - d) The relations between change in physical inputs and physical output
3. Innovation basically includes
 - a) New methods of production
 - b) New markets
 - c) New sources of raw materials
 - d) All the above
4. Depreciation means
 - a) destruction of a plant in a fire accident
 - b) loss of equipment and machines over time due to normal wear and tear
 - c) closure of the firm due to lockout
 - d) unanticipated loss
5. In the long-run-
 - a) All factors can be used in different proportions
 - b) Management can be re-organised
 - c) A firm can experience returns to scale
 - d) All of these
6. Monopoly theory of profit was introduced by
 - a) Kaldor
 - b) Keynes
 - c) Kalecki
 - d) Knight
7. The difference between GNP and GDP is equal to
 - a) gross foreign investment
 - b) net foreign investment
 - c) net export
 - d) net factor income from abroad
8. A set of all possible production combinations while producing two commodities is-
 - a) Isoquant map
 - b) Iso cost line
 - c) Production possibility curve
 - d) Production functions
9. Kalecki theory of profit was influenced by
 - a) Keynesian economics
 - b) Marxian economics
 - c) Classical economics
 - d) Institutional economics
10. National product at current prices is higher than national product at constant prices during a period of
 - a) rising prices
 - b) falling prices
 - c) stable prices
 - d) changing costs
11. Economics of scale means-
 - a) Reductions in unit cost of production
 - b) Reductions in unit cost of distribution
 - c) Addition to the unit cost of production
 - d) Reduction in the total cost of production
12. Greater depression, when profit was all time low happened in
 - a) 1920
 - b) 1933
 - c) 1939
 - d) 1947
13. The difference between GNP and NNP is
 - a) indirect taxes
 - b) direct taxes
 - c) depreciation
 - d) net factor income from abroad
14. Marginal product is-
 - a) What is produced when all factors of production are employed at optimum efficiency
 - b) The extra output obtained from employing an additional unit of a factor
 - c) What is left to the entrepreneur after he has paid all his expenses

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- d) Annual output of the most efficient firm in the industry
15. In case of Depression, profit tend to
- Rise
 - Fall
 - Remain constant
 - Can't say with certainty
16. $Y = C + I + G + (X - M)$ is
- an equation
 - an identity
 - a formula
 - a function
17. Marginal product becomes negative-
- In no circumstances
 - When total output turns down
 - When total output grows swiftly
 - When total output ceases to grow swiftly
18. In case of war, profit tend to
- Rise
 - Fall
 - Remain constant
 - Can't say with certainty
19. If we know the GNP at market prices we calculate GNP at factor cost by
- adding net indirect taxes
 - subtracting net indirect taxes
 - adding net factor income from abroad
 - subtracting net factor income from abroad
20. When the average product is at its maximum the equality can be reached between
- The marginal product and total product
 - The marginal product and average product
 - The marginal product and primary product
 - The marginal product and final product
21. Profit after falling continuously, start rising in the phase of
- Depression
 - Recovery
 - Boom
 - Recession
22. If we know the GNP, then we calculate GDP by
- adding net indirect taxes
 - subtracting net indirect taxes
 - adding net factor income from abroad
 - subtracting net factor income from abroad.
23. When average product increases, the marginal product is-
- Less than the average product
 - More than the average product
 - Equal to the average product
 - None of the above
24. Profit after rising continuously, start falling in the phase of
- Depression
 - Recovery
 - Boom
 - Recession
25. NNP for a given year can be defined as
- the profits of manufacturing units after deducting taxes
 - the real value of final and intermediate goods
 - the market value of all the final goods and services
 - the total profits of all the entrepreneurs
26. In short run the law of variable proportions is also known as the-
- Law of increasing returns
 - Law of diminishing returns
 - Law of constant returns
 - Law of return to scale
27. Profit is maximum when there is
- Depression
 - Recession
 - Boom
 - Recovery
28. Which of the following is NOT included in disposable income ?
- International transfer payments
 - Unemployment allowances
 - Direct taxes
 - Corporate dividends
29. Increasing returns to scale can be explained in terms of-
- Fixed scale of plant
 - Optimum factor proportions
 - External and internal economics
 - Labour productivity

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30. Profit is minimum when there is

- a) Depression
- b) Recession
- c) Boom
- d) Recovery

31. If the consumption function is given by $C = 20 + \frac{3}{4} Y$, then the value of multiplier will be

- a) $\frac{4}{3}$
- b) $\frac{1}{4}$
- c) 4
- d) 20

32. Imagine a graph showing production possibilities. What does an outward shift of the production possibilities curve indicate?

- a) Inflation
- b) Over production
- c) Economic growth
- d) Over full employment

33. Hyperinflation leads to

- a) Low profit
- b) Very high profit
- c) Losses
- d) Constant profits

34. If the saving function is given by $S = -25 + \frac{1}{4} Y$, then what will be the value of marginal propensity to consume ?

- a) $\frac{1}{4}$
- b) 25
- c) $\frac{3}{4}$
- d) 4

35. The expansion path of production theory is analogous in consumption theory to the-

- a) Price consumption line
- b) Engel curve
- c) Income consumption line
- d) Budget constraint line

36. Cost push inflation leads to

- a) Increase in profit
- b) Decrease in profit
- c) Constant profit
- d) Can't say with certainty

37. If the consumption function is given by $C = 25 + \frac{2}{3} y$ then what are the values of autonomous consumption and total consumption when income is 300?

- a) $\frac{2}{3}$ and 200
- b) 25 and 200
- c) 25 and 225
- d) $\frac{2}{3}$ and 225

38. The Law of variable proportions comes into being when-

- a) There are only two variable factors
- b) There is a fixed factor and a variable factor
- c) All factors are variable
- d) Variable factors yield less

39. Demand pull inflation leads to

- a) Increase in profit
- b) Decrease in profit
- c) Constant profit
- d) Can't say with certainty

40. Increasing returns imply-

- a) Constant average cost
- b) Diminishing cost per unit of output
- c) Optimum use of capital and factor
- d) External economies

41. Profit is a source of income for

- a) Poor
- b) Very poor
- c) Rich
- d) Very rich

42. On the basis of above example, what is the value of total saving

- a) 100
- b) 125
- c) 75
- d) cannot be determined

43. Law of Diminishing Returns to factors is relevant to-

- a) Short period
- b) Long period
- c) Secular period
- d) Both short and long periods

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44. Increase in profit as proportion of national income leads to
- Decrease in income inequality
 - Increase in income inequality
 - Doesn't affect inequality of income
 - Can't say with certainty
45. Which of the following is a flow concept?
- Wealth
 - Money
 - Total saving
 - Income
46. A long run Analysis of production is called-
- Economies of scale
 - Law of variable proportion
 - Law of increasing returns
 - Law of Returns to scale
47. Which of the following rate of interest is part of credit control
- Bank rate
 - Forex rate
 - Badla rate
 - None of the above
48. Which of the following is NOT correct?
- In measuring GNP, all kinds of goods and services produced in a country during a year are measured in terms of money
 - In estimating GNP, only the final products are taken into account
 - The sale and purchase of shares of existing companies are included in GNP
 - The income earned through illegal activities is not included in the GNP
49. The elasticity of substitution between two inputs in CES production function-
- Decrease continuously
 - Increase continuously
 - Remains constant
 - None of these
50. Lowest rate of interest is given to
- Bonds
 - Debentures
 - Public deposits
 - Treasury bill

51. Which of the following is NOT included in the estimation of NNP by income method?
- Interest
 - Dividends
 - Undistributed profits
 - Depreciation
52. The Law of Diminishing Return depends on the assumption that-
- Total output is constant
 - The state of technical knowledge is unchanged
 - Land is the factor kept constant
 - Average output declines faster than marginal output
53. Rate of interest for a spend thrift person will be
- High
 - Low
 - Zero
 - None of the above
54. GNP, according to expenditure method, exclude
- Private consumption expenditure
 - Gross domestic private investment
 - Net foreign investment
 - Government expenditure
 - none of these
55. Increasing returns is not caused by-
- Technological advance
 - Specialisation of labour
 - Marketing economies
 - Varying factor proportions
56. Rate of interest for a retired old person will be
- Very high
 - Low
 - Zero
 - Can't say with certainty
57. The term 'social accounting' was first introduced into economics by
- Marshall
 - Hicks
 - Keynes
 - Cooper

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58. The increasing returns to scale occurs because larger scale provides greater specialisation to various factors." According to-
- Joan Robinson
 - Alfred Marshall
 - Chamberlin
 - Paul. A. Samuelson
59. Rate of interest for a miser will be
- Very high
 - Low
 - Zero
 - Can't say with certainty
60. NNP is equal to
- GNP - depreciation
 - GNP + depreciation
 - GNP - net export
 - GNP + net export
61. Isoquant refers to-
- Another name of indifference curve
 - The production Indifference curve
 - An equal quantity curve of a consumer
 - An equal cost curve of a producer
62. Time preference of money for a couple who are just married will be
- Low
 - High
 - Zero
 - Can't say with certainty
63. The total income received by the individuals of a country from all sources before deducting direct taxes is known as
- private income
 - personal income
 - personal disposable income
 - none of these
64. The law of increasing returns is only applicable to agriculture; According to-
- Classical school
 - Neo-classical school
 - Modern school
 - J.M. Keynes

65. Government can reduce rate of interest by
- Increasing export
 - Decreasing import
 - Increase government expenditure
 - Increase money supply
66. GNP includes
- consumer goods and services
 - gross private domestic investment
 - goods and services produced by government
 - net exports
- i, ii and iii only
 - ii, iii and iv only
 - i, iii and iv only
 - i, ii, iii and iv
67. If, by increasing the quantity of labour used by one unit, the firm can give up 2 units of capital and still produce the same output, then the $MRTS_{LK}$ is-
- $\frac{1}{2}$
 - 2
 - 1
 - 4
68. At times of recession, government should
- Reduce rate of interest
 - Increase existing rate of interest
 - Maintain existing rate of interest
 - Can't say with certainty
69. NNP according to income method includes
- wages and salaries
 - royalty
 - net indirect taxes
 - depreciation
- i, ii and iii only
 - ii, iii and iv only
 - i and ii only
 - ii and iii only

Directions : Following 70 to 76 questions are based on Cobb-Douglas Production Function-

$$Q = A \cdot L^\alpha \cdot K^\beta$$

70. The elasticity substitution between the two inputs is-
- Zero
 - $\frac{\alpha}{\beta}$
 - Infinite
 - Unity

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71. The returns to scale are measure by-

- a) $\alpha + \beta$
- b) $\alpha - \beta$
- c) $\alpha \cdot \beta$
- d) α / β

72. The efficiency parameter indicating the state of technology is given by-

- a) A
- b) K
- c) L
- d) α

73. The MRTS of capital for labour is given by-

- a) $\frac{\alpha}{\beta}$
- b) $\frac{\alpha + \beta}{K + L}$
- c) $\frac{\alpha}{\beta} \cdot \frac{L}{K}$
- d) $\frac{K}{L}$

74. The efficiency of production is measured by-

- a) $A(\alpha + \beta)$
- b) A
- c) $\alpha \cdot \beta$
- d) A. α

75. The output elasticity with respect to labour input is measured by-

- a) β
- b) A
- c) α
- d) $\beta \cdot A$

76. The factor intensity is measured by-

- a) $\frac{\alpha}{A}$
- b) $\frac{\alpha}{\beta}$
- c) A+B
- d) $\alpha + \beta$

77. At times of boom, government should

- a) Reduce rate of interest
- b) Increase in rate of interest
- c) Maintain existing rate of interest
- d) Can't say with certainty

78. GNP at market prices minus depreciation minus indirect taxes + subsidies is equal to

- a) NNP at market price
- b) GNP at factor cost
- c) national income
- d) NDP at factor cost

79. The marginal product curve is above the average product curve when the average product is-

- a) Decreasing
- b) Increasing
- c) Becomes constant
- d) None of the above

80. Liquidity trap occurs when

- a) Increase in money supply can't reduce rate of interest
- b) Increase in money demand can't reduce rate of interest
- c) Increase in rate of investment can reduce rate of interest
- d) Increase in saving rate can't reduce interest rate

81. The sum of money value of the income produced by and accruing to the various factors of production in one year in a country is known as

- a) GNP at market price
- b) GNP at factor cost
- c) NNP at market price
- d) NNP at factor cost

82. Written in this form, the CES constant Elasticity of substitution production function exhibits-

- a) Increasing returns to scale
- b) Constant returns to scale
- c) Decreasing returns to scale
- d) None of the above

83. Increase in rate of interest leads to

- a) Inflow of foreign investment
- b) Decrease in investment
- c) Increase in cost of production
- d) All the above

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84. The net value of final goods and services evaluated at current prices is known as

- GNP at market price
- GNP at factor cost
- NNP at market price
- NNP at factor cost

85. Increasing returns to scale can be explained in terms of-

- External diseconomies and internal economies
- External and internal economies
- External and internal diseconomies
- Optimum factor combination

86. Normal profit cover

- Accounting cost
- Opportunity cost
- Both (a) & (b)
- None of the above

87. The difference between GNP and NNP is

- net indirect taxes
- net factor income from abroad
- depreciation
- personal income taxes

88. Which of the following is the correct statement?

1. The slope of the Isoquants represents the MRTS.

2. The MRTS of the inputs x and y = $\frac{MP_x}{MP_y}$

3. The elasticity of substitution between two inputs x and y is proportionate change in the ratio two inputs divided by proportionate change in the MRTS.

4. If degree of homogeneity is greater than one, the production function is increasing returns to fixed factor.

- 1,2,3 and 4
- 1,3and4
- 2,3 and 4
- 1,2and3

89. Supernormal profit is earned by

- Charging higher prices
- Restricting entry of new firms
- Restricting supply
- All the above

90. National income expressed in terms of a general level of prices of a particular year taken as base is known as

- NNP at market price
- NNP at factor cost
- NNP at current prices
- real income

91. When the AP_L is positive but declining, the MP_L could be-

- Declining
- Zero
- Negative
- Any of the above

92. Match the Following with Regarding theories of profit

(i) Dynamic	(a) Frank Knight theory
(ii) Uncertainty	(b) Kalecki theory
(iii) Innovation	(c) J.B. Clark theory
(iv) Monopoly	(d) Joseph Schumpeter theory

a) i-a, ii-b, iii-c, iv-d

b) i-c, ii-a, iii-d, iv-b

c) i-b, ii-c, iii-d, iv-a

d) i-c, ii-d, iii-a, iv-b

93. Classical theory of employment is based on some assumptions. Which of the following is NOT an assumption of the classical theory of employment

- perfect competition
- full employment
- money wages and real wages are directly related
- wages and price-are fixed

94. The point which shows the maximum marginal product in the total product curve represents-

- Least cost combination
- Producer's equilibrium
- Expansion path
- Point of inflexion

95. If the $MRTS_{LK}$ equals 2, then the MP_K/MP_L is-

- 2
- 1
- $\frac{1}{2}$
- 4

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96. Match the Following With Relation between Trade cycle and profit

(i) Recession	(a) Negative
(ii) Boom	(b) Low or negative
(iii) Recovery	(c) Positive
(iv) Depression	(d) Highest level

- a) i-a, ii-b, iii-c, iv-d
 b) i-b, ii-c, iii-d, iv-a
 c) i-b, ii-d, iii-c, iv-a
 d) i-c, ii-d, iii-a, iv-b

97. According to classical, full employment in the labour market is restored through

- a) the manipulation of prices
 b) the manipulation of wages
 c) government intervention
 d) monopolistic behaviour of labour unions

98. Match the Following With List-I & List-II

List-I	List-II
(i) Trading A/c	(a) Retained profit
(ii) Profit & loss A/c	(b) Gross profit
(iii) Profit Appropriation	(c) Net profit A/c

- a) i-b, ii-c, iii-a
 b) i-b, ii-c, iii-a
 c) i-c, ii-a, iii-b
 d) i-a, ii-b, iii-c

99. In the real sector, the equality between saving and investment, according to classical economics, is brought out by

- a) price mechanism
 b) manipulation in wage rates
 c) the adjustment of the rate of interest
 d) the adjustment of real income

100. Oil Refinery at Bhatinda is being established by--

- a) IOC
 b) HPCL
 c) Reliance
 d) BPCL

ANSWER KEY - 3

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
C	D	D	B	B	C	D	C	B	A	A	D	C	B	B	B	B	A	B	B
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
B	D	A	D	C	B	C	C	C	A	C	C	B	C	C	B	C	B	A	B
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
D	C	A	B	D	D	A	C	C	D	D	B	A	E	D	B	B	C	B	A
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
B	B	B	A	D	D	B	A	A	D	D	A	C	C	A	B	B	C	B	A
81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
B	B	D	C	B	C	B	D	D	D	D	B	D	D	C	C	B	A	C	B

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