WORK BOOK - 14

1. **Which of the following is the least liquid asset?**
   a) Shares
   b) Time deposit
   c) Inventories
   d) Plant and equipment

2. **'Fiat money' is that which is**
   a) accepted by overseas banks only
   b) decreed as money by the government
   c) stabilized by monetary authority
   d) none of these

3. **The treasury bill market deals in the bills issued by**
   a) firms
   b) banks
   c) government
   d) all of these

4. **Which of the following components of demand for money can be better described as a function of rate of interest?**
   a) Transactions
   b) Precautionary
   c) Speculative
   d) Devaluation

5. **Which of the following is very sensitive to changes in interest rates?**
   a) The speculative demand for money
   b) The precautionary demand for money
   c) The transactions demand for money
   d) The supply of money

6. **The 'bull' speculators expect that in future the bond prices will**
   a) fall
   b) rise
   c) remain constant
   d) fluctuate

7. **Which of the following is responsible for differences in gross rates of interest?**
   a) Shortage of money
   b) Difference in risk
   c) Difference in productivity
   d) Different uses of money

8. **Fisher's quantity theory is explained by his famous equation of exchange given as**
   a) MV = PT
   b) MP = VT
   c) MT=PV
   d) none of these

9. **Which of the following is directly altered by a change in bank deposits?**
   a) The speculative demand for money
   b) The precautionary demand for money
   c) The transactions demand for money
   d) The supply of bank money

10. **The transactions version of the quantity theory of money was put forward by**
    a) Fisher
    b) Pigou
    c) Marshal
    d) Keynes

11. **Which would cause interest rates to rise?**
    a) The rise in general level of prices
    b) The rise in standard of living
    c) The increase in demand of money
    d) The increase in money supply

12. **The neoclassical Cambridge approach viewed the amount of money demanded as a function of**
    a) money income
    b) interest rate
    c) both (a) and (b)
    d) neither (a) nor (b)

13. **Which of the following could originate as a demand-pull inflation?**
    a) The general level of prices
    b) Increase in rate of interest
    c) The demand for money
    d) Increase in aggregate demand

14. **According to Friedman which of the following is NOT a key determinant of demand for money?**
    a) Total wealth
    b) Division of wealth between human and non human forms
    c) Expected rates of return on money and other assets
    d) Precautionary demand

15. Of the items given below which can cause demand pull inflation?
a) Increase in interest rates
b) Increase in investment
c) Increase in money supply
d) Increased cost of materials

16. Which one of the following statement is NOT correct regarding the Friedman's theory of demand for money?
a) It is based on Keynes classification of three motives for holding money
b) It classified the holders of money as ultimate wealth holders and business enterprises
c) It generalises Keynes analysis of the speculative demand for money
d) It treats total demand for money as part of capital or wealth theory

17. If on a particular day, the volume of currency was Rs. 200 crores, demand deposits Rs. 50 crores, bonds and securities Rs. 25 crores and gold worth Rs. 25 crores. The supply of money would be, thus
a) Rs. 300 crores
b) Rs. 275 crores
c) Rs. 250 crores
d) Rs. 225 crores

18. Derivative deposits can never be zero, because
a) bank is not a clockroom
b) the Central Bank may never allow a bank to do that
c) people may not seek loans from the bank
d) the banks do not like to create deposits

19. In the Fisher's equation of exchange MV = PT, V denotes
a) value of money in real terms
b) rate of growth of economy
c) average number of times a unit of money changes hands to facilitate transactions
d) value of inventories in money terms

20. With the increase in the banking habits of the people, the value of deposit multiplier
a) decreases
b) increases
c) remains constant
d) none of the above

21. The liquidity trap condition occurs at
a) a very low rate of interest
b) a very high rate of interest
c) at 'normal' rate of interest
d) either (b) or (c)

22. Maintaining a cash reserve ratio of 20% with primary deposits of Rs. 1000, the total derivative deposits created by banks would be
a) Rs. 5000
b) Rs. 1000
c) Rs.4000
d) none of these

23. Inflation results from an excess demand over the available supply is known as
a) cost-push inflation
b) demand-pull inflation
c) either (a) or (b)
d) none of these

24. Inflation is the result of increases in the cost of production. This kind of inflation is known as :
a) cost-push inflation
b) demand-pull inflation
c) either (a) or (b)
d) none of these

25. Which of the following can be adopted as a method of credit control?
a) Bank rate policy
b) Variable reserve systems
c) Selective credit control
d) All of the above

26. Deflation is
a) a situation of falling prices
b) a situation of rising prices
c) a situation of constant prices
d) none of these

27. Which of the following are the parts of public finance
a) Public expenditure
b) Public revenue
c) Public debt
d) Financial administration
e) All of the above

28. Deals with the finance of the public bodies

a) Private finance
b) Public finance
c) None of these
d) both (a) and (b)

29. The word budget has been derived from
a) Greek
b) Latin
c) French
d) German

30. In case of the deficit budget, when the deficits are covered through taxes, that budget is called
a) unbalanced budget
b) surplus budget
c) balanced budget
d) none of these

31. The budget in which its tax revenue and expenditure are equal is called
a) surplus budget
b) balanced budget
c) unbalanced budget
d) none of these

32. The income of the government through all its sources is called
a) public expenditure
b) public revenue
c) public finance
d) none of these

33. In India principal source of state revenue is
a) gains from government companies
b) grant from other countries
c) taxes and loans
d) none of these

34. 'The Veil of money' indicate that
a) money is only lubricant, enabling the economic machine to function continuously and smoothly, which cannot affect any real variables
b) money is a lubricant that helps the smooth functioning of economy and affects real variables
c) money is a lubricant that helps the smooth functioning of economy which affects both real and money variables
d) none of the above

35. Monetization refers to
a) nullification of barter
b) accentuation of barter
c) minting of coins
d) proliferation of NBF1

36. Which of the following is the equation of exchange?
a) P = $\frac{MV+M'V'}{T}$
b) P = $\frac{MV}{T}$
c) $MV = PT$
d) All of the above

37. For the equation PT = MV to explain short-run price behaviour, it is necessary that
a) P varies inversely with M
b) T remains unchanged
c) short-run change in V be predicted
d) there is no change in interest rates

38. Reflation may be defined as
a) recovery from business cycle operation
b) deflation deliberately undertaken to relieve an inflation
c) inflation deliberately undertaken to relieve a depression
d) none of the above

39. An active deposit is one lies with
a) the bank
b) the depositor
c) the government
d) the central bank

40. A firm in long run equilibrium under monopolistic competition makes only—
a) Normal profits
b) Monopoly profits
c) Supernormal profits
d) Losses

41. The term 'group equilibrium' is related to
a) Analysis of Monopolistic competition
b) Analysis of Chamberlin
c) Analysis of Monopolistic competition by E.H. Chamberlin
d) Analysis of Monopolistic competition by Robinson

42. Monopolistic competition differs from perfect competition due to

a) Large number of firms and heterogeneous product
b) Large number of firms and homogeneous product
c) Small number of firms and differentiated products
d) Only a few firms and similar products

43. Selling cotton at higher price in Delhi and lower price in London: means
a) Slumping
b) Dumping
c) Dumping of cotton market
d) Dumping refers to selling of cotton

44. If an oligopolist incurs losses in the short-run, then in the long-run
a) He will go out of business
b) He will stay in business
c) He will break even
d) Any of the above is possible

45. In an oligopoly, a firm while deciding about its own price and output policy has
a) To take account of the likely reactions of the other firms
b) Has not to bother about other firms
c) Assume that others will not react
d) To act independently of the others

46. A firm with the highest cost of production is not plausible in the case of
a) Price leadership under oligopoly
b) Price leadership under monopoly
c) Price leadership under bilateral monopoly
d) Price leadership under monopolistic competition

47. The dominant firm price leader's market share
a) is lower, the higher the follower's costs
b) is higher, the lower the follower's costs
c) is lower, the lower the follower's costs
d) is invariant with the follower's costs

48. In the case of price leadership by the dominant firm, when all the firms in the purely oligopolistic industry will produce their best level of output?
a) Always
b) Often
c) Never
d) None of these

49. Joint profits are maximised in the model cartel, which is a model of—
a) Duopoly
b) Duopsony
c) Oligospony
d) Oligopoly

50. In collusive oligopoly for joint profit maximisation
a) The highest cost firm makes the highest profit
b) The lowest cost firm makes the highest profit
c) The lowest cost firm produces the largest output
d) None of the above is true

51. MC-curve should be kinked in
a) Duopoly
b) Monopsony
c) Collusive oligopoly
d) Oligopolistic competitions

52. A kinked demand curve is most consistent with which one of the following market situations?
a) Pure competition
b) Pure monopoly
c) Oligopoly
d) Monopolistic competition

53. A kinked demand curve has
a) A lower elasticity above the point of kink and a higher elasticity below it
b) A higher elasticity above the point of kink and a lower elasticity below it
c) A uniform elasticity both above and below the point of kink
d) None of the above

54. The kinked demand model explained—
a) Price flexibility
b) Price rigidity
c) Demand flexibility
d) Demand rigidity

55. 'If an oligopolist decreases his price the rivals will follow'. This is the basic assumption of—
a) The kinked supply curve
b) The oligopolistic demand curve
c) The kinked demand curve
d) The demand curve

56. Each seller determines his price on the assumption that his rival will keep his price constant, under—
a) Bertrand's Model
b) Samuelson's Model
c) Edge worth Model
d) Price leadership

57. Duopoly is a market situation when
a) There is only one producer of a given product
b) There are two producers of a given product
c) There are more than two producers
d) There are a few producers

58. The earliest duopoly model was developed by
a) Bertand
b) Cournot
c) Ricardo
d) Edgeworthz

59. 'The equilibrium prices of duopoly model are obtained at the intersections of their reaction curves'. It is correct in the case of
a) Edgeworth Model
b) Bertrand's Model
c) Bertrand's Duopoly Model
d) None of the above

60. Which of the following used the kinked demand curve only to explain why oligopoly prices are 'sticky'?
a) P.M. Sweezy
b) Chamberlin
c) Hall and Hitch
d) Stigler

61. In the Stackelberg model of duopoly the coumot behaviour assumption is applied to
a) Leader
b) The follower
c) Both (A) and (B)
d) Neither (A) and (B)

62. With reference to the Cournot's model, determine which of the following statements is false
a) The solution is stable
b) Each duopolist assumes the others will keep its price constant
c) The duopolists do not recognise their inter-dependence
d) Each duopolist assumes the other will keep its quantity constant

63. With reference to the Edgeworth Model, determine which of the following statements are correct?
a) It explains price rigidity
b) The duopolists recognised their inter-dependence
c) Each duopolist assumes the other keeps its price constant
d) Each duopolist assumes the other keeps its quantity constant

64. Each seller ultimately supplies one third of the market and charges the same prices. This is the conclusion of—
a) Bertrand's duopoly model
b) Edgeworth's duopoly model
c) Cournot's duopoly model
d) Collusive duopoly model

65. The equilibrium is unstable and indeterminate under—
a) Edgeworth duopoly model
b) Edgeworth oligopoly model
c) Edgeworth model
d) Edgeworth and Pareto model

66. The kinked-demand curve is appropriate when
a) Inter-firm knowledge is low
b) There is a general depression
c) Inter-firm knowledge is high
d) There is a general prosperity

67. The lower portion of the kinked-demand curve, is noted for bringing in just a few new consumers. So it is—
a) Relatively elastic
b) Relatively in elastic
c) Relatively no response
d) None of the above

68. A monopolist can fix—
a) Only price not output
b) Both price and output
c) Either price or output
d) Neither price nor output

69. Each seller assumes his rival's output as constant in the model of—
a) Cournot
b) Edgeworth
c) Bertrand
d) Price-leadership

70. Substitution effect is always—
a) Negative
b) Positive
c) Positive and negative both
d) Equal to income effect

71. Which of the following statements are true regarding the Cobb-Douglas production function—
1. It is long period production function
2. It is short period production function
3. It assumes increasing returns to scale
4. Out-put elasticities with respect to factors are constant
Choose the correct answer from the code given below
a) 1 and 3
b) 1 and 4
c) 2 and 3
d) 3 and 4

72. Vertical supply curve is the characteristic of
a) Short-period market
b) Long-period market
c) Very long-period market
d) Very short-period market

73. Which type of equilibrium is shown in the following function fora commodity, where S is supply, D is demand, P is price and t refers to time—
$S_t = f(P_t)$
$D_t = f(P_t)$
$S_x = D_x$
a) Partial equilibrium
b) Static equilibrium
c) Partial and static equilibrium
d) Dynamic equilibrium

74. In bilateral monopoly there:
a) is a single buyer and large number of sellers
b) is a single seller and large number of buyers
c) is a single seller and a single buyer
d) are a large number of buyers and a large number of sellers

75. Where two factors of production are perfectly complementary, the shape of the equal product curve is—
a) Convex to the origin
b) Concave to the origin
c) Right angled
d) None of the above

76. In case of monopoly, which of the following relations is true—
a) $MR = AR\left(1 - \frac{1}{e}\right)$
b) $MR = AR\left(1 + \frac{1}{e}\right)$
c) $AR = MR\left(1 - \frac{1}{e}\right)$
d) $AR = MR(1 + \frac{1}{e})$
Where MR = marginal revenue
AR = average revenue
e = elasticity of demand

77. Lerner's index of monopoly power is indicated by—
a) $\frac{P-MC}{P}$
b) $\frac{P-MC}{MC}$
c) $\frac{P-AC}{AC}$
d) $\frac{P-MR}{P}$

78. In Edgeworth's box diagram, the curve showing the equilibrium of two consumers is known as—
a) Income-consumption curve
b) Ridge lines
c) Expansion path
d) Contract curve

79. As a result of increase in the price of tea from Rs. 40 to Rs. 50 per pound, the demand for coffee increases from 600 pound

to 720 pounds. The cross elasticity of demand is—

a) $\frac{1}{2}$
b) $\frac{2}{3}$
c) $\frac{3}{4}$
d) $\frac{4}{5}$

80. Taking capital as constant, if we go on increasing the quantity of labour average product of labour will be maximum in—

a) The middle of the second stage
b) The end of the 1^{st} stage
c) The end of the second stage
d) The end of third stage

81. Who among the following Economists propounded the innovation theory of profit—

a) Karl Marx
b) F.H. Kinght
c) J. Schumpeter
d) A. Marshall

82. The validity of kinked demand curve was empirically tested and questioned by—

a) D.S. Watson
b) Hall and Hitch
c) G.J. Stigler
d) F. Maeklap

83. In cobb-Douglas production function, Q = Ak$^{\alpha}$ L$^{\beta}$ α and β measure—

a) Elasticity of substitution
b) Input shares
c) Output elasticities of inputs
d) Technological condition

84. The product transformation curve is derived from—

a) The contract curve related to consumption
b) The utility possibility curve
c) The social welfare function
d) The production contract curve

85. In case of Giffen goods—

a) Price effect and income effect are positive, substitution effect is negative
b) Price effect, income effect and substitution effects are negative
c) Price effect, income effect and substitution effect are positive
d) Price effect is negative while income effect and substitution effect are positive

86. A monopolist will fix the price of its product, in the range where the elasticity of demand is—

a) Less than one
b) Greater than one
c) equal to zero
d) equal to the elasticity of supply

87. The concept of general equilibrium and partial equilibrium are associated respectively with-

a) Ricardo and Walras
b) Walras and Marshall
c) Arrow and Devreau
d) Keynes and Hansen

88. In the case of complementary goods, the indifference curve is—

a) Downward sloping to the right
b) Horizontal line parallel to x-axis
c) Concave to origin
d) Upward rising line from left to right

89. Classical writers could not resolve the 'water- diamond' paradox because they could not distinguish between

a) AU and MU
b) MU and TU
c) AU and TU
d) MU and MC

Where AU = average utility MU = marginal utility TU = total utility MC = marginal cost

90. Which one of the following statements is an apt reflection of J. R. Hick's Indifference curve Analysis of demand?

a) Pareto's theory with Marshall's method
b) Pareto's theory with Marshall's method
c) Marshall's theory with Pareto's method
d) Marshall's theory with Marshall's method

91. The revealed preference approach can be described by—

a) Strong ordering and lexicographic preference pattern
b) Rationality, Consistency and Transitivity

c) Rationality and Weak ordering
d) Transitivity and Weak ordering

92. Expansion path in the theory of production corresponds to
a) Engel's curve
b) Price consumption curve
c) Income consumption curve
d) Budget constraint

93. If capital 'K' is plotted on the vertical axis and labour 'L'on the horizontal axis, then the slope of the straight line iso-cost curve will be—
a) $\frac{P_K}{P_L}$
b) $\frac{P_L}{P_K}$
c) $\frac{P_L}{P_K}$
d) $\frac{P_K}{P_L}$

94. Quasi rent is
a) Equal to the firm's total profits
b) Greater than firm's total profits
c) Smaller than firm's total profits
d) Not related to firm's profits

95. The backward-bending supply curve for labour exists—
a) Only in inflationary conditions
b) Wherever income effect overcomes substitution effect
c) Only in labour intensive industry
d) Only in a high cost industry

96. An ethical or value Judgement must be made in order to derive the
a) Transformation curve
b) Grand utility possibility
c) Consumption contract curve
d) Social welfare function

97. According to the Kaldor-Hicks compensation criterion, a change in economic policy leads to an improvement in social welfare, if
a) The gainers can just compensate the losers
b) The losers can profitably bribe the gainers to induce them to stay in the old position
c) The gainers can compensate the losers for their loss and still remain better-off themselves than before
d) The losers do not oppose the change

98. Match List I with List II and select the correct answer using the codes given below the lists

List I (Curves)	List II (Ideas)
(a) Offer curve	1. Market Segmentation
(b) Laffer curve	2. Sticky price
(c) Lorenz curve	3. Reciprocal Demand
(d) Kinked curve	4. Inequalities
	5. Public revenue

	a	b	c	d
a)	1	4	5	3
b)	3	5	4	2
c)	1	5	3	2
d)	4	2	3	1

99. The situation in which total revenues equal total cost, is known as
a) Monopolistic competition
b) Equilibrium level of output
c) Break-even point
d) Perfect competition

100. The relationship between price of a commodity and the demand for it—
a) is a positive relationship
b) is an inverse relationship
c) They are independent of each other
d) They do not have any relationship

PRACTICE PAPER - 14

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