

PRACTICE PAPER - 20

1. **If the total cost curve is plotted, marginal cost can be illustrated by—**
 - a) A U-shaped curve cutting the total cost curve at its lowest point
 - b) The slope of a tangent to the curve at any given output
 - c) A straight line from the origin to the mid-point of the curve
 - d) A straight line cutting the curve at its lowest point
2. **In case of recessionary condition, money demanded for speculative purpose tends to**
 - a) Fall
 - b) Rise
 - c) Remain constant
 - d) Can't say with certainty
3. **Total sum of money or proceeds, which is expected from the sale of the output at a particular level of employment is known as-**
 - a) Aggregate demand price
 - b) Aggregate supply price
 - c) Effective demand price
 - d) None of these
4. **'The price which is necessary to retain a given unit of a factor in a certain industry may be called its transfer earnings or transfer price.'**
Defined by
 - a) Prof. Lipsey
 - b) Alfred Marshall
 - c) Robertson
 - d) Joan Robinson
5. **IS-LM theory is**
 - a) Opposed to Keynes and classical theory
 - b) Synthesis to Keynes and classical theory
 - c) Closer to Keynes theory
 - d) Closer to classical theory
6. **Aggregate supply price refers to-**
 - a) proceeds necessary from the sale of output
 - b) expected proceeds from the sale of output
 - c) the level of employment
 - d) the level of full employment
7. **"The opportunity cost of using any factor is what is currently forgone by using it," This definition of opportunity cost is given by—**
 - a) Joan Robinson
 - b) Prof. Lipsey
 - c) Marshall

- d) Paul A. Samuelson
8. **Match list-I with list-II**

List-I	List-II
(a) Expected sale proceeds	1. Aggregate supply price
(b) Necessary sale proceeds	2. Aggregate demand price
(c) Interaction of aggregate supply	3. Marginal propensity to consume and aggregate demand functions
(d) Change in total consumption due to small change in income	4. Effective demand

Codes:-

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

9. **A loss bearing firm will continue to produce in the short run so long as the price at least covers**

- a) Average variable costs
- b) Average fixed costs
- c) $AVC+AFC$
- d) Marginal costs

10. **LM curve is sloped**

- a) Negative
- b) Positive
- c) Horizontal
- d) Vertical

11. **Which of the following is not correct?**

- a) $APC = \frac{\Delta C}{\Delta Y}$
- b) $MPC = \frac{\Delta C}{\Delta Y}$
- c) $APC = \frac{C}{Y}$
- d) $APC+APS=1$

12. **Marginal cost curve**

- a) Has the shape of a rectangular hyperbola
- b) Has the shape of the alphabet U
- c) Has the shape of the inverted U
- d) All of these

13. **In case of IS curve,**

- a) $Md = Ms$
- b) Saving = Investment
- c) National Income = Consumption

- d) None of the above
- 14. The slope of the consumption function is known as-**
- The aggregate consumption
 - The average propensity to consume
 - The marginal propensity to consume
 - None of these
- 15. "Steps downwards at first and then upwards" it is the movement of,**
- AVC curve
 - TFC curve
 - TVC curve
 - TC curve
- 16. In case of LM curve,**
- $M_d = M_s$
 - Saving = Investment
 - National Income = Consumption
 - None of the above
- 17. Which of the following is correct for a given consumption function**
 $C = C_a + cY$?
- $apc = \frac{C_a}{y} + C$ and $mpc = c$
 - $apc = c_a + \frac{c}{y}$ and $mpc = c$
 - $apc = c$ and $mpc = \frac{C_a}{y} + c$
 - $apc = \frac{C_a}{y} + c$ and $mpc = C_a + c$
- 18. The optimum output is the one which is produced**
- By the optimum firm
 - At die maximum average cost
 - At the minimum average cost
 - At zero marginal cost
- 19. Locus of those pairs of interest rate and income level at which demand for money equals the supply of money is called**
- Investment curve
 - Saving curve
 - IS curve
 - LM curve
- 20. In the consumption function, $C = C_a + cY$, C_a represents-**
- APC
 - MPC
 - Consumption at income zero
 - Consumption at previous peak income

- 21. A concept which has importance in the equilibrium analysis and thus economic analysis is**
- AFC
 - TFC
 - Opportunity Cost
 - MC
- 22. Locus of those pairs of interest rate and income level at which saving is equal to interest is called**
- Saving curve
 - Investment curve
 - IS curve
 - LM curve
- 23. In the consumption function, $C = C_a + cY$, c represents-**
- APC
 - MPC
 - Consumption at income zero
 - Consumption at previous peak income
- 24. To maximise profits during short run, a firm should produce the output that will**
- Minimize marginal cost
 - Yield maximum total revenue
 - Maximize marginal revenue
 - Equate marginal revenue with marginal cost
- 25. Investment curve shows the relation between**
- Income and investment
 - Income and consumption
 - Interest and Investment
 - Interest and Saving
- 26. Following information's are given : $C = 20 + 3/4 Y$, and $Y = 80$ What is the value of APC?**
- 0
 - 1
 - 0.5
 - 0.075
- 27. The prime cost may be considered as**
- Variable cost
 - Direct cost
 - Sunk cost
 - Fixed cost

28. Difference between planning investment and actual investment is called

- a) Realised Investment
- b) Inventory
- c) Export
- d) Import

29. On the basis of the above example (Q. No. 26) the value of mpc will be

- a) 0
- b) 1
- c) 0.5
- d) 0.75

30. An Iso-cost line represents—

- a) Combinations of two inputs which yield the same amount of output
- b) Combinations of two inputs which cost the same amount to a firm
- c) Combinations of two inputs which yields varying amounts of output
- d) Combinations of two inputs which cost different amounts of outlay to a firm

31. Saving curve shows the relation between

- a) Income and consumption
- b) Income and saving
- c) Interest and Investment
- d) Interest and saving

32. Which of the following is not correct?

- a) When income increases, the mpc and ape both fall
- b) When income falls, the mpc and ape both increase
- c) When income increases, the mpc falls and ape increases
- d) When income increases, the mpc falls but more than the ape

33. A firm may be considered to be of optimum size when—

- a) Its fixed and average costs are equal
- b) Its average cost is at a minimum
- c) Its total cost and total revenue curve coincide
- d) It is faced with a horizontal demand curve

34. IS-LM curve is represented in the x-axis by

- a) Interest rate
- b) Income
- c) Consumption
- d) Investment

35. Which of the following is not correct?

- a) $0 \leq mpc \leq 1$
- b) $mpc+mps=0$
- c) $apc+aps=1$
- d) $mpc+mps=1$

36. Which of the following market situations explains marginal cost equal to price for attaining equilibrium—

- a) Perfect competition
- b) Monopoly and imperfect competition
- c) Oligopoly
- d) Monopoly only

37. IS-LM curve is represented in the y-axis by

- a) Interest rate
- b) Income
- c) Consumption
- d) Investment

38. If $APC > MPC$ at all levels of income, it follows that-

- a) $MPS > APS$ at all levels of income
- b) $MPS = APS$ at all levels of income
- c) $MPS < APS$ at all levels of income
- d) $APC + APS > 1$

39. Minimum marginal cost occurs at the output where—

- a) The total product is at a maximum
- b) The marginal product of the variable factors is at a maximum
- c) The factors are combined in their best possible proportion
- d) The average product of the variable factors is at a maximum

40. Investment curve is downward sloping because of decrease in

- a) Marginal efficiency of capital
- b) Marginal productivity of capital
- c) High capital output ratio
- d) None of the above

41. If $C = 20 + 0.90 Y$, then-

- a) Average propensity to consume is 20
- b) Marginal propensity to consume is 20
- c) Average propensity to save is 80
- d) Autonomous consumption is 20

42. The M P of a factor—

- a) Is always positive
- b) Is always either positive or zero
- c) Can be positive, negative or zero
- d) Is always negative

43. A guide to Keynes was written by

- a) E. Shapiro
- b) A.H.Hansen
- c) J.R.Hicks
- d) Kalecki

44. Equilibrium condition for a two sector economy requires-

- a) $C = S$
- b) $S = I$
- c) $Y = S + I$
- d) $C + S = S + I$

45. The LAC curve is tangent to the lowest point on the SAC curves when the LAC curve is

- a) Falling
- b) Rising
- c) At its minimum
- d) None of the above

46. Mr. Keynes and Classical was written by

- a) J.R. Hicks
- b) M. Friedman
- c) D. Dillard
- d) R. Stone

47. In two sector economy, aggregate spending function shifts upward or downward due to shift of-

- a) Consumption function
- b) Investment function
- c) Both (A) and (B)
- d) None of these

48. The lowest point of the TC curve is

- a) The left of the lowest point of the AVC curve
- b) The right of the lowest point of the AVC curve
- c) The same as the lowest point of AVC curve
- d) None of these

49. The book 'Money, interest and Price ' was written by

- a) J.R. Hicks
- b) D. Pantinkin
- c) W. Mitchell
- d) M. Muller

50. Match list-I with list-II

List-I	List-II
(a) Absolute Income Hypothesis	1. Duesenberry
(b) Relative Income Hypothesis	2. Friedman
(c) Permanent Income Hypothesis	3. Keynes
(d) Life cycle hypothesis	4. Ando and Modigliani

Codes:- (a) (b) (c) (d)

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

51. Short-run cost curve are influenced by

- a) Principle of returns to scale
- b) Law of variable proportions
- c) External and internal economies and diseconomies
- d) None of these

52. Unsold stock is a part of

- a) Planned investment
- b) Actual investment
- c) Both (a) & (b)
- d) None of the above

53. According to absolute income hypothesis consumption function is-

- a) Non-linear
- b) Linear but non-proportional
- c) Proportional
- d) Linear and proportional

54. If ATC curve is a rising straight lines, then as output expands, MC curve will

- a) Lie below the ATC
- b) Both will be the same
- c) Lie above the ATC curve
- d) Any of the above

55. A rise in absolute income, ceteris paribus, will led to a-

- Decrease in the fraction of that income devoted to consumption
- Increase in the fraction of that income devoted to consumption
- Decrease in fraction of that income devoted to saving
- Increased proportion of both consumption and saving

56. The supply curve for the short-run competitive firm is the same as

- Marginal cost curve
- Average variable cost curve
- That part of the MC curve which equals or is greater than AVC
- Average total cost curve

57. Which of the following are the motives for holding money according to Liquidity preference

- Transaction motive
- Speculative motive
- Both (a) & (b)
- None of the above

58. Shift in the consumption function is caused by

- The change in absolute income
- The change in permanent income
- The change in factors other than income
- The change in relative income

59. Holding money for contingency situations is called

- Transaction motive
- Precautionary motive
- Speculative motive
- None of the above

60. The long-run consumption function is-

- Proportional
- Non-proportional
- Not related to income
- Determined by the factors other than income

61. When the law of diminishing returns begins to operate the TVC curve begins to-

- Fall at an increasing rate
- Rise at a decreasing rate
- Fall at a decreasing rate
- Rise at an increasing rate

62. Which of the following is a part of speculative demand

- Investment in shares
- Bank deposit
- Hoarding
- None of the above

63. The relative income hypothesis of consumption function is propounded by-

- Keynes
- Duesenberry
- Friedman
- Ando and Modigliani

64. The advertisement cost is included in-

- Fixed cost
- Some times in fixed cost sometimes in variable, cost
- Always in variable cost
- Never included in variable cost

65. The "Life Cycle Hypothesis", of Albert Ando and Franco modi Gilani explains the differences

- Cyclical and long run Investment function
- Current income and current saving
- Cyclical and long run consumption
- Current income and current investment function

66. The permanent income hypothesis of consumption function is propounded by-

- Keynes
- Dusenberry
- Friedman
- Ando and Modigliani

67. Where the leading firms in an industry combine to pursue a common policy in their interests, but retain their separate identities, such a combination is generally known as—

- Trust
- Cartel
- Joint-stock company
- Holding company

68. Transaction in financial assets cause

- An increase in national income
- A decrease in national income
- Keep national income constant
- None of the above

69. The life cycle hypothesis of consumption function is propounded by-

- Keynes
- Duesenberry
- Friedman
- Ando and Modigliani

70. MC is given by—

- The slope of the TFC curve
- The slope of the TVC curve but not by the slope of the TC curve
- The slope of the TC curve but not by the slope of TVC curve
- Either the slope of the TVC curve or the slope of the TC curve

71. Which is the most liquid asset?

- Shares
- Bonds
- Saving account deposit
- Fixed deposit

72. Keynes' absolute income hypothesis was developed by-

- Duesenberry
- Tobin and Smithies
- Friedman
- Harrod

73. All of the following curves are U-shaped except—

- The AVC curve
- The AFC curve
- The AC curve
- The MC curve

74. Relation between income and transaction demand for money is

- Proportional
- Reverse
- Dis-proportional
- None of the above

75. Monetarist economics is revival of

- Classical economics
- Keynes economics
- Institutional economics
- None of the above

76. Match list-I and list-II

List-I	List-II
(a) Employment multiplier	1. Keynes
(b) Ratchet Effect	2. Kahn
(c) Real Balance effect	3. Patinkin
(d) Psychological Law of consumption	4. Duesenberry

Codes:- (a) (b) (c) (d)

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

77. In all forms of imperfect competition the average revenue curve, facing the individual firm slopes—

- Upward
- Downward
- Horizontally
- Vertically

78. Keynes theory is basically formulated for

- Depression
- Recession
- Boom
- None of the above

79. The concept of "previous peak level of consumption and income" is given by-

- Keynes
- Duesenberry
- Friedman
- Ando and Modigliani

80. If marginal cost is above average variable cost at a time when output is rising, then—

- Average total cost is falling
- Average variable cost is rising
- Average variable cost is falling
- Average total revenue is rising

81. According to Duesenberry's relative income hypothesis, as the level of income rises to its previous peak and pushes on to higher ground consumption will follow-

- The short-run consumption curve
- The long-run consumption curve
- Either (A) or (B)
- Both (A) and (B)

82. Normal profits are considered as

- a) Explicit costs
- b) Implicit costs
- c) Social costs
- d) Private costs

83. Monetarist economics was dominated by

- a) Keynes
- b) Milton Friedman
- c) R. Solow
- d) Hansen

84. Consider the following equation:

$C = Y(b - c) + cy$ Where, Y is the peak level of income and y is the current level of income. If income is steadily attaining new peaks during prosperity, then the above consumption will become-

- a) Proportional
- b) Non-proportional
- c) Non-linear
- d) Any of these

85. Opportunity costs are also known as—

- a) Spill-over costs
- b) Money costs
- c) Alternative costs
- d) External costs

86. The great contribution of Monetarist economists to economics was their consideration of

- a) Income
- b) Saving
- c) Wealth
- d) All the above

87. "A family with any given level of income will typically spend more on consumption if it lives in a community in which that income is relatively low than if it lives in a community in which that income is relatively high." This phenomenon is described by Duesenberry as

- a) Wealth effect
- b) Demonstration effect
- c) Ratchet effect
- d) Income effect

88. At the point where a straight line from the origin is tangent to the TC curve, AC

- a) is minimum
- b) Equals MC
- c) Equals AVC plus AFC
- d) all of the above

89. In taking money demand, Keynes defined Money demand as

- a) Cash + Time deposit
- b) Cash + Demand deposit
- c) Cash + high powered money
- d) Cash + saving with post office

90. "As income falls, consumption declines but proportionately less than the decrease in income because the consumer dissaves to sustain previous standard of living". This is called-

- a) Wealth effect
- b) Demonstration effect
- c) Ratched effect
- d) Income effect

91. The slope of the TVC or total cost curve indicates the

- a) Marginal revenue
- b) Average cost
- c) Marginal cost
- d) Variable cost

92. Real national income will increase if

- a) Money demand increase
- b) Money supply increase
- c) Investment increase
- d) Saving increase

93. Permanent income, according to Friedman, includes-

- a) Human wealth
- b) Non-human wealth
- c) Both (A) and (B)
- d) Either (A) or (B)

94. The general average curve is also known as

- a) Total unit cost curve
- b) Average total unit cost curve
- c) Total marginal unit cost curve
- d) Total variable unit cost curve

95. In Islamic economics, interest payment is

- a) Encouraged
- b) Ignored
- c) Discouraged
- d) Prohibited

96. Permanent consumption is a function of-

1. The rate of interest.
 2. The ratio of property and non-property income to total wealth.
 3. The consumer's propensity to consume.
- a) only 2
 - b) only 1 and 2
 - c) only 2 and 3
 - d) 1,2 and 3

97. Even if costs increase,' the MC remains unaffected, the cost is

- a) Variable cost
- b) Fixed cost
- c) Total fixed cost
- d) Average cost

98. Which of the following is most realistic

- a) Classical
- b) Keynes
- c) IS-LM
- d) None of the above

99. Which of the following is/are not correct regarding Friedman's permanent income hypothesis?

1. There is no correlation between transitory and permanent incomes.
 2. There is no correlation between permanent and transitory consumption.
 3. There is no correlation between transitory consumption and transitory income.
 4. Only differences in permanent income affect consumption systematically.
- a) 1 and 2 only
 - b) 3 and 4 only
 - c) 2 only
 - d) None of these

100. The framework of macro-economic theory is so developed as to provide solution to the:

- a) problems relating to the allocation of resources between the production of consumer's goods on the hand, and the production of capital goods on the other.
- b) problems relating to the growth of productive capacity.
- c) problems concerning the relation between international trade and the levels of employment, prices, and growth in the economy.
- d) all of the above.

PRACTICE ANSWER KEY - 20

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

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