Question Paper
Economics (CFA520): October 2008

- Answer all 0 questions.
- Marks are indicated against each question.

Total Marks : 99

1. The circular constellation of forces tending to act and react upon one another to keep a poor country in the state of poverty is known as <Answer>

(a) Production Possibility Frontier
(b) IS Curve
(c) Natural Unemployment
(d) Vicious Circle of Poverty
(e) LM Curve.

(1 mark)

2. The unemployment that arises when there is a downturn in business activity is known as <Answer>

(a) Structural unemployment
(b) Natural unemployment
(c) Cyclical unemployment
(d) Disguised unemployment
(e) Seasonal unemployment.

(1 mark)

3. The stage of revival of economic activity in the business cycle is represented by <Answer>

(a) Recession
(b) Depression
(c) Recovery
(d) Boom
(e) Trough.

(1 mark)

4. Which of the following represent(s) the indirect benefit(s) of trade on development? <Answer>

I. Widening the extent of the market, inducing innovation and increasing productivity.
II. Increasing saving and capital accumulation.
III. Having an educative effect in installing new technology, skills and entrepreneurship.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) All (I), (II) and (III) above.

(1 mark)

5. Which of the following is **not** a determinant of exchange rate? <Answer>

(a) Interest rate
(b) Price level
(c) Growth rate
(d) Fiscal deficit
(e) Change in technology.

(1 mark)

6. Which of the following is **not true** regarding use of National Income Statistics? <Answer>

(a) It is used as an instrument of economic planning and review
(b) It is used as a means of indicating changes in the country's standard of living
(c) It is used as a means of comparing the economic performance of different countries
(d) It is used to indicate changes in the economic growth of the country
(e) It is used as a means of measuring the level of profit of a particular firm.

(1 mark)

7. Net National Income is <Answer>

(a) The difference between Gross National Income and depreciation
(b) The sum of Gross National Income and depreciation
(c) The sum of personal income and depreciation
(d) The difference between personal income and depreciation
(e) The difference between personal income and gross investment. **(1 mark)**

8. National Income is otherwise known as <Answer>

(a) GDP at factor cost
(b) NDP at factor cost
(c) NNP at market price
(d) NNP at factor cost
(e) GNP at market price. **(1 mark)**

9. Which of the following factors is **not** responsible for changes in aggregate supply? <Answer>

(a) Changes in the cost of production
(b) Supply shock or supply disturbances
(c) Technological changes
(d) Change in the supply of labor
(e) Change in income. **(1 mark)**

10. The effect of increase in the level of equilibrium income due to an unit increase in the autonomous spending is known as <Answer>

(a) Investment
(b) Consumption
(c) Saving
(d) Investment Multiplier
(e) Aggregate Demand. **(1 mark)**

11. Which of the following factor(s) **does not** influence the Marginal Efficiency of Investment? <Answer>

I. Size and composition of capital goods.
II. Rate of innovation.
III. Expected future behavior of demand for output.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) All (I), (II) and (III) above. **(1 mark)**

12. According to Keynes, as the transaction and precautionary motives for demand do not respond to the changes in the interest rate, the demand for money curve is <Answer>

(a) Horizontal
(b) Vertical
(c) Upward rising curve
(d) Downward sloping curve
(e) Rectangular hyperbola. **(1 mark)**

13. Which of the following is/are the factor(s) that influence the transaction demand for money? <Answer>

I. Level of income.
II. Frequency with which income is received.
III. Frequency with which expenditures are made.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) All (I), (II) and (III) above. **(1 mark)**

14. If the value of MPS is 0.25, the value of MPC is <Answer>

(a) 0.25
(b) 0.75
(c) 1.25
(d) 1.00
(e) 1.75. (1 mark)

15. Which of the following curves shows the combination of the price level and the level of output at which the goods and the money market are simultaneously in equilibrium? <Answer>

(a) Aggregate demand curve
(b) Aggregate supply curve
(c) LM curve
(d) Demand for money curve
(e) Supply of money curve. (1 mark)

16. The RBI currency and the Government money with the commercial banks are treated as <Answer>

(a) Saving
(b) Hoarding
(c) Interest
(d) Profit
(e) Vault cash. (1 mark)

17. Which of the following items is/are **not** included in the credit entry of Balance of Payment? <Answer>

I. Exports of goods or merchandise exports.
II. Exports of services like travel, insurance or invisibles.
III. Capital inflow into the country.
IV. Merchandise imports and invisible imports.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Only (IV) above
(e) All (I), (II), (III) and (IV) above. (1 mark)

18. Change in capital to change in output is known as <Answer>

(a) Marginal propensity to consumption
(b) Marginal propensity to save
(c) Marginal efficiency of capital
(d) Incremental capital output ratio
(e) Output capital ratio. (1 mark)

19. Which of the following items is **not** a prerequisite of a good tax structure? <Answer>

(a) Adequate revenue should be yield
(b) The tax should not be imposed on equality basis
(c) The tax structure should facilitate the use of fiscal policy for stabilization and growth objectives
(d) The tax system should permit fair and non arbitrary administration
(e) Administration and compliance costs should be low. (1 mark)

20. The tax which is imposed on every unit of a product is known as <Answer>

(a) Lump sum tax
(b) Excise Duty
(c) Ad valorem tax
(d) Estate duty
(e) Income tax. (1 mark)

21. The locus of points of isoquants where the marginal products are zero forms a/an <Answer>

(a) Isocost line
(b) Indifference curve
(c) Budget line
(d) Production possibility curve
(e) Ridge line. (1 mark)

22. Which of the following is **not true**? <Answer>

(a) Indifference curve describes all the possible combinations of two goods which give equal satisfaction to the consumer
(b) Total utility is the sum of marginal utilities of all units of a good consumed
(c) When price of a product increases, demand for its complement increases
(d) Utility is a psychological concept and therefore cannot be precisely measured
(e) Consumer surplus of a good and its economic value are different.

(1 mark)

23. In the long-run, a perfectly competitive firm earns only normal profits because of <Answer>

I. Product homogeneity in the industry.
II. Large number of sellers and buyers in the industry.
III. Free entry and exit of firms in the industry.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) All (I), (II) and (III) above.

(1 mark)

24. The consumers bear more tax burden than the producer, when the <Answer>

(a) Cost of producing the good is too high
(b) Supply remains constant irrespective of change in price of the good
(c) Good is a necessary good
(d) Total utility is greater than total cost
(e) Price elasticity of supply is greater than the price elasticity of demand.

(1 mark)

25. Elasticity of demand for a product in a perfectly competitive market is <Answer>

(a) Relatively elastic
(b) Relatively inelastic
(c) Infinitely elastic
(d) Infinitely inelastic
(e) Unitary elastic.

(1 mark)

26. If the purchase of a good can be postponed, it implies that the demand for the good is <Answer>

(a) Perfectly price elastic
(b) Perfectly price inelastic
(c) Relatively price elastic
(d) Relatively price inelastic
(e) Unitarily price elastic.

(1 mark)

27. Cartel agreements tend to be unstable because <Answer>

(a) They tend to lower profits
(b) A firm can increase its profits by cheating on the agreement
(c) Agreements become unnecessary as the number of firms in the cartel increases
(d) Cutting output and raising prices will benefit each firm in the cartel
(e) Cartels are not legally permitted.

(1 mark)

28. According to the law of variable proportions when the units of labor are increased keeping the capital same, the marginal productivity of labor will <Answer>

(a) First increase and then decrease
(b) First decrease and then increase
(c) Increase continuously
(d) Decrease continuously
(e) Remain the same.

(1 mark)

29. The condition for maximization of profit in the labor market is <Answer>

(a) Marginal cost of capital is equals marginal physical productivity of labor
(b) Marginal cost of labor equals price of labor
(c) Marginal cost of labor equals average productivity of labor
(d) Marginal cost of labor equals value of marginal productivity of labor
(e) Marginal cost of capital equals total productivity of labor.

(1 mark)

30. Price leadership is an important feature of <Answer>

(a) Perfect competition
(b) Monopoly
(c) Oligopoly
(d) Duopoly
(e) Monopolistic competition. (1 mark)

31. Which of the following economies is partly included in the production and partly included in the selling cost of the firm? <Answer>

(a) Production economies
(b) Transport and storage economies
(c) Selling economies
(d) Inventory economies
(e) Marketing economies. (1 mark)

32. The consumer maximizes his total benefit at that point where <Answer>

(a) Marginal benefit is less than marginal cost
(b) Marginal benefit is greater than marginal cost
(c) Marginal benefit equals marginal cost
(d) Marginal benefit equals average cost
(e) Marginal benefit equals total cost. (1 mark)

33. When the price of petrol decreases, the demand for light commercial vehicles increases. Here, petrol and light commercial vehicles are <Answer>

(a) Luxurious goods
(b) Substitute goods
(c) Complementary goods
(d) Necessary goods
(e) Inferior goods. (1 mark)

34. Which of the following is always **true** of the relationship between average cost and marginal cost? <Answer>

(a) Average total cost is increasing when marginal cost is increasing
(b) Marginal cost is increasing when average variable cost is higher than marginal cost
(c) Average variable cost is constant when marginal cost is increasing
(d) Average variable cost is increasing when marginal cost is higher than average variable cost
(e) Average variable cost is constant when marginal cost is decreasing. (1 mark)

35. Which of the following represents a **true** relationship between price elasticity, average revenue and marginal revenue? <Answer>

(a) Ed = AR + MR
(b) Ed = AR – MR
(c) Ed = AR / MR
(d) Ed =
(e) (1 mark)

36. Which of the following factors influence the demand for a commodity to a greater extent? <Answer>

I. The closeness of substitutes.
II. The proportion of income spent on the goods.
III. The time elapsed since a price change.
IV. The nature of the good.

(a) Both (I) and (II) above
(b) Both (II) and (III) above
(c) Both (I) and (III) above
(d) Both (I) and (IV) above
(e) All (I), (II), (III) and (IV) above. (1 mark)

37. If the total fixed cost of a firm is Rs.1,00,000 and the firm produces 1,000 units of output, the average fixed cost of the firm will be <Answer>

(a) Rs. 100
(b) Rs. 150
(c) Rs. 174
(d) Rs. 135
(e) Rs.1,000.

(1 mark)

38. When the demand for a product is tied to the purchase of some parent product, its demand is <Answer>

(a) Intermediate demand
(b) Replacement demand
(c) Induced demand
(d) Direct demand
(e) Industry demand.

(1 mark)

39. Which of the following is/are **not** fixed cost(s) for a firm? <Answer>

I. Salaries of administrative staff.
II. Building repairs.
III. Ordinary repairs and routine maintenance.
IV. Expenses on raw material.

(a) Only (I) above
(b) Only (II) above
(c) Only (IV) above
(d) Both (I) and (II) above
(e) Both (III) and (IV) above.

(1 mark)

40. The short-run total cost function is given as TC = 50 + 12Q. Which of the following statements is **true** at all levels of production? <Answer>

(a) Average Fixed Cost > Marginal Cost
(b) Marginal Cost = Average Variable Cost
(c) Average Fixed Cost < Average Variable Cost
(d) Marginal Cost = Average Total Cost
(e) Marginal Cost > Average Variable Cost.

(1 mark)

41. If the production function for a commodity is given as . If the firm employees 15 units of capital, the average productivity of capital is <Answer>

(a) 125 units
(b) 250 units
(c) 667 units
(d) 485 units
(e) 990 units.

(1 mark)

42. A demand schedule for pens of students in a school is presented in the following table: <Answer>

Price (Rs.)	12	10	8	6	4
Quantity Demand (Units)	24	36	48	60	72

What is the absolute arc price elasticity of demand when price decreases, from Rs.10 to Rs.8?

(a) 0.25
(b) 0.50
(c) 1.67
(d) 1.98
(e) 2.00.

(1 mark)

43. The demand and supply functions for a commodity is given as follows: <Answer>

$Qd = 200 – 6P$

$Qs = 4P – 40$

The equilibrium output is

(a) 25 units
(b) 34 units
(c) 56 units
(d) 58 units
(e) 75 units.

(2 marks)

44. The demand function for a commodity is estimated to be $Qd = 100 – 2P$. The absolute value of point price elasticity of demand at the price Rs.20 is <Answer>

(a) 0.24
(b) 0.67
(c) 1.00
(d) 1.25
(e) 2.45.

(2 marks)

45. In the short run, the demand curve of a firm operating in a monopolistic market structure is $P = 440 – 15Q$. The total cost is 20Q.The total revenue of the firm at equilibrium level of output is <Answer>

(a) Rs.2,100
(b) Rs.3,220
(c) Rs.2,560
(d) Rs.1,260
(e) Rs.1,280.

(2 marks)

46. Utility function of a commodity is given as $U = 20XY$, where X and Y are the quantities. If the consumer consumes 15 units of X ,the marginal utility of Y is <Answer>

(a) 120 utils
(b) 150 utils
(c) 275 utils
(d) 300 utils
(e) 345 utils.

(2 marks)

47. Rudra consumes two commodities X and Y at an equilibrium level. The marginal utility of commodity X is 525 utils. If the prices of commodity X and Y are given as Rs.75 and Rs.120, the marginal utility of Y is <Answer>

(a) 456 utils
(b) 524 utils
(c) 725 utils
(d) 650 utils
(e) 840 utils.

(2 marks)

48. A consumer consumes only two products, X and Y. Utility function of the consumer is <Answer>

. If the price of good X is Rs.40 and price of good Y is Rs.20 per unit ,the optimum combination of the good for the consumer is

(a) 2 units of X and 1 unit of Y
(b) 1 unit of X and 2 units of Y
(c) 6 units of X and 10 units of Y
(d) 12 units of X and 18 units of Y
(e) 20 units of X and 18 units of Y.

(2 marks)

49. The production function of the firm is given as . If the firm would like to produce 100 units of output. If the wage rate is Re.1 and the cost of capital is Re.1, then the minimum possible cost of production is <Answer>

(a) Rs.100
(b) Rs.200
(c) Rs.235
(d) Rs.452
(e) Rs.784.

(2 marks)

50. Suppose the production function relating to agricultural output is given as follows: <Answer>

.

Beyond what output do diminishing return exists?

(a) 10 units
(b) 52 units
(c) 15 units
(d) 65 units
(e) 48 units.

(2 marks)

51. For a firm the cost function is estimated as TC = 2,00,000 + 40Q. If the price of good is Rs.440.The break even output for the firm is <Answer>

(a) 250 units
(b) 354 units
(c) 745 units
(d) 840 units
(e) 500 units.

(2 marks)

52. A firm's average variable cost function of the firm is given as <Answer>

If fixed cost is Rs.50 units, and the firm wants to produce 15 units of output then total cost is

(a) Rs. 2,937.50
(b) Rs.23,476.00
(c) Rs.14,567.45
(d) Rs.22,450.78
(e) Rs.32,240.00.

(2 marks)

53. Demand and cost functions of a monopolist are given as follows: <Answer>

$P = 800 - 10Q$
$TC = 200Q + 5Q^2$

Profit maximizing price for the monopolist is

(a) Rs.300
(b) Rs. 20
(c) Rs.600
(d) Rs.800
(e) Rs.400.

(2 marks)

54. For a perfectly competitive industry the supply and demand functions are given as follows: <Answer>

Qs = 2,000 + 4P

Qd = 7,000 – 6P

A firm operating in the industry has the following cost function.

TC = The profit or loss earned by the firm at the current equilibrium price is

(a) Rs.1,000 (profit)
(b) Rs.1,000 (loss)
(c) Rs.1,245 (profit)
(d) Rs. 500 (profit)
(e) Rs. 500 (loss). (2 marks)

55. The demand function of a monopolist is given as P = 200 – 4Q. If the total cost of the firm is TC = , the profit maximizing price for the monopolist is <Answer>

(a) Rs. 45
(b) Rs. 90
(c) Rs.104
(d) Rs.108
(e) Rs.250. (2 marks)

56. If the total cost is given as If the level of output is 24 units the average cost is <Answer>

(a) Rs.2,450
(b) Rs.1,055
(c) Rs.3,000
(d) Rs.3,500
(e) Rs.6,500. (2 marks)

57. The following information is extracted from the National Income Accounts of an economy. <Answer>

Particulars	MUC
Exports of goods and services	130
Depreciation	525
Government expenditure	450
Gross domestic investment	750
Imports of goods and services	135
Personal consumption expenditure	27,500

NDP at market prices is

(a) 25,784 MUC
(b) 28,170 MUC
(c) 28,000 MUC
(d) 31,245 MUC
(e) 32,450 MUC. (2 marks)

58. In a two-sector economy, the marginal propensity to consume (MPC) is estimated to be 0.6. To bring about a Rs.2,000 billion change in equilibrium National Income (Y), the required increase in investment (I) is <Answer>

(a) Rs.1,000 billion
(b) Rs.1,200 billion
(c) Rs.1,400 billion
(d) Rs. 800 billion
(e) Rs.2,000 billion. (2 marks)

59. In a two-sector economy the consumption function is C = 20 + 0.6Y and autonomous investment is equal to 100 MUC. The equilibrium level of income in the economy is <Answer>,

(a) 120 MUC
(b) 100 MUC
(c) 300 MUC
(d) 145 MUC
(e) 254 MUC. (2 marks)

60. The following information is extracted from National Income Accounts of an economy: <Answer>

Investment by business sector	=	200 MUC
Corporate profit tax	=	50 MUC
Dividends paid by the business sector	=	30 MUC
Retained earnings	=	40 MUC

Corporate profits for the economy is

(a) 45 MUC
(b) 60 MUC
(c) 120 MUC
(d) 180 MUC
(e) 145 MUC. **(2 marks)**

61. Monetary liabilities of the Central Bank in an economy are 36,000 MUC and government money is 4,000 MUC. The currency-deposit ratio is estimated to be 0.25. If the Central Bank wants to set the money supply at 75,000 MUC, what should be the reserve ratio that the Central Bank should impose on banks to achieve the targeted money supply? <Answer>

(a) 0.250
(b) 0.750
(c) 0.417
(d) 2.512
(e) 2.343. **(2 marks)**

62. In an economy the savings function and investment functions are given as S = – 150 + 0.3Y and I = 400 – 5i respectively. If the equilibrium income level, Y = 1,000 MUC, the rate of interest is <Answer>

(a) 10%
(b) 15%
(c) 19%
(d) 25%
(e) 50%. **(2 marks)**

63. Beginning from a position of equilibrium, investment in an economy increases by Rs.400 crore. If the marginal propensity to consume is 0.5, change in income that will bring the economy back to equilibrium is <Answer>

(a) Rs.400 crore
(b) Rs.500 crore
(c) Rs.600 crore
(d) Rs.800 crore
(e) Rs.700 crore. **(2 marks)**

64. In a two-sector economy, the consumption function is estimated to be <Answer>

C = 20 + 0.40Y. If the equilibrium output is 1,200 MUC, the level of investment in the economy is

(a) 120 MUC
(b) 240 MUC
(c) 700 MUC
(d) 360 MUC
(e) 480 MUC. **(2 marks)**

65. For the next year if the economy grows by 12% and the population grows at 2%, the growth rate of per capita income is <Answer>

(a) 2.58%
(b) 6.45%
(c) 9.80%
(d) 7.81%
(e) 1.45%. **(2 marks)**

66. Consider the following information: <Answer>

High powered money	Rs.12,590 Cr.
Currency deposit ratio in the economy	12%
Cash reserve requirement of the Central Bank	4%

The money supply is

(a) Rs.88,130 crore
(b) Rs.45,489 crore
(c) Rs.12,458 crore
(d) Rs.44,675 crore
(e) Rs.12,890 crore. **(2 marks)**

67. The following information pertains to the balance of payments of a country for the year 2007-08: <Answer>

Particulars	MUC
Merchandise imports	2,00,000
Merchandise exports	4,50,000
Software exports	2,20,000
Software imports	1,20,000

The Balance of Trade (BoT) for the year 2007-08 was

(a) 2,50,000 MUC (Surplus)
(b) 2,50,000 MUC (Deficit)
(c) 60,000 MUC (Deficit)
(d) 60,000 MUC (Surplus)
(e) 4,000 MUC (Surplus). **(2 marks)**

68. The following information is taken from a country without government sector. <Answer>

C = 2,000 + 0.2Y
I = 500 MUC
NX = 100 MUC

(C is consumption, Y is income, I is investment and NX is net exports)

Equilibrium income is

(a) 1,100 MUC
(b) 2,050 MUC
(c) 3,250 MUC
(d) 4,507 MUC
(e) 6,000 MUC. **(2 marks)**

69. The following particulars are available for an economy: <Answer>

Particulars	Amount (Rs. in Cr.)
Consumption	5,000
Investment	10,000
Government expenditure	15,000
Exports	20,000
Imports	25,000
Velocity of money	20

The money supply in the economy is

(a) Rs. 1,250 Cr
(b) Rs. 1,000 Cr
(c) Rs.20,000 Cr
(d) Rs.15,000 Cr
(e) Rs. 7,500 Cr. **(2 marks)**

70. Compute the non-monetary liabilities of Central bank from the following information: <Answer>

Particulars	**Rs. in Cr.**
Deposits of banks	1,250
Notes in circulation	850
Government deposits	700
Share Capital	5
Reserves	250
Credit to banks	450

(a) Rs.1,250 Cr
(b) Rs. 955 Cr
(c) Rs.2,800 Cr
(d) Rs. 855 Cr
(e) Rs.3,905 Cr.

(2 marks)

71. The following information is extracted from National Income Accounts of a country: <Answer>

Particulars	**MUC**
NNP at factor cost	8,000
Corporate profits	1,500
Transfer payments by the government	175
Dividends	150

The personal income of the country will be

(a) 7,050 MUC
(b) 9,450 MUC
(c) 6,825 MUC
(d) 7,450 MUC
(e) 7,100 MUC.

(2 marks)

END OF QUESTION PAPER

Suggested Answers
Economics (CFA520): October 2008

ANSWER		**REASON**	
1.	D	The circular constellation of forces tending to act and react upon one another in such a way as to keep the poor country in a state of poverty is known as vicious circle of poverty. Therefore option (d) is the correct answer.	<
2.	C	Unemployment that arises when there is general downturn in business activity is known as Cyclical employment. Therefore option (c) is the correct answer.	<
3.	C	The stage of revival of economic activity in the business cycle is represented by recovery stage. Therefore option (c) is the correct answer.	<

4. E The following represent the indirect benefit of trade on development. <

I. Widening the extent of the market, inducing innovation and increase productivity.
II. Increasing saving and capital accumulation.
III. Having an educative effect in installing new technology, skills and entrepreneurship.

Therefore option (e) is the correct answer.

5. E Change in technology does not influence the exchange rate of a country. Therefore option (e) is the correct answer. <

6. E National Income statistics is not used for measuring the level of profit of a particular firm. Therefore option (e) is the correct answer. <

7. A Net national income is the difference between Gross national income and Depreciation. Therefore option (a) is the correct answer. <

8. D National Income is otherwise known as Net National Product at factor cost. Therefore option (d) is the correct answer. <

9. E Change in income influences the aggregate demand for a commodity to a greater extent. Therefore option e is the correct answer. <

10. D The effect of increase in the level of equilibrium income due to a unit increase in the autonomous spending is investment multiplier. Therefore option (d) is the correct answer. <

11. E The marginal efficiency of investment is affected by following factors <

I. Size and composition of capital goods.
II. Rate of innovation.
III. Expected future behavior of demand for output.

Therefore option (e) is the correct answer.

12. B According to Keynes as the transaction and precautionary motives for demand do not respond to the changes in the interest rate, therefore the demand for money curve is vertical. Therefore option (b) is the correct answer. <

13. E Following are the factors which influence the transaction demand for money <

I. Level of income.

II. Frequency with which income is received.

III. Frequency with which expenditures are made.

As all the factors influence the transaction demand for money to a great extent therefore option (e) is the correct answer.

14. B If the value of MPS is 0.25,the value of MPC is 0.75(as MPC+MPS =1) <

Therefore option (b) is the correct answer.

15. A Aggregate demand curve shows the combination of the price level and the level of output at which the goods and the money market are simultaneously in equilibrium. Therefore option (a) is the correct answer. <

16. E The RBI currency together with the government money with the commercial banks is treated as vault cash. Therefore option (e) is the correct answer. <

17. D Merchandise imports and invisible imports is a debit item. Therefore option (d) is the correct answer. <

18. D Change in capital to change in output is known as incremental capital output ratio. Therefore option d is the correct answer. <

19. B A good tax structure follows an equitable tax system. Therefore option (b) is the correct answer. <

20. A The tax which is imposed on every unit of a product is known as lump sum tax. Therefore option (a) is the correct answer. <

21. E The locus of points of isoquants where the marginal products are zero, form a ridge line. Therefore option (e) is the correct answer. <

22. C When price of a product increases demand for the product decreases. As complimentary goods are consumed together, demand for the compliment also decreases.Therefore option c is the correct answer. <

23. C In the long run if a firm earns abnormal profits, new firms will enter the industry. If the existing firms get losses, the firms leave the industry. So, in the long run, a perfectly competitive firm earns only normal profit because of free entry and exit of firms in the industry. So (c) is the correct answer. <

24. E When a specific tax is imposed, the burden of tax would be shared between buyer and seller based on their elasticities. If the elasticity of demand is higher than the elasticity of supply, the supplier would borne more tax burden. In fact, who ever is more inelastic will bear more amount of tax. Therefore option e is the correct answer. <

25. C The demand curve for a product in the perfectly competitive market is Infinitely elastic. Therefore option c is the correct answer. <

26. C Demand for a commodity is the quantity of that commodity demanded at a particular period for certain price. If a good is durable, that is if its purchase can be postponed, then it exhibits an elastic demand because consumers can postpone their purchases when they feel the price is high. The demand is relatively price elastic <

27. B Cartels are aimed at increasing profits. But for any individual firm the incentive of huge profits by breaking away from or cheating the Cartel and charging a price less than the Cartel price make Cartels unstable. Therefore option b is the correct answer. <

28. A The law of variable proportions states that " as we increase the number of units of one input and keep the other inputs same, the marginal productivity of the variable input increases initially and then decrease". Therefore option a is the correct answer. ≤

29. D The condition for maximization of profit in the labor market is Marginal cost of labor equals value of marginal productivity of labor. Therefore option d is the correct answer. ≤

30. C Oligopoly market has a predominant feature of price leadership. Therefore option c is the correct answer. ≤

31. B Transport and storage economies are included partly in production and partly in selling cost. Therefore option (b) is the correct answer. ≤

32. C The consumer maximizes his total net benefit at that point where marginal benefit equals marginal cost. Therefore option (c) is the correct answer. ≤

33. C When the price for petrol decreases the demand for Light Commercial Vehicles increases. In this case petrol and Light Commercial Vehicle are complementary goods because these goods are jointly demanded .When the price of one of them increases the demand for other decrease and vice versa. Therefore option (c) is the correct answer. ≤

34. D Average variable costs are increasing when marginal costs are higher than average variable costs. ≤

35. E ≤

or represents a true relationship between price elasticity of demand and average revenue and marginal revenue. Therefore option (e) is the correct answer.

36. E The following factors influence the elasticity of demand for a commodity to a great extent. ≤

I. The closeness of substitutes.

II. The proportion of income spent on the goods.

III. The time elapsed since a price change.

IV. The nature of the good.

Therefore option (e) is the correct answer.

37. A If the total fixed cost of a firm is Rs.1,00 ,000 and the firm produces 1,000 units of output, the average fixed cost of the firm will be determined Average Fixed Cost = Total fixed cost/No of output produced = 1,00,000/1,000 = Rs.100. Therefore option (a) is the correct answer. ≤

38. C When the demand for a product is tied to the purchase of some parent product, its demand is called induced demand. Therefore option (c) is the correct answer. ≤

39. E Expenses on raw material and ordinary repairs and routine maintenance are examples of variable cost. Therefore option (e) is the correct answer. ≤

40. B MC =12 and AVC =12 at all levels of output. ≤

41. C ≤

42. C Q1 = 36 units ≤

P1 =Rs. 10

Q2 =48 units

P2 = Rs. 8

The absolute value of price elasticity of demand is 1.67.

43. C The demand and supply functions for a commodity is given as follows ≤

Qd = 200 – 6P

Qs = 4P – 40

The equilibrium output is determined at that point where

Qd =Qs

or, 200 – 6P = 4P – 40

or , 240 =10P

or, P = Rs.24

Qd =200 - 6×24 =56 units

Therefore option (c) is the correct answer.

44. B The demand function for a commodity is estimated to be Qd = 100-2P. The absolute price elasticity of demand between price Rs.20 can be determined as follows: ≤

Qd = 100 – 2P

When P = Rs.20

If we take the absolute value of point price elasticity of demand the required answer will be 0.67. Therefore option (b) is the correct answer.

45. B In monopolistic competition the profit maximizing price is obtained by equating MC and MR. ≤

TC = 20Q

MC = 20

TR = P x Q

= (440 – 15 Q) Q

= $440Q – 15Q^2$

MR = 440 – 30Q

MR = MC

= 440 – 30Q = 20

Q = 420/30

= 14.

TR =(440 – 15 Q) Q=(440-15×14)14 = (440-210)14 =230×14= Rs.3,220

46. D ≤

So the marginal utility of Y is 300 utils.

47. E As we know at the point of equilibrium , [≤](#)

Therefore option (e) is the correct answer.

48. A [≤](#)

That implies the consumer will consume 2 units of X and 1unit of Y. Therefore option (a) is the correct answer.

49. B [≤](#)

Therefore option (b) is the correct answer.

50. C The output at which is maximum beyond that point the diseconomies of scale exists. So here [≤](#)

51. E ≤

Therefore option (e) is the correct answer.

52. A ≤

53. C ≤

Demand function of the monopolist are given as

$P = 800 - 10Q$

$TC = 200Q + 5Q^2$

$TR = P \times Q = 800Q - 10Q^2$

$\therefore MR = 800 - 20Q.$

$\therefore$ Profit maximizing output for the monopolist can be determined,

where, $MR = MC$

$MC = \quad = 200 + 10Q$

$\therefore MR = MC$

$800 - 20Q = 200 + 10Q$

$30Q = 600$

$Q = 20$ units

$\therefore P = 800 - 10\,(20) = 800 - 200 =$ Rs.600.

54. E ≤

55. C ≤

56. B ≤

57. B

GDP at market price = C + I + G + NX = 27,500 + 750 + 450 – 5 = 28,695 <

Thus, NDP at market price = GDP at market price – depreciation = Rs.28,695-525 = Rs.28,170.

Therefore option (b) is the correct answer.

58. D

MPC = 0.6 <

Multiplier (m) =

$\Delta Y \;=\; m \,.\, \Delta I$

$\therefore \quad \Delta I \quad =$

59. C

Y = C + I <

Y = 20 + 0.6Y +100

Y = 120 + 0.6Y

0.4Y = 120

Y = 300 MUC

60. C

Corporate profits = Corporate profit tax + Dividends + Retained earnings <

= 50 + 30 + 40 = 120 MUC.

61. C

High-powered money (H) = Government money + Monetary liabilities of the Central Bank = 36,000+ 4,000 = 40,000 MUC. <

Money supply, Ms = H x {(1 + Cu)/(Cu + r)}

or, 40,000 x {(1.25/0.25 + r)} = 75,000

1.875 = 1.25/0.25 + r

or, 0.46875 + 1.875r = 1.25

or, 1.875r = 0.781

or, r = 0.417.

62. E

At equilibrium, S = I <

– 150 + 0.3Y = 400 – 5i

or, – 150 + 0.3(1000) = 400 – 5i

or, – 150 +300 =400 – 5i

or, 5i = 250

or, i = 50%.

63. D

Here, the multiplier = 1/(1-MPC) = 1/(1-0.5) = 2 <

$\partial y / \partial I = 2$; $\partial Y / 400 = 2$ or

change in income = Rs.800 Cr.

64. C Here, consumption C= 20 + 0.40Y and Y= 1,200 MUC <

C = 0.4×1,200+20 =500

When income equals 1,200 consumption = 500

Investment =Savings = income – consumption =1,200 - 500 = 700MUC

65. C <

66. A <

So the value of the money supply is Rs.88,130 Cr.

67. A Balance of Trade (BoT) = Merchandise exports – Merchandise imports <

= 4,50,000 – 2,00,000 MUC = 2,50,000 MUC i.e., surplus of 2,50,000 MUC. Therefore option (a) is the correct answer.

68. C <

So the correct answer will be 3,250 MUC.

69. A <

Velocity of money =

Where Y = C + 1 + G + E – M = 5,000 + 10,000 + 15,000 + 20,000 – 25,000 = 25,000

Money supply = Y/Velocity of money = 25,000/20 = Rs.1,250 Cr.

Therefore (a) is the correct option.

70. B Non-monetary liabilities = Share capital + Reserves + Government deposits <

= 5 + 250 + 700 = Rs.955Crore

71. C Personal Income (PI) = NI – Corporate profit + Dividends + Transfer Payments <

= 8,000 – 1,500 + 150 + 175 = 6,825 MUC

Therefore option (c) is the correct answer.

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