



Chapter - 8

Economics

Answer Key with Solutions
Includes: All MCQs + Extra PYQs with Detailed Explanations

Solutions

1. **(b);** Priority Sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. It is an important role given by the Reserve Bank of India (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.
2. **(b);** The RBI's accounting year is from July to June.
3. **(a);** Kerala has lowest birth rate 14.7, according to the latest official data. Bihar has highest birth rate.
4. **(b);** The SAARC Secretariat is based in Kathmandu, Nepal. It coordinates and monitors implementation of activities, prepares for and services meetings, and serves as a channel of communication between the Association and its Member States as well as other regional organisations. SAARC was founded in Dhaka on 8 December 1985.
5. **(d);** The RESIDEX was first launched in 2007 by the National Housing Bank (NHB) to provide an index of residential prices in India across cities and over time. So, it is associated with land prices.
6. **(a);** The money market became a component of the financial markets for assets involved in short-term borrowing, lending, buying and selling with original maturities of one year or less. Thus, it is a market for Short term fund.
7. **(b);** The International Development Association (IDA) is an international financial institution which offers concessional loans and grants to the world's poorest developing countries. So, it is called as Soft Loan Window of World Bank. The IDA is a member of the World Bank Group and is headquartered in Washington, D.C., United States.
8. **(d);** Phillips curve shows the inverse relationship between unemployment and inflation rate.
9. **(c);** Special drawing rights are supplementary foreign-exchange reserve assets defined and maintained by the International Monetary Fund (IMF). IMF headquarters are in Washington D.C.
10. **(d);** The India's first Green Rail Corridor was inaugurated on the 114-km long Rameswaram-Manamadurai stretch in Tamil Nadu.
11. **(a);** Coimbatore is referred to as the "Manchester of South India" due to its cotton production and textile industries.
12. **(a);** When the demand for a good increases with an increase in income, such a good is called Superior good. A Superior good also may be a luxury good.
13. **(a);** Micro Units Development and Refinance Agency Bank (or MUDRA Bank) is a public sector financial institution in India. It provides loans at low rates to micro-finance institutions and non-banking financial institutions which then provide credit to MSMEs (small business). It was launched by Prime Minister Narendra Modi on 8 April 2015.
14. **(d);** The Insurance Regulatory and Development Authority of India is an autonomous, statutory agency tasked with regulating and promoting the insurance and re-insurance industries in India.
15. **(a);** Karnataka's Chief Minister Siddaramaiah had made the announcement to abolish the tax on agricultural income while presenting the State Budget for 2016-17. This in turn will provide relief to many tea and coffee companies besides thousands of individual coffee growers. Plantation companies had to pay a 35 per cent tax on their net income.
16. **(c);** Three strategies have been used to obtain the market values of all the goods and services produced and calculating national income: the product (or output) method, the expenditure method, and the income method. Matrix method is not method used for calculating National Income.
17. **(b);** Entertainment tax is a duty that is charged by the government on any source of entertainment provided. This tax can be charged on movie tickets, tickets to amusement parks, exhibitions and even sports events. Entertainment tax is levied by the State Government only.
18. **(a);** The Human Development Index (HDI) is a composite statistic (composite index) of life expectancy(health), education, and per capita income indicators, which are used to rank countries into four tiers of human development.
19. **(b);** The operational period of 12th Five Year Plan is 2012-2017. It aims at a growth rate of 8%.
20. **(a);** Octroi is a tax levied on various goods entering a town or city.



21. **(b)**; National Rural Livelihoods Mission (NRLM) was launched by the Ministry of Rural Development (MoRD), Government of India in June 2011. It is restructured form of Swarna Jayanti Gram Swarojgar Yojna.
22. **(d)**; Firewood is a non-commercial source of energy.
23. **(b)**; The rate of tax increase as the amount of the tax base increases is called Progressive tax.
24. **(a)**; Supply-side economics is the theory that says increased production drives economic growth. So, the supply-side economics lays greater emphasis on Producer. The factor of production are capital, labour, entrepreneurship, and land.
25. **(b)**; The Bureaucratic Theory is related to the structure and administrative process of the organization and is given by Max Weber, who is regarded as the father of bureaucracy.
26. **(d)**; Direct tax is a type of tax where the incidence and impact of taxation fall on the same entity income.
27. **(b)**; Dumping, in reference to international trade, is the export by a country or company of a product at a price that is lower in the foreign market than the price charged in the domestic market.
28. **(a)**; World Economic Outlook" report by the International Monetary Fund (IMF) contains analysis and projections of the integral elements of the IMF's surveillance of economic developments and policies in its member countries, and of the developments in the global financial markets and economic system
29. **(d)**; BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa. Indonesia is not a member of BRICS group.
30. **(a)**; The major instruments of fiscal policy are - Budget, Taxation, Public Expenditure, Public Works, Public Debt(public borrowing).
31. **(b)**; Perfect Competition is a market in which buyers and sellers are so numerous and well informed that all elements of monopoly are absent and the market price of a commodity is beyond the control of individual buyers and sellers.
32. **(c)**; 'Bilateral Monopoly' A market that has only one supplier and one buyer. The one supplier will tend to act as a monopoly power, and look to charge high prices to the one buyer. The lone buyer will look towards paying a price that is as low as possible.
33. **(c)**; The Lorenz curve is a graphical representation of income inequality or wealth inequality developed by American economist Max Lorenz in 1905.
34. **(a)**; The New Development Bank's purpose is to support infrastructure and sustainable development projects in BRICS and other emerging economies.
35. **(a)**; An indifference curve is a graph showing combination of two goods that give the consumer equal satisfaction and utility.
36. **(a)**; Progressive taxation is a tax that takes a larger percentage from high-income earners than it does from low-income individuals. Progressive expenditure means large percentage of expenditure from high income earners than low income earners.
37. **(c)**; Department of Indian Systems of Medicine and Homoeopathy (ISM&H) was established in 1995 and renamed as Department of Ayurveda, Yoga & Naturopathy, Siddha, Unani and Homoeopathy (AYUSH) in November, 2003. It is not a scheme/project of present Government.
38. **(c)**; Monetary policy is designed as to maintain the price stability in the economy. Thus, its main objective is to promote economic growth with Price stability. Monetary policy is the macroeconomic policy laid down by central bank.
39. **(c)**; Trickle-down economics, or "trickle-down theory," states that tax breaks and benefits for corporations and the wealthy will trickle down to everyone else. It argues for income and capital gains tax breaks or other financial benefits to large businesses, investors and entrepreneurs to stimulate economic growth. It ignores the impact of economic growth on income distribution.
40. **(c)**; A regressive tax is a tax that takes a larger percentage of income from low-income earners (poorer section) than from high-income earners (richer section).
41. **(c)**; Market Economy is the economy in which the market forces namely demand supply decide the path of faction.
42. **(a)**; Malthusian theory of population states that "By nature human food increases in a slow arithmetical ratio; man himself increases in a quick geometrical ratio unless want and vice stop him. The increase in numbers is necessarily limited by the means of subsistence Population invariably increases when the means of subsistence increase, unless prevented by powerful and obvious checks.



- 43. (a);** Bank rate is the rate charged by the central bank for lending funds to commercial banks.
- 44. (b);** A progressive tax is a tax in which the tax rate increases as the taxable amount increases.
- 45. (c);** Fiscal policy in India is formulated by Finance Ministry.
- 46. (a);** Micro Units Development and Refinance Agency Bank (or MUDRA Bank) is a public sector financial institution in India. It provides loans at low rates to micro-finance institutions and non-banking financial institutions which then provide credit to MSMEs. It was launched by Prime Minister Narendra Modi on 8 April 2015.
- 47. (b);** Elasticity = $(\Delta Q / \Delta P) \times (P / Q)$ where ΔQ is change in Quantity and ΔP is change in Price.
- 48. (a);** The government's role in capitalism is to maintain a level playing field i.e. minimum intervention. It prevents the unfair advantages obtained by monopolies or oligarchies. It also maintains infrastructure. It taxes capital gains and income to accomplish these goals.
- 49. (b);** At equilibrium demand is equal to supply.
- 50. (a);** Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.
- 51. (d);** ELASTICITY = $(\% \text{ change in the quantity}) / (\% \text{ change in the price})$
- 52. (a);** Devaluation is a deliberate downward adjustment to the value of a country's currency relative to another currency.
- 53. (b);** Elasticity = $(\% \text{ Change in Quantity}) / (\% \text{ Change in Price})$.
- 54. (a);** When the Federal Reserve lowers the reserve ratio, it lowers the amount of cash banks are required to hold in reserves and allows them to make more loans to consumers and businesses. This increases the money supply and expands the economy.
- 55. (b);** Real interest rate is approximately the nominal interest rate minus the inflation rate.
- 56. (d);** A Giffen good is a good for which demand increases as the price increases, and falls when the price decreases.
- 57. (a);** Marginal cost is the change in the opportunity cost that arises when the quantity produced is incremented by one unit, that is, it is the cost of producing one more unit of a good.
Total amount paid to 5 women before demand of 6th women = $5 \times 300 = 1500$
Total amount paid to 6 women after demand of 6th women = $350 \times 6 = 2100$
Marginal cost = $2100 - 1500 = 600$.
- 58. (b);** A condition of slow economic growth and relatively high unemployment accompanied by rising prices, or inflation and a decline in Gross Domestic Product (GDP).
- 59. (c);** Reverse Repo rate is the rate at which RBI borrows money from the commercial banks. It is a monetary policy instrument which can be used to control the money supply in the country.
- 60. (d);** A movement along the supply curve will occur when the price of the good changes and the quantity supplied changes in accordance to the original supply relationship. In other words, a movement along the supply curve is known as Expansion and Contraction of supply.
- 61. (a);** The law of demand is a microeconomic law that states, all other factors being equal, as the price of a good or service increases, consumer demand for the good or service will decrease, and vice versa. But in Giffen Goods a higher price causes an increase in demand (reversing the usual law of demand). The increase in demand is due to the income effect of the higher price outweighing the substitution effect.
- 62. (a);** An oligopoly is a market form where in a market or industry is dominated by a small number of sellers and large number of buyers. A monopoly is a form of market having one or two firms dominate the market but there are large number of buyers. In Perfect Competition Market there are large number of sellers and buyers.
- 63. (c);** The market demand curve is the summation of all the individual demand curves in a given market. It shows the quantity demanded of the good by all individuals at varying price points.
- 64. (a);** A market structure characterized by a single (one) seller, selling a unique product in the market. In a monopoly market, the seller faces no competition, as he is the sole seller of goods with no close substitute.
- 65. (b);** The Price taking firm can sell any quantity it can produce at the market price, so even though the market is likely to face a downward sloping market demand curve, the individual firm faces a horizontal market demand curve at the market price. Because the firm can sell as much as it can produce at the market price, the marginal revenue for each unit sold is equal to the price, and the average revenue is also equal to the price, as every unit costs the same, so when you divide the total revenue by the number of units sold, you get the price.



66. (c); Microeconomics is a branch of economics that studies the behavior of individuals and firms in making decisions regarding the allocation of scarce resources and the interactions among these individuals and firms as trying to maximize their profits.
67. (a); The buffer stocks are required to feed targeted public distribution system and other welfare schemes, guaranteed food security during the periods when production is short of normal demand during bad agricultural years, stabilize prices during period of production shortage through open market sales.
68. (d); The nutritional requirement recommends a national norm of 2,400 kilo calories a day for rural areas and 2,100 calories a day for urban areas, the difference being attributed to the lower rate of physical activity in urban areas.
69. (c); Group members take the important decisions of SHG. The group owes responsibility for the repayment of loans. Other members of the group follow seriously if in case of non-repayment of loan by one member. The groups decide as regards the loans- to be granted- the purpose, amount, interest to be charged, repayment schedule.
70. (c); Bharat Electronics Limited is a maharatna Company.
71. (b); French economist Leon Walras in his pioneering work Elements of Pure Economics in 1874 gave General Equilibrium theory. It attempts to explain the behavior of supply, demand, and prices in a whole economy with several or many interacting markets, by seeking to prove that the interaction of demand and supply will result in an overall general equilibrium.
72. (c); A demand draft is a negotiable instrument similar to a bill of exchange. A bank issues a demand draft to a client (drawer), directing another bank (drawee) or one of its own branches to pay a certain sum to the specified party (payee). A demand draft can also be compared to Banker's cheque.
73. (b); Monopoly refers to a company that is a single seller of a product or service in the market. A monopoly basically holds the entire market, controls prices and supplies and puts an end to any competition or it doesn't even let competition get a start because of high market entry costs and legal
74. (a); In certain circumstances, people doing part-time work may qualify if they desire to obtain, and are capable of performing, full-time work.
- It also includes those accepting employment well behind their skill set. In these cases, disguised unemployment may also be referred to as the underemployed, covering those who are working in some capacity but not at their full capacity.
75. (b); A bilateral monopoly is a market structure consisting of both a monopoly (a single seller) and a monopsony (a single buyer).
76. (c); Regional Rural Banks are sponsored by five Nationalized Commercial banks- Punjab National Bank, State Bank of India, Syndicate Bank, United Bank of India and UCO Bank.
77. (c); Official Reserves Account is not an account under Balance of Payments (BOP).
78. (c); Open market operation is not an instrument of credit control of India. Marginal requirement, rationing of credit, publicity, direct action, moral suasion are instruments of credit control in India.
79. (d); Consumer equilibrium is not an example of micro economic variable.
80. (a); The prime rate is the interest rate that commercial banks charge their most credit-worthy customers.
81. (d); Medium loans are those loans such as 1 to 5 years the interest rate is upto 36% also medium loans are the unsecured ones in most of the cases. EMI of such loans is more than the long terms loans.
82. (d); In a mixed economy, private and public sectors are involved in economy as two side of one coin. The government directs economic activity in some socially important areas of the economy, the rest being left to the price mechanism to operate.
83. (b); The 3rd five year plan laid considerable stress on the agricultural sector. However, with the short lived Sino Indian War of 1962 India diverted its attention to the safety of the country. Again, during the period 1965 to 1966, owing to Green Revolution, once again agriculture attracted attention.
84. (c); Courier service comes under Tertiary Sector also known as Service Sector
85. (d); A direct tax is paid directly by an individual or organization to an imposing entity. A taxpayer, for example, pays direct taxes to the government for different purposes e.g. income tax, corporation tax, wealth tax etc.
86. (d); Golden revolution is related to fruit production, Blue revolution is related to fish production and Yellow revolution is related to production of oilseeds.



- 87. (a);** Mahanagar Telephone Nigam Limited (MTNL) is a state-owned telecommunications service provider. It comes under Navratna category of PSU.
- 88. (d);** Fiscal policy is the government spending and taxation that influences the economy. Some of the major instruments of fiscal policy are as follows: Budget, Taxation, Public Expenditure, Public Works and Public Debt.
- 89. (b);** $NI = NDP + \text{net foreign income}$, $GNP = GDP + \text{Net income inflow from abroad} - \text{Net income outflow to foreign countries}$ & $\text{Net Domestic Product} = GDP - \text{Depreciation of the Capital goods}$.
- 90. (a);** The GDP deflator is a measure of price inflation. It is calculated by dividing Nominal GDP by Real GDP and then multiplying by 100.
- 91. (b);** Reserve Bank of India monitors that the banks in actually maintaining cash balances.
- 92. (b);** An indifference curve is a graph showing combination of two goods that give the consumer equal satisfaction and utility. Each point on an indifference curve indicates that a consumer is indifferent between the two and all points give him the same utility.
- 93. (b);** Cabinet proposed to provide 'Housing for all' by 2022.
- 94. (b);** After fifth year plan Rolling plan is introduced.
- 95. (b);** Indirect Tax causes heavy burden on the poorer sections of society.
- 96. (b);**
- 97. (d);** In economics, the Lorenz curve is a graphical representation of the distribution of income or of wealth.
- 98. (a);** National Agricultural Cooperative Marketing Federation of India Ltd is an apex organization of marketing cooperatives for agricultural produce in India, under Ministry of Agriculture, Government of India.
- 99. (d);** The real exchange rate R is defined as the ratio of the price level abroad and the domestic price level, where the foreign price level is converted into domestic currency units via the current nominal exchange rate.
- 100. (c);** An Isoquant Curve shows all the possible combinations of input factors that yield the same quantity of production. In other words, an iso-quant curve is a geometric representation of the production function, wherein different combinations of labor and capital are employed to have the same level of output.
- 101. (c);** A price signal is information conveyed to consumers and producers, via the price charged for a product or service, which provides a signal to increase or decrease supply or demand. In other words, in a market system, the central problems regarding how much and what to produce are solved through the coordination of economic activities brought about by Price signals.
- 102. (b);** Law of variable proportions says that the marginal product of a factor input initially rises with its employment level. But after reaching a certain level of employment, it starts falling.
- 103. (c);** A centrally planned economy or a command economy is one where the price and allocation of resources, goods and services is determined by the government rather than autonomous agents as it is in a free market economy. The closest example of a centrally planned economy is the USSR for the major part of the 20th Century.
- 104. (a);** Total product is the relationship between the variable input and output, keeping all other inputs are held constant.
- 105. (c);** Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.
- 106. (c);** An isoquant is a contour line drawn through the set of points at which the same quantity of output is produced while changing the quantities of two or more inputs. In other words, Isoquant is the set of all possible combinations of the two inputs that yield the same maximum possible level of output.
- 107. (b);** The nominal exchange rate E is defined as the number of units of the domestic currency that can purchase a unit of a given foreign currency and vice versa.
- 108. (a);** Marginal product of an input is defined as the change in output per unit of change in the input when all other inputs are held constant.
- 109. (d);** The collection of all possible combinations of the goods and services that can be produced from a given amount of resources and a given stock of technological knowledge is called the Production Possibility Set of the economy.
- 110. (c);** In economics, an excess supply or economic surplus is a situation in which the quantity of a good or service supplied is more than the quantity demanded.
- 111. (c);** The Indian Government has introduced Economic Reforms in India in 1991 for the first time.



- 112. (b);** In economics, a production function relates physical output of a production process to physical inputs or factors of production in a firm.
- 113. (a);** The demand for a normal good increases with increase in the consumer's income.
- 114. (b);** Short run marginal cost curve cuts the average variable cost curve from below at the minimum point of average variable cost.
- 115. (b);** A commodity market has a monopoly structure, if there is one seller of the commodity, the commodity has no substitute, and entry into the industry by another firm is prevented.
- 116. (a);** The short run average cost curve is U shaped.
- 117. (b);** If the Monopoly firm has zero costs or only has fixed cost, the quantity supplied in equilibrium is given by the point where the marginal revenue is zero.
- 118. (a);** The short run marginal cost curve is U shaped
- 119. (a);** In economics, an inferior good is a good whose quantity demanded decreases when consumer income rises.
- 120. (b);** In economics, normal goods are any goods for which demand increases when income increases, and falls when income decreases but price remains constant, i.e. with a positive income elasticity of demand.
- 121. (b);** Demand for inferior goods increases when income falls or the economy contracts in other words demand of inferior good increases with decrease in the consumer's income.
- 122. (a);** Goods for which demand move in the opposite direction of the income of the consumer are called Inferior goods.
- 123. (a);** If the Perfect Competition firm has zero costs or only has fixed cost, the quantity supplied in equilibrium is given by the point where the average revenue is zero.
- 124. (a);** The Average Variable Cost Curve is 'U' shaped.
- 125. (a);** The Current Account balance is the sum of the balance of merchandise trade, services and net transfers received from the rest of the world.
- 126. (d);** The relation between the consumer's optimal choice of the quantity of a good and its price is very important and this relation is called the Demand function.
- 127. (b);** In economics, normal goods are any goods for which demand increases when income increases, and falls when income decreases.
- 128. (b);** Short run marginal cost curve cuts the short run average cost curve from below at the minimum point of short run average cost.
- 129. (c);** The Capital Account balance is equal to capital flows from the rest of the world, minus capital flows to the rest of the world.
- 130. (a);** If a consumer's demand for a good moves in the same direction as the consumer's income, the consumer's demand for that good must be inversely related to the price of the good is called Law of demand.
- 131. (d);** Consumer surplus is defined as the difference between the total amount that consumers are willing and able to pay for a good or service (indicated by the demand curve) and the total amount that they actually do pay.
Irfan willing to pay = 200
Irfan actual pay after discount = 90
Consumption surplus = Irfan willing to pay - Irfan actual pay after discount
= 200 - 90 = 110
- 132. (d);** Developmental expenditure refers to the expenditure of the government which helps in economic development by increasing production and real income of the country. It doesn't include Defence expenditure.
- 133. (b);** Demand = Supply (at Equilibrium)
 $37000 - 11P = 12000 + 9P$
 $25000 = 20P$
 $P = 1250$
(Equilibrium) $D = 37000 - 11 * 1250 = 23250$
- 134. (b);** The balance of trade (BOT) is the difference between a country's imports and its exports for a given time period. The balance of trade is the largest component of the country's balance of payments (BOP).
- 135. (d);** Transaction = $10500 - 7000 = 3500$
Thus, the transaction generated is Rs. 3,500 worth of producer surplus.
- 136. (d);** The balance sheet contains statements of assets, liabilities, and shareholders equity.
- 137. (a);** B.E.Q = Fixed cost / (price per unit - variable cost)
Price per unit = $30 / 12 = 2.5$
B.E.Q = $20000 / (2.5 - 1.5) = 20000$.
- 138. (c);** Economic profit = Revenue - (Implicit cost + explicit cost).
- 139. (b);** Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling. When money supply increase it tends to higher rate of inflation.
- 140. (a);** GDP = Personal Consumption Expenditures + Business Investment + Government + (export - import)
GDP = $400 + 150 + 80 + (35 - 40)$
GDP = \$625 million.
- 141. (a);** Economics assumes that people have unlimited desires but limited resources.
- 142. (c);** Total fixed cost = $(54 - 36) \times 2500 = 45000$.



- 143. (c);** Cyclical unemployment is a factor of overall unemployment that relates to the cyclical trends in growth and production that occur within the business cycle. When business cycles are at their peak, cyclical unemployment will be low because total economic output is being maximized
- 144. (a);** Fixed cost = $(24 - 15) \times 2400 = \text{Rs. } 21600$.
- 145. (a);** At the equilibrium, price demand is equal to supply.
- 146. (a);** Marginal tax = $(1250/100000) \times 100 = 12.50\%$
- 147. (a);** Direct taxes include the taxes that cannot be transferred or shifted to another person, for instance the income tax an individual pays directly to the government.
- 148. (d);** Elasticity of demand = $(\% \text{ change in quantity}) / (\% \text{ change in price}) - 1$
 $= \{(Q1 - 7500) / Q1\} / (10/40)$
 $Q1 = 6000$.
- 149. (b);** Micro economics deals with the decision making of a single economic variable like demand.
- 150. (c);** Transaction generated = (Selling price) - (price at which willing to sell)
 $= 42000 - 37000 = \text{Rs. } 5000$.
- 151. (d);** An inferior good is a good whose quantity demanded decreases when consumer income rises unlike normal goods, for which the opposite is observed. Normal goods are those for which consumers demand increases when their income increases.
- 152. (b);** Point Elasticity of demand
 $= (\% \text{ Change in Quantity}) / (\% \text{ Change in Price})$
 $= \text{Rs. } 80$.
- 153. (a);** Differentiated products, but close substitutes for consumers so their demand curves are elastic, is an example of Monopolistic Competition and Homogeneous product, all goods are perfect substitutes for consumers, is an example of Pure Competition.
- 154. (a);** Elasticity = $(\% \text{ change in the quantity}) / (\% \text{ change in the price})$
 $= (-100/950) \times (250/40)$
 $= -0.65$.
- 155. (c);** Price floor is a situation when the price charged is more than or less than the equilibrium price determined by market forces of demand and supply, so there will be surplus of sugar in the market.
- 156. (b);** GDP = Consumer Spending + Government Spending + Investment by Business + (Export - Import)
 $990 = 630 + \text{Government Spending} + 110 + (55 - 45)$
 Government Spending = \$240.
- 157. (a);** In economic equilibrium, supply is equal to the demand.
- 158. (b);** At Equilibrium,
 Demand = supply
 $11000 - 30P = 4000 + 40P$
 Equilibrium Price, $P = 100$.
- 159. (b);** Disposable income, also known as disposable personal income (DPI), is the amount of money that households have available for spending and saving after income taxes so when tax will decrease disposable income will increase.
- 160. (c);** At equilibrium,
 Demand = supply
 $59600 - 6P = 29600 + 4P$
 $30000 = 10P$
 $P = 3000$
 Demand = $59600 - 6 \times 3000 = 41600$.
- 161. (c);** Opportunity cost is a key concept in economics, and has been described as expressing "the basic relationship between scarcity and choice. The notion of opportunity cost plays a crucial part in attempts to ensure that scarce resources are used efficiently. Thus, opportunity costs are not restricted to monetary or financial costs.
- 162. (a);** Marginal Revenue product = $(\text{change in revenue}) / (\text{change in number of worker})$
 Change in revenue = $(2250 \times 14) - (2000 \times 15)$
 $= 31500 - 30000 = 1500$
 Change in number of worker = 1
 Marginal Revenue Product = $1500 / 1 = 1500$.
- 163. (c);** Frictional unemployment is the unemployment which exists in any economy due to people being in the process of moving from one job to another.
- 164. (d);** In equilibrium, Demand = Supply
 Thus, $80200 - 13P = 6200 + 12P$
 $P = 74000 / 25$
 $P = 2960$
 Hence, Quantity demanded (D) = Quantity supplied (S)
 $D = S = 6200 + 12(2960) = 41,720$.
- 165. (a);** A firm under Pure competition can sell as much as it likes at a growing price, its $MR = P$. In Pure Monopoly, Firm will tend to set output so that it earns maximum profits.
- 166. (a);** At Equilibrium, Demand = Supply
 Thus, $67500 - 18P = 22500 + 12P$
 $P = 45000 / 30$
 Equilibrium Price $P = 1500$.
- 167. (d);**
- 168. (b);** Full employment is the level at which there is no cyclical unemployment.
- 169. (b);**



- 170. (a);** Unemployment resulting from industrial reorganization, typically due to technological change, rather than fluctuations in supply or demand is called Structural unemployment.
- 171. (c);** Elasticity = % Change in quantity / % Change in price
 $1.25 = X / 6.4$
 $X = 6.4 * 1.25 = 8\%$
- 172. (a);** If Money supply growth is faster than real GDP growth, it results in Inflation.
- 173. (d);** Economic Profit = Accounting Profit - Implicit Cost
 $60 = \text{Accounting Profit} - 18.5$
 Accounting Profit = 78.5 Crores.
- 174. (d);** If tea companies start using mechanised tea leave pickers then wages for manual tea leave pickers will fall.
- 175. (c);**
- 176. (a);** A minimum wage is the price floor below which workers may not sell their labor.
- 177. (d);** The arc elasticity of demand can be calculated as:
 $\text{Arc Elasticity} = \left[\frac{Qd_2 - Qd_1}{\text{midpoint } Qd} \right] \div \left[\frac{P_2 - P_1}{\text{midpoint } P} \right]$
 $\text{Midpoint } Qd = (Qd_1 + Qd_2) / 2 = (4000 + 5000) / 2 = 4500$
 $\text{Midpoint Price} = (P_1 + P_2) / 2 = (75 + 90) / 2 = 82.5$
 $\% \text{ change in quantity demanded} = (5000 - 4000) / 4500 = 0.23$
 $\% \text{ change in price} = (90 - 75) / 82.5 = 0.18$
 $\text{Arc Elasticity of demand} = 0.23 / 0.18 = 1.28.$
- 178. (c);** In economics, a recession is a business cycle contraction which results in a general slowdown in economic activity. During a recession there will be capacity under utilization.
- 179. (b);** Marginal Tax Rate = $(50000 / 400000) \times 100 = 12.5.$
- 180. (a);** If goods A and Z are complements, an increase in the price of good Z will increase demand for good A.
- 181. (c);** In perfect competition a firm maximizes profit by setting output such that marginal revenue is equal to marginal costs.
- 182. (d);** Elasticity = (% change in quantity) / (% change in the price)
 $= (950 - 1000) / (950) \times (280 - 240) / (240)$
 $= 0.31.$
- 183. (b);** A price floor is the lowest legal price a commodity can be sold at. Price floors are used by the government to prevent prices from being too low.
- 184. (a);** Reema's consumer surplus is Rs.3000.
- 185. (c);** The unemployment created at certain times of the year, when the demand for goods and services are lower than normal, is Seasonal unemployment. In other words, Unemployment due to lack of demand during certain times of the year is called Seasonal Unemployment.
- 186. (c);** Point elasticity of demand = $(\Delta Q / Q) / (\Delta P / P)$
 $= (150 / 1250) / (18 / 2) = 1.08.$
- 187. (d);** If goods A and B are substitutes, a decrease in the price of good B will decrease demand for good A.
- 188. (a);**
- 189. (d);** Government borrowing to finance budget deficits will put upward pressure on interest rates.
- 190. (b);** Dadabhai Naoroji was the first to calculate the national income in India in 1868.
- 191. (c);** The Union Budget of India, also referred to as the Annual financial statement in the Article 112 of the Constitution of India is represented by Finance minister.
- 192. (a);** Indian government is the biggest borrower in India and its prime lender is RBI.
- 193. (c);** Price and output sold relationship is explained through the supply function.
- 194. (a);** National Income is one of the basic concepts in macro economics. National Income means the total income of the nation. The aggregate economic performance of the whole economy is measured by the National Income data. National Income refers to the total value of all final goods and services produced in the country during a period of 1 year.
- 195. (a);**
- 196. (a);** Special Economic Zone (SEZ) concept was first introduced in China in the 1980s. The most successful SEZ in China, Sherizhen, has developed from a small village into a city with a population over 10 million within 20 years. Commerce Minister Mr Maran Had introduced SEZ concept in year 1997 for first times in India.
- 197. (a);** This theory has been given by JM Keynes.
- 198. (a);** Saving function is a mathematical relation between saving and income by the household sector, according to classical theory, saving is a function of the level of income.
- 199. (b);** The JB Say's law of market has been given J B Say. Which stated as "supply creates its own demand."
- 200. (d);** The Index of Industrial Production (IIP) is an index for India which details out the growth of various sectors in an economy such as mineral mining, electricity and manufacturing. The Eight Core Industries comprise nearly 40.27% of the weight of items included in the Index of Industrial Production (IIP).

