# XII ECONOMICS SURE SHOT SHORT ANSWER QUESTIONS

## MICROECONOMICS

### UNIT -1

### INTRODUCTION

| Q.1 | Distinguish between microeconomics and macroeconomics. | 3 |
| Q.2 | Discuss the central problems of an economy. Why do they arise? | 3 |
| Q.3 | Define production possibility curve. Draw a PPC and show a point of:  
   a. All resources are fully utilized  
   b. Under utilisation of resources  
   c. Unattainable point (with given resources and technology) | 3 |
| Q.4 | Explain the problem of what to produce with the help of production possibility curve. | 3 |
| Q.5 | What will be the impact of “Clean India Mission” on the production possibilities frontier of India and why?  
   OR  
   What will be the impact of “MNREGA” on the production possibilities frontier of India and why? | 3 |
| Q.6 | Why the slope of PPC is concave to the origin? Explain with the help of example. | 3 |
| Q.8 | Explain the concept of opportunity cost with the help of example. | 3 |
| Q.9 | Explain the concept of marginal rate of substitution with the help of example. | 3 |

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## UNIT -2

### CONSUMER’S EQUILIBRIUM AND DEMAND (16 MARKS)

### MULTIPLE CHOICE QUESTIONS

| Q.1 | Marginal utility of good X is 10, Marginal utility of good Y is 8, price of good X is Rs. 2 then what will be the price of good Y?  
   a. Rs. 1.5/-  
   b. Rs. 1.6/-  
   c. Rs. 1.7/-  
   d. Rs. 1.8/- | 1 |
| Q.2 | The marginal rate of substitution between two goods X and Y is 5. Price of good X is Rs 10 per unit then the price of good Y is:  
   a. Rs. 1  
   b. Rs. 2  
   c. Rs. 3  
   d. Rs. 4 | 1 |
| Q.3 | When the price of a good decreases by Rs. 10 per unit, the total expenditure increases by Rs.50. The price elasticity of demand is:  
   a. 5  
   b. 0.2  
   c. 2  
   d. None of the above | 1 |
| Q.4 | Utility is:  
   a. Want satisfying power of a commodity  
   b. Available bundles of different goods  
   c. Excess capacity of the commodity  
   d. Both a and b | 1 |
Q .5 Change in total utility due to the consumption of an additional unit is called:
   a. Gross utility
   b. Extra utility
   c. Indifference curve
   d. Marginal utility

Q .6 Total utility at 4th unit is 25 and at 5th unit is 23. What will be the marginal utility at 5th unit?
   a. 25
   b. 23
   c. -2
   d. 2

Q .7 Slope of indifference curve is:
   a. Concave to the origin
   b. Convex to the origin
   c. Negative sloped straight line
   d. Positive sloped straight line

Q .8 Which among the following is not correct:
   a. When TU is at maximum the MU is zero
   b. When MU is positive TU increases
   c. When MU is negative TU increases but at decreasing rate.
   d. When MU increases the TU increases at increasing rate.

Q .9 Which among the following is the condition for a consumer to be in equilibrium?
   a. MRS\textsubscript{XY} < \frac{P_X}{P_Y}
   b. MRS\textsubscript{XY} > \frac{P_X}{P_Y}
   c. MRS\textsubscript{XY} = \frac{P_X}{P_Y}
   d. None of the above

Q .10 Which among the following explain about the slope of IC?
   a. Marginal rate of substitution among two goods
   b. Ratio of substitution between two goods
   c. Price ratio of two goods
   d. Both (a) and (b)

Q .11 Which among the following explain about the slope of budget line?
   e. Marginal rate of substitution among two goods
   f. Ratio of substitution between two goods
   g. Price ratio of two goods
   h. Both (a) and (b)

Q .12 When price of good X decreases the demand for good Y rises. Both goods are:
   a. Complementary
   b. Substitutes
   c. Both (a) and (b)
   d. None of the above

VERY SHORT ANSWER TYPE QUESTIONS

Q 1 Define the term price elasticity of demand.
Q 2 Define marginal utility?
Q 3 Define indifference curve.
Q 4 Define indifference map.
Q 5 What do you mean by budget set?
Q 6 What is budget line?
Q 7 State the reason behind the convexity of indifference curve.
| Q 8 | State the Law of demand. |
| Q 9 | Define Market Demand. |
| Q 10 | How will the consumer move along his IC in a situation when MRS_{xy} > \frac{P_x}{P_y}?

**SHORT ANSWER TYPE QUESTIONS (3/4 marks)**

| Q 1 | Explain the law of diminishing marginal utility with the help of schedule and diagram. |
| Q 2 | Given the market price of a good, how does a consumer decide as to how many units of that good to buy? Explain.  
OR  
Explain the consumer’s equilibrium in case of single commodity. |
| Q 3 | Explain the law of demand with the help of demand schedule? |
| Q 4 | Why the demand curve is downward sloping?  
OR  
Why a consumer demands more of a good when the price of that good decreases? |
| Q 5 | Write factors affecting demand elasticity |
| Q 6 | Explain with the help of diagram, what will be the effect on demand for a commodity when:  
   a. Price of it substitute decreases  
   b. Price of complementary increases  
   c. Income of the consumer increases |
| Q 7 | Price of a commodity falls from Rs. 4 to Rs. 3 per unit. As a result total expenditure on it rises from Rs. 200 to Rs. 300. Find out price elasticity of demand by percentage method. |
| Q 8 | State the properties of indifference curve. |
| Q 9 | Calculate price elasticity of demand by total expenditure method:-  
|   | ![Price and Quantity Demanded Table]  

<table>
<thead>
<tr>
<th>Price (Rs)</th>
<th>Quantity demanded (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>Q 10</td>
<td>Distinguish between individual demand and market demand.</td>
</tr>
</tbody>
</table>

**UNIT -3**  
**PRODUCER’S BEHAVIOUR AND SUPPLY (16 MARKS)**

**MULTIPLE CHOICE QUESTIONS**

| Q .1 | The time period in which some factors are variable and some factors are fixed is referred to as:  
   a. Very long run  
   b. Long run  
   c. Short run  
   d. Very short run |
| Q 2 | The technological relation between inputs and output is known to as:  
   a. Cost function  
   b. Supply function  
   c. Utility function  
   d. Production function |
Q 3  If the AP is 12 at 4 unit of variable input the value of TP is:
   a. 6
   b. 16
   c. 48
   d. 8

Q 4  Average fixed cost at 3rd unit of output is 10 what will be the total fixed cost at 5th unit of output.
   a. 10
   b. 20
   c. 30
   d. 40

Q 5  The slope of perfect inelastic supply curve is:
   a. Horizontal
   b. Vertical
   c. Negative sloped to the right
   d. Positive sloped to the right

Q 6  upward movement along the same supply curve can be caused by?
   a. Increase in the price of related goods
   b. Increase in the price of the good
   c. Decrease in the price of the good
   d. Decrease in the price of related goods

Q 7  When average product decreases the marginal production curve:
   a. Remain above the AP curve
   b. Remain below the AP curve
   c. Both (a) and (b)
   d. None of the above

VERY SHORT ANSWER TYPE QUESTIONS

Q 1  Define marginal product.

Q 2  As the variable input is increased by one unit, total output falls. What would you say about of marginal productivity?

Q 3  What will be the slope of average revenue curve if total revenue increases at constant rate?

Q 4  Give two examples of variable cost.

Q 5  What is meant by revenue in microeconomics?

SHORT ANSWER TYPE QUESTIONS

Q 1  Why is average revenue always equal to price?

Q 2  From the following table find total product and marginal product.

<table>
<thead>
<tr>
<th>Labour</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>AP</td>
<td>10</td>
<td>15</td>
<td>20</td>
<td>20</td>
<td>18</td>
</tr>
</tbody>
</table>

Q 3  Variable input (units) | TP (Units)
1    | 4   |
2    | 9   |
3    | 13  |
4    | 15  |
5    | 12  |

Identify the different phases of the law of variable proportions from the following schedule. Give reasons for your answer.

Q 4  Draw ATC, AVC and AFC curve on the same graph. Explain the relationship between ATC and AVC. Do they intersect each other? Give reason in support of your answer.

Q 5  At a price of Rs. 8 per unit, the quantity supplied of a commodity is 200 units. Its price elasticity of supply is 1.5. If its price rises to Rs. 10 per unit, calculate its quantity supplied at new price.
| Q 6 | What are the total fixed cost, total variable cost and total cost of a firm? How are they related? |
| Q 7 | Differentiate between short run and long run production function. |
| Q 8 | What is the likely behaviour of the AR and MR curve when a firm is able to sell additional units on:  
   a. Given price  
   b. By lowering the price |
| Q 9 | Draw supply curves showing:  
   a. Elastic supply  
   b. Unitary elastic supply  
   c. Inelastic supply |
| Q 10 | How does a change in per unit tax influence the supply of a good? Explain.  
     OR  
     How does a change in technology influence the supply of a good? Explain. |

UNIT -4  
FORMS OF MARKET AND PRICE DETERMINATION UNDER PERFECT COMPETITION WITH SIMPLE APPLICATION (12 MARKS)

<table>
<thead>
<tr>
<th>MULTIPLE CHOICE QUESTIONS</th>
</tr>
</thead>
</table>
| Q 1 The market form in which there are a few big firm is called:  
   a. Monopoly  
   b. Oligopoly  
   c. Perfect competition  
   d. Monopolistic competition |
| Q 2 Under which market condition the demand curve is perfectly elastic?  
   a. Monopoly  
   b. Oligopoly  
   c. Perfect competition  
   d. Monopolistic competition |
| Q 3 Which among the following market has the firm which is price taker?  
   a. Monopoly  
   b. Oligopoly  
   c. Perfect competition  
   d. Monopolistic competition |
| Q 4 Which among the following market has the firm which discriminates price?  
   a. Monopoly  
   b. Oligopoly  
   c. Perfect competition  
   d. Monopolistic competition |
| Q 5 Which among the following market has cut throat competition and high degree of interdependency among firms?  
   a. Monopoly  
   b. Collusive Oligopoly  
   c. Perfect competition  
   d. Non collusive oligopoly |
| Q 6 Which among the following market sell differentiated products?  
   a. Monopoly  
   b. Oligopoly  
   c. Perfect competition  
   d. Monopolistic competition |
| Q 7 The demand curve for a firm operating under oligopoly is:  
   a. Negative sloped  
   b. Positive sloped horizontal to X – axis  
   c. Indeterminate  
   d. Straight line positive sloped |
| Q 8 For which type of the goods government adopts price ceiling?  
   a. Necessities  
   b. Agricultural |
Q 9: For which type of goods does the government adopt floor price policy?
- Necessities
- Agricultural
- Luxuries
- Inferior

Q 10: When both the demand and supply curve shifts rightwards equally, the equilibrium price will:
- Increase
- Decrease
- Remain same
- All of above

**VERY SHORT ANSWER TYPE QUESTIONS**

Q 1: Which firm is said to be “price maker”?

Q 2: What is differentiated oligopoly?

Q 3: Define Monopoly.

Q 4: What will happen to the equilibrium price if the price of substitute good increases?

Q 5: What will happen to the equilibrium price if the government imposes per unit tax on the good?

**SHORT ANSWER TYPE QUESTIONS**

Q 1: What is the significance of:
- Single seller in the monopoly
- Differentiated product in monopolistic competition

Q 2: Comment on the shape of MR curve when TR curve is:
- Positively sloped straight line passing through the point of origin.
- Horizontal line

Q 3: Explain the significance of the feature “free entry and exit under perfect competitive market.”

Q 4: Explain the implication of interdependence in an oligopoly market.

Q 5: What are the effects of floor price/ceiling price on the market of a good? Use diagram.

**MACROECONOMICS**

**UNIT -5**

**MULTIPLE CHOICE QUESTIONS**

Q 1: Which of the following is not a transfer payment?
- Old age pension
- Income from lottery
- Pocket money received by a child
- Pension after retirement

Q 2: Domestic income is equal to national income only when:
- NFIA = 0
- NFIA < 0
- NFIA > 0
- None of these

Q 3: The difference between $GDP_{MP}$ and $GDP_{FC}$ is:
- Net indirect tax
- NFIA
- Depreciation
- None of these

Q 4: Which of the followings is an indicator of welfare for the economy?
- Personal income
- Nominal GNP
- Real GNP
**Q 5** NFIA does not include:
- a. Net income from property and entrepreneurship earned from abroad
- b. Wages and salaries received by the non-residents in the home country
- c. Interest on public debt
- d. Profit earned by Indian bank located in Singapore

**Q 6** Which among the following is considered as positive externalities?
- a. Indirect job opportunities in the area due to the establishment of a cement factory
- b. Increase in the level of pollution from that factory
- c. Increase in crimes in the city due to industrialization
- d. Development of slums due to the increased population in industrial city.

**Q 7** Which of the following items is included in calculating national income?
- a. Wining a lottery
- b. Interest income of the commercial banks
- c. Income from selling bonds and shares
- d. Income from selling old news paper

**Q 8** Which of the followings is not included in national income?
- a. Income from salary
- b. Income from rent
- c. Prize money
- d. Commission received from sale of second hand goods.

**Q 9** If gross domestic fixed capital formation is 500 crore and the gross domestic capital formation is 470 crore then:
- a. Value of change in stock is 30 crore
- b. Value of change in stock is -30 crore
- c. Value of depreciation is 30 crore
- d. Value of depreciation is -30 crore

**Q 10** Which of the followings is a consumer good?
- a. Television
- b. Car in a showroom
- c. Steel used in utensil industry
- d. Machine installed in a factory

### VERY SHORT ANSWER TYPE QUESTIONS

**Q 1** Define normal resident.

**Q 2** Define circular flow of income.

**Q 3** What is real flow?

**Q 4** What are leakages?

**Q 5** Define intermediate goods.

**Q 6** What are transfer payments?

**Q 7** What is intermediate cost?

**Q 8** Define depreciation.

**Q 9** State true or false:
- b. Bread is always final good.

**Q 10** State true or false that domestic income of country can be more its national income.

### SHORT ANSWER TYPE QUESTIONS

**Q 1** Distinguish between personal income and private income?

**Q 2** Distinguish between nominal GNP and real GNP.

**Q 3** Explain the main steps involved in measuring national income through product method.

**Q 4** Explain the steps involved in calculation of national income through income method.

**Q 5** Explain the main steps involved in measuring national income through expenditure method.
### UNIT - 6
MONEY AND BANKING (8 MARKS)

#### MULTIPLE CHOICE QUESTIONS

**Q 1** Which of the following is not a function of money?
- a. Medium of exchange
- b. Credit creation
- c. Store of value
- d. Measure of value.

**Q 2** What is the name of the Central Bank in India?
- a. SBI
- b. Bank of India
- c. Union Bank of India
- d. Reserve Bank of India

**Q 3** Which of the following is a qualitative instrument of credit control?
- a. Bank rate
- b. Repo rate
- c. Open market operation
- d. Margin requirements

**Q 4** Which of the following is a function of commercial bank?
- a. Credit creation
- b. Credit control
- c. Issue of notes
- d. Banker to the governments

**Q 5** Which of the following is a not a component of M3?
- a. Currency held by the public
- b. Demand deposits of commercial banks
- c. Saving account deposits with post office
- d. Other deposits with RBI

**Q 6** Margin requirement means:
- a. Current value of security offered for loan − value of loan granted
- b. Current value of security offered for loan + value of loan granted
- c. Current value of security offered for loan × value of loan granted
- d. Current value of security offered for loan ÷ value of loan granted

**Q 7** Which among the followings is/are the components of legal reserve ratio (LRR)?
- a. Cash Reserve Ratio (CRR)
- b. Statutory Liquidity Ratio (SLR)
- c. REPO
- d. Both (a) and (b)

**Q 8** Quantitative measures / instruments of monetary policy (policy of central bank):
- a. Focuses on quantity of money across selected sectors of the economy
- b. Focuses on quantity of money in the economy
- c. Focuses on inflationary and deflationary gaps in the economy
- d. Both (b) and (c)

**Q 9** Total credit creation by the commercial banks is equal to:
**Q 10** Which among the following is correct option?
- a. Repo rate is short term borrowing by the commercial banks from central bank
- b. Bank rate is the rate of interest charged by central bank from commercial banks on borrowings
- c. Reverse repo rate is the interest rate offered by the central bank to commercial banks for their deposits
- d. All of above are correct.

**VERY SHORT ANSWER TYPE QUESTIONS**

| Q 1  | Define barter system.                             |
| Q 2  | What is Bank Rate?                               |
| Q 3  | What is CRR?                                     |
| Q 4  | What is a commercial bank?                       |
| Q 5  | Define Reverse Repo Rate?                        |
| Q 6  | Define Repo Rate?                                |
| Q 7  | What do you mean by Liquidity?                   |
| Q 8  | What are demand deposits?                        |
| Q 9  | Define Fiat Money.                               |
| Q 10 | Define Money.                                    |
| Q 11 | Define narrow money.                             |
| Q 12 | What are time deposits?                          |

**SHORT ANSWER TYPE QUESTIONS**

| Q 1  | Define money. How money can solve the problem of double coincidence of wants? |
| Q 2  | Explain the function of money as the standard of deferred payments.          |
| Q 3  | What do you mean by:                                                          |
|      | a. the medium of exchange function of money                                   |
|      | b. the unit of account (measure of value) function of money                   |
| Q 4  | Define money supply. What are the components of money supply?                |
| Q 5  | You are made the governor of Reserve Bank of India. How will you control the inflationary conditions without affecting the overall money supply in the economy? |
| Q 6  | What do you mean by open market operations? How does this reduce the excess money supply in the economy? |
| Q 7  | Explain how does a central bank control money supply by changing:             |
|      | a. Repo rate                                                                  |
|      | b. Reverse repo rate                                                          |
| Q 8  | Explain the roll of following to reduce money supply in the economy:         |
|      | a. statutory liquid ratio                                                      |
|      | b. cash reserve ratio                                                         |
| Q 9  | The central bank acts as lender of last resort. How?                          |

**UNIT - 7**

**DETERMINATION OF INCOME AND EMPLOYMENT (12 MARKS)**

**MULTIPLE CHOICE QUESTIONS**

| Q 1  | If in an economy Investment is greater than saving , national income of the economy: |
|      | a. Increases                                                                   |
|      | b. Decreases                                                                  |
|      | c. Constant                                                                   |
### Questions and Answers

**Q 2** What happens to the level of national income when aggregate demand falls short of aggregate supply at full employment?
- a. Decreases
- b. Increases
- c. Constant
- d. None of them

**Q 3** If MPC and MPS are equal, value of multiplier is
- a. 2
- b. 1
- c. 5
- d. 3

**Q 4** What is the relationship between MPS and multiplier?
- a. Positive
- b. Negative
- c. Constant
- d. None of them

**Q 5** What can be the minimum value of investment multiplier
- a. 0
- b. 1
- c. 2
- d. 5

**Q 6** Name the situation under which aggregate demand exceeds aggregate supply at the full employment level.
- a. Excess demand
- b. Excess supply
- c. Deflationary gap
- d. None of them

**Q 7** What is the impact of deficient demand on production and employment?
- a. Increase
- b. Decrease
- c. Constant
- d. None of them

**Q 8** Various fiscal policy maker that can increase aggregate demand and thus control the problem of deficient demand are
- a. Increase the level of government expenditure
- b. Reduction in the level of taxes
- c. Both a & b
- d. None of them

**Q 9** At zero level of income, saving is:
- a. Positive
- b. Negative
- c. Zero
- d. None of them

**Q 10** The break-even point is attained when
- a. C > Y
- b. C < Y
- c. C = Y
- d. C = S  \((C = \text{CONSUMPTION}, \ Y = \text{INCOME}, \ S = \text{SAVINGS})\)

### Very Short Answer Type Questions

**Q 1** What is aggregate supply?
**Q 2** Define involuntary unemployment
**Q 3** What is full employment?
**Q 4** What is underemployment equilibrium?
| Q 5 | What is consumption function? |
| Q 6 | Define MPC. |
| Q 7 | Define investment. |
| Q 8 | What is APS? |
| Q 9 | Define Multiplier. |
| Q 10 | Define Autonomous investment. |
| Q 11 | Define autonomous consumption. |
| Q 12 | What is relationship between APC and APS? |
| Q 13 | Define excess demand. |
| Q 14 | What is deficient demand? |
| Q 15 | If planned savings are greater than planned investments what will be its effect on inventories? |

**SHORT ANSWER TYPE QUESTIONS**

| Q 1 | Define Aggregate demand. State its components. |
| Q 2 | What is meant by investment multiplier? Explain the relation between MPC and investment multiplier? |
| Q 3 | Draw consumption function and saving function on same diagram. |
| Q 4 | Draw a linear consumption curve and show the points where the: |
| | APC = 1 |
| | APC > 1 |
| | APC < 1 |
| Q 5 | Draw a linear consumption curve and derive a saving function from it. Explain the process. |
| | OR |
| | Explain the steps in deriving saving curve from a consumption curve. Use diagram. |
| Q 6 | Draw a linear consumption curve and derive a saving function from it. Explain the process. |
| | OR |
| | Explain the steps in deriving saving curve from a consumption curve. Use diagram. |
| Q 7 | If in an economy C = 300 + 0.8 Y and I = 3000. Calculate: |
| | a. Equilibrium level of national income and |
| | b. Saving at equilibrium level of national income. |
| Q 8 | State whether the following statements are true or false |
| | a. The Value of MPS can never be negative. |
| | b. The value of APS can never be greater than 1. |
| Q 9 | As a result of increase in investment by Rs 75 crores, national income rises by Rs. 300 crores. Calculate a marginal propensity to save (MPS)? |

**UNIT - 8**

GOVERNMENT BUDGET AND THE ECONOMY (8 MARKS)

**MULTIPLE CHOICE QUESTIONS**

| Q 1 | Disinvestment refers to: |
| | a. Addition to existing stock of capital |
| | b. Balancing the existing stock of capital |
| | c. Withdrawal of existing investment |
| | d. Restriction on new investment |

<p>| Q 2 | In case of indirect taxes: |
| | a. The final burden of the tax is borne by the person on whom it is imposed |
| | b. The burden of tax can be shifted to any other person |
| | c. The burden of tax cannot be shifted to any other person |
| | d. Both a &amp; c |</p>
<table>
<thead>
<tr>
<th>Q 3</th>
<th>Borrowing by the government is a:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Revenue receipt</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Capital receipt</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Revenue expenditure</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>Capital expenditure</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q 4</th>
<th>Government budget shows estimated expenditure of the government in terms of:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Consumption expenditure</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Investment expenditure</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Transfer payments</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>All of these</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q 5</th>
<th>Public goods are those goods:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Which satisfy collective needs of the people</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Which satisfy needs of the government</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Which are available only to those people who are below poverty line</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>None of these</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q 6</th>
<th>The non-tax revenue in the following is:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Export duty</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Import duty</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Dividends</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>Excise duty</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q 7</th>
<th>Direct tax is called direct because it is collected directly from:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>The producers on goods produced</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>The sellers on goods sold</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>The buyers of goods</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>The income earners</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q 8</th>
<th>Primary deficit in a government budget equals:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Interest payment</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Interest payments less borrowings</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Borrowings less interest payments</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>None of the above</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q 9</th>
<th>Which one of these is a revenue expenditure:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Purchase of shares</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Loans advanced</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Subsidies</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>Expenditure on acquisition of land</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q 10</th>
<th>Excess of revenue expenditure over revenue receipts is called:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Revenue deficit</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Fiscal deficit</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Primary deficit</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>None of these</td>
<td></td>
</tr>
</tbody>
</table>

**VERY SHORT ANSWER TYPE QUESTIONS**

<table>
<thead>
<tr>
<th>Q 1</th>
<th>Give meaning of Capital expenditure.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Q 2</td>
<td>How can Revenue expenditure be identified?</td>
<td></td>
</tr>
<tr>
<td>Q 3</td>
<td>Give definition of Capital receipts.</td>
<td></td>
</tr>
<tr>
<td>Q 4</td>
<td>What is meant by Revenue receipts?</td>
<td></td>
</tr>
<tr>
<td>Q 5</td>
<td>Define Government budget.</td>
<td></td>
</tr>
<tr>
<td>Q 6</td>
<td>Is borrowing by the government a revenue receipts?</td>
<td></td>
</tr>
<tr>
<td>Q 7</td>
<td>Differentiate between Revenue budget and capital budget.</td>
<td></td>
</tr>
<tr>
<td>Q 8</td>
<td>How Tax and non-tax can be differentiated?</td>
<td></td>
</tr>
</tbody>
</table>
**Q 9** How Fiscal deficit can be calculated?

**Q 10** How Primary deficit is computed?

**Q 11** What is the difference between Direct and indirect tax?

**Q 12** Why is repayment of Loan a capital expenditure?

### SHORT ANSWER TYPE QUESTIONS

**Q 1** Write any three functions of Government budget.

**Q 2** Explain the "Reallocation of resources" as the objective of government Budget.

**Q 3** Government raises its expenditure on producing public goods. Which economic value does it reflect? Explain.

**Q 4** What is meant by capital receipt? What are the components of capital receipts of the government?

**Q 5** Explain the basis of classifying taxes into direct & Indirect taxes?

**Q 6** Explain the role of government budget in fighting inflationary & deflationary tendencies.

**Q 7** Give the relationship between the revenue deficit & fiscal deficit.

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### UNIT - 9

**BALANCE OF PAYMENTS (7 MARKS)**

### MULTIPLE CHOICE QUESTIONS

**Q 1** Under flexible exchange rate system, exchange rate is determined by the:

a. Demand for exchange  
b. Supply of foreign exchange  
c. Supply and demand forces  
d. Government

**Q 2** Demand curve for foreign exchange is:

a. Negatively related to the rate of exchange  
b. Positively related to the rate of exchange  
c. Proportionate related to the rate of exchange  
d. Not related to rate of exchange

**Q 3** When domestic currency gain its value in relation to a foreign currency in the international money market, it is a situation of:

a. Currency appreciation  
b. Currency depreciation  
c. Currency devaluation  
d. None of these

**Q 4** Which of the following is the merit of flexible exchange rate system:

a. Optimum resources allocation  
b. Market stability  
c. External shocks  
d. Stable monetary policy

**Q 5** Spot market deals in:

a. Current transactions  
b. Future transactions  
c. Current as well as future transaction  
d. Transactions meant for future delivery

**Q 6** Forward exchange rate is the rate:

a. Which happens to prevail in the past  
b. Which happens to clear the current transactions  
c. At which market demand for foreign currency= market supply of foreign currency  
d. At which forward transactions are to be honored

**Q 7** A strategy of growth that favors domestic production of goods, which are imported from rest of the world
is called:
   a. Import substitution
   b. Export promotions
   c. Balanced growth
   d. Balance of trade

<table>
<thead>
<tr>
<th>Q 8</th>
<th>Current account BoP records:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a. Exports and imports of goods</td>
</tr>
<tr>
<td></td>
<td>b. Exports and imports of services</td>
</tr>
<tr>
<td></td>
<td>c. Current transfers</td>
</tr>
<tr>
<td></td>
<td>d. All of these</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q 9</th>
<th>Capital account BoP records all such transactions which cause:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a. Change in the ownership of assets between one country and rest of the world</td>
</tr>
<tr>
<td></td>
<td>b. Movement of goods between one country and rest of the world</td>
</tr>
<tr>
<td></td>
<td>c. Movement of services between one country and rest of the world</td>
</tr>
<tr>
<td></td>
<td>d. None of these</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q 10</th>
<th>Other things remaining unchanged, when in a country the price of foreign currency rises, national income is:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a. Likely to rise</td>
</tr>
<tr>
<td></td>
<td>b. Likely to fall</td>
</tr>
<tr>
<td></td>
<td>c. Likely to rise and fall both</td>
</tr>
<tr>
<td></td>
<td>d. Not affected</td>
</tr>
</tbody>
</table>

**SHORT ANSWER TYPE QUESTIONS**

| Q 1  | State four main sources of demand for foreign currency |
| Q 2  | State three main source of supply of foreign currencies into the domestic economy. |
| Q 3  | How flexible exchange rate is determined? Explain. |
| Q 4  | Explain the relation between the rise in price of a foreign currency & its demand. Give two examples. |
| Q 5  | Explain the relation between the fall in price of a foreign currency & its demand. Give two examples. |
| Q 6  | Distinguish between autonomous items & accommodating items. |