

SAMPLE PAPER 3

Maximum Marks : 200

Time : 60 Minutes

General Instructions :

- (i) This paper consists of 50 MCQs, attempt any 40 out of 50
- (ii) Correct answer or the most appropriate answer: Five marks (+5)
- (iii) Any incorrect option marked will be given minus one mark (-1)
- (iv) Unanswered/Marked for Review will be given no mark (0)
- (v) If more than one option is found to be correct then Five marks (+5) will be awarded to only those who have marked any of the correct options
- (vi) If all options are found to be correct then Five marks (+5) will be awarded to all those who have attempted the question.
- (vii) Calculator / any electronic gadgets are not permitted.

1. Which of the following is not a 'factor payment'?

- (1) Free uniform to defence personnel
- (2) Salaries to the Members of Parliament
- (3) Rent paid to the owner of a building
- (4) Scholarship given to the students

2. Who coined the terms 'macro' and 'micro' in 1933, to denote the two branches of economic theory?

- (1) Adam Smith
- (2) Paul A. Samuelson
- (3) Prof. Robbins
- (4) Ragnar Frisch

3. _____ is the main source of money supply in an economy.

- (1) Central Bank
- (2) Commercial Banks
- (3) Both (A) and (B)
- (4) Government

4. A company located in India receives a loan from a company located abroad. How is this transaction recorded in India's Balance of Payments Account?

- (1) Credit side of current account
- (2) Debit side of current account
- (3) Credit side of capital account
- (4) Debit side of capital account

5. Which of the following statements is true?

- (1) The existence of oligopoly requires that a few firms are able to gain significant market power but can't prevent other smaller competitors from entering the market.
- (2) The existence of oligopoly requires that a large number of firms are able to gain significant market power, preventing other smaller competitors from entering the market.
- (3) The existence of oligopoly requires that a few firms are able to gain significant market power,

preventing other smaller competitors from entering the market.

- (4) The existence of monopoly requires that a few firms are able to gain significant market power, preventing other smaller competitors from entering the market.

6. A situation when $AS = AD$ along with fuller utilisation of resources in the economy is called:

- (1) underemployment equilibrium.
- (2) inflationary gap.
- (3) equilibrium without excess capacity.
- (4) deflationary gap.

7. The supply curve of a good shift to the right when price of other goods _____.

- (1) Remains constant
- (2) Rise
- (3) Fall
- (4) None of the above

8. Identify the correctly matched pair from Column A to that of Column B:

Column A	Column B
(1) MPC	(a) Ratio of Savings to Consumption
(2) APC	(b) Ratio of Consumption to Income
(3) APS	(c) Ratio of Consumption to Savings
(4) MPS	(d) Ratio of Savings to Investment

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

9. Unforeseen obsolescence of fixed capital assets during production is:

- (1) Consumption of fixed capital
- (2) Capital loss

- (3) Income loss
(4) None of the above
- 10.** Primary deficit is borrowing requirements of government for making:
- (1) Interest payments.
(2) Other than interest payments.
(3) All types of payments.
(4) Some specific payments.
- 11.** Foreign exchange refers to:
- (1) the price of one currency in terms of gold in the domestic market.
(2) the price of one currency determined by government of other country.
(3) the price of one currency in relation to other currencies in the international money market.
(4) none of the above.
- 12.** Identify the correctly matched pair in Column A and Column B from the following:

Column A	Column B
(1) Product differentiation	(a) Feature of Perfect Competition
(2) Firms sell homogeneous products	(b) Feature of Perfect Competition
(3) Optimal allocation of resources in the long run	(c) Limitation of Perfect Competition
(4) Firms are price makers	(d) Advantage of Perfect Competition

- (1) 1 – (a) (B) 2 – (b)
(3) 3 – (c) (D) 4 – (d)
- 13.** **Statement 1:** Supply of the commodity can also decrease when the price remains constant.
Statement 2: Due to rise in price of factor of production or inputs.
- Alternatives:**
- (1) Both the statements are true.
(2) Both the statements are false.
(3) Statement 1 is true but statement 2 is false.
(4) Statement 1 is false but statement 2 is true.
- 14.** Which of the following statement is true?
- (1) When TR increases at decreasing rate then MR also increases
(2) When TR increases at constant rate then MR is also constant.
(3) When TR increases at increasing rate then MR declines.
(4) When TR is minimum, MR is zero.
- 15.** Which of the following statements is true?

- (1) M_1 is the most liquid measure of money supply.
(2) M_2 is the most liquid measure of money supply.
(3) M_3 is the most liquid measure of money supply.
(4) All the statements are true.
- 16.** If TR is ₹1,00,000 when ₹20,000 units are sold, then AR is equal to:
- (1) ₹1,00,000 (2) ₹20,000
(3) ₹5 (4) ₹1,20,000
- 17.** If in an economy the value of Net Factor Income from Abroad is ₹ 200 crores and the value of Factor Income to Abroad is ₹ 40 crores. Identify the value of Factor Income from Abroad:
- (1) ₹ 200 crores (2) ₹ 160 crores
(3) ₹ 240 crores (4) ₹ 180 crores
- 18.** Income rises from ₹50,000 to ₹60,000, consumption increases from ₹40,000 to ₹48,000. In this situation, what will be the value of Marginal Propensity to Consume (MPC)?
- (1) 0.80 (2) 0.20
(3) 0.10 (4) 0.90
- 19.** What is the other name of Microeconomics and Macroeconomics?
- (1) Price Theory, Income Theory
(2) Price Theory, Employment Theory
(3) Cost Theory, Income and Employment Theory
(4) Price Theory, Income and Employment Theory
- 20.** Primary deficit in a government budget is:
- (1) Revenue expenditure – Revenue receipts
(2) Total expenditure – Total receipts
(3) Revenue deficit – Interest payments
(4) Fiscal deficit – Interest payments.
- 21.** **Statement 1:** In the short-run production function, there are both fixed and variable factors.
Statement 2: Law of variable proportion works in the long run in the field of production.
- (1) Both the statements are true.
(2) Both the statements are false.
(3) Statement 1 is true but statement 2 is false.
(4) Statement 1 is false but statement 2 is true.
- 22.** Which of the following statements is not true?
- (1) Borrowings from the Asian Development Bank by the government is an accommodating transaction.
(2) Loans given to Sri Lanka by the government is an accommodating transaction.
(3) Buying of machinery from Japan is an accommodating transaction.
(4) Borrowing from public is an accommodating transaction.
- 23.** The total output generated by the first four units of variable input is 200 units, 350 units, 450 units and

500 units. The marginal product of the third unit of input is:

- (A) 200 units (B) 100 units
(C) 400 units (D) 500 units

24. Fiscal Deficit equals:

- (1) Interest payments
(2) Borrowings
(3) Interest payments less borrowing
(4) Borrowings less interest payments

25. National Income is the sum of factor incomes accruing to:

- (1) Nationals
(2) Economic territory
(3) Residents
(4) Both residents and non-residents

26. is the effect on price when a monopoly firm tries to sell more.

- (1) Increase Prices
(2) Reduce Prices
(3) Do not change Price
(4) Introduce new product.

27. Which of the following statements is correct?

- (1) Aggregate Demand refers to the total demand for the goods and services in the economy as a whole.
(2) Aggregate Demand constitutes of Consumption Expenditure, Investment Expenditure and Government Expenditure only.
(3) The expenditure of household and private investors in an economy for an accounting year is termed as Public Consumption Expenditure.
(4) The demand of only goods by the households in an economy is termed as Private Investment Expenditure.

28. _____ states that as more and more units of variable factors are combined with the fixed factor, a stage must ultimately come when marginal product of the variable factor starts declining.

- (1) Law of variable proportion
(2) Law of diminishing returns
(3) Law of returns to scale
(4) None of the above

29. Indifference curve is:

- (1) Downward sloping, concave to the origin
(2) Downward sloping, convex away from the origin
(3) Downward sloping, convex to the origin
(4) Downward sloping, concave away from the origin

30. The Non-tax revenue in the following is:

- (1) Export duty (2) Import duty
(3) Dividends (4) Excise

31. **Assertion:** With every increase in the level of GDP, social welfare definitely increases in the economy.

Reason (R): GDP is not a true indicator of welfare of the economy.

- (1) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of the Assertion (A).
(2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).
(3) Assertion (A) is true, but Reason (R) is false.
(4) Assertion (A) is false, but Reason (R) is true.

32. **Assertion (A):** There is no restriction on the entry and exit of the firms in the perfect competitive market.

Reason (R): The perfect competition market is characterised by the sellers being a price taker and not a price maker.

- (1) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of the Assertion (A).
(2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).
(3) Assertion (A) is true, but Reason (R) is false.
(4) Assertion (A) is false, but Reason (R) is true.

33. Pollution created by factories/vehicles is an example of:

- (1) Positive externalities.
(2) Negative externalities.
(3) Either (A) or (B).
(4) Neither (A) or (B).

34. Money supply includes _____:

- (1) All deposits in banks.
(2) Only demand deposits in banks.
(3) Only time deposits in banks.
(4) Currency with the banks.

35. Toothpaste is a product of which type of market form?

- (1) Perfect competition
(2) Monopoly
(3) Oligopoly
(4) Monopolistic competition

36. Exchange rate is the price of a currency expressed in terms of:

- (1) Gold (2) Metal
(3) Another currency (4) None of the above.

37. After independence, India had favourable Balance of Trade situations for:

- (1) Two times (2) Three times
(3) Four times (4) Always

38. Which of the following is the reason behind the downward slope of demand option?

- (1) Purchasing power falls
(2) I all in the price of commodity
(3) New consumers creating demand
(4) Demand less unit of commodity

39. Identify the correctly matched pair from Column A to that of Column B:

Column A	Column B
1. Deflationary Gap	(a) Selling of government securities
2. Deficient Demand	(b) $AD > AS$ (at full employment level)
3. Regulating interest rate and availability of credit	(c) Monetary Policy
4. Voluntary unemployment	(d) Corrected when $AD=AS$

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

40. Which of the following are the correct assumptions for the utility approach?

- (1) Prices of commodities are given and continue to change.
(2) Consumer's income is given.
(3) Utility is not measurable in monetary terms
(4) All of the above

41. Identify the correctly matched items in Column A to that of Column B:

Column A	Column B
1. GDP of a country	(a) Absolute measure of welfare
2. Underestimation of GDP	(b) Non-monetary exchanges excluded
3. Base year	(c) Year of current market prices
4. Economic Welfare	(d) Mental satisfaction and peace

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

42. Out of following one is non-renewable source:

- (1) Forest (2) Water
(3) Sun rays (4) Coal

43. According to Samuelson, there are three fundamental and interdependent problems in an economic organization. What are they?

- (1) what, when and how
(2) what, how and for whom
(3) what, where and when
(4) what, how and where

44. Which of the following statements is true?

- (1) Under employment equilibrium refers to the situation when people who are able and willing to work at the prevailing wage rate do not get employment.
(2) Under employment equilibrium refers to the situation when people who are not able but are willing to work at the prevailing wage rate do not get employment.
(3) Full employment equilibrium refers to the situation when people who are not able but are willing to work at the prevailing wage rate do not get employment.
(4) Full employment equilibrium refers to the situation when people who are able and willing to work at the prevailing wage rate get employment.

45. Utility is a ____ concept.

- (1) Cardinal (2) Qualitative
(4) Alphabetical (3) None of these

46. Which of the following is not the function of the central bank?

- (1) Banking facilities to government
(2) Banking facilities to public
(3) Lending to government
(4) Lending to commercial banks

I. Read the case study and answer the questions 97 to 100:

The Coca-Cola Company is an American multinational beverage company, with its headquarters in Atlanta, Georgia. The first company that conducted its operation in the soft drink industry was Coca-Cola. It is the world's largest non-alcoholic beverage company serving more than 1.8 billion consumers daily in more than 200 countries. It has a portfolio of more than 3,500 (more than 800 no or low calorie) products.

However, the company is best known for its flagship product Coca-Cola which was originally intended to be a patented medicine was invented in 1886 by pharmacist John Smith Pemberton in Columbus, Georgia. The Coca-Cola products can be termed as normal goods and in August, 2019 Coca-Cola has introduced the new product into the market, that is, zero sugar where the demand has increased for the product in the market.

According to the council of Australian Food Technology association and Institute of Food Science and Technology, the Australian nonalcoholic beverages industry has been growing steadily, with 2.3 percent increase in overall production in the year 2000 which amounts to 2.25 billion litres. However, in the recent years, sales of customary carbonated soft drinks have dropped as more and more customers become health conscious and move away from high calorie sugary drinks. Soft Carbonated drinks and other alcohol free beverages manufacturers have also sensed the effects of intensifying competition from private-label soft drink makers. Nevertheless, sales of greater value energy and sports drinks have driven profit generation in the industry.

47. The demand for Coca-cola is in the present times.
(1) Elastic (2) Inelastic
(3) Both (1) and (2) (4) Neither (1) nor (2)
48. The demand for coca-cola has
(1) increased (2) decreased
(3) remained same (4) can't say
49. is the want to buy a product backed by purchasing power.
(1) Supply (2) Demand
(3) Production (4) Cost
50. What has happened to the demand of zero sugar carbonated drinks?
(1) Increased (2) Decreased
(3) Remained same (4) Can't say

case □□□

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SOLUTIONS

1. Option (4) is correct.

Explanation: Factor Payments are made to the factors of production, thus scholarship is not a factor payment, instead it is a transfer payment.

2. Option (4) is correct.

Explanation: Before 1930, there was only one 'economics'. Ragnar Frisch coined the words 'micro' and 'macro' in 1933 to denote the two branches of economic theory, namely, microeconomics and macroeconomics.

3. Option (3) is correct.

Explanation: Main source of money supply in India is in the form of bank deposit and cash. RBI monitors the money supply in the economy and has the power to print and issue currency.

4. Option (3) is correct.

Explanation: It is an inflow of money in Indian economy.

5. Option (3) is correct.

Explanation: Features of oligopoly :
(a) Few firm or with large market share.
(b) High Barrier to entry.

6. Option (3) is correct.

Explanation: When $AD=AS$, all the producers wish to produce during the year is exactly equal to what the buyers wish to spend on the purchase of goods and services during the year, so, there is no excess capacity.

7. Option (3) is correct.

Explanation: The supply curve of a good shift to the right when there is fall in price of other goods. In that case, given good becomes more profitable to produce and hence its supply rises.

8. Option (2) is correct.

Explanation: The average propensity to consume (APC) measures the percentage of income that is spent rather than saved.

9. Option (2) is correct.

Explanation: Capital loss is non-recurring in nature. Unforeseen obsolescence of fixed capital assets during production is a capital loss that may happen due to natural calamities, war, unexpected decrease in demand, etc.

10. Option (2) is correct.

Explanation: Primary deficit indicates borrowing requirements of the govt. to meet fiscal deficit net of interest payments.

11. Option (3) is correct.

Explanation: Foreign exchange refers to exchanging the currency of one country for another at prevailing exchange rate. Forex is the trading of one currency for another.

12. Option (2) is correct.

Explanation: The important feature of perfect competition is that firms sell homogeneous products. Homogeneous products which are same in quality, size, colour etc. They are not different from each other and hence they are perfect substitutes of each other.

13. Option (3) is correct.

Explanation: When price remains same but supply falls due to factors other than the own price of the commodity. It is called as decrease in supply. It can be due to various reasons like rise in price of factor of production, outdated technique of production, etc.

14. Option (2) is correct.

Explanation: When there is increase in TR at a constant rate and rate of TR is denoted by MR. Hence, MR also becomes constant. MR is a horizontal straight line parallel to x-axis.

15. Option (1) is correct.

Explanation: M_1 includes all forms of assets that are easily exchangeable as payment for goods and services. It consists of coin and currency in circulation and demand deposits, as payment for goods and services.

16. Option (3) is correct.

Explanation: $AR = TR/Units\ sold = 1,00,000/20,000 = 5$

17. Option (3) is correct.

Explanation: Net Factor Income from Abroad
= Factor Income from Abroad – Factor Income to Abroad
₹200 = Factor Income from Abroad – ₹40
Factor Income from Abroad = ₹200 + ₹40
= ₹240 crores

18. Option (1) is correct.

Explanation:

$$\begin{aligned} MPC &= \frac{\Delta C}{\Delta Y} \\ &= \frac{8,000}{10,000} \\ &= 0.8 \end{aligned}$$

19. Option (4) is correct.

Explanation: The main objective of microeconomics is to determine the price of a commodity or factors of production whereas, the main aim of macroeconomics is to determine the income and employment level of the economy. It studies the behaviour of aggregates of the economy as a whole.

20. Option (4) is correct.

Explanation: Primary deficit refers to the difference between the current year fiscal deficit and interest payment on previous borrowings. It indicates the borrowing requirement of the government excluding interest.

21. Option (3) is correct.

Explanation: In the short-run production function, there are two factors, fixed and variable. This law of variable proportion operates in the short-run and not in the long-run.

22. Option (3) is correct.

Explanation: Buying of machinery from Japan is an autonomous transaction. Autonomous items refers to those Balance of Payment (BOP) transactions which are undertaken for profit.

23. Option (2) is correct.

Explanation: $MP_3 = TP_3 - TP_2 = 450 - 350 = 100$ units
Hence, marginal product of the third unit of input is 100 units.

24. Option (2) is correct.

Explanation: Fiscal deficit is the condition when the expenditure of the government exceeds its revenue in a year.

25. Option (3) is correct.

Explanation: National income is the sum total of factor incomes earned by normal residents of a country in the form of rent, wages, interest and profit in an accounting year.

26. Option (2) is correct.

Explanation: With reducing the prices the firm in the monopoly market will be able to sell more as they experience an elastic demand curve.

27. Option (1) is correct.

Explanation: Components of Aggregate Demand:
(i) Private consumption expenditure
(ii) Government consumption expenditure
(iii) Investment expenditure
(iv) Net exports

28. Option (1) is correct.

Explanation: Law of variable proportion states that as more and more units of a variable factor are combined with the factor, then stage must ultimately come when marginal product of the variable factor starts declining.

29. Option (3) is correct.

Explanation: An indifference curve is convex to the origin because of diminishing marginal rate of substitution. It is downward sloping because if the quantity of one good is reduced then the quantity of the other good is increased. Therefore, an indifference curve is downward sloping and convex to the origin.

30. Option (3) is correct.

Explanation: Non-Tax Revenue is the recurring income earned by the government from sources other than taxes.

31. Option (4) is correct.

Explanation: GDP is a flawed measure of human welfare, e.g., if increase in the level of GDP is associated with higher level of income inequality, social welfare may not increase.

32. Option (2) is correct.

Explanation: In the perfect competition, there is no restriction on entry and exit of firms. Firms enter the market by getting attracted towards profit and they leave the market when the existing firms bear losses.

Hence, in the long run firms earn normal profits. Since there are large number of firms which form an industry. Hence, price is decided by the market forces of demand and supply in the industry and firm has to accept that price. Hence, firm is a price taker and not a price maker.

33. Option (2) is correct.

Explanation: Cost suffered by unrelated third party due to result of an economic transaction is known as negative externalities. Pollution created by factories/vehicles has negative effect on the society.

34. Option (1) is correct.

Explanation: Money Supply is the total stock of money circulating in the economy at a particular point of time including currency and other liquid instruments. It includes all types of deposits in bank including demand deposits time deposit.

35. Option (4) is correct.

Explanation: Toothpaste is an example of Monopolistic Competition Market as there are a lot of sellers that sell it with a little differentiation in their product.

36. Option (3) is correct.

Explanation: It is the rate at which one currency can be converted into another currency.

37. Option (1) is correct.

Explanation: India had favourable balance of trade in 1972-73 and 1976-77.

38. Option (2) is correct.

Explanation: When the price of a commodity decreases new buyers enter the market and start purchasing it this is because they were unable to purchase it when the prices were high but now they can afford it thus, as price falls. The demand rises and the demand curve becomes downward sloping.

39. Option (3) is correct.

Explanation: Policy adopted by the Central Bank of an economy in the direction of credit control or money supply is known as Monetary Policy.

40. Option (2) is correct.

Explanation: The utility approach assumes that the prices of commodities and consumer's income are given and remain constant and utility is a measurable concept. Therefore, the only assumption true among the given is (2).

41. Option (2) is correct.

Explanation: Non-monetary exchanges refers to goods and services that are produced but not exchanged for cash. The value of these exchanges is often difficult to estimate and therefore excluded from the national income estimates.

42. Option (4) is correct.

Explanation: Coal is classified as a nonrenewable energy source because it takes millions of years to form.

43. Option (2) is correct.

Explanation: According to Samuelson, an economic organization's three fundamental and interconnected problems: what, how, and for whom, are grouped under allocation of resources. The term "allocation of resources" refers to how much of each resource is committed to a specific task.

44. Option (4) is correct.

Explanation: Full employment equilibrium refers to the situation when people who are able and willing to work at the prevailing wage rate get employment.

45. Option (1) is correct.

Explanation: Utility is a cardinal concept as it can be measured.

46. Option (2) is correct.

Explanation: Commercial Banks deals with public directly by accepting and lending deposits.

47. Option (1) is correct.

Explanation: With the increase in the price the demand for coke will respond with the equal intensity or more, making the demand is elastic.

48. Option (2) is correct.

Explanation: Because as more and more customer become health conscious and move away from high calorie sugary drink.

49. Option (2) is correct.

Explanation: Demand refers to the quantity of a commodity that a consumer is willing and able to buy at each possible price during a given period of time.

50. Option (1) is correct.