

SAMPLE PAPER 7

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 topic is not covered under microeconomics?

- (1) Product Pricing
- (2) Factor Pricing
- (3) Theory of Distribution
- (4) Welfare Economics

2. Bank money is that money which is:

- (1) Printed by RBI
- (2) Printed by the government
- (3) Generated in the form credit creation
- (4) None of these

3. The balance of trade shows a deficit of ₹300 crore. The value of exports is ₹500 crore. What is the value of imports?

- (1) ₹800 crores
- (2) ₹200 crores
- (3) ₹500 crores
- (4) ₹300 crores

4. Marginal Propensity to Save is equal to:

- (1) $\Delta S - \Delta Y$
- (2) $\frac{Y}{S}$
- (3) $\frac{\Delta S}{\Delta Y}$
- (4) $S - Y$

5. Direct tax is called direct because it is collected directly from:

- (1) The producers on goods produced.
- (2) The sellers on goods sold.
- (3) The buyers of goods.
- (4) The income earners.

6.refers to the effects of a change in price of commodity X on demand for commodity Y when quantity demanded.

- (1) Income effect
- (2) Price Effect

(3) Cross-price effect

(4) None of these

7. Law of demand states the relationship between price and quantity demanded.

- (1) Inverse
- (2) Positive
- (3) Proportional
- (4) None of these

8. What is the meaning of production?

- (1) Conversion of inputs into output
- (2) Conversion of output into input
- (3) Conversion of good into utility
- (4) None of the above

9. In monopoly market, there is/are firm/firms.

- (1) 1
- (2) 2
- (3) Few
- (4) Many

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

Column A	Column B
1. Excess Demand	(a) Unsold inventories
2. Revenue and Expenditure Policy of Government	(b) Fiscal policy
3. Moral pressure and suasion	(c) Fiscal policy
4. Correction of Inflationary Gap	(d) Government expenditure on welfare

(1) 1 – (a)

(2) 2 – (b)

(3) 3 – (c)

(4) 4 – (d)

11. Identify the correct pair of items from the following Columns I and II:

Column I	Column II
(1) Demand Curve	(a) Downward sloping
(2) Indifference curve	(b) Upward rising
(3) Marginal Utility Curve	(c) L shaped curve
(4) Total Utility Curve	(d) Y shaped curve

- (1) 1–(a) (2) 2–(b)
 (3) 3–(c) (4) 4–(d)
12. M_3 and M_4 are known as _____ money.
 (1) Broad (2) Narrow
 (3) Both (1) and (2) (4) None of these

13. Identify the correctly matched statements from the Column I to that of Column II:

Column I	Column II
(1) Oil Cartels	(a) Monopoly
(2) ISRO	(b) Perfect Competition
(3) DRDO	(c) Monopolistic Competition
(4) Perfume Industry	(c) Monopolistic Competition

- (1) 1–(a) (2) 2–(b)
 (3) 3–(c) (4) 4–(d)
14. Which of the following statement is true about perfect competition?
 (1) There are large number of buyers and sellers
 (2) The firms sell differentiated products
 (3) There is no free entry and exit.
 (4) Each firms possesses imperfect knowledge

15. Identify the correct pair of items from the following Columns I and II:

Column I	Column II
(1) Perfectly elastic supply	(a) $E_s > 1$
(2) Perfectly inelastic supply	(b) $E_s < 1$
(3) Unitary elastic supply	(c) $E_s = 1$
(4) Relatively elastic supply	(d) $E_s = 0$

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

16. Two friends Komal and Ritika were discussing the Government budget.

“Through its budgetary policy the government of a country directs the allocation of resources in a manner such that there is a balance between the goals of profit maximisation and social welfare”.

The above-mentioned statement was given by Komal, identify the objective of Government budget was she talking about?

- (1) Redistributive activities
 (2) Activities to secure a reallocation of resources
 (4) Stabilising activities
 (4) None of these

17. In case of an under-employment equilibrium, which of the following alternatives is not true?

- (1) Aggregate Demand is equal to Aggregate Supply.
 (2) There exists excess production capacity in the economy.
 (3) Resources are not fully and efficiently utilised.
 (4) Resources are fully and efficiently utilised.

18. Which of the following influence price elasticity of demand?

- (1) Nature of the commodity.
 (2) Income level.
 (3) vail ability of substitutes.
 (4) All of these.

19. A straight line supply curve cuts the Y-axis in its negative range. What is the elasticity of supply?

- (1) Highly elastic (2) Unitary elastic
 (3) Less elastic (4) Perfectly inelastic

20. Read the following statements carefully and choose the correct alternatives given below:

Statement 1: Fiscal Deficit = Total Budget Expenditure – Total Budget Receipts (Net of borrowing)

Statement 2: Primary Deficit = Fiscal Deficit + Interest Payments

Alternatives:

- (1) Both the statements are true.
 (2) Both the statements are false.
 (3) Statement 1 is true and Statement 2 is false.
 (4) Statement 2 is true and Statement 1 is false.

21. Identify the correct pair of items from the following Columns I and II:

Column I	Column II
(1) Price Floor	(a) Government imposes below the equilibrium price.

(2) Price Ceiling	(b) It is the maximum price, the producers of goods or services are allowed to charge.
(3) Price Floor	(c) Government does it in the interest of consumers
(4) Price Ceiling	(d) Government imposes lower limit on the price, which is higher than the equilibrium price.

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

22. Payment for import of goods is recorded in the _____ side of the Current account of the Balance of Payments.

- (1) Debit (2) Credit
(3) Both (1) and (2) (4) None of these

23. What can lead to change in budget set?

- (1) When the level of income changes
(2) When price of one good changes
(3) When price of both the goods change
(4) All of the above

24. The value of multiplier is:

- (1) $\frac{1}{MPC}$ (2) $\frac{1}{MPS}$

- (3) $\frac{1}{1-MPS}$ (4) $\frac{1}{MPC-1}$

25. Purchase of shares is related to:

- (1) revenue receipt (2) revenue expenditure
(3) capital receipt (4) capital expenditure

26. Choose the correct statement.

- (1) A technique of production which would maximize output or minimize cost should be used.
(2) Human wants are limited.
(3) Resources are abundant.
(4) Resources do not have alternative uses.

27. In case of underemployment equilibrium:

- (1) $AS < AD$
(2) there is excess capacity in the economy
(3) resources are not fully utilised
(4) both (2) and (3)

28. Identify the correct matched pair from Column A to Column B and choose the correct alternative:

Column A	Column B
1. Export of weapons to Vietnam	(a) Credit side of Current Account

2. Import of Apache Helicopter from USA	(b) Capital Account of Balance of Payments
3. Remittances from relative from UAE	(c) Debit side of Current Account of Balance of Payments
4. Investment by Tesla Incorporation in India	(d) Credit side of Current Account of Balance of Payments

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

29. The market supply of a commodity is affected by:

- (1) State of technology
(2) Number of firms
(3) Government policy
(4) All of the above

30. Which of the following is an example of complementary goods?

- (1) Tea and coffee (2) Coke and Pepsi
(3) Rice and wheat (4) None of these

31. Assertion (A): The cement purchased by the constructor is considered an intermediate good.

Reason (R): The cement is used for the construction of the building to be sold to the consumer.

- (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): GDP is the correct measure of the improvement of welfare of the people.

Reason (R): Many activities in an economy are not evaluated in monetary terms, they are not included in GDP due to non-availability of data.

- (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. The government uses _____ as proxy for income of households to identify the poor.

- (1) Monthly Per Capita Expenditure

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

46. Identify the correct pair of from the following Columns I and II:

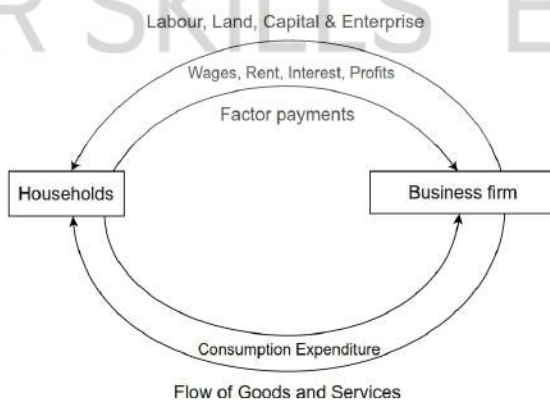
Column A	Column B
1. Total Product increases at an increasing rate and Marginal Product rises till it reaches its maximum point.	(a) Second Stage
2. Total product increases at a decreasing rate and reaches maximum, and MP becomes zero.	(b) First Stage
3. Total product also decreases and marginal product (MP) becomes negative.	(c) Third Stage
4. Improvement in technique of production and discovery of fixed factor substitute can postpone the operation of law for some time.	(d) Fourth stage

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

II. Read the below case and answer the questions that follow:

Circular Income Flow in a Two Sector Economy:

In the figure given we can see that upper loop shows the resources such as land, capital and entrepreneurial ability flow from households to firms in the direction shown by the arrow direction.



The money flows from firms to the households as

factor payments in the form of wages, rent, interest and profits, shown by the arrow direction.

The lower part of the figure shows the flow of money from households to firms in the form of consumption expenditure done by the households to purchase the goods and services produced by the firms, making the flow of goods and services from firms to households.

Thus, we see that money flows from business firms to households as factor payments and then it flows from households to firms. Thus, there is, in fact, a circular flow of money or income. This is how the economy functions.

47. Money Flows from _____ to _____ as factor payments.

- (1) Firms, households
 (2) Households, firms
 (3) Government, firms
 (4) Households, government

48. Circular flow of income refers to the flow of activities of production, income generation and expenditure involving different _____ of the economy.

- (1) Sector
 (2) Aspect
 (3) Type
 (4) None of the above

49. Which of the following is not the significance of Circular Flow of Income?

- (1) It reflects structure of an economy.
 (2) It shows interdependence among different sectors.
 (3) It shows injections and leakages from flow of money.
 (4) It does not help in estimation of national income and related aggregates.

50. Which of the following is not an assumption of a two sector model of Circular Flow of Income?

- (1) Domestic economy comprises only 2 sectors, the producers and the households.
 (2) The households spend their entire income, so that there is no saving.
 (3) Domestic economy is an open economy (no exports and imports).
 (4) There is no government in the economy.

SOLUTIONS

1. Option (4) is correct.

Explanation: Microeconomics is the study of the behaviour of individuals and firms in making decisions based on the allocation of scarce resources.

2. Option (2) is correct.

Explanation: Co-operative marketing is a measure to ensure a fair price to farmers. Member farmers sell their surplus to the co-operative society which substitutes collective bargaining in place of individual bargaining. It links rural credit farming marketing processes to the best advantage of the farmers.

3. Option (1) is correct.

Explanation: Balance of Trade = - ₹300 crores
Value of exports = ₹500 crores
Balance of trade (Deficit) = Value of Exports - Imports
Imports = Exports - Balance of trade (deficit)
= ₹500 crores - (-₹300 crores) = ₹800 crores

4. Option (3) is correct.

Explanation: Marginal propensity to save (MPS) is an economic measure of how savings change, given a change in income.

5. Option (4) is correct.

Explanation: In case of direct tax, the burden of tax and the liability to pay it falls on the same person. The liability to pay the tax cannot be shift on other person.

6. Option (3) is correct.

Explanation: Cross - Price Effect refers to effects of a change in price of commodity-X on demand for commodity-Y when X and Y are related goods.

7. Option (1) is correct.

Explanation: The Law of Demand states that when the price of the commodity increases the quantity demanded of the commodity decreases and vice versa. Hence it shows the inverse relationship between the price and quantity.

8. Option (1) is correct.

Explanation: Production can be defined as transforming inputs into output for selling their output. Production adds utility to the product which is ultimately consumed by the consumers.

9. Option (1) is correct.

Explanation: Features of monopoly market :
(a) Single seller of the product
(b) Entry restrictions
(c) No close substitute
(d) Price makes.

10. Option (2) is correct.

Explanation: Fiscal policy is the use of government spending and taxation to influence the economy.

11. Option (1) is correct.

Explanation: Indifference Curve is Downward Sloping, Marginal Utility and total utility are inverted U - shaped

12. Option (1) is correct.

Explanation: M_3 and M_4 are known as broad money. $M_3 = M_1 +$ Time deposits of all commercial banks and co-operative banks (excluding interbank time deposits). $M_4 = M_3 +$ Total deposits with the Post Office Saving Organisation (excluding National Saving Certificate). These measures of money supply are called broad money as they includes less liquid assets.

13. Option (4) is correct.

Explanation: Oil Cartels are oligopoly; ISRO is Monopsony; DRDO is also Monopsony

14. Option (1) is correct.

Explanation: In the perfect competition, there are very large number of buyers and sellers. They are so large that the share of each buyer or seller in the market is insignificant. Hence, they cannot influence the price in the market.

15. Option (3) is correct.

Explanation: In case of unitary elastic supply, percentage change in quantity supplied is equal to percentage change in price. Hence, elasticity of supply is equal to one.

16. Option (2) is correct.

Explanation: Private enterprises always desire to allocate resources to those areas of production where profits are high. However, it is possible that such areas of production (like production of alcohol) may not promote social welfare. Production of goods which are injurious to health (like cigarettes and alcohol) is discouraged through heavy taxation. On the other hand, production of "socially useful goods" (like electricity, 'Khadi') is encouraged through subsidies. So, finally government has to reallocate resources in accordance with social and economic considerations in case the free market fails to do or does so inefficiently.

17. Option (4) is correct.

Explanation: When aggregate demand is equal to aggregate supply at less than full employment, it is a situation of under employment equilibrium.

18. Option (4) is correct.

Explanation: Factors Determining the Elasticity of Demand

(i) Objective Factors :

- (a) Nature of commodity,
- (b) Existence of substitutes,
- (c) Alternative uses of a commodity,
- (d) Postponement of consumption, and
- (e) Joint demand.

(ii) Subjective Factors :

- (a) Habits of consumers,
- (b) Change in income of consumers,
- (c) Standard of living of people,
- (d) Share in total expenditure, and
- (e) Class of buyers.

(iii) Social Factors :

- (a) Distribution of National Income, and
- (b) Rationing System.

(iv) Price Factors :

- (a) General price level, and
- (b) Effect of time element.

19. Option (3) is correct.

Explanation: As the supply curve has a negative range meaning it is steep thus it is relatively inelastic or less elastic.

20. Option (3) is correct.

Explanation: Fiscal deficit is defined as excess of total expenditure over total receipts (revenue and capital receipts) excluding borrowing. Fiscal Deficit = Total Budget Expenditure – Total Budget Receipts (Net of borrowing). Primary deficit refers to the difference between fiscal deficit of the current year and interest payments on the previous borrowings. Primary Deficit = Fiscal Deficit – Interest Payments.

21. Option (2) is correct.

Explanation: Price ceiling is imposed by the government at a level lower than the equilibrium price. When the equilibrium price is too high for the consumers to afford basic goods like education, agricultural goods, then government fixes the maximum price in the interest of consumers.

22. Option (1) is correct.

Explanation: A major part of transactions in foreign trade is in the form of export and import of goods (visible items). Payment for import of goods is written on the negative side (debit items) and receipt from exports is shown on the positive side (credit items). Balance of these visible exports and imports is known as balance of trade (or trade balance).

23. Option (4) is correct.

Explanation: Situation for change in budget set :

- (a) When the level of income changes
- (b) When price of one good changes
- (c) When price of both the good change

24. Option (2) is correct.

Explanation:

$$M = \frac{1}{MPS}$$

$$M = \frac{1}{1 - MPC}$$

Multiplier is a amount of new income that is generated from an addition of extra income.

25. Option (4) is correct.

Explanation: Purchase of shares is an investment for the government and increases assets.

26. Option (1) is correct.

Explanation: Since resources are scarce, an inefficient technique of production, which would lead to wastage and high cost, cannot be applied. A technique of production which would maximise output or minimise cost should be used. We generally consider two types of techniques of production: labour-intensive and capital-intensive techniques. In labour-intensive technique, more labour and less capital is used. In capital-intensive technique, more capital and less labour is used.

27. Option (4) is correct.

Explanation: It is a state in an economy where unemployment is persistently higher than usual.

28. Option (1) is correct.

Explanation: The export of goods, services and unilateral receipts is entered on the credit side of the Current Account. Therefore, being categorised as such, the export of weapons to Vietnam will be credited to the current account as well.

29. Option (4) is correct.

Explanation: The market supply of a commodity is affected by the different factors like state of technology, number of firms, government policy etc.

30. Option (4) is correct.

Explanation: Tea and Coffee are used instead of each other. So is rice and wheat and coke and pepsi. Thus all are substitutes.

31. Option (1) is correct.

Explanation: Goods used in the production of final goods are known as intermediate goods.

32. Option (4) is correct.

Explanation: There are certain limitations of GDP as an index of welfare:

- (1) GDP does not take into account changes in inequalities in the distribution of income.
- (2) GDP does not include non-monetary exchanges.
- (3) GDP does not consider the changes in the population of a country.
- (4) GDP does not account for valuation of externalities.

33. Option (1) is correct.

Explanation: Monthly per capita consumption expenditure of ₹972 in rural areas and ₹1407 in urban areas is recommended as the poverty line at the all India level.

34. Option (3) is correct.

Explanation: M_4 is the widest measure of money supply that the RBI uses. It includes all the aspects of M_3 and also includes the savings of the post office banks of the country. It is the least liquid measure of all of them. $M_4 = M_3 +$ Post office savings

35. Option (1) is correct.

Explanation: Collusive Oligopoly : It is that form of oligopoly in which all the firms determine price and quantity of output on the basis of co-operative behaviour.

Non-collusive Oligopoly : It is that form of oligopoly in which all the firms determine the price and quantity of output according to the action and reaction of the firms.

Perfect Oligopoly : If firms produce homogeneous product then it is called Perfect Oligopoly.

Imperfect Oligopoly : If firms produce heterogeneous product it is called Imperfect Oligopoly.

36. Option (3) is correct.

Explanation:

- (a) **Marginal Rate of Substitution (MRS):** It refers to the number of units of good Y which the consumer is willing to gain for an additional unit of good X.
- (b) **Consumer's Bundle:** It is a qualitative combination of three goods which can be purchased by a consumer from his given expenses at given prices.
- (c) **Budget set:** It is quantitative combination of those bundles which a consumer can purchase from his given income at prevailing market prices.
- (d) **Consumer Budget:** It states the real employment of the consumer from which he can purchase certain qualitative bundles of three goods at given price.

37. Option (3) is correct.

Explanation: Autonomous investment is the portion of the total investment made by a government or other institution independent of economic considerations.

38. Option (1) is correct.

Explanation: Minimum wage is fixed by the government in the interest of the producers above the equilibrium wage when the equilibrium price is too low.

39. Option (2) is correct.

Explanation: Components of BoP Account are Current account, Capital account and Official international reserve account. Current account is that account of BoP, which records exports and imports of visible and invisible items and unilateral transfers. Capital Account of BoP records capital transfer such as loans and investments between one country and the rest of the world, which causes a change in the assets or liability status of the residents of the domestic country or its government. Official international reserve account includes the foreign exchange reserves, gold reserves and Special Depository Receipts (SDRs).

40. Option (2) is correct.

Explanation: According to this approach, the producer is at equilibrium, when the Marginal Revenue (MR) is equal to the Marginal Cost (MC) and marginal cost curve cuts the marginal revenue curve from below.

41. Option (3) is correct.

Explanation: A centrally planned economy, often known as a command economy, is an economic system in which economic decisions are made by a central authority, such as the government, affecting product creation and distribution. The Soviet Union is the closest example of a centrally planned economy.

42. Option (3) is correct.

Explanation: Given, Cash reserve ratio = 10%
Primary deposit = ₹1,250 crores
Total deposits are the overall money including the primary deposits created by the commercial banks as a process of credit creation through its primary deposit.
Total deposit = $(1/\text{Cash reserve ratio}) \times \text{Primary deposit}$
 $= (1/10\%) \times ₹1,250 \text{ crores}$
 $= (100/10) \times ₹1,250 \text{ crores}$
 $= 10 \times ₹1,250 \text{ crores}$
 $= ₹12,500 \text{ crores}$

43. Option (2) is correct.

Explanation: Under long-run production function wherein it does not distinguish between fixed factors and variable factors, all the factors of production are variable.

44. Option (2) is correct.

Explanation: As the price of substitute is increasing it leads to the increase in the demand and thus the rightward shift in the demand curve.

45. Option (1) is correct.

Explanation: Total revenue can be defined as sum total of marginal revenues, i.e., $TR = \sum MR$.
In other words, MR is calculated as follows:
 $MR = TR_n - TR_{n-1}$

46. Option (3) is correct.

Explanation: In the third stage of production, total product starts decreasing and then marginal product falls below x-axis and hence becomes negative.

47. Option (1) is correct.

Explanation: Money flow from firm to the household as factor payment in the form of wages, rent, interest and profits.

48. Option (1) is correct.

Explanation: Two sectors of the economy:
(a) Households
(b) Firms

49. Option (4) is correct.

Explanation: Significance of two sector economy :
(a) It reflects structure of an economy.
(b) It shows inter interdeputer among different sectors.
(c) It shows injections and leakages from flow of money.

50. Option (3) is correct.

Explanation: The two sector economy has the following assumptions:
(1) There are only two sectors in the economy; household sector and business sector.
(2) No government interventions over the economic activities.
(3) Business sectors do not carry out any import or export activities, creating a closed economy.