



Subject: Business Economics

Chapter: Unit 3 & 4

**Category: Assignment
Questions**

1. Which of the following is not an argument against Government intervention in a market?
 - A. If the Government reduces output below the free market level, consumer surplus will fall.
 - B. If the Government reduces output below the free market level, producer surplus will fall.
 - C. If the Government raises output above the free market level, consumers will get no benefit from the extra units of output.
 - D. If the Government raises output above the free market level, some units of output will cost more to produce than the value placed on them by consumers.

2. Suppose the Government introduces a specific tax of Rs 5 a unit on a product which has sloping supply and demand curves. Which of the following statements about the resulting curve $S+tax$ is true?
 - A. The gap between $S+tax$ and S will be higher at high quantities than at low quantities.
 - B. The gap between $S+tax$ and S will be higher at low quantities than at high quantities.
 - C. The gap between $S+tax$ and S will be Rs 5 at each quantity.
 - D. The gap between $S+tax$ and S will be whatever is needed to show that the equilibrium price for consumers increases by Rs 5.

3. If the total output of goods and services increases and the price index remains constant nominal Gross Domestic Product (GDP) will:
 - A. Rise and real GDP will fall
 - B. Stay the same and real GDP will rise
 - C. Rise and real GDP will rise
 - D. Fall and real GDP will rise

4. Which of the following rules are NOT followed by WTO members
- A. Provide trade concession to all members if extended to one of the members
 - B. Provide consistency with regards to taxation and subsidies
 - C. No alteration to tariffs without negotiation with their trading partners
 - D. The prohibition of quotas
5. Which of the following is possible non-economic reasons to restrict trade
- A. To prevent the importation of harmful goods
 - B. To reduce the influence of trade on consumer tastes
 - C. To impose trade sanctions on countries with which it disagrees politically
 - D. To prevent "dumping" and other unfair trade practices.
6. The business cycle is defined as:
- A. the annual cycle of output.
 - B. the long run trend path of output after removing short run variations.
 - C. the periodic fluctuations of output around the long run trend.
 - D. none of the above
7. The government of Greenland following a policy change has decided to privatize the LPG market and hence had opened the market for private players to produce and sell LPG cylinders to households. The government has decided to put a price ceiling of \$10 per LPG cylinder. The equilibrium price through demand and supply for each LPG cylinder however is \$12. Which of the following event could occur following the government decision?
- A. There will be excess supply of LPG cylinders in the market
 - B. There will be no demand for LPG cylinders in the market
 - C. This could lead to 'black' market where the cylinders are sold at more than ceiling price
 - D. Both A and C

8. Given the following macroeconomic data:

Consumer expenditure Rs. 70 Cr
Investment expenditure Rs. 20 Cr
Government expenditure Rs. 40 Cr
Exports Rs. 20 Cr
Imports Rs. 30 Cr
Net income from abroad Rs. 10 Cr

What is the value of the Gross Domestic Product?

- A. Rs. 150 Cr
- B. Rs. 130 Cr
- C. Rs. 120 Cr
- D. Rs. 110 Cr

9. Which of the following is not a criticism of the principle of Maximum Social Advantage?

- A. Methodological inconsistency
- B. Unrealistic assumptions
- C. Corruption or misuse of public funds
- D. Zero net social benefit

10. Which of the following is incorrect with respect to externality?

- A. It has a spill-over effect
- B. Only negative externality exists
- C. It is a kind of market failure
- D. It can occur during production and consumption

11. Which of the following is true for the two-sector model?

- A. $Y = C$
- B. $Y = C + I + G$
- C. $Y = C + I + G + X$
- D. $Y = C + I + G + X - M$

12. Calculate the Gross Domestic Product at Market prices from the data given in the table.

	€ billions
Wages and salaries	350
Mixed incomes	38
Net income from abroad	15
Gross profit/rent and interest of firms, government and other institutions	150
Taxes on products	71
Subsidies on products	3
Depreciation	65

- A. 542 billion
- B. 606 billion
- C. 538 billion
- D. 350 billion

13. Calculate the Gross National Income at Market Prices from the data given in the table.

	€ billions
Wages and salaries	350
Mixed incomes	38
Net income from abroad	15
Gross profit/rent and interest of firms, government and other institutions	150
Taxes on products	71
Subsidies on products	3
Depreciation	65

- A. 606 Billion
- B. 656 Billion
- C. 556 Billion
- D. 621 Billion

14. Calculate the Net National Income at Market Prices from the data given below

	€ billions
Wages and salaries	350
Mixed incomes	38
Net income from abroad	15
Gross profit/rent and interest of firms, government and other institutions	150
Taxes on products	71
Subsidies on products	3
Depreciation	65

- A. 606 Billion
- B. 656 Billion
- C. 556 Billion
- D. 621 Billion

15. Which of the following is not a problem in the calculation of National Income?
- A. Illegal transactions
 - B. Shadow Economy
 - C. Omission of Data
 - D. Large population
16. Assume two countries with the same level of technology and resources do not presently trade. In country X one unit of labour and one unit of capital can produce 5 mobiles or 2 laptops. In country Y one unit of labour and one unit of capital can produce 6 mobiles or 4 laptops. Which of the following statements is FALSE?
- A. Country Y has an absolute advantage in the production of both goods
 - B. Country Y has a comparative advantage in the production of mobiles
 - C. Country X has a comparative advantage in the production of mobiles
 - D. Country Y has a comparative advantage in the production of laptops.

17. Given the following data calculate the following:

Net Domestic income

Gross Domestic Income

Net National Income

Items Rs. (Crore) Indirect Taxes 9,000

Subsidies 1,800

Depreciation 1,700

Mixed Income of Self Employed 28,000

Operating Surplus 10,000

Net Factor Income from Abroad (300)

Compensation of Employees 24,000

18. The classical economists believed that

- A. The Government should intervene in order to reach full employment.
- B. Wages and salaries suffer from certain rigidities and would thus not move in a direction that would ensure full employment.
- C. A competitive economy free of Government intervention would result in full employment.
- D. An economy in equilibrium could also be an economy with high unemployment.

19. According to the Phillips curve, unemployment will return to the natural rate when:

- A. Nominal wages are equal to expected wages
- B. Real wages are back at long-run equilibrium level
- C. Nominal wages are growing faster than inflation
- D. Inflation is higher than growth of nominal wages

20. The IS curve illustrates that when real national income increases, the

- A. Interest rate must fall to restore equilibrium in the money market.
- B. Interest rate must rise to restore equilibrium in the money market.
- C. Interest rate must rise to restore equilibrium in the goods market.
- D. Interest rate must fall to restore equilibrium in the goods market.

21. Suppose a central bank is concerned about inflation and wishes to raise interest rates. Which of the following instruments would it be inappropriate to use?
- A. Open market operations
 - B. Interest rate control
 - C. Reserve ratio controls
 - D. Quantitative easing
22. The Phillips Curve is a graphical depiction of the
- A. Positive relationship between inflation and output
 - B. Negative relationship between inflation and the output
 - C. Negative relationship between inflation and unemployment
 - D. Negative relationship between unemployment and output
23. India has run a trade deficit with Japan for some time. To eliminate this gap, it is necessary for the Rupee to _____ against the yen.
- A. Strengthen
 - B. Weaken
 - C. Compete
 - D. None of the above
24. If an increase in the level of the money supply results in no change in either the nominal or real value of national income, then which of the following is TRUE?
- A. Interest rates must have risen
 - B. The velocity of circulation must have fallen
 - C. The price level must have risen by the same proportion as the increase in the money supply
 - D. Taxes must have risen

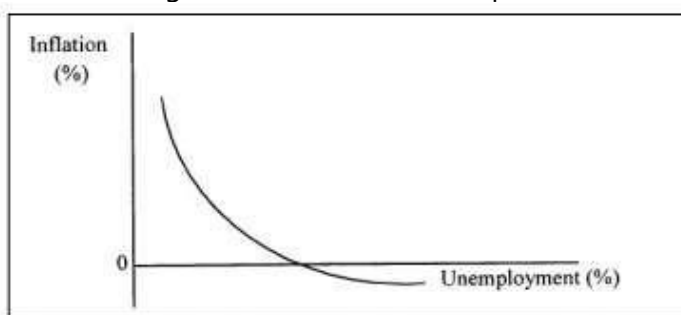
25. Which among these is a cost-push Inflation factor?

- A. Increase in public spending
- B. Increased velocity of circulation
- C. Income Tax reduction
- D. Imposition of Indirect Tax

26. Foreign investment entails _____ change in the capital account of the country making the investment.

- A. Negative
- B. Positive
- C. No
- D. Uncertain

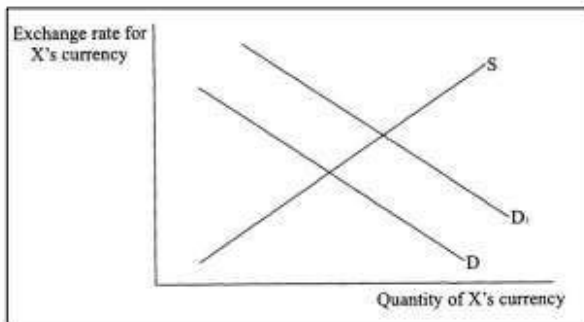
27. The diagram below shows a Philips curve



A diagram like this is generally used to show that

- A. It is impossible to reduce unemployment in long run.
- B. There is a "trade-off" between inflation and unemployment in the short run.
- C. Unemployment may be negative, but inflation is always positive.
- D. Higher levels of unemployment result in higher level of inflation.

28. The diagram below shows the demand for and supply of the currency X in international money markets



Other things remaining equal, a shift from D to D1 would be the result of

- A. A deficit in the current account of the balance of payments of Country X.
- B. An increase in Country X's Inflation.
- C. An inflow of foreign investment into country X.
- D. A reduction in Country X's Interest rates.

29. A situation where there is no involuntary unemployment is called_____.

- A. Full employment
- B. Frictional unemployment
- C. Seasonal unemployment
- D. Unemployment

30. Select the incorrect statement.

- A. Money eliminates the problems of barter system.
- B. Money works as a factor of production
- C. Money plays a neutral role in the modern economy
- D. Money is used as a standard of deferred payments.

31. Katrina wants to purchase a gown for her birthday party. However, she also has to pay her life insurance premium in the same month. Which types of demands does she have for money?
- A. Precautionary and speculation
 - B. Investment and Transaction
 - C. Transaction and Precautionary
 - D. Only transaction
32. The money that commercial banks supply is called ____.
- A. Credit money
 - B. Derivatives
 - C. Commercial bonds
 - D. Certificate of deposit
33. High powered money is equal to ____
- A. Cash reserves only
 - B. Cash reserves + Credit money
 - C. Cash reserves + credit money + other deposits
 - D. Credit money only
34. Which of the following is not an objective of RBI?
- A. Currency print and issue
 - B. Banker to the government
 - C. Debt manager to the government
 - D. Fiscal stimulus to the economy

35. Which of the following is not true?

- A. Money is demanded because it works as a medium of exchange
- B. Supply of money depends in quantity of money and velocity of money
- C. Purchasing power of money is known as value of money
- D. Accumulating money for saving does not create demand for money

36. When general price level decreases, value of money __

- A. Decreases
- B. Increases
- C. Stays the same
- D. Slightly falls

37. What stance has the RBI taken during the pandemic period 2020-21 with regard to the interest rates?

- A. Non-accommodative
- B. Neutral
- C. Dovish
- D. Hawkish

38. A depreciation of Rupee in the foreign exchange market would cause the Indian exports' value in Rupees to:

- A. Rise while import values must fall.
- B. Fall while import values must rise.
- C. Rise while import value may rise or fall.
- D. Fall while import value may rise or fall.

39. Which of the following would NOT be included in the current account of a country's balance of payments?
- A. Property income from abroad.
 - B. The purchase of shares in an Indian company by foreign investors.
 - C. Interest and dividends paid to the rest of the world.
 - D. Exports of services.
40. According to the accelerator principle investment expenditure will:
- A. Fluctuate more than consumer expenditure.
 - B. Rise when the long term rate of interest falls.
 - C. Accelerate if business confidence picks up.
 - D. Accelerate if the government increases its capital expenditure.
41. Central Bank of TASIA has decided to intervene in the foreign exchange market to prevent the home currency from appreciating. Post this decision TASIA's foreign exchange reserves will:
- A. Decrease and the domestic money supply rise.
 - B. Decrease and the domestic money supply fall.
 - C. Increase and the domestic money supply rise.
 - D. Increase and the domestic money supply fall.
42. Which of the following is unlikely to result from devaluation of the TASIA currency on the foreign exchange market:
- A. Exports become less expensive when measured in the foreign currency.
 - B. Imports become more expensive when measured in the domestic currency.
 - C. Export values measured in the domestic currency will increase.
 - D. Import volumes will increase

43. The overall money multiplier effect might be smaller than the full bank deposits multiplier because:
- A. Governments are pursuing an expansionary monetary policy.
 - B. High rates of interest are discouraging borrowing.
 - C. Banks are not holding excess cash reserves.
 - D. All proceeds of loans are re-deposited with banks
44. Which of the following is NOT a market-orientated supply-side policy?
- A. Measures to reduce the power of trade unions
 - B. Introduction of public-private partnerships
 - C. Removal of barriers to trade and capital movements
 - D. Provision of infrastructure
45. Country A has decided to nationalise all banks to safeguard banking industry from increasing Non-Performing Assets. This is an example of
- A. Interventionist supply-side Policy
 - B. Market-orientated supply-side Policy.
 - C. Merger Policy
 - D. Competition Policy
46. Research has shown that plastic is not biodegradable, therefore it always exists, crowding our landfills and polluting our oceans. Assess with the use of diagram, how the use of plastic will result in dead weight welfare loss to society.
47. i. Define a negative externality. Outline an example of a negative externality that may be experienced by an individual in relation to the consumption of cigarette by another party.
- ii. Describe a price and non-price associated intervention that could be used to address this market failure.

iii. Draw a diagram showing the marginal social benefit curve and marginal private benefit curve when a negative externality in consumption exists. You should show on your diagram, the quantity that would be consumed at the market price P_1 by the private sector as Quarter 1 and the socially optimal level of consumption as Quarter 2.

48. Explain the difference between actual and potential economic growth.
49. Outline three methods of measuring national income. For each method state the main point that needs to be considered in order to avoid double counting. Why will the answers produced by each of these methods be different?
50. The Central Bank of certain countries, rather than focusing on the maintenance of both full employment and a low rate of inflation, use a special type of monetary policy that tries to keep inflation at a targeted rate. Explain the advantages and disadvantages of such Inflation targeting.
51. What are the factors affecting the demand for money?
52. i. Explain the term Exchange Rate Index.
- ii. Equilibrium Exchange rate in the foreign exchange market is often unfavorable to less developed countries. Why?
53. Discuss the direct and indirect effects of a rise in interest rates on the fiscal deficit and the national debt.
54. i. Explain what IS and LM curves show. Use an IS-LM graph to explain how the equilibrium national income and the equilibrium level of interest rates is determined.
- ii. Discuss, with the aid of IS-LM graphs, the impact on interest rates and national income of an increase in the average price level.
- iii. Using the IS-LM diagram explain the effects of an expansionary fiscal policy financed by bond sales on the money supply, the long-term rate of interest and the level of national income

55. Fill in the missing figures from the balance of payments account for Country B given below:

	Credits (+), Debits (-)	\$m (2018)
	Current account	
1	Exports of goods	??
2	Imports of goods	-425
3	<i>Balance of trade in goods</i>	-40
4	Exports of services	165
5	Imports of services	-185
6	<i>Balance of trade in services</i>	??
7	Income receipts (investment income)	190
8	Income payments (investment income)	??
9	Net income receipts (investment income)	15
10	Current transfers (net)	-50
11	<i>Net income flows</i>	??
12	Current account balance	??
	Capital account	
13	Capital account transactions (net)	40
	Financial account	
14	Direct investment, net	65
15	Portfolio investment, net	-50
16	Reserve assets funding	20
17	Errors and omissions	20
18	Capital and financial account balance	??

ii. Explain how each of the following transactions will be classified and recorded in the debit and credit of the India's balance of payments:

- A Japanese insurance company purchases Indian Treasury bonds and pays out of its bank account in Mumbai.
- An Indian citizen consumes a meal at a restaurant in Paris and pays with her American Express card.
- A Indian computer programmer is hired by a British company for consulting and gets paid from an Indian bank account maintained by the British company.

56. i. Explain the labour market model
- ii. Define equilibrium and disequilibrium unemployment and state the reasons for the same
57. You are given the following data on Country E's international transactions for the year 2016 with the rest of the world (ROW):
- Exports of goods and services (paid for in cash) 120
 - Imports of goods and services 140
 - Interest, profits, dividends, and transfers received from ROW 30
 - Interest, profits, dividends, and transfers paid to ROW 20
 - Export of goods on trade credit 40
 - Loans received from ROW 30
 - Statistical error?
 - Decrease in official reserves 20
- i. Calculate the current account balance.
- ii. Calculate the capital account balance.
- iii. Calculate the value of the statistical error (make sure you clearly indicate whether it is positive or negative).
- iv. Does the country have a freely floating exchange rate? Explain your response.