Q1 The interest rate paid by the commercial banks to depositors is lower than the rate charged from the borrowers. This difference between these two types of interest rates is called?

(A) Bank Rate (B) Spread
(C) Reserve (D) Deposits

Q2 The change in the inventory of a firm is treated as an investment. What are the major categories of investment?

(A) Investment Expenditure.
(B) Autonomous Investment.
(C) Fixed Business Investment.
(D) Residential Investment.

Choose the correct answer from the options given below:

(A) (A), (C) and (D) only
(B) (A), (B) and (D) only
(C) (A), (B), (C) and (D) only
(D) (B), (C) and (D) only

Q3 Even if income is zero, some consumption still takes place, which is independent of income. This type of consumption is called?

(A) Autonomous Consumption
(B) Household Consumption
(C) Induced Consumption
(D) Dependent Consumption

Q4 The sales of bread have increased from 10 units to 15 units. Suppose the government imposed a unit tax of Rs. 5 on current production, then the total tax that the firm must pay to the government is?

(A) Rs. 50 (B) Rs. 75
(C) Rs. 25 (D) Rs. 15

Q5

If the government fixed maximum price of product below the market price then product will have?

(A) Increased Supply
(B) Constant Demand
(C) Excess Demand
(D) Decreased Demand

Q6 The relationship between an increase in variable input and output when all other inputs are held constant is referred to as:

(A) Average Product
(B) Total Product
(C) Marginal Product
(D) Physical Product

Q7 Rahul buys 80 kg of sugar and 5 pairs of shoes in a year. In the year 2000, the price of a kg of sugar was Rs 10 and a pair of shoes was Rs 100. Now suppose the prices of a kg of sugar and a pair of shoes have gone up to Rs 15 and Rs 120 in the year 2005. What is the Consumer Price Index?

(A) 135.29 (B) 135
(C) 130 (D) 138.29

Q8 The function of the investment multiplier is?

(A) $\frac{\Delta Y}{\Delta (Y-S)}$
(B) $\frac{\Delta I}{\Delta Y}$
(C) $\frac{\Delta Y}{\Delta I}$
(D) $\frac{\Delta Y}{\Delta \overline{Y}}$

Q9 Investment can mean the amount a producer plans to add to his inventory, which may be different from what she ends up doing.
Arrange the following case study considering the process from ex-ante to ex-post investment.
(A) At the end of the year, his inventory goes up by Rs 70 only.
(B) Due to an unforeseen upsurge in demand for his goods in the market, the volume of sales exceeds...
(C) The producer plans to add Rs 100 worth of goods to his stock by the end of the year, which is his planned investment.
(D) To meet this extra demand, he has to sell goods worth Rs 30 from his stock.
Choose the correct answer:
(A) (A), (B), (C), (D)
(B) (B), (A), (C), (D)
(C) (C), (B), (D), (A)
(D) (B), (A), (D), (C)

Q10 Match List-I with List-II

List-I	**List-II**
(A) GNP at MP - Depreciation	(I) NNP at MP
(B) GDP at MP + NFIA	(II) GNP at MP
(C) NNP at MP - Net Product Taxes - Net Production Taxes	(III) GDP at MP
(D) GVA at MP	(IV) NNP at FC

(A) (A) - (II), (B) - (I), (C) - (III), (D) - (IV)
(B) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)
(C) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)
(D) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Q11 Arrange the given statements in chronological order stating the implications of free entry and exit assumptions in a equilibrium market.
(A) Supply curve shifts rightward, however demand remains unchanged.
(B) At the prevailing market price, each firm is earning a supernormal profit and will attract some new firms.
(C) Market prices fall, and supernormal profits are eventually wiped out.
(D) All firms in the market are earning normal profit, no more firms will have incentive to enter.
(A) (B), (A), (C), (D)
(B) (A), (B), (C), (D)
(C) (B), (A), (D), (C)
(D) (C), (B), (D), (A)

Q12 When a firm increases its output and the average cost rises, this phase in the production process is shown as?
(A) Returns to Scale
(B) Constant Returns to Scale
(C) Increasing Returns to Scale
(D) Decreasing Returns to Scale

Q13 Choose the correct statements considering the relationship between marginal product and average product.
(A) Average product and marginal product curve are 'U' shaped.
(B) Average product and marginal product curve are inverse 'U' shaped.
(C) When the average product increases, the marginal product is greater than the average product.
(D) When the average product decreases, the marginal product is less than the average product.
Choose the correct answer from the options given below:
(A) (A), (B) and (D) only
(B) (A), (C) and (D) only
(C) (A), (B), (C) and (D)
(D) (B), (C) and (D) only

Q14 The aggregate demand function shows the total demand for goods and services at each level of income. The graphical representation of the aggregate demand function will have which of the following features?
(A) It can be obtained by vertically adding the consumption and investment function.
(B) It is parallel to the consumption function i.e., they have the same slope c.
(C) It shows ex post demand.
(D) It shows ex ante demand.
Choose the correct answer from the options given below:
(A) (A), (B) and (D) only
(B) (A), (C) and (D) only
(C) (A), (B), (C) and (D)
(D) (B), (C) and (D) only

Q15 In macroeconomics, when a price is constant, equilibrium is achieved at a point where?
(A) Demand = Supply.
(B) ex-post Aggregate Demand = Aggregate Supply.
(C) ex ante Aggregate Demand = Ex ante Aggregate Supply.
(D) Consumtion = Investment.

Q16 To tackle the problem of corruption, black money, terrorism and the circulation of fake currency in the economy, demonetization was an initiative taken by the Government of India in the period?
(A) September 2016 (B) October 2016
(C) November 2016 (D) December 2016

Q17 Which one is not the component of capital receipts?
(A) Tax Revenue.
(B) Recovery of Loans.
(C) Public Sector Undertaking Disinvestment.
(D) Borrowings and Other Liabilities.

Q18 A perfectly competitive market in an economy is categorized by the following features.
(A) Firms are price-takers.
(B) Average revenue is equal to market price.
(C) Market is perfectly inelastic.
(D) Marginal revenue is equal to market price.
Choose the correct answer from the options given below:
(A) (A), (B) and (D) only
(B) (A), (C) and (D) only
(C) (A), (B), (C) and (D)
(D) (B), (C) and (D) only

Q19 Match List-I with List-II

List-I	**List-II**
(A) Total Revenue	(I) Minimum of LRAC curve
(B) Supply	(II) A firm earns only normal profit
(C) Shut down point	(III) Market price multiplied by the firm's output
(D) Break-even point	(IV) Quantity sold at a given price

(A) (A) - (II), (B) - (I), (C) - (III), (D) - (IV)
(B) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)
(C) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)
(D) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Q20 If all the resources are used in the production of cloth, the curve which gives the maximum amount of cloth produced in the economy for any given amount of machine is called?
(A) Production Possibility Set
(B) Production Possibility Frontier
(C) Isoquant Curve
(D) Indifference Curve

Q21 When the marginal propensity to consume is given as 0.5. What is the tax multiplier?
(A) 2 (B) -2
(C) 3 (D) -1

Q22 The Reserve Bank of India publishes four measures of money supply. Which one of the measures is the least liquid in them?

(A) M_1 (B) M_2
(C) M_3 (D) M_4

Q23 The cost of a firm has increased from Rs 67 to Rs 80 when the units of cotton production rose from 8 to 9. Calculate the marginal cost of a firm?

(A) Rs. 80 (B) Rs. 13
(C) Rs. 33 (D) Rs. 20

Q24 Arrange the following events in chronological order according to time period.

(A) The Economic Consequences of the Peace.
(B) An Enquiry into the Nature and Causes of the Wealth of Nations.
(C) The Great Depression.
(D) General Theory of Employment, Interest and Money.

(A) (C), (B), (D), (A)
(B) (A), (B), (C), (D)
(C) (B), (A), (D), (C)
(D) (B), (A), (C), (D)

Q25 Match List-I with List-II

List-I	**List-II**
(A) Fixed period to maturity	(I) Intrinsic Value
(B) Currency notes and coins	(II) M3
(C) Gold or silver coin	(III) Time Deposits
(D) Aggregate monetary resources	(IV) Fiat Money

Choose the **correct** answer from the options given below:

(A) (A) - (II), (B) - (I), (C) - (III), (D) - (IV)
(B) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)
(C) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)
(D) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Q26 Arrange the following statements showing the change in budget set due to change in income.

(A) The equation of the budget line is $p_1 x_1 + p_2 x_2 = M$.
(B) Consumer's income increases from M to M'.
(C) The set of available bundles depends upon prices and income.
(D) Consumers can buy more of the goods at the prevailing market prices.

Choose the **correct** answer from the options given below:

(A) (A), (B), (C), (D)
(B) (B), (A), (C), (D)
(C) (B), (A), (D), (C)
(D) (C), (B), (D), (A)

Q27 In a simple economy, the circular flow between firms and households in terms of factor payments and services also represents as:

(A) Goods and Services Market
(B) Factors of Production Market
(C) Product Market
(D) Financial Market

Q28 Match List-I with List-II

List-I	**List-II**
(A) Payments by a firm for inputs	(I) Cost of production
(B) Output sold by a firm in the market	(II) Revenue
(C) Inputs are transformed into output	(III) Production
(D) Objective of a firm to maximize	(IV) Profit

Choose the correct answer from the options given below:

(A) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)
(B) (A) - (II), (B) - (I), (C) - (III), (D) - (IV)
(C) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)
(D) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Q29 C=120+0.5Y,
I=20.
What is the equilibrium income?
(A) 140 (B) 280
(C) 1400 (D) 140.5Y

Q30 Match List-I with List-II

List-I	List-II
(A) Inventory	(I) Planned
(B) Consumption	(II) Actually happened
(C) Ex-ante	(III) Investment
(D) Ex-post	(IV) Household Income

Choose the correct answer from the options given below:
(A) (A) - (I), (B) - (II), (C) - (III), (D) - (IV)
(B) (A) - (II), (B) - (I), (C) - (III), (D) - (IV)
(C) (A) - (I), (B) - (II), (C) - (IV), (D) - (III)
(D) (A) - (III), (B) - (IV), (C) - (I), (D) - (II)

Q31 There is a constitutional requirement in India to present before the Parliament a statement of estimated receipts and expenditures of the government in respect of every financial year which runs from..........
(A) 1 April to 31 March.
(B) 1 January to 31 December.
(C) 1 July to 30 June.
(D) 1 May to 30 April.

Q32 Arrange the following events in chronological order as per the time period.
(A) Gender Budgeting.
(B) Fiscal Responsibility and Budget Management Act.
(C) 101th Constitution Amendment Act.
(D) Goods and Service Tax.
Choose the correct answer from the options given below:
(A) (B), (D), (C), (A)
(B) (B), (A), (C), (D)
(C) (B), (D), (A), (C)
(D) (C), (B), (D), (A)

Q33 When the additional unit of input is 'crowded' in the production, the output is proportionally less and..................
(A) Total product begins to fall.
(B) Marginal product begins to fall.
(C) Average product begins to rise.
(D) Total product begins to rise.

Q34 The government imposes taxes that do not depend on income, called?
(A) Lump-sum Taxes.
(B) Proportional Taxes.
(C) Non-income Taxes.
(D) Service Taxes.

Q35 When autonomous investment increases, the aggregate demand curve shifts?
(A) Upwards.
(B) Parallel Upwards.
(C) Downwards.
(D) Parallel Downwards.

Q36 The study of macroeconomics usually simplifies the analysis of how the country's total output and the level of employment are related to
(A) Production.
(B) Variables.
(C) Government Expenditure.
(D) Consumption.

Q37 A set of arrangements where economic agents can freely exchange their endowments or products with each other.
(A) Centrally Planned Economy.
(B) Closed Economy.
(C) Market Economy.
(D) Socialist Economy.

Q38 When goods and services are evaluated at some constant set of prices, it can also be defined as.
(A) Real GDP.
(B) GDP Deflator.
(C) Constant Prices.
(D) Nominal GDP.

Q39 The Central Bank is a very important institution in the modern economy. What are the main characteristics of the Reserve Bank of India?

(A) India got its central bank in 1935.

(B) It is the custodian of the foreign exchange reserves of the economy.

(C) It controls the money supply of the country through various methods, like bank rate, open market operations etc.

(D) It also acts as a bank for the banking system.

Choose the correct answer from the options given below:

(A) (A), (C) and (D) only

(B) (A), (B) and (D) only

(C) (A), (B), (C) and (D)

(D) (B), (C) and (D) only

Q40 In the short run, the shape of the average fixed cost curve for a typical firm is?

(A) Vertical to y-axis.

(B) Downward sloping left to right.

(C) Rectangular hyperbola.

(D) Horizontal to x-axis.

Direction (41 - 45) Read the following passage and answer the given questions.

The demand for a good moves in the opposite direction to its price. But the impact of the price change is always not the same. Sometimes, the demand for a good changes considerably even for small price changes. On the other hand, there are some goods for which the demand is not affected much by price changes. Demands for some goods are very responsive to price changes while demands for certain others are not so responsive to price changes. Price elasticity of demand is a measure of the responsiveness of the demand for a good to changes in its price. The price elasticity of demand for a good depends on the nature of the good and the availability of close substitutes of the good.

Q41 When the percentage change in quantity demanded equals the percentage change in its price. The demand for the this good is said to be?

(A) Perfectly Elastic (B) Perfectly Inelastic

(C) Unitary Elastic (D) Less Elastic

Q42 The price and quantity demanded are ....

(A) Directly related (B) Indirectly related

(C) Proportionately related (D) Not related

Q43 If the price of necessity good like clothes changes, what will be the effect on its demand?

(A) Elastic (B) Less Elastic

(C) Inelastic (D) More Elastic

Q44 An individual buys 15 kg of sugar when its price is Rs. 5 per kg. When the price increases to Rs. 7 per kg, the demand goes down to 12 kg. What is the price elasticity of demand for sugar?

(A) 0.3 (B) 0.5

(C) 0.4 (D) 0.6

Q45 What is the formula for the price elasticity of demand for a good?

(A) $\left(\frac{\Delta Q}{Q}\right) \times \left(\frac{P}{\Delta P}\right)$

(B) $\left(\frac{\Delta Q}{Q}\right) \times \left(\frac{\Delta P}{P}\right)$

(C) $\left(\frac{Q_1 - Q_2}{Q_1}\right) \times \left(\frac{P_1 - P_2}{P_1}\right)$

(D) $\left(\frac{Q_2 - Q_1}{Q_2}\right) \times \left(\frac{P_2 - P_1}{P_2}\right)$

Direction (46 - 50) Read the following passage and answer the given questions.

The current account records trade in goods, services, and transfer payments. Trade in goods includes exports and imports of goods. Trade in services encompasses factor income and non-factor income transactions. Transfer payments refer to the receipts that residents of a country get without the need to provide any goods or services in return. These could be provided by the government or by private citizens living abroad.

The capital account records all international transactions related to assets. The capital account is in balance when capital inflows are equal to capital outflows. The essence of international payments is that, just as an individual who spends more than their income must finance the difference by selling assets or borrowing, a country that has a deficit in its current account must finance it by selling assets or borrowing abroad. Hence, any current account deficit must be financed by a capital account surplus, which represents a net capital inflow. Apart from the current and capital accounts, there is a third element in the balance of payments called "errors and omissions."

Q46 A banking service provided by a country is accounted in the element of the balance of payment.

(A) Factor income.

(B) Non-factor Income.

(C) Transfer Payments.

(D) Capital Account.

Q47 A current account deficit means that the nation is a borrower from other countries, which can also be represented as.

(A) Receipts > Payments

(B) Receipts = Payments

(C) Receipts < Payments

(D) Constant Receipts and Payments

Q48 When a country exports more goods than its imports, the balance of trade is considered to be?

(A) Surplus Balance of Trade.

(B) Balanced Trade.

(C) Trade Balance.

(D) Deficit Balance of Trade.

Q49 The value of elements of the balance of payments are given as:

• Exports: ₹ 150 million

• Imports: ₹ 240 million

• Invisibles: ₹ 52 million What is the current account balance?

(A) ₹ 524 million. (B) ₹ -38 million.

(C) ₹ -90 million. (D) ₹ 114 million.

Q50 If India's current account balance is ₹ -50 million and the capital account balance is ₹ 62.5 million. What will be the errors and omissions to have an overall balance in balance of payments?

(A) ₹ 120.5 million.

(B) ₹ 12.5 million.

(C) ₹ 4.5 million.

(D) ₹ -12.5 million.

Answer Key

Q1	B
Q2	D
Q3	A
Q4	B
Q5	C
Q6	C
Q7	D
Q8	C
Q9	C
Q10	C
Q11	A
Q12	D
Q13	D
Q14	A
Q15	C
Q16	C
Q17	A
Q18	A
Q19	D
Q20	B
Q21	D
Q22	D
Q23	B
Q24	D
Q25	D
Q26	D
Q27	B
Q28	A
Q29	B
Q30	D
Q31	A
Q32	B
Q33	B
Q34	A
Q35	B
Q36	B
Q37	C
Q38	A
Q39	C
Q40	C
Q41	C
Q42	B
Q43	C
Q44	B
Q45	A
Q46	B
Q47	C
Q48	A
Q49	B
Q50	D

Hints & Solutions

Note: scan the QR code to watch video solution

Q1 Text Solution:

Commercial banks act as intermediaries. They accept deposits from the public at a certain interest rate and lend money to borrowers at a higher interest rate. The difference between the interest rate charged to borrowers and the interest rate paid to depositors is the bank's main source of profit and is known as the spread.

Q2 Text Solution:

(B), (C) and (D) only Explanation: In macroeconomics, investment is generally categorized into Fixed Business Investment (machinery, factories), Residential Investment (housing), and Inventory Investment (change in stock). Additionally, within the Keynesian framework discussed in the textbook (Snippet 10), investment is often treated as Autonomous Investment, which is independent of the level of income. "Investment Expenditure" is a broad term describing the act of spending, not a specific sub-category classification like the others listed.

Q3 Text Solution:

According to the consumption function $C = \overline{C} + cY$, there is a part of consumption $\overline{C}$ that occurs even when income (Y) is zero. This component is not influenced by income and is known as autonomous consumption.

Q4 Text Solution:

Rs. 75 Explanation: A unit tax is a fixed tax per unit of output produced/sold. Total Tax = Tax per unit × Quantity Produced Total Tax = Rs. 5 × 15 units = Rs. 75.

Q5 Text Solution:

Imposing a price ceiling (maximum price) below the equilibrium market price leads to a situation where the quantity demanded exceeds the quantity supplied (Snippet 59). This situation is referred to as excess demand.

Q6 Text Solution:

Marginal Product (MP) is defined as the change in output per unit change in the variable input when other inputs are held constant. This concept is central to the Law of Variable Proportions, which describes how output changes as variable inputs are added to fixed inputs.

Q7 Text Solution:

The Consumer Price Index (CPI) is calculated as:

$$CPI = \frac{\text{Cost of Market Basket in Current Year}}{\text{Cost of Market Basket in Base Year}} \times 100$$

Base Year (2000) Cost: (80 kg × 10) + (5 pairs × 100) = 800 + 500 = 1300

Current Year (2005) Cost: (80 kg × 15) + (5 pairs × 120) = 1200 + 600 = 1800

CPI = $\frac{1800}{1300}$ × 100 ≈ 138.46

(Note: Option 4, 138.29, is the closest and correct answer.)

Q8 Text Solution:

The investment multiplier represents the ratio of the change in national income (ΔY) to the initial change in investment (ΔI). It shows how much national income (Y) will increase as a result of an initial increase in investment. Essentially, it measures the impact of investment on the overall economy.

Q9 Text Solution:

The logical sequence is:

Plan (Ex-ante): The producer plans to invest Rs 100 (C).

Event: An unforeseen upsurge in demand occurs (B).

Reaction: To meet demand, he sells from stock (D).

Result (Ex-post): The actual inventory change is Rs 70 (A).

Q10 Text Solution:

(A) - (I), (B) - (II), (C) - (IV), (D) - (III)

(A) Gross National Product at Market Price (GNP MP) minus Depreciation equals Net National Product at Market Price (NNP MP).

(B) Gross Domestic Product at Market Price (GDP MP) plus Net Factor Income from Abroad (NFIA) equals Gross National Product at Market Price (GNP MP).

(C) NNP MP minus Net Indirect Taxes (Product + Production taxes) equals Net National Product at Factor Cost (NNP FC or National Income).

(D) Gross Value Added at Market Price (GVA MP) summed over all sectors equals Gross Domestic Product at Market Price (GDP MP).

Q11 Text Solution:

Firms earn supernormal profits, attracting new entrants (B).

Entry of firms increases market supply, shifting the supply curve right (A).

Increased supply causes the market price to fall, reducing profits (C).

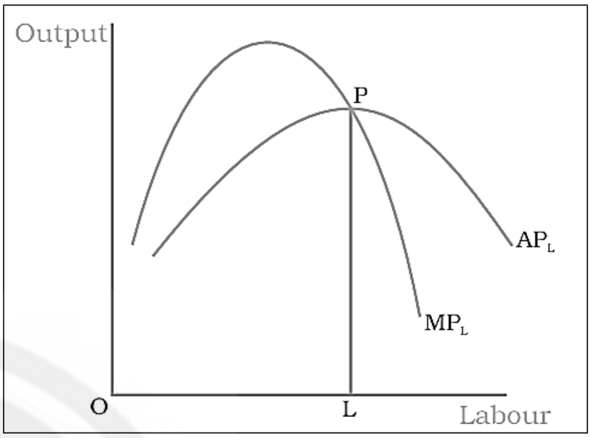
The process stops when firms earn only normal profit (D) (Snippet 67).

Q12 Text Solution:

Increasing Average Cost implies that output is increasing at a slower rate than inputs. This phenomenon is known as Decreasing Returns to Scale.

Q13 Text Solution:

Product curves (AP and MP) are typically inverse 'U' shaped (increasing then decreasing). Mathematically, when the Average Product is falling, the Marginal Product must be less than the Average Product .



Q14 Text Solution:

Aggregate Demand (AD=C+I) is obtained by adding Investment to Consumption (A). Since Investment is often assumed autonomous (constant), the slope of AD is the same as the consumption function (c) (B). AD represents planned (ex-ante) demand, not actual (ex-post) (D).

Q15 Text Solution:

Equilibrium requires that the planned (ex-ante) aggregate demand by households and firms matches the planned (ex-ante) aggregate supply of output.

Q16 Text Solution:

Demonetization was announced by the Government of India on November 8, 2016.

Q17 Text Solution:

Tax Revenue is a Revenue Receipt because it neither creates a liability nor reduces an asset for the government. Items B, C, and D are Capital Receipts as they either reduce assets (recovery of loans, disinvestment) or create liabilities (borrowings).

Q18 Text Solution:

In perfect competition, firms cannot influence price (Price-takers). Therefore, for the firm, Price = Average Revenue = Marginal Revenue. The market demand is not perfectly inelastic; rather, the individual firm's demand curve is perfectly elastic (horizontal).

Q19 Text Solution:

(A) Total Revenue = Price × Output (III).
(B) Supply refers to the quantity offered for sale (IV).
(D) Break-even point is where Total Revenue = Total Cost, meaning the firm earns normal profit (II).
(C) By elimination and economic theory (long run exit point), Shut down point relates to the minimum point of the relevant cost curve (here matched with I, Min LRAC/AVC).

Q20 Text Solution:

The Production Possibility Frontier (PPF) defines the maximum possible output combinations of two goods that an economy can produce given its resources and technology.

Q21 Text Solution:

The formula for the tax multiplier is −c/(1−c).
Given c=0.5, Tax Multiplier = −0.5/(1−0.5)=−0.5/0.5=−1.

Q22 Text Solution:

Money supply measures are ranked by liquidity. is the most liquid (cash + demand deposits), while includes long-term deposits and is considered the least liquid.

Q23 Text Solution:

Marginal Cost (MC) is the change in Total Cost when output increases by one unit.

$$MC = TC_9 - TC_8 = 80 - 67 = 13.$$

Q24 Text Solution:

B. Wealth of Nations: Adam Smith (1776).
A. Economic Consequences of the Peace: J.M. Keynes (1919).
C. The Great Depression: (1929).
D. General Theory: J.M. Keynes (1936).

Q25 Text Solution:

Step 1 - (C): The text begins by establishing the general concept: "The set of available bundles depends on the prices of the two goods and the income of the consumer."
Step 2 - (B): Next, it introduces a specific scenario of change: "Suppose the consumer's income changes from M to M'..."
Step 3 - (D): It then explains the consequence of an increase in income: "If the income increases, the consumer can buy more of the goods at the prevailing market prices."
Step 4 - (A): Finally, the change is formalized with the equation of the budget line: $p_1x_1 + p_2x_2 = M$ (representing the budget constraint).

Q26 Text Solution:

Factors of Production Market Explanation: The flow of factor services (labour, capital) from households to firms and factor payments (wages, rent) from firms to households constitutes the Factors of Production Market (Factor Market).

Q27 Text Solution:

(A) Payments by a firm for inputs = **Cost of production**: When a firm pays for raw materials, labor, and other inputs, it is considered the cost of production.
(B) Output sold by a firm in the market = **Revenue**: The income generated by a firm when it sells its products in the market is called revenue.
(C) Inputs are transformed into output = **Production**: The process of converting raw materials or inputs into final goods or services is known as production.
(D) Objective of a firm to maximize = **Profit**: The main goal of a firm is to maximize its profit by increasing revenue and minimizing costs.

Q28 Text Solution:

At equilibrium, Income (Y) = Aggregate Demand (C+I).

Y=120+0.5Y+20

Y−0.5Y=140

0.5Y=140

Y=140/0.5=280.

Q29 Text Solution:

(A) Inventory matches (III) Investment: In macroeconomics, the change in inventory (stock of unsold goods) is treated as inventory investment.

(B) Consumption matches (IV) Household Income: Consumption is primarily a function of household income $\left(C = \overline{C} + cY\right)$.

(C) Ex-ante matches (I) Planned: Ex-ante variables (like ex-ante consumption or investment) refer to what agents plan or intend to do.

(D) Ex-post matches (II) Actually happened: Ex-post refers to the actual or realized values of variables at the end of the period.

Q30 Text Solution:

In India, the financial year for the government's budget and accounting purposes runs from 1st April to 31st March of the following year. The "Annual Financial Statement" (Budget) estimates receipts and expenditures for this period.

Q31 Text Solution:

The chronological order of these economic events in India is:

(B) Fiscal Responsibility and Budget Management (FRBM) Act: Enacted in 2003.

(A) Gender Budgeting: Adopted in the Union Budget 2005-06.

(C) 101st Constitution Amendment Act: This act paved the way for GST and was assented to in September 2016.

(D) Goods and Service Tax (GST): Implemented on 1 July 2017.

Q32 Text Solution:

This describes the Law of Diminishing Marginal Product. When more of a variable input is added to a fixed input, eventually the "crowding" of the fixed factor leads to a situation where each additional unit produces less output than the previous one. Consequently, the Marginal Product (MP) begins to fall.

Q33 Text Solution:

Taxes that are a fixed amount and do not vary with the level of income are known as Lump-sum Taxes. In macroeconomic models (Snippet 10), net taxes are often described as lump-sum taxes minus transfers, distinct from proportional income taxes (T=tY).

Q34 Text Solution:

Aggregate Demand (AD) is the sum of consumption and autonomous investment (AD=C+I). If autonomous investment (I) increases, the vertical intercept of the AD curve increases, but the slope (determined by the marginal propensity to consume) remains the same. Therefore, the AD line shifts parallel upwards.

Q35 Text Solution:

Macroeconomics simplifies the economy by focusing on the relationships between aggregate variables (such as total output, employment, and price level) rather than individual microeconomic details. This abstraction allows for the analysis of the macroeconomic system as a whole.

Q36 Text Solution:

A Market Economy is defined by arrangements (markets) where individual economic agents freely exchange their endowments or products with one another without central direction.

Q37 Text Solution:

Real GDP measures the value of goods and services produced in an economy evaluated at a constant set of prices (base year prices). This eliminates the effect of inflation, unlike Nominal GDP which uses current prices.

Q38 Text Solution:

All the statements characterize the RBI:

(A) It was established in 1935.

(B) It holds the country's foreign exchange reserves.

(C) It manages monetary policy and money supply.

(D) It acts as the "lender of last resort" and banker to commercial banks.

Q39 Text Solution:

Average Fixed Cost (AFC) is calculated as Total Fixed Cost divided by Output (AFC=TFC/Q). Since TFC is constant, as output (Q) increases, AFC decreases continuously but never touches the axes. This mathematical relationship creates a curve known as a rectangular hyperbola.

Q40. Text Solution:

When the percentage change in quantity demanded is exactly equal to the percentage change in price, the elasticity is equal to 1 (in absolute terms). This is called Unitary Elastic demand.

Q41. Text Solution:

According to the Law of Demand, there is an inverse (indirect) relationship between price and quantity demanded. As price rises, quantity demanded falls, and vice versa.

Q42. Text Solution:

Necessity goods (like basic clothing or food) typically have inelastic demand because consumers cannot easily reduce consumption even if prices rise. The percentage change in demand is less than the percentage change in price.

Q43. Text Solution:

Using the formula:

$$e_D = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

Where:

- $P = 5$
- $Q = 15$
- $\Delta P = 7 - 5 = 2$
- $\Delta Q = 12 - 15 = -3$

Now, calculate e_D:

$$e_D = \frac{-3}{2} \times \frac{5}{15} = -1.5 \times \frac{1}{3} = -0.5$$

The absolute value is **0.5**.

Q44. Text Solution:

he formula is derived from the percentage method:

$e_D = \frac{\%\Delta Q}{\%\Delta P} = \frac{\Delta Q}{Q} \div \frac{\Delta P}{P} = \frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$

Q45. Text Solution:

Services such as banking, insurance, and tourism are classified as Non-factor services (or Non-factor income) within the Invisibles category of the Current Account.

Q46. Text Solution:

A deficit occurs when the outflow of money (payments for imports, etc.) exceeds the inflow of money (receipts from exports, etc.). Thus, Receipts < Payments.

Q47. Text Solution:

The Balance of Trade (BoT) is the difference between the value of exports and imports of goods. If Exports > Imports, the country has a Trade Surplus (Surplus Balance of Trade).

Q48. Text Solution:

• Trade Balance = Exports - Imports = $150-240=-90$ million.

• Current Account Balance = Trade Balance + Invisibles

• Current Account Balance = $-90+52=-38$ million.

Q49. Text Solution:

In the Balance of Payments accounting identity, the sum of the Current Account, Capital Account, and Errors & Omissions is typically zero (assuming equilibrium or measuring overall balance).

• Current Account + Capital Account + Errors & Omissions = 0

• $(-50)+62.5+E\&O=0$

• $12.5+E\&O=0$

• $E\&O=-12.5$ million.