



DAILY PT MCQs-CRACK PRELIMS 2020 TEST-VIII (ECONOMICS-I)

1. India followed a planned economy from the time of independence, consider the following statements

1. India's plans were of five years and lacked a perspective approach.
2. Directive principles of Indian constitution reflect the planned outlook of India.
3. Our five year plans do not spell out how much of each and every good and service is to be produced.

Which of the statements given above is/are CORRECT?

- a) Only 2 b) 2 and 3
c) 1 and 3 d) 1, 2 and 3

2. "The change in the optimal quantity of a good when the purchasing power changes consequent upon a change in the price of the good is called as _____"

- a) Inflation Effect b) Deflation Effect
c) Income Effect d) Demand effect

3. With reference to 'Perfect Competition', consider the following statements

1. All firms in the market produce the same good.
2. Buyers and Sellers are price takers.

Which of the statements given above is/are CORRECT?

- a) 1 only b) 2 only
c) Both d) Neither 1 nor 2

4. A market structure where there exist a very large number of sellers selling differentiated but substitutable products, is called as

- a) Monopolistic Competition
b) Duopolistic Competition
c) Oligopoly Competition
d) Perfect Competition

5. Consider the following statements with reference to competitive markets

1. Competitive Behavior and Competitive market structure are inversely related.
2. A perfectly competitive market has been defined as the one where an individual firm is unable to influence the price at which the product is sold in the market.

Which of the statements given above is/are CORRECT?

- a) 1 only b) 2 only
c) Both d) Neither 1 nor 2

6. With reference to Demand and supply curve, consider the following

1. The demand curve shift right if excess of the supply in the market

2. The supply curve shift left if excess of the demand in the market
Which of the statements given above is/ are CORRECT?
- a) 1 only b) 2 only
c) Both d) Neither 1 nor 2
7. Which among following factor influence the Supply Curve?
1. Technological Progress
 2. Input Prices
 3. Unit Tax
- Select the CORRECT option from the codes given below
- a) 1 and 2 only b) 2 and 3 only
c) 1 and 3 only d) 1, 2 and 3
8. "If we keep increasing the employment of an input, with other inputs fixed, eventually a point will be reached after which the resulting addition to output will start falling", this is related to
- a) Law of diminishing marginal product
b) Law of variable proportions
c) Law of demand
d) None of the above
9. Consider the following statements
1. Normal good is one when demand and income are directly related.
 2. Inferior good is one where demand is inversely related to income.
 3. Giffen good is one where demand is directly related to price of the good.
- Which of the statements given above are CORRECT?
- a) 1 and 2 only b) 2 and 3 only
c) 1 and 3 only d) 1, 2 and 3
10. The set of goods and services bundle available to consumer is called as
- a) Desired set
b) Budget constraint
c) Budget set
d) Desired Constraint
11. A curve joining all the points representing bundles of goods towards Which provide consumers with equal level of utility/ satisfaction
- a) Indifferent Curve b) Philip Curve
c) Giffen Curve d) Gini Curve
12. Consider the following statements
1. For normal goods the income elasticity is negative i.e less than Zero.
 2. For Inferior goods the income elasticity is positive but less than one.
- Which of the statements given above is/ are CORRECT?
- a) 1 only b) 2 only
c) Both d) Neither 1 nor 2
13. "The change in the optimal quantity of a good when its price changes and the consumer's income is adjusted so that she can just buy the bundle that she was buying before the price change is called as _____".
- a) Income Effect
b) Supply Effect
c) Substitute Effect
d) None of the above
14. The rate of interest payable by commercial banks to RBI if they borrow money from the latter in case of a shortage of reserves is called as _____.
- a) Repo rates b) Reverse Repo

- b) Base rate d) Bank Rate
15. The inverse relation between the consumer's demand for a good and its price is given by:
- Law of demand
 - Law of variable proportions
 - Law of diminishing marginal product
 - Law of supply
16. The fraction of deposits which the commercial banks are required to keep with RBI is called as
- Statutory Liquidity Ratio
 - Cash reserve ratio
 - Currency deposit ratio
 - None of the above
17. Consider the following statements with reference to foreign trade and Indian aggregate demand.
- When Indians buy foreign goods, this spending escapes as a leakage from the circular flow of income decreasing aggregate demand.
 - Indian exports to foreigners enter as an injection into the circular flow of income.
- Which of the statements given above is/ are INCORRECT?
- 1 only b) 2 only
 - Both d) Neither 1 nor 2
18. Which of the following components forms the part of Current Account of BOP in India
- Export and import of Goods and services
 - Transfer payments
 - Foreign Direct Investment

- Which of the components given above are part of BOP?
- 1 and 2 only b) 1 and 3 only
 - 2 and 3 only d) 1, 2 and 3
19. _____ are the receipts which the residents of a country receive for free, without having to make any present or future payments in return. Fill in the blank (with reference to Current account of BOP)
- Remittance b) Gift
 - Grants d) all the above
20. The present system of exchange rate India is followed is
- Fully floating exchange rate regime
 - Managed float exchange rate
 - Fixed exchange rate
 - Combination of a & b
21. India's approach to 1991 BOP crisis was/ were
- Indian came up with new economic policy of 1991 which were based on the conditionality Washington consensus.
 - Conditionality by Washington consensus was not as a punishment but were towards creating more complete environment in the economy.
- Select the CORRECT option from the codes given below
- 1 only b) 2 only
 - Both d) Neither 1 nor 2

22. With reference to post 1991 industrial sector, consider the following statements

1. Licensing to private sector was made easy
2. The monopolistic quota of small scale industries reduced.
3. Controls on price fixation and distribution of selected industrial products was reduced

Which of the statements given above is/are seen in post 1991?

- a) 1 and 2 only b) 2 and 3 only
c) 1 and 3 only d) 1, 2 and 3

23. When local currency becomes more expensive in terms of foreign currency is termed as

- a) Appreciation b) Depreciation
c) Devaluation d) Revaluation

24. Consider the following statements

1. Depreciation does not take into account unexpected or sudden destruction or disuse of capital.
2. Gross Investment is obtained by subtracting depreciation from Net investment.

Which of the statements given above is/are CORRECT?

- a) 1 only b) 2 only
c) Both d) Neither 1 nor 2

25. Consider the types of poverty and related definition

1. Chronic poor are those who are always poor.
2. The people who regularly move in and out of poverty are called churning poor.

Which of the definition given above is/are CORRECT?

- a) 1 only b) 2 only
c) Both d) Neither 1 nor 2

ANSWER

1. Answer: (b)

2. Answer: (c)

3. Answer: (c)

- **Explanation:** Pure or perfect competition is a theoretical market structure in which the following criteria are met:

- (1) All firms sell an identical product;
- (2) All firms are price takers (they cannot influence the market price of their product);
- (3) Market share has no influence on price;
- (4) Buyers have complete or "perfect" information – in the past, present and future – about the product being sold

- and the prices charged by each firm
- (5) Resources such as labor are perfectly mobile; and
 - (6) Firms can enter or exit the market without cost.

4. Answer: (a)

- **Explanation:** The term monopolistic competition represents the combination of monopoly and perfect competition.
- Monopolistic competition refers to a market situation in which there are a large number of buyers and sellers of products.
- However, the product of each seller is

different in one aspect or the other.

- The sellers do have a monopoly (they are the only sellers) of their own product, but they are also subject to substantial competitive pressures from sellers of substitute products.

5. Answer: (c)

- **Explanation:**

(1) Competitive behaviour and competitive market structure are, in general, inversely related; the more competitive the market structure, less competitive is the behaviour of the firms. On the other hand, the less competitive the market structure, the more competitive is the behaviour of firms towards each other.

(2) Perfect competition is the name given to an industry or to a market characterized by a large number of buyers and sellers all engaged in the purchase and sale of a homogeneous commodity, with perfect knowledge, of market price and quantities, no discrimination and perfect mobility of resources.

- In such a market no firm is large enough relative to the entire market to be able to influence market price.

6. Answer: (d)

- **Explanation:** Both the statements reversed.

7. Answer: (d)

6 factors influence supply:

- (1) Input Prices
- (2) Improvements in Technology
- (3) Government Policy
- (4) Size of the Market
- (5) Time
- (6) Expectations

8. Answer: (a)

- **Explanation:** It states that while increasing one input and keeping other inputs at the same level may initially increase output, further increases in that input will have a limited effect and will eventually have no effect, or a negative effect, on output. The law of diminishing marginal productivity helps explain why increasing production is not always the best way to increase profitability.

9. Answer: (d)

- **Explanation:**

(1) A normal good is one where increased income leads to higher demand i.e. income and demand are directly related.

(2) An inferior good is one where increased income leads to lower demand i.e. income and demand are inversely related.

(3) A Giffen good is a good for which demand increases as the price increases, and falls when the price decreases.

10. Answer: (c)

11. Answer: (a)

- People cannot really put a numerical value on their level of satisfaction. However, they can, and do, identify what choices would give them more, or less, or the same amount of satisfaction. An indifference curve shows combinations of goods that provide an equal level of utility or satisfaction.

12. Answer: (d)

- **Explanation:** Income elasticity of demand measures the responsiveness of demand for a particular good to changes in consumer income.

- Depending on the values of the income elasticity of demand, goods can be broadly categorized as inferior goods and normal goods.
- (1) Normal goods have a positive income elasticity of demand; as incomes rise, more goods are demanded at each price level. These goods are typically referred to as necessity goods, which are products and services that consumers will buy regardless of changes in their income levels. Examples of necessity goods and services include tobacco products, haircuts, water and electricity. Normal goods have income elasticity of demand between 0 & 1 e.g. if income increases by 10% and demand for fresh fruits increases by 4%, the income elasticity is 4%. Here demand rises less proportionately to income.
- Luxury goods have income elasticity greater than +1 i.e. demand rises more proportionately to the rise in income
- (2) Inferior goods have a negative income elasticity of demand; as consumers' income rises, they buy fewer inferior goods. A typical example of such type of product is margarine, which is much cheaper than butter.
- 13. Answer: (c)**
- Explanation:** The substitution effect is the economic understanding that as prices rise — or income decreases — consumers will replace more expensive items with less costly alternatives.
- 14. Answer: (d)**
- Explanation:** Banks hold a part of the money people keep in their bank deposits as reserve money and loan out the rest to various investment projects.
- Reserve money consists of two things – vault cash in banks and deposits of commercial banks with RBI. Banks use this reserve to meet the demand for cash by account holders.
 - Reserve deposit ratio (RDR) is the proportion of the total deposits that commercial banks keep as reserves.
 - Commercial banks can borrow money from RBI at the bank rate when they run short of reserves.
 - A high bank rate makes such borrowing from RBI costly and, in effect, encourages the commercial banks to maintain a healthy rdr.
- 15. Answer :(a)**
- Explanation:** The law of demand states that quantity purchased varies inversely with price. In other words, the higher the price, the lower the quantity demanded.
- 16. Answer: (b)**
- Explanation:** Cash Reserve Ratio is the ratio of the total deposits of a bank, which is kept with the RBI in the form of cash.
 - Statutory Liquidity Ratio is the ratio of total deposits of a bank, which is to be maintained by the bank with itself in the form of gold, cash or any liquid asset form.
- 17. Answer: (d)**
- Explanation:** An open economy interacts with the other economies of the world. The domestic demand, therefore can be fulfilled either by domestic companies or foreign ones. In case a foreign company fulfills a domestic demand, it reduces the aggregate demand (as domestic demand is fulfilled,

reducing the total demand). Whereas, when a domestic company fulfills a foreign demand, it increases the aggregate demand (as this supply has no impact on domestic demand, which stays the same).

18. Answer: (a)

- **Explanation:** The Balance of Payments is a double entry system of record of all economic transactions between the 'residents' of a country and the rest of the world carried out in a specified period of time.
- It has two accounts: Current Account & Capital Account.
- The Current account of the Balance of Payments is composed of transactions of the below mentioned items:
 - (1) Goods
 - (2) Services
 - (3) Income from assets held abroad
 - (4) Transfer Payments – Private remittances, Foreign Grants, etc.
- The Capital Account of the Balance of Payments is composed of the below mentioned transactions:
 - (1) Loans
 - (2) FDI
 - (3) FPI
 - (4) ADR/GDRs

19. Answer: (d)

- **Explanation:** Remittances, Gift, Grants come under Transfer Payments which are accounted for in the Current Account of the Balance of Payments.

20. Answer: (b)

- **Explanation:** In a fixed rate exchange

regime, also known as the *pegged exchange rate* regime, the currency of an economy is pegged to one or a basket of other currencies.

- In a floating exchange rate regime, there is no government (or central bank) intervention and the currency's value is freely determined by the free play of demand and supply forces.
- A dirty float/managed float is a mixture of a flexible exchange rate system (the float part) and a fixed rate system (the managed part).

21. Answer: (c)

- **Explanation:** Washington Consensus refers to a set of economic policy recommendations for developing countries, and Latin America in particular, that became popular during the 1980s.
- The term Washington Consensus usually refers to the level of agreement between the International Monetary Fund (IMF), World Bank, and U.S. Department of the Treasury on those policy recommendations.
- All shared the view, typically labelled neoliberal, that the operation of the free market and the reduction of state involvement were crucial to development in the global South.

22. Answer: (d)

- **Explanation:** De-regulation of the Industrial Sector was conducted as a part of the New Economic Policy, 1991.
- In India, regulatory mechanisms were enforced in various ways
 - (i) Industrial licensing under which every

entrepreneur had to get permission from government officials to start a firm, close a firm or to decide the amount of goods that could be produced

- (ii) Private sector was not allowed in many industries
- (iii) Some goods could be produced only in small scale industries and
- (iv) Controls on price fixation and distribution of selected industrial products.

- The reform policies introduced in and after 1991 removed many of these restrictions.

- (i) De-reservation: A host of Industries were de-reserved from Central Monopoly. Today, only 2 industries are reserved for the Central Government – Atomic Energy & Railways.

- (ii) De-licensing: Industrial licensing was abolished for almost all but product categories — Alcoholic drinks; Tobacco, cigarettes & related products; Hazardous chemicals; Gunpowder, industrial explosives & detonating fuse and Defense & aerospace related electronics.

- (iii) Many goods produced by small scale industries have now been dereserved.

- (iv) In many industries, the market has been allowed to determine the prices.

23. Answer: (a)

- **Explanation:** Currency appreciation is an increase in the value of one currency regarding another currency.
- Currency depreciation is a fall in the value

of a currency in a floating exchange ratesystem.

- Currencies appreciate or depreciate against each other for a variety of reasons, including government policy, interest rates, trade balances and business cycles.
- Currency appreciation & depreciation happens in a floating exchange rate system.
- In a fixed exchange regime, on the other hand, currencies are devalued and revalued.

24. Answer: (a)

Explanation:

- (1) In accounting terms, depreciation is defined as the reduction of recorded cost of a fixed asset in a systematic manner until the value of the asset becomes zero or negligible.

- (2) $\text{Net Investment} = \text{Gross Investment} - \text{Depreciation}$.

25. Answer:(c)

- **Explanation:** Poverty is categorized in the below mentioned ways:

- (1) **Chronic Poor:** People who are always/ usually poor.

- (2) **Churning Poor:** People who regularly move in and out of poverty

- (3) **Transient Poor:** They are the occasionally poor who are rich most of the time but may sometimes have a patch of bad luck.

- (4) **Non – poor:** Those who are never poor.

ETHICS FOUNDATION BATCH

FROM
20TH JULY

By **S. Ansari**

TIME:
11:00 AM
TO
1:30 PM

Live Online Classes as Effective as Offline

THE DESCRIPTION ABOUT LIVE ONLINE CLASSES:

1. Live Online Classes will be conducted through ZOOM
2. Opportunity for interaction & asking doubts
3. The same will be recorded for back up in case someone misses the class

THE COURSE FEATURES	THE COURSE MATERIALS
<ol style="list-style-type: none"> 1. Duration: 60 Days 2. No. of Classes/Videos: 45 3. Videos Validity: 3 Months 4. Theory-37 Classes/Case Study-8 (With 160 Case Studies) 5. Three Tests with Evaluation, and Model Answer 	<ol style="list-style-type: none"> 1. Two Booklets Covering All Topics 2. One Booklet on Ethics Through Current Developments 3. One Booklet On Q&A for Your Practice (Consisting of Questions and Model Answers) 4. A PDF File of DOPT on Ethics

THE HIGHEST MARKS FROM ETHICS COURSES OF LUKMAAN IAS

TOP 8 GS ETHICS MARKS 2018

S.NO.	NAME	MARKS	AIR
1.	A. MANISHA MANIKRAO	131	33
2.	NAMRATA JAIN	125	12
3.	K.VARUN REDDY	121	07
4.	ALOK KUMAR	119	41
5.	SUSHANT SINGH	117	189
6.	GUNDALA R. RAGHVENDRA	115	180
7.	DEEPANAVISVESWARI V	113	117
8.	VAISHALI SINGH	111	08



MARKS
131 AIR
33 A. MANISHA
MANIKRAO



MARKS
125 AIR
12 NAMRATA
JAIN



MARKS
121 AIR
07 K. VARUN
REDDY



MARKS
119 AIR
41 ALOK
KUMAR

TOP 4 GS ETHICS MARKS 2017

S.NO.	NAME	MARKS	AIR
1.	ARUN SEHRAWAT	112	449
2.	SAUMYA SHARMA	111	09
3.	SAURABH SABLOK	105	124
4.	VINOD DUHAN	104	74

TOP 5 GS ETHICS MARKS 2016

S.NO.	NAME	MARKS	AIR
1.	ARPIT VIJAYVARGIYA	133	201
2.	PRAJIT NAIR	129	87
3.	ABHILASH MISHRA	125	05
4.	HIMANSU JAIN	125	44
5.	NAMRATA JAIN	123	99

FOR DAILY CURRENTS AFFAIRS, WSDP BULLETIN AND ANSWER WRITING PRACTICE, JOIN LUKMAAN IAS TELEGRAM CHANNEL
For Ethics (G.S. IV) - <https://t.me/lukmaaniasethics>
For General Studies - <https://t.me/lukmaaniags>

FOR MORE INFORMATION

Mail At:- enquiries@lukmaanias.com. visit:- www.lukmaanias.com
 Contact us. **8506099919, 9654034293**