



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

1. Which among the following is considered as 'Terms of Credit'?

1. Interest Rate
2. Collateral
3. Documentation requirement
4. Mode of payment

Select the CORRECT option from given code:

- a) 1 and 4 only b) 1, 2 and 3 only
c) 1, 2 and 4 only d) 1, 2, 3 and 4

2. What were the primary motives of colonial policies in regard to Indian manufacturing sector?

1. To reduce India to the status of a mere exporter of important raw materials.
2. To turn India into a sprawling market for the finished products.

Select the CORRECT option from code given below:

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

3. With reference to Colonial economy, consider the following statements

1. Introduction of the Railways affected the notion of 'Self Sufficiency of Indian Villages'.
2. During colonial times, cotton and jute industry were developed.]

Which of the statements given above is/ are CORRECT?

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

4. Post globalization in India, the Multinational Companies (MNCs) were allowed to set up office in India. The impacts of MNCs are

1. MNCs provided money for additional investment.
2. MNCs brought with them latest technology for production.
3. Helped to interlinking of the production units in India.

Select the CORRECT option from the code given below:

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

5. If elasticity of demand is very low, then it implies commodity is

- a) A necessity
b) A luxury commodity
c) has little importance in total budget
d) a & c both

6. Law of Demand graph bring out the relation between

- a) Income and Price of Commodity
 b) Price and quantity of a commodity
 c) Income and quantity of commodity
 d) Quantity demanded and quantity supplied
7. Which of the following forms the part of Capital receipts of government?
- Market borrowings of the government.
 - Borrowing by the government from the Reserve bank and Commercial Banks
 - Small savings (Post office savings and National savings certificates)
 - PSU disinvestment
- Select the CORRECT option from the codes given below
- a) 1, 2 and 4 only b) 2, 3 and 4 only
 c) 2 and 3 only d) 1, 2, 3 and 4
8. Consider the following statements regarding Revenue Expenditure:
- Revenue Expenditure is expenditure incurred for the purpose other than the creation of physical or financial assets of the central government.
 - Interest payments on loans are an important component of the revenue expenditure.
- Which of the statements given above is/ are CORRECT?
- a) 1 only b) 2 only
 c) Both d) Neither 1 nor 2
9. With reference to Real Effective Exchange Rate (REER) of a country, consider the following statements
- It is calculated as the weighted average of the real exchange rates of all its trade partners.
2. It is interpreted as the quantity of domestic goods required to purchase one unit of a given basket of foreign goods.
- Which of the statements given above is/ are INCORRECT?
- a) 1 only b) 2 only
 c) Both d) Neither 1 nor 2
10. If quantity demanded is completely non-responsive to changes in price, then demand of that commodity is called as
- Inelastic
 - Elastic
 - Perfectly Inelastic
 - None of the above
11. "Individuals try to save more during an economic recession, which essentially leads to fall in aggregate demand and hence fall in economic Growth". This paradox is called as
- Paradox of thrift
 - Giffin Paradox
 - Marshall's Dilemma
 - Philip Paradox
12. _____ is inconvertible paper money made legal tender by a government decree. Fill in the blank from the options given below
- Fiduciary Money
 - Commodity Money
 - Fiat money
 - None of the above
13. Possible motives of the people with cash in hand is/are
- Transaction Motive

- b) Speculative Motive
- c) Precautionary Motive
- d) All the above

14. Which of the following forms the part of Non-Tax revenue receipts of government?

- 1. Interest receipts on account of loans
- 2. Dividends and profits on investments made
- 3. Cash Grant in aid from foreign countries and international organization.

Which of the statements given above is/ are CORRECT?

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

15. If goods have more substitutes then its 'demand price elasticity' is_____ . (keeping other factor as constant)

- a) Higher number b) Smaller number
- c) Zero d) Unity

16. With reference to GDP, Consider the following statements

- 1. Real GDP is the value of GDP at the current prevailing prices.
- 2. Nominal GDP is calculated in a way such that the goods and services are evaluated at some constant set of prices (or constant prices).

Which of the statements given above is/ are CORRECT?

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

17. Which among the following are factors of production?

- 1. Capital

- 2. Entrepreneurship
- 3. Land
- 4. Labour

Select the CORRECT option from codes given below:

- a) 1, 3 and 4 only b) 3 and 4 only
- c) 1 and 4 only d) 1, 2, 3 and 4

18. Consider the following

- 1. Domestic Product – Income of Indians abroad + Income of foreigners in India = National Product
- 2. National Product is less than the domestic product, If the income of Indian nationals abroad is less than the income of foreigners in India.

Which of the statements given above is/ are CORRECT?

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

19. Choose the CORRECT statement

- a) Output measured at market price can be increased by increasing taxes in an economy.
- b) Factor Cost + Indirect Taxes+ Subsidies = Market Price
- c) Increased value in production of goods and services in an economy is captured at market price.
- d) None of the above

20. Consider the following statements with reference to the "Real or Nominal Output"

- 1. The output at constant prices refers to the output obtained after being adjusted for Inflation or Deflation.

2. Real growth is adjusted for inflation while nominal growth ignores adjustment for inflation.
3. Nominal GDP is a better measure of growth than Real GDP
- Choose the CORRECT statement or statements
- a) 1 and 2 only b) 2 and 3 only
c) 3 only d) 1, 2 and 3 only
21. 'Carrying Capacity' term is most often seen in newspaper. The term is related to
- a) RBI's monetary capacity
b) Fiscal capacity of Government
c) Environmental economics
d) None of the above
22. Which of the following statement/s about opportunity cost is/are CORRECT?
1. Opportunity cost is equal to implicit costs plus explicit costs
2. Opportunity cost only measures direct monetary costs
3. Opportunity cost accounts for alternative uses of resources such as time and money.
- Select the CORRECT option from codes given below:
- a) 1 and 3 only b) 3 only
c) 2 and 3 only d) 1, 2 and 3
23. Ozone layer is found in the
- a) Troposphere
b) Stratosphere
c) Mesosphere
d) Thermosphere
24. Brundtland commission is related to
- a) Environmental Sustainability
b) Industrial Policy in pre independent India
c) Industrial Policy in Post Independent India
d) None of the above
25. In 1991, India met with an economic crisis. Which of the following can be quoted as a reason for the same?
1. The high level of external debt.
2. High level of foreign exchange reserve.
3. Rising prices of essential goods.
4. Import substitution policy of India.
5. Political instability.
- Select the CORRECT option from codes given below
- a) 1 and 2 b) Only 1
c) 1, 3 and 5 d) All the above

ANSWER

1. Answer: (d)
2. Answer: (c)
- **Explanation:** The British policy in India was guided by their own selfish interests and not by Indian interests. Before the rise of the British empire in India, India was known for its handicraft industry, which enjoyed

worldwide demand and was held in a high regard. Indian craftsmanship was applauded in all parts of the world. The textile industry was among the most important urban handicraft industry. Articles made up of wool, cotton and silk were famous both inside and outside the country's boundaries.

- Additionally, various metal industries, stone carving, marble work, shipbuilding and tanning and leather industries were taking shape. These industries potentially accelerated India's growth, establishing it on the world map. However, the British Raj took every step to ensure that this wasn't the case.
- On setting foot in India, the Britishers were looking to cripple out the blooming industrial phase. With this in mind, they eyed the aforesaid industries. In effect, they chalked out a plan to decentralize these flourishing industries.
- This was achieved through the adoption of a free trade policy which flooded Indian markets with manufactured British products & high domestic tariffs crippling India's industry, reducing India to the status of a mere exporter of raw materials.

3. **Answer: (c)**

• **Explanation:**

- (1) Due to the process of colonialization, agriculture, trade, and industry of India were ruined badly and India became a poor country like it had never been. This ruin of rural artisan and cottage industries proceeded more rapidly once the railways were built in the hinterlands of India. The railways enable British manufactures to reach and uproot the traditional industries in the remotest villages of the country and hence destroyed the 'self-sufficiency of Indian villages' by converting them into producers of raw material and markets for their finished products.
- (2) In the early days of the Company rule, Indian raw jute had been in great demand

for the Dundee mills. World conditions after 1850 were quite propitious for the growth of jute manufacturing. The foundations of cotton textile industry were laid also during the early 1850s. Though the jute industry was dominated by the foreigners the cotton industry was shaped and cared by the natives, mainly the Parsee entrepreneurs.

4. **Answer: (d)**

5. **Answer: (a)**

- **Explanation:** A commodity with inelastic demand does not have a substitute and hence is a necessity.

6. **Answer: (b)**

- **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.

7. **Answer: (d)**

- **Explanation:** The Capital Receipts of the government include:

- (1) Loan recoveries of the government
- (2) Borrowings of the government (All forms)
- (3) Other receipts of the government:
 - a. Provident Fund
 - b. Small Savings Schemes
 - c. Government Bonds (Indira Vikas Patra, Kisan Vikas Patra, Market Stabilization Bond, etc.)
 - d. Proceeds of disinvestment.

8. **Answer: (c)**

- Revenue Expenditure primarily includes expenditure incurred on the maintenance of created assets & includes:
 1. Interest Payments on loans

2. Salaries, Pensions & PF Payments to employees
3. Subsidies
4. Defense Expenditure
5. Law & Order expenditures
6. Expenditures on social services
7. Dividend outgo
8. Grants given by the government, etc.

9. **Answer: (d)**

10. **Answer: (c)**

- Demand extends or contracts respectively with a fall or rise in price. This quality of demand by virtue of which it changes (increases or decreases) when price changes (decreases or increases) is called Elasticity of Demand.

4 types of Demand Elasticity:

- **Perfectly Inelastic ($PED = 0$):** When the price elasticity of demand or PED is zero, then the demand is perfectly inelastic. Here there is no change in quantity demanded in response to change in price.
- **Inelastic (PED is between 0 and 1):** If the percentage of change in demand is less than the percentage of change in price, then the demand is inelastic.
- **Elastic or Unit Elastic ($PED = 1$):** When the percentage of change in demand is the same as the percentage of change in price, then the demand is unit elastic.
- **Perfectly Elastic ($PED > 1$):** If the percentage of change in demand is more than the percentage of change in price, then the demand is perfectly elastic.

11. **Answer: (a)**

- **Explanation:** Paradox of thrift was

popularized by the renowned economist John Maynard Keynes. It states that individuals try to save more during an economic recession, which essentially leads to a fall in aggregate demand and hence in economic growth.

12. **Answer: (c)**

- Every currency note bears on its face a promise from the Governor of RBI that if someone produces the note to RBI, or any other commercial bank, RBI will be responsible for giving the person purchasing power equal to the value printed on the note.
- The same is also true of coins.
- Currency notes and coins are therefore called **fiat money**.

13. **Answer: (d)**

14. **Answer: (d)**

- Revenue receipts are primarily of two types: Tax & Non-Tax.

Non-tax revenue receipts primarily comprise of:

- (1) Profits & dividends which the government gets from its PSUs.
- (2) Interest repayments
- (3) Fiscal services – currency printing, stamp printing, coinage, medals printing, etc.
- (4) General Services – power distribution, irrigation, banking, insurance, community services, etc.
- (5) Fees, penalties and fines.
- (6) Grants received by the government.

15. **Answer: (a)**

16. **Answer: (d)**

- **Explanation:**

- (1) Real GDP is calculated at constant base year prices.

(2) Nominal GDP is calculated at current prevailing prices.

17. Answer: (d)

18. Answer: (b)

- **Explanation:** National Product = Domestic Product + Income of Indians Abroad – Income of Foreigners in India.

19. Answer: (a)

20. Answer: (b)

- **Explanation:** Real GDP is a better measure of growth than Nominal GDP as it adjusts the Nominal GDP for its 'inflation component' and therefore depicts the 'real' growth picture.

21. Answer: (c)

- **Explanation:** Carrying capacity refers to the number of individuals who can be supported in a given area within natural resource limits, and without degrading the natural social, cultural and economic environment for present and future generations.

22. Answer: (d)

23. Answer: (b)

24. Answer: (a)

- **Explanation:** In the 1980s the UN set up the Commission on Environment and Development, also known as the Brundtland Commission, named after its

Chair Gro Harlem Brundtland.

- The outcome of the Brundtland Commission was a comprehensive document entitled "Our Common Future", otherwise known as the Brundtland Report. This report framed much of what would become the 40 chapters of Agenda 21 and the 27 principles of the Rio Declaration on Environment and Development. The report defined sustainable development as development which:

- *"meets the needs of the present generation without compromising the ability of future generations to meet their own needs."*

25. Answer: (c)

- **Explanation:** The 1991 economic crisis was an outcome of the below mentioned factors:

- (1) Fiscal Crisis – owing to high internal debt
 - (2) Uncontrolled Balance of Payments – owing to rising current account deficits
 - (3) High Rates of Inflation
 - (4) Structural Weaknesses in the economy
 - (5) Political Instability – within a span of one and a half years, between 1989 & 1991, India had seen three coalition governments with three Prime Ministers.
- The Immediate trigger for the crisis was the Gulf War of 1991.

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