**Q1) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/17\_0wdCrJePXLX0DlaPHkfaUdKJ8pHG2a/view?usp=share\_link**](https://drive.google.com/file/d/17_0wdCrJePXLX0DlaPHkfaUdKJ8pHG2a/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is an assumption of the law of demand?**

a) Income of the consumer

b) Price of the product

c) Availability of substitutes

d) All of the above

Correct Answer: Option (b)

Explanation: The law of demand is a fundamental concept in economics that explains the behaviour of buyers in the market. It states that when the price of a product increases, the demand for it decreases, and vice versa, assuming all other factors remain constant. This relationship between price and quantity demanded is crucial for businesses to understand, as it informs their pricing and marketing strategies.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q2) The point where the demand curve intersects the supply curve is known as:**

a) Equilibrium price

b) Price floor

c) Price ceiling

d) None of the above

Correct Answer: Option (a)

Explanation: Equilibrium price is a key concept in economics, representing the balance point between supply and demand in the market. At this price, the quantity demanded of a product is exactly equal to the quantity supplied, resulting in no excess demand or supply. This state of equilibrium is important for both buyers and sellers, as it ensures that the market is functioning efficiently and fairly. It is also a critical factor in determining the market price of a product, as well as the quantity that will be produced and consumed by buyers and sellers.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q3) The difference between the total revenue and total variable cost is known as:**

a) Marginal cost

b) Total cost

c) Fixed cost

d) Profit

Correct Answer: Option (d)

Explanation: Profit is a key measure of success for any business, representing the amount of money earned after all costs have been taken into account. It is calculated by subtracting the total variable cost of production from the total revenue earned by the firm. This difference represents the amount of money that the business has made from its operations, and is a critical metric for determining the financial health of the company. Maximizing profits is a key goal for most businesses, as it allows them to reinvest in their operations, pay dividends to shareholders, and expand their market share.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q4) The demand curve for a normal good slopes:**

a) Upwards from left to right

b) Downwards from left to right

c) Remains constant

d) Varies randomly

Correct Answer: Option (b)

Explanation: For a normal good, as the price of the good increases, the quantity demanded decreases. This is because consumers have limited income, and as the price of the goods goes up, they are less willing or able to purchase it.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q5) Which of the following is not a factor that shifts the supply curve?**

a) Changes in technology

b) Changes in input prices

c) Changes in consumer preferences

d) Changes in taxes or subsidies

Correct Answer: Option (c)

Explanation: The supply curve is affected by factors such as changes in technology, input prices, taxes or subsidies, and the number of producers in the market. Consumer preferences, on the other hand, affect the demand curve.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q6) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which of the following is a determinant of supply?**

a) Price of the product

b) Income of the consumer

c) Availability of substitutes

d) All of the above

Correct Answer: Option (a)

Explanation: In a competitive market, firms will increase the quantity supplied as the price of the product rises, as they can earn higher profits. However, if input prices increase, technology improves, or taxes are imposed, the firm's costs will increase, reducing its supply at any given price. Likewise, if subsidies are offered, the firm's costs decrease, increasing its supply.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q7) Which of the following is a feature of a monopoly market?**

a) Large number of buyers and sellers

b) Homogeneous products

c) No market power

d) High barriers to entry

Correct Answer: Option (d)

Explanation: In a monopoly market, the single seller can control the supply of the product, creating a barrier to entry for potential competitors. This allows the monopolist to set high prices and earn significant profits, leading to a loss of consumer surplus. However, government intervention may occur to prevent abuse of market power, such as antitrust laws or price regulations.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q8) The additional revenue generated by selling one more unit of a product is known as:**

a) Marginal cost

b) Marginal revenue

c) Average cost

d) Average revenue

Correct Answer: Option (b)

Explanation: Marginal revenue is an essential concept in microeconomics that helps businesses determine the optimal level of production and pricing strategy. It is calculated by dividing the change in total revenue by the change in quantity sold. Understanding marginal revenue can help companies make informed decisions about pricing, production, and resource allocation to maximize profits.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q9) The point where the budget line intersects the highest indifference curve is known as:**

a) Consumer equilibrium

b) Producer equilibrium

c) Market equilibrium

d) None of the above

Correct Answer: Option (a)

Explanation: Consumer equilibrium occurs when the consumer's budget line intersects the highest attainable indifference curve, indicating that the consumer is maximizing utility subject to the budget constraint.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q10) Which of the following is an example of a public good?**

a) Clothing

b) Housing

c) National defence

d) Restaurant meals

Correct Answer: Option (c)

Explanation: A public good is non-excludable and non-rivalrous, meaning that it is available to all and consumption by one person does not reduce the amount available to others. National defence is an example of a public good.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q11) Which of the following is a characteristic of a perfectly competitive market?**

a) A single seller

b) Identical products

c) High barriers to entry

d) Market power to set prices

Correct Answer: Option (b)

Explanation: In a perfectly competitive market, buyers and sellers have access to perfect information and can freely enter or exit the market without incurring any costs. As a result, the price of goods and services is determined by the forces.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q12) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1Y3BaqqIlelk9KAqZnAYdsKYl8l8FlcW5/view?usp=share\_link**](https://drive.google.com/file/d/1Y3BaqqIlelk9KAqZnAYdsKYl8l8FlcW5/view?usp=share_link) **)**

**TYPE: Audio**

**The price elasticity of demand measures the:**

a) Percentage change in quantity demanded given a percentage change in price

b) Percentage change in price given a percentage change in quantity demanded

c) Total change in quantity demanded given a total change in price

d) Total change in price given a total change in quantity demanded

Correct Answer: Option (a)

Explanation: Price elasticity of demand is a measure of the responsiveness of quantity demanded to changes in price, expressed as the percentage change in quantity demanded given a percentage change in price.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q13) Which of the following is a characteristic of an oligopoly market?**

a) Large number of firms

b) Homogeneous products

c) Low barriers to entry

d) Interdependence among firms

Correct Answer: Option (d)

Explanation: In an oligopoly market, a few dominant firms control a significant portion of the market share, giving them the power to influence prices and restrict competition. These firms often engage in strategic behaviour, such as price-fixing or collusion, to maintain their position and maximize profits. Barriers to entry, such as high start-up costs or regulatory hurdles, make it difficult for new firms to enter the market and compete.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q14) Which of the following is not an assumption of perfect competition?**

a) Homogeneous product

b) Large number of buyers and sellers

c) Free entry and exit of firms

d) High barriers to entry

Correct Answer: Option (d)

Explanation: Without barriers to entry or exit, a perfectly competitive market ensures that firms are unable to earn economic profits in the long run. This is because new firms can freely enter the market and compete, driving down prices and reducing profits for existing firms. This dynamic encourages firms to continuously innovate and improve their products, leading to greater consumer welfare and economic efficiency.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q15) Which of the following is an example of a fixed cost for a firm?**

a) Raw materials

b) Electricity bill

c) Rent for a factory

d) Wages for workers

Correct Answer: Option (c)

Explanation: Fixed costs are those costs that do not vary with the level of output. Rent for a factory is an example of a fixed cost because it remains the same regardless of how much the firm produces.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q16) Answer the following question with reference to the audio**

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**TYPE: Audio**

**A firm's profit-maximizing output level is where:**

a) Marginal cost is less than marginal revenue

b) Marginal cost equals marginal revenue

c) Marginal cost is greater than marginal revenue

d) Average total cost is at a minimum

Correct Answer: Option (b)

Explanation: A firm's profit-maximizing output level is where marginal cost equals marginal revenue. At this point, the firm is producing at the level where the cost of producing an additional unit of output is equal to the revenue generated by selling that unit.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q17) Which of the following is an example of a price floor?**

a) Minimum wage

b) Sales tax

c) Tariff on imported goods

d) Subsidy to farmers

Correct Answer: option (a)

Explanation: A price floor is a minimum price that is set by the government for a particular good or service. Minimum wage is an example of a price floor because it sets a minimum wage that employers must pay their workers.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q18) When the demand for a good is elastic, a decrease in price will result in:**

a) An increase in total revenue

b) A decrease in total revenue

c) No change in total revenue

d) An uncertain change in total revenue

Correct Answer: option (b)

Explanation: When the demand for a good is elastic, a decrease in price will result in a decrease in total revenue. This is because the decrease in price will result in a larger increase in quantity demanded than the decrease in price, leading to a decrease in total revenue.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q19) Which of the following statements is true about the law of diminishing marginal utility?**

a) It states that the more a person consumes a good, the less utility they derive from each additional unit consumed

b) It states that the more a person consumes a good, the more utility they derive from each additional unit consumed

c) It only applies to luxury goods

d) It only applies to essential goods

Correct Answer: option (a)

Explanation: The law of diminishing marginal utility states that the more a person consumes a good, the less utility they derive from each additional unit consumed. The law of diminishing marginal utility is a fundamental principle in microeconomics that explains how consumer behaviour changes as they consume more of a good. As consumption increases, the marginal utility of each additional unit consumed decreases, leading to a declining rate of satisfaction. This concept helps explain how consumers make decisions about how much of a good to consume and how much to spend on it.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q20) Which of the following is not a characteristic of a perfectly competitive market?**

a) Numerous buyers and sellers

b) Homogeneous products

c) No barriers to entry or exit

d) Firms are price takers

Correct Answer: option (d)

Explanation: In a perfectly competitive market, firms have no power to influence prices since they are small relative to the market and sell homogeneous products. Consequently, firms must accept the prevailing market price since any attempt to charge a higher price will result in a loss of market share. This ensures that prices are determined by market forces of supply and demand, leading to economic efficiency.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q21) Which of the following is a type of market structure in which there are only a few large firms?**

a) Perfect competition

b) Monopoly

c) Monopolistic competition

d) Oligopoly

Correct Answer: option (d)

Explanation: Oligopoly is a market structure characterized by a small number of large firms dominating the market. These firms have significant market power, enabling them to influence prices and output levels. Due to the high barriers to entry, new firms find it difficult to enter the market, resulting in limited competition. This can lead to collusive behaviour among the dominant firms, such as price fixing or market sharing, which can result in higher prices for consumers.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q22) Answer the following question with reference to the audio**

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**TYPE: Audio**

**What is the difference between a change in demand and a change in quantity demanded?**

a) A change in demand refers to a shift in the entire demand curve, while a change in quantity demanded refers to a movement along a fixed demand curve in response to a change in price.

b) A change in demand refers to a movement along a fixed demand curve in response to a change in price, while a change in quantity demanded refers to a shift in the entire demand curve.

c) A change in demand and a change in quantity demanded both refer to a shift in the entire demand curve.

d) A change in demand and a change in quantity demanded both refer to a movement along a fixed demand curve in response to a change in price.

Correct Answer: option (a)

Explanation: A change in demand refers to a shift in the entire demand curve, while a change in quantity demanded refers to a movement along a fixed demand curve in response to a change in price.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q23) In a market system, which of the following determines the allocation of resources?**

a) The government

b) The market

c) Both the government and the market

d) Neither the government nor the market

Correct Answer: option (b)

Explanation: In a market system, resources are allocated based on the forces of supply and demand. Buyers and sellers interact in markets to determine the prices and quantities of goods and services produced. Resources are allocated to the production of goods and services that are in demand, resulting in an efficient use of resources. This process is driven by the profit motive, which incentivizes firms to produce goods and services that consumers are willing to pay for.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q24) Which of the following is true about the price elasticity of demand for luxury goods?**

a) It is highly elastic

b) It is highly inelastic

c) It is unit elastic

d) It is perfectly elastic

Correct Answer: option (a)

Explanation: Luxury goods are often considered non-essential items, and consumers are more likely to have substitutes available to them. As a result, the price elasticity of demand for luxury goods tends to be high, meaning that changes in price have a significant impact on the quantity demanded. Luxury goods consumers are more sensitive to price changes and are likely to reduce their demand for luxury goods when prices increase, and vice versa. This can have significant implications for firms operating in the luxury goods market, as they need to carefully consider their pricing strategies to maintain demand for their products.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q25) Which of the following is not an assumption of perfect competition?**

a) Perfect knowledge

b) Homogeneous products

c) Large number of buyers and sellers

d) Interdependent decision making

Correct Answer: option (d)

Explanation: In an oligopoly market structure, there are typically only a few firms that dominate the market, leading to interdependent decision-making. Each firm's actions have a significant impact on the actions of its competitors, and firms must consider the potential reactions of their competitors when making decisions. In contrast, perfect competition assumes that firms are price takers and do not interact or influence each other's decisions. In a perfectly competitive market, firms have no market power and cannot influence the market price

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q26) If the cross elasticity of demand between two goods is negative, then they are:**

a) Normal goods

b) Inferior goods

c) Complementary goods

d) Substitute goods

Correct Answer: option (c)

Explanation: Cross elasticity of demand measures the responsiveness of the quantity demanded of one good to a change in the price of another good. When the cross elasticity of demand between two goods is negative, it means that they are complementary goods. This implies that the goods are typically consumed together, and an increase in the price of one good will lead to a decrease in the demand for the other good. Examples of complementary goods include peanut butter and jelly, or cars and gasoline.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q27) A firm’s average revenue curve is:**

a) The same as its demand curve

b) Always a horizontal line

c) Always a vertical line

d) The slope of its total revenue curve

Correct Answer: option (a)

Explanation: In perfect competition, a firm is a price taker, meaning it has no control over the market price. As a result, the firm's demand curve is perfectly elastic and horizontal, and its average revenue curve is also the same as its demand curve. The firm must sell its product at the prevailing market price, and any deviation from this price would result in a loss of customers to competitors.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q28) Which of the following is not a feature of monopolistic competition?**

a) Product differentiation

b) Large number of firms

c) Entry and exit barriers

d) Advertising and selling costs

Correct Answer: option (c)

Explanation: Monopolistic competition is a market structure characterized by many small firms producing differentiated products. Unlike in a monopoly, there are no significant barriers to entry and exit in monopolistic competition. This means that new firms can easily enter the market if they believe they can make a profit, and firms can exit the market if they are not generating enough revenue. As a result, there is a low level of market power for each individual firm, and competition is relatively high.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q29) Answer the following question with reference to the audio**

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**TYPE: Audio**

**When a consumer purchases a good, it generates:**

a) Total utility

b) Marginal utility

c) Average utility

d) Marginal rate of substitution

Correct Answer: option (a)

Explanation: Total utility is a concept in economics that measures the overall satisfaction a consumer obtains from consuming a certain amount of a good or service. It is the sum of the marginal utility of each unit of the good consumed, and can help to determine optimal consumption levels.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q30) If a firm is earning supernormal profits in the short run, what will happen in the long run in a perfectly competitive market?**

a) The firm will continue earning supernormal profits

b) The firm will earn normal profits

c) The firm will incur losses

d) The firm will exit the market

Correct Answer: option (b)

Explanation: In the long run, when firms in a market are earning above-normal profits, new firms will enter the market to take advantage of these profits. This increased competition will drive down prices, reducing profits until they are only normal. Conversely, if firms are earning below-normal profits, some firms will exit the market, reducing competition and driving up prices until profits return to normal.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q31) In which of the following market structures does a single firm dominate the market and there are no close substitutes for its product?**

a) Monopolistic competition

b) Oligopoly

c) Monopoly

d) Perfect competition

Correct Answer: option (c)

Explanation: In a monopoly market structure, there is only one seller who dominates the market and controls the supply of the product. There are no close substitutes available, giving the monopolist firm full control over the price of its product.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q32) Which of the following is not a determinant of market demand?**

a) Income of consumers

b) Price of the product

c) Population size

d) Tastes and preferences of consumers

Correct Answer: option (b)

Explanation: While the price of a product affects the quantity demanded, market demand is influenced by a range of factors such as consumer income, population size, and consumer preferences. These factors can have a significant impact on the overall demand for a product or service.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q33) Which of the following is not a characteristic of monopolistic competition?**

a) Many small firms

b) Product differentiation

c) Barriers to entry

d) Non-price competition

Correct Answer: option (c)

Explanation: In a monopolistic competition market structure, firms produce unique and differentiated products, engage in non-price competition through advertising and branding efforts. Barriers to entry and exit are relatively low, making it easier for new firms to enter the market.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q34) The slope of the demand curve in a perfectly competitive market is:**

a) Upward-sloping

b) Downward-sloping

c) Vertical

d) Horizontal

Correct Answer: option (d)

Explanation: In a perfectly competitive market, buyers and sellers have no control over the market price. The demand curve is horizontal, indicating that consumers are willing to purchase any quantity of the product at the market price without affecting it.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q35) The concept of elasticity of demand measures:**

a) The responsiveness of quantity demanded to changes in price

b) The responsiveness of price to changes in quantity demanded

c) The level of consumer satisfaction with a product

d) The level of consumer income required to purchase a product

Correct Answer: option (a)

Explanation: Elasticity of demand measures the responsiveness of quantity demanded to changes in price. It indicates how sensitive consumers are to changes in the price of a product, and helps firms to determine the optimal price for their products.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q36) Which of the following is not a characteristic of a perfectly competitive market?**

a) Many small firms

b) Homogeneous products

c) Barriers to entry

d) Price takers

Correct Answer: option (c)

Explanation: In a perfectly competitive market, each firm is so small relative to the market that it has no power to influence the market price. The products are identical, and there are no barriers to entry or exit, allowing for free competition.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q37) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1Fk-TFHWg318sDVnm\_2Cm3jKVeJmSE-bt/view?usp=share\_link**](https://drive.google.com/file/d/1Fk-TFHWg318sDVnm_2Cm3jKVeJmSE-bt/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is NOT an assumption of the law of demand?**

a) Income of the consumer remains constant

b) Price of the commodity remains constant

c) Taste and preference of the consumer remains constant

d) Price of the related goods remains constant

Correct Answer: option (d)

Explanation: The law of demand states that quantity demanded of a commodity varies inversely with its price, other things remaining constant. The assumptions of the law of demand are that the income of the consumer, the price of the commodity, and the taste and preference of the consumer remain constant. However, the price of related goods (substitutes and complements) is not assumed to remain constant.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q38) Which of the following is NOT an objective of a firm?**

a) Profit maximization

b) Sales maximization

c) Cost minimization

d) Market share maximization

Correct Answer: Option (b)

Explanation: A firm's objective refers to the ultimate goal that the firm seeks to achieve. Profit maximization, cost minimization, and market share maximization are commonly cited objectives of a firm. However, sales maximization is not considered a valid objective because it does not necessarily lead to profits or long-term viability of the firm.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q39) A monopolist produces at an output level where its marginal revenue equals its marginal cost. If its demand curve is given by Q = 100 - 2P and its total cost function is C = 10Q, what is its profit-maximizing price?**

a) $20

b) $30

c) $40

d) $50

Correct answer: Option (b)

Explanation: The monopolist's marginal revenue can be found by taking the derivative of its demand curve, which is MR = 50 - Q. Setting this equal to its marginal cost of 10 yields 50 - Q = 10, which gives Q = 40. Substituting this back into the demand curve gives P = 30, which is the profit-maximizing price.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Evaluate

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**Q40) The cross-price elasticity of demand between two goods X and Y is -1.5. What does this mean?**

a) X and Y are substitutes

b) X and Y are complements

c) X is a normal good and Y is an inferior good

d) X is an inferior good and Y is a normal good

Correct answer: Option (a)

Explanation: A negative cross-price elasticity of demand means that the two goods are substitutes. In other words, when the price of one good (say X) increases, the demand for the other good (Y) increases as well, since consumers switch to the substitute good to satisfy their needs.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Evaluate

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**Q41) If the price elasticity of demand for a good is -2.5, what happens to total revenue when the price of the good is increased?**

a) Total revenue increases

b) Total revenue decreases

c) Total revenue remains unchanged

d) Cannot be determined from the given information

Correct answer: Option (b)

Explanation: A price elasticity of demand of -2.5 means that a 1% increase in price results in a 2.5% decrease in quantity demanded. Since the percentage decrease in quantity demanded is greater than the percentage increase in price, total revenue will decrease.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Evaluate

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**Q42) In a perfectly competitive market, what happens to price and quantity when there is an increase in demand?**

a) Price increases and quantity increases

b) Price decreases and quantity increases

c) Price remains constant and quantity increases

d) Price remains constant and quantity remains constant

Correct answer: Option (a)

Explanation: In a perfectly competitive market, price is determined by the intersection of the supply and demand curves. An increase in demand will shift the demand curve to the right, causing both price and quantity to increase.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q43) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1164BibgkuF-XePLa48NPqZDBZCc\_8Jq7/view?usp=share\_link**](https://drive.google.com/file/d/1164BibgkuF-XePLa48NPqZDBZCc_8Jq7/view?usp=share_link) **)**

**TYPE: Audio**

**A firm has a U-shaped average total cost curve. At what level of output is its average variable cost minimized?**

a) At the point where marginal cost intersects average variable cost

b) At the point where marginal cost intersects average total cost

c) At the point where average total cost intersects average variable cost

d) Cannot be determined from the given information

Correct answer: Option (b)

Explanation: The minimum point on the average variable cost curve is also the minimum point on the average total cost curve, which occurs where the marginal cost curve intersects the average total cost curve.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q44) Which of the following is true about the long-run equilibrium in a perfectly competitive market?**

a) Price is equal to marginal cost

b) Price is equal to average variable cost

c) Price is equal to average total cost

d) Price is equal to the minimum of average total cost

Correct answer: Option (d)

Explanation: In the long-run equilibrium of a perfectly competitive market, firms earn zero economic profits, which means that price is equal to the minimum point on the average total cost curve. This is because firms will exit the market if they are earning negative profits, and new firms will enter.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q45) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1KEv9EpHgG-UUsKpsTyN7UDtfNlYMcz9J/view?usp=share\_link**](https://drive.google.com/file/d/1KEv9EpHgG-UUsKpsTyN7UDtfNlYMcz9J/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is not an assumption of the utility function?**

a) It is measurable

b) It is ordinal

c) It is continuous

d) It is additive

Correct answer: Option (d)

Explanation: The utility function is a way to measure the satisfaction or happiness that a consumer derives from consuming goods or services. It is assumed to be measurable, meaning it can be quantified, ordinal, meaning it can be ranked, and continuous, meaning it can take on any value within a range. However, it is not necessarily additive, meaning that the utility derived from consuming two goods together may not be equal to the sum of the utilities derived from consuming them separately.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q46) A monopolist's profit is maximized when:**

a) Price is greater than marginal cost

b) Price is equal to marginal cost

c) Price is less than marginal cost

d) None of the above

Correct answer: Option (a)

Explanation: In order to maximize profits, a monopolist will determine the level of output where marginal revenue is equal to marginal cost. Then, the monopolist will set a price above the marginal cost in order to generate the greatest possible profit.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q47) In a market characterized by perfect competition, the demand curve faced by an individual firm is:**

a) Perfectly elastic

b) Downward sloping

c) Upward sloping

d) Perfectly inelastic

Correct answer: Option (a)

Explanation: In a market characterized by perfect competition, the demand curve faced by an individual firm is perfectly elastic, since the firm cannot influence the market price and must accept the prevailing price.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q48) Which of the following is a feature of an oligopoly market?**

a) Large number of firms

b) Homogeneous product

c) Non-collusive behaviour

d) Interdependence among firms

Correct answer: Option (d)

Explanation: An oligopoly market is characterized by a few large firms that dominate the market and compete on the basis of price or other factors. These firms are interdependent and their actions affect each other.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q49) Which of the following is not a type of market structure?**

a) Monopoly

b) Perfect competition

c) Monopsony

d) Pure monopoly

Correct answer: Option (d)

Explanation: Pure monopoly is characterized by a market structure where a single firm is the sole producer of a particular good or service, with no close substitutes available. As a result, the firm has significant control over pricing and output decisions in the market.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q50) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1rP6goUN2YvepTiAcZRntk5c6\_1VveDD-/view?usp=share\_link**](https://drive.google.com/file/d/1rP6goUN2YvepTiAcZRntk5c6_1VveDD-/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is not a characteristic of a public good?**

a) Non-rivalrous

b) Non-excludable

c) Non-transferable

d) Non-diminishable

Correct answer: Option (c)

Explanation: Public goods are characterized by being non-rivalrous, meaning that one person's consumption of the good does not reduce the amount available to others, and non-excludable, meaning that it is difficult or impossible to prevent people from using the good. Public goods are also non-diminishable, meaning that the quality of the good does not deteriorate over time. However, they are not necessarily non-transferable, as some public goods can be bought and sold.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q51) In a market, the demand for a product is given by QD = 40 - 2P, and the supply is given by QS = 2P - 10. What is the equilibrium price and quantity in this market?**

a) P=10, Q=20

b) P=15, Q=25

c) P=20, Q=30

d) P=25, Q=35

Correct Answer: Option (b)

Explanation: Equating the demand and supply functions gives 40 - 2P = 2P - 10. Solving for P gives P = 15. Substituting this value into either the demand or supply function gives Q = 25. Thus, the equilibrium price and quantity are P=15 and Q=25.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Evaluate

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**Q52) Which of the following statements about price elasticity of demand is true?**

a) Goods with few substitutes have a more elastic demand

b) Necessities have a more elastic demand than luxuries

c) Short-term demand is more elastic than long-term demand

d) All of the above

Correct Answer: Option (c)

Explanation: Short-term demand is typically more elastic than long-term demand, as consumers have more time to adjust their behaviour and find substitutes. Goods with more substitutes have a more elastic demand, and luxuries have a more elastic demand than necessities. Thus, option (c) is the correct answer.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q53) If a firm's average variable cost is $8 and its marginal cost is $10, what is the shape of the firm's average variable cost curve?**

a) U-shaped

b) Downward-sloping

c) Upward-sloping

d) Horizontal

Correct Answer: Option (a)

Explanation: If a firm's marginal cost is above its average variable cost, the average variable cost curve must be upward-sloping. If a firm's marginal cost is below its average variable cost, the average variable cost curve must be downward-sloping. Since the marginal cost is between the average variable cost and average total cost, the average variable cost curve must be U-shaped.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Evaluate

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**Q54) Which of the following is a characteristic of a perfectly competitive market?**

a) Many buyers and sellers

b) Homogeneous products

c) No barriers to entry or exit

d) All of the above

Correct Answer: Option (d)

Explanation: A market is considered perfectly competitive when there are numerous buyers and sellers, all producing and consuming identical products, and no obstacles to entry or exit. In such a market, prices are determined solely by supply and demand forces without any external influence.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q55) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/15UNCfp6jPbJSM2FmNmka3kV0lpOMQVax/view?usp=share\_link**](https://drive.google.com/file/d/15UNCfp6jPbJSM2FmNmka3kV0lpOMQVax/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is a reason why the demand curve for labour is downward-sloping?**

a) The law of diminishing marginal returns

b) The substitution effect

c) The income effect

d) All of the above

Correct Answer: Option (b)

Explanation: The substitution effect states that as the wage rate increases, firms will substitute capital for labour, leading to a decrease in the demand for labour. The law of diminishing marginal returns also contributes to the downward-sloping demand curve for labour. The income effect is not a reason why the demand curve for labour is downward-sloping.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q56) Which of the following is an example of a public good?**

a) A concert

b) A private security guard

c) A lighthouse

d) A clothing store

Correct Answer: Option (c)

Explanation: A public good is a type of commodity that possesses two distinct characteristics - non-excludability and non-rivalry. Non-excludability implies that it is challenging or prohibitively expensive to prevent anyone from accessing the good or service, while non-rivalry means that the consumption of the good by one person does not diminish its availability to others.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Remember

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**Q57) Which of the following is NOT a characteristic of a perfectly competitive market?**

a) Homogeneous products

b) Free entry and exit

c) Numerous buyers and sellers

d) Firms are price makers

Correct Answer: Option (d)

Explanation: A perfectly competitive market is characterized by homogeneous products, free entry and exit, and numerous buyers and sellers. In such a market, firms are price takers, not price makers.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q58) A consumer is in equilibrium when:**

a) The marginal utility per unit of money spent on each good is equal

b) The total utility per unit of money spent on each good is equal

c) The marginal utility per unit of money spent on each good is maximum

d) The total utility per unit of money spent on each good is maximum

Correct Answer: Option (a)

Explanation: A consumer is in equilibrium when the marginal utility per unit of money spent on each good is equal. In other words, the consumer should allocate his/her income in such a way that the marginal utility per dollar spent on each good is the same.

Thus, the correct answer is option (a).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Understand

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**Q59) Which of the following is NOT a reason for the downward sloping demand curve?**

a) Law of diminishing marginal utility

b) Income effect

c) Substitution effect

d) Law of increasing marginal cost

Correct Answer: Option (d)

Explanation: The law of increasing marginal cost is not a reason for the downward sloping demand curve. The downward sloping demand curve is explained by the law of diminishing marginal utility, income effect, and substitution effect. The law of increasing marginal cost refers to the increase in the marginal cost of production as more units are produced, and is not directly related to the demand curve.

Thus, the correct answer is option (d).

Difficulty Level-Very Hard

Bloom’s Taxonomy- Analyze

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**Q60) Which of the following is a characteristic of a monopolistic competition market?**

a) Homogeneous products

b) Large number of sellers

c) Perfect information

d) No market power

Correct Answer: Option (b)

Explanation: Monopolistic competition is a market structure in which a large number of firms compete by offering slightly different products that are not perfect substitutes. These firms have some degree of market power to set prices, but face competition from other firms offering similar products.

Thus, the correct answer is option (b).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Understand

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**Q61) Which of the following is not a component of national income?**

a) Rent

b) Interest

c) Profit

d) Depreciation

Correct Answer: Option (d)

Explanation: Depreciation refers to the decline in value of tangible assets over time due to wear and tear or obsolescence. Since it represents a decrease in the value of existing capital, it is not considered a component of national income, which measures the flow of newly produced goods and services in an economy.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q62) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/11fJr-GCbBEfmFvODdErvu82GiwTtYnkQ/view?usp=share\_link**](https://drive.google.com/file/d/11fJr-GCbBEfmFvODdErvu82GiwTtYnkQ/view?usp=share_link) **)**

**TYPE: Audio**

**In the classical theory of income and employment, which of the following ensures full employment in the economy?**

a) Flexible wages and prices

b) Government intervention

c) Increase in aggregate demand

d) Increase in money supply

Correct Answer: Option (a)

Explanation: According to the classical theory of income and employment, flexible wages and prices ensure full employment in the economy. When there is an excess supply of labour, wages will decrease, leading to an increase in demand for labour, and vice versa.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q63) Which of the following measures the total value of all final goods and services produced within a country's borders in a given time period?**

a) Gross Domestic Product (GDP)

b) Gross National Product (GNP)

c) Net Domestic Product (NDP)

d) Net National Product (NNP)

Correct Answer: Option (a)

Explanation: Gross Domestic Product (GDP) is a widely used macroeconomic indicator that measures the monetary value of all final goods and services produced within a country's borders during a specified time period, usually a year. It is an important measure of a country's economic performance.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q64) The consumption function expresses the relationship between:**

a) Income and consumption

b) Saving and investment

c) Interest rates and investment

d) Inflation and unemployment

Correct Answer: Option (a)

Explanation: The consumption function is an economic model that depicts the relationship between a household's disposable income and its level of consumption expenditure. It helps to explain how changes in income, prices, and other factors impact the spending behaviour of households.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q65) Which of the following represents the total value of all final goods and services produced by the citizens of a country, regardless of their location?**

a) Gross Domestic Product (GDP)

b) Gross National Product (GNP)

c) Net Domestic Product (NDP)

d) Net National Product (NNP)

Correct Answer: Option (b)

Explanation: Gross National Product (GNP) represents the total value of all final goods and services produced by the citizens of a country, regardless of their location. It includes the value of goods and services produced by a country's citizens abroad, but excludes the value of goods and services produced within the country by foreigners.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q66) In the classical theory of employment, which of the following is true?**

a) The economy is always at full employment equilibrium

b) The economy is always in a state of recession

c) The economy is always in a state of inflation

d) The economy can experience unemployment due to wage rigidity

Correct Answer: Option (a)

Explanation: According to the classical theory of employment, the economy is always at full employment equilibrium. This is because wages and prices are flexible and will adjust to ensure that the labour market clears. Option (b) and (c) are incorrect because the classical theory assumes that the economy will always tend towards equilibrium. Option (d) is incorrect because the classical theory assumes that wages and prices are flexible and will adjust to clear the labour market.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q67) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1FK7WYOe4-aBaMrAu5zwQuTbV\_tqUvO7p/view?usp=share\_link**](https://drive.google.com/file/d/1FK7WYOe4-aBaMrAu5zwQuTbV_tqUvO7p/view?usp=share_link) **)**

**TYPE: Audio**

**In macroeconomics, the term 'investment' refers to:**

a) Purchasing stocks and shares

b) Buying real estate

c) Spending money on consumer goods

d) Spending on capital goods

Correct Answer: Option (d)

Explanation: Investment, in macroeconomics, refers to the acquisition of physical capital assets such as machinery, equipment, and buildings, as well as financial assets such as stocks and bonds, with the purpose of generating income and creating wealth over the long term. It is a crucial component of economic growth and development.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q68) The marginal propensity to consume (MPC) is defined as:**

a) The change in consumption due to a change in income

b) The change in savings due to a change in investment

c) The change in investment due to a change in interest rates

d) The change in government spending due to a change in tax rates

Correct Answer: Option (a)

Explanation: The marginal propensity to consume (MPC) is defined as the change in consumption due to a change in income. It measures the increase in consumption for every additional unit of income earned.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q69) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1Z55u3Hqa5ywxMsfqnoBLroX9L8i0TnnH/view?usp=share\_link**](https://drive.google.com/file/d/1Z55u3Hqa5ywxMsfqnoBLroX9L8i0TnnH/view?usp=share_link) **)**

**TYPE: Audio**

**The multiplier effect refers to:**

a) The increase in consumption due to a decrease in interest rates

b) The decrease in investment due to an increase in taxes

c) The increase in income due to an increase in investment

d) The increase in income due to an increase in government spending

Correct Answer: Option (d)

Explanation: The multiplier effect refers to the increase in income due to an increase in government spending. When the government spends money, it creates income for the recipients of that spending, who in turn spend some of that income, creating more income, and so on.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q70) The aggregate demand curve shows the relationship between:**

a) The price level and the quantity of goods and services demanded

b) The interest rate and the quantity of goods and services demanded

c) The level of income and the level of consumption

d) The level of investment and the level of savings

Correct Answer: Option (a)

Explanation: The aggregate demand curve shows the relationship between the price level and the quantity of goods and services demanded in an economy. It represents the total spending in the economy at different price levels.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q71) The Phillips curve shows the relationship between:**

a) The unemployment rate and the inflation rate

b) The interest rate and the investment rate

c) The level of income and the level of consumption

d) The level of investment and the level of savings

Correct Answer: Option (a)

Explanation: The Phillips curve shows the relationship between the unemployment rate and the inflation rate. It suggests that there is a trade-off between these two variables, and that policies to reduce unemployment may lead to higher inflation, and vice versa.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q72) The term 'GDP' stands for:**

a) Gross Domestic Production

b) Gross Domestic Product

c) Gross Domestic Profit

d) Gross Domestic Price

Correct Answer: Option (b)

Explanation: Gross Domestic Product (GDP) is a key macroeconomic indicator that measures the monetary value of all final goods and services produced by all economic agents, including households, businesses, and government entities, within a country's borders in a given time period, typically a year.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q73) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1g7iZOEb1Aob-SxkyB1TG7Dogbcw-0xHL/view?usp=share\_link**](https://drive.google.com/file/d/1g7iZOEb1Aob-SxkyB1TG7Dogbcw-0xHL/view?usp=share_link) **)**

**TYPE: Audio**

**The circular flow of income model shows:**

a) The flow of goods and services only

b) The flow of money only

c) The flow of goods and services and money

d) The flow of resources only

Correct Answer: Option (c)

Explanation: The circular flow of income model shows the flow of goods and services as well as money in an economy. It illustrates how households and firms interact in markets for goods and services, and in markets for factors of production like labour and capital.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q74) Which of the following is an example of transfer payments?**

a) Wages paid to workers

b) Interest paid on a loan

c) Social security benefits

d) Rent paid for an office space

Correct Answer: Option (c)

Explanation: Transfer payments are payments made by the government to individuals or groups of individuals without any corresponding increase in production. Social security benefits are an example of transfer payments.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q75) The term 'inflation' refers to:**

a) A sustained decrease in the general level of prices

b) A sustained increase in the general level of prices

c) The rate of interest charged by banks

d) The rate of unemployment in an economy

Correct Answer: Option (b)

Explanation: Inflation refers to a sustained increase in the general level of prices of goods and services in an economy over time. It is usually measured as the rate of change in the Consumer Price Index (CPI).

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q76) Which of the following is an example of fiscal policy?**

a) The Federal Reserve lowering interest rates

b) The government increasing public investment

c) The government imposing a tariff on imports

d) The government providing loans to businesses

Correct Answer: Option (b)

Explanation: Fiscal policy refers to the use of government spending and taxation to influence the economy. The government increasing public investment is an example of fiscal policy. The other options are examples of monetary policy, trade policy, and industrial policy respectively.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q77) Which of the following is an example of a leakage in the circular flow of income?**

a) Firms investing in new equipment

b) Households spending money on goods and services

c) Firms paying wages to workers

d) Households saving money in a bank account

Correct Answer: Option (d)

Explanation: Leakages occur when income is removed from the circular flow of income, such as when households save money in a bank account or pay off debt. In contrast, injections occur when income is added to the circular flow, such as when firms invest in new equipment or the government spends money on infrastructure.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q78) The Keynesian theory of income and employment suggests that:**

a) The market will always self-correct to full employment

b) The economy can remain stuck in a recessionary gap

c) The government should not intervene in the economy

d) The economy will always self-adjust to its natural level of output

Correct Answer: Option (b)

Explanation: The Keynesian theory of income and employment suggests that the economy can remain stuck in a recessionary gap, where output is below its potential level and unemployment is high. This can happen when there is a lack of effective demand in the economy, which can be addressed through government spending and other forms of fiscal policy.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q79) Which of the following is a measure of the overall level of prices in an economy?**

a) Real GDP

b) Nominal GDP

c) Consumer Price Index

d) Unemployment rate

Correct Answer: Option c)

Explanation: The Consumer Price Index (CPI) is a measure of the overall level of prices in an economy. It tracks changes in the prices of a basket of goods and services over time, and is often used as a measure of inflation.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q80) Answer the following question with reference to the audio**

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**TYPE: Audio**

**The aggregate supply curve shows the relationship between:**

a) The price level and the level of aggregate demand

b) The price level and the level of aggregate supply

c) The level of output and the level of employment

d) The level of investment and the level of consumption

Correct Answer: Option (b)

Explanation: The aggregate supply curve shows the relationship between the price level and the level of aggregate supply in an economy. It is upward-sloping in the short run, as firms are willing to supply more output at higher prices, but becomes vertical in the long run, as the economy reaches its potential output level.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q81) Which of the following is an example of automatic stabilizers in fiscal policy?**

a) Cutting taxes during a recession

b) Increasing government spending on infrastructure

c) Expanding the money supply to lower interest rates

d) Unemployment insurance payments during a recession

Correct Answer: Option (d)

Explanation: Automatic stabilizers are features of the tax and transfer system that automatically stabilize the economy during a recession. Unemployment insurance payments are an example of automatic stabilizers, as they provide a source of income for workers who have lost their jobs and help to offset the decline in aggregate demand during a recession.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q82) The Phillips curve shows the relationship between:**

a) The level of output and the level of employment

b) The level of inflation and the level of unemployment

c) The level of investment and the level of consumption

d) The level of interest rates and the level of investment

Correct Answer: Option (b)

Explanation: The Phillips curve shows the inverse relationship between the level of inflation and the level of unemployment in an economy. It suggests that when unemployment is low, inflation tends to be high, and vice versa. The curve is named after economist A.W. Phillips, who first observed the relationship in the data for the UK economy.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q83) In an economy, the consumption function is given by C = 500 + 0.8Y and investment function by I = 1000. The equilibrium level of income will be:**

a) Rs. 1500

b) Rs. 2500

c) Rs. 3000

d) Rs. 3500

Correct Answer: Option c)

Explanation: Equilibrium level of income is the level of income where aggregate demand equals aggregate supply. At equilibrium, Y = C + I, where Y is income, C is consumption, and I is investment. Therefore, Y = 500 + 0.8Y + 1000, which implies 0.2Y = 1500 or Y = Rs. 3000.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Evaluate

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**Q84) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which of the following is not a component of aggregate demand?**

a) Consumption expenditure

b) Government expenditure

c) Net exports

d) Saving

Correct Answer: Option (d)

Explanation: Aggregate demand is the sum of consumption expenditure, investment expenditure, government expenditure, and net exports. Saving is not a component of aggregate demand but rather a leakage from the circular flow of income.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q85) In an economy, the marginal propensity to consume is 0.8. If the investment expenditure is Rs. 1000, then the equilibrium level of income will be:**

a) Rs. 2500

b) Rs. 3000

c) Rs. 4000

d) Rs. 5000

Correct Answer: Option (b)

Explanation: The equilibrium level of income is given by Y = (1/1-mpc) x I, where mpc is the marginal propensity to consume and I is the investment expenditure. Substituting mpc = 0.8 and I = Rs. 1000, we get Y = (1/0.2) x 1000 = Rs. 5000. However, this is the gross level of income. The equilibrium level of income is the net level of income, which is given by Y = C + I + G + NX, where C is consumption expenditure, G is government expenditure, and NX is net exports. We are not given these values, so we assume G and NX to be zero. Therefore, Y = C + I, which implies Y = (mpc/1-mpc) x (I + G + NX) + I. Substituting mpc = 0.8, I = Rs. 1000, G = 0, and NX = 0, we get Y = (0.8/0.2) x 1000 + 1000 = Rs. 5000. Therefore, the equilibrium level of income is Rs. 3000.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Evaluate

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**Q86) Which of the following is not a fiscal policy measure?**

a) Changes in government expenditure

b) Changes in taxes

c) Changes in interest rates

d) Changes in transfer payments

Correct Answer: Option (c)

Explanation: Fiscal policy refers to the use of government spending and taxation to influence the economy. Changes in government expenditure, taxes, and transfer payments are all fiscal policy measures. Changes in interest rates are a monetary policy measure.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q87) Which of the following is a measure of national income in India?**

a) Gross Domestic Product (GDP) at market prices

b) Gross National Product (GNP) at factor cost

c) Net National Product (NNP) at market prices

d) Net Domestic Product (NDP) at factor cost

Correct Answer: Option (a)

Explanation: National income refers to the sum of all the incomes earned by the factors of production in a country during a given period of time. In India, the measure of national income is Gross Domestic Product (GDP) at market prices, which measures the total value of all goods and services produced in the country during a given period.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q88) Which of the following is a part of aggregate demand?**

a) Savings

b) Exports

c) Transfer payments

d) Personal income taxes

Correct Answer: Option (b)

Explanation: Aggregate demand refers to the total demand for goods and services in an economy. It is made up of four components: consumption, investment, government spending, and net exports (exports minus imports).

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q89) In a closed economy with no government or foreign sector, which of the following equations represents the equilibrium condition for national income?**

a) Y = C + S

b) Y = C + I

c) Y = C + I + G

d) Y = C + I + NX

Correct Answer: Option (b)

Explanation: In a closed economy with no government or foreign sector, the equilibrium condition for national income is that total output (Y) must equal total spending, which is made up of consumption (C) and investment (I).

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Evaluate

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**Q90) Which of the following is a determinant of investment?**

a) Disposable income

b) Interest rates

c) Marginal propensity to consume

d) Transfer payments

Correct Answer: Option (b)

Explanation: Investment refers to the creation of new capital goods such as factories, machinery, and equipment. One of the main determinants of investment is the interest rate, as higher interest rates increase the cost of borrowing and make investment less attractive.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q91) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1r1NhXEiYKGLrEm9F7t9vE9dQfumJ9kmt/view?usp=share\_link**](https://drive.google.com/file/d/1r1NhXEiYKGLrEm9F7t9vE9dQfumJ9kmt/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following best describes the relationship between savings and investment in the economy?**

a) Savings and investment are always equal in the economy

b) Savings and investment are generally equal in the economy, but may differ in the short run

c) Savings and investment are generally not equal in the economy, but may be equal in the short run

d) Savings and investment are never equal in the economy

Correct Answer: Option (b)

Explanation: In the long run, savings and investment are equal in the economy, as savings are the source of funds for investment. However, in the short run, savings and investment may differ due to changes in interest rates, business expectations, or other factors that affect investment decisions.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q92) Which of the following is a measure of the rate of inflation?**

a) Gross Domestic Product (GDP)

b) Consumer Price Index (CPI)

c) Balance of Payments (BOP)

d) Unemployment rate

Correct Answer: Option (b)

Explanation: Inflation refers to the sustained increase in the general price level of goods and services over time. The Consumer Price Index (CPI) is a measure of the rate of inflation, as it tracks changes in the prices of a basket of consumer goods and services over time.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q93) Which of the following is an assumption of the classical theory of employment?**

a) The economy is always in a state of full employment

b) Wages and prices are perfectly flexible

c) Workers have perfect information about job opportunities

d) Government intervention is necessary to achieve full employment

Correct Answer: Option (b)

Explanation: Classical economic theory posits that wages and prices are flexible and adjust to ensure that markets clear and the economy always operates at full employment. Therefore, in the classical view, changes in demand or supply are absorbed by adjustments in prices and wages, leading to a self-correcting mechanism in the economy.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q94) Which of the following is not included in the national income accounting identity?**

a) Consumption

b) Investment

c) Government spending

d) Imports

Correct Answer: Option (d)

Explanation: The national income accounting identity is an equation that shows the relationship between the components of an economy's aggregate output. It includes consumption, investment, government spending, and exports, which are summed to arrive at Gross Domestic Product (GDP). However, imports are not included as they represent spending on goods and services produced outside the country.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q95) Which of the following is true about the multiplier effect?**

a) It refers to the increase in the money supply that results from fractional reserve banking

b) It refers to the increase in aggregate demand that results from an initial increase in spending

c) It refers to the decrease in economic output that results from government intervention in the economy

d) It refers to the decrease in the money supply that results from inflation

Correct Answer: Option (b)

Explanation: The multiplier effect is a concept in macroeconomics that explains how an initial increase in spending leads to a larger increase in aggregate demand and economic output. It arises from the interdependence of spending, income, and consumption in an economy.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q96) Answer the following question with reference to the audio**

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**TYPE: Audio**

**According to Keynesian theory, which of the following policies is most effective in stimulating aggregate demand?**

a) Decreasing taxes

b) Increasing government spending

c) Decreasing interest rates

d) Decreasing the money supply

Correct Answer: Option (b)

Explanation: Keynesian economic theory suggests that during a recession or economic downturn, increasing government spending is an effective policy tool for stimulating aggregate demand and promoting economic growth. This is because increased government spending leads to increased employment, income, and consumption, which in turn drives up demand for goods and services.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q97) Which of the following is a limitation of the Phillips curve?**

a) It assumes that the economy is always in a state of full employment

b) It assumes that inflation is always caused by excess aggregate demand

c) It assumes that wages and prices are perfectly flexible

d) It assumes that the relationship between inflation and unemployment is stable over time

Correct Answer: Option (d)

Explanation: The Phillips curve, which shows the inverse relationship between inflation and unemployment, has been criticized for assuming that this relationship is stable over time. In reality, the curve may shift or break down due to various economic factors such as changes in expectations, supply shocks, and policy interventions.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q98) Which of the following is an example of automatic stabilizers?**

a) Decreasing taxes during a recession

b) Increasing government spending during a recession

c) Increasing interest rates during an expansion

d) Increasing taxes during an expansion

Correct Answer: Option (a)

Explanation: Automatic stabilizers refer to government policies that automatically adjust to stabilize the economy. Decreasing taxes during a recession is an example of an automatic stabilizer. Therefore, option (a) is the correct answer.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q99) Which of the following is NOT a component of aggregate demand?**

a) Consumption expenditure

b) Investment expenditure

c) Government expenditure

d) Tax revenue

Correct answer: Option (d)

Explanation: Aggregate demand is the total demand for goods and services in an economy. It comprises consumption expenditure, investment expenditure, government expenditure, and net exports. Tax revenue is not a component of aggregate demand, as it is a source of government revenue rather than a component of spending.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q100) Which of the following is a characteristic of an inflationary gap?**

a) Actual output is less than potential output

b) Actual output is greater than potential output

c) The price level is rising

d) The price level is falling

Correct answer: Option (b)

Explanation: An inflationary gap occurs when actual output in an economy is greater than potential output, which means that the economy is operating beyond its full capacity. This often leads to an increase in the price level due to excess demand in the economy.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q101) Which of the following statements is not true about the Phillips Curve?**

a) It represents a negative relationship between inflation and unemployment.

b) It is named after the economist A.W. Phillips.

c) It is based on empirical observations from the UK in the 1950s.

d) It suggests that policymakers can use monetary policy to trade-off between inflation and unemployment.

Correct Answer: Option (d)

Explanation: The Phillips Curve does not suggest that policymakers can use monetary policy to trade-off between inflation and unemployment, as it represents a trade-off between inflation and unemployment that is inherent in the economy.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q102) According to the Keynesian theory of income and employment, which of the following policies would be most effective in increasing aggregate demand?**

a) Decreasing government spending

b) Decreasing taxes

c) Increasing interest rates

d) Increasing government spending

Correct Answer: Option (d)

Explanation: In Keynesian economic theory, increasing government spending is considered an effective way to boost aggregate demand and stimulate economic growth during a recession or downturn. This is because increased government spending leads to higher employment, income, and consumption, which in turn drives up demand for goods and services.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Remember

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**Q103) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which of the following is a limitation of fiscal policy?**

a) It can be implemented quickly and easily.

b) It is subject to political constraints and pressures.

c) It is not effective in stimulating the economy.

d) It is not affected by changes in the economy.

Correct Answer: Option (b)

Explanation: Fiscal policy, which involves government spending and taxation to achieve economic goals, is often constrained by political pressures and competing interests. Policymakers must navigate the demands of various interest groups, budgetary constraints, and public opinion to design effective and politically feasible policy solutions.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q104) Which of the following is a limitation of monetary policy?**

a) It is subject to political constraints and pressures.

b) It can be implemented quickly and easily.

c) It is not effective in stimulating the economy.

d) It is not affected by changes in the economy.

Correct Answer: Option (c)

Explanation: Monetary policy, which involves adjusting interest rates and the money supply to influence economic activity, may not be effective if interest rates are already low and businesses and consumers are not interested in borrowing more. In such situations, fiscal policy or other non-monetary policy tools may be more effective for stimulating economic growth.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q105) In the context of the Keynesian model of income and employment, which of the following is true?**

a) Equilibrium output can be below full employment output.

b) Equilibrium output is always equal to full employment output.

c) Equilibrium output is always above full employment output.

d) Equilibrium output is not affected by changes in aggregate demand.

Correct Answer: Option (a)

Explanation: According to Keynesian theory, equilibrium output can be below full employment output in situations where aggregate demand is insufficient to fully utilize the economy's productive capacity.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q106) Which of the following is a criticism of Keynesian economics?**

a) It assumes that markets are always efficient and self-correcting.

b) It overemphasizes the role of monetary policy in stabilizing the economy.

c) It ignores the long-term consequences of government intervention in the economy.

d) It assumes that prices and wages are always flexible and can adjust quickly to changes in demand.

Correct Answer: Option (c)

Explanation: One of the main criticisms of Keynesian economics is that it tends to focus on short-term economic stabilization and may ignore the long-term consequences of government intervention, such as inflation and debt accumulation. Critics argue that excessive government spending can lead to inflationary pressures, which erode the value of money and hurt economic growth in the long run.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q107) The Marginal Propensity to Save (MPS) is defined as:**

a) Change in savings / Change in consumption

b) Change in consumption / Change in savings

c) Total savings / Total consumption

d) Total consumption / Total savings

Correct Answer: Option (b)

Explanation: The marginal propensity to save (MPS) represents the proportion of an increase in income that is saved, and is calculated as the ratio of the change in savings to the change in income. It measures how much people tend to save as their income changes.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q108) Answer the following question with reference to the audio**

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**TYPE: Audio**

**According to Keynesian theory, in the short run, an increase in government spending will:**

a) Increase output and prices

b) Decrease output and prices

c) Increase output but decrease prices

d) Decrease output but increase prices

Correct Answer: Option (a)

Explanation: According to Keynesian theory, an increase in government spending can stimulate aggregate demand, leading to an increase in output and prices in the short run. This is because increased government spending can create jobs and increase consumer spending, leading to an increase in economic activity.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q109) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1kFrHzfxUef\_ui0Tx5NTpR7Eys9B-Z4Jc/view?usp=share\_link**](https://drive.google.com/file/d/1kFrHzfxUef_ui0Tx5NTpR7Eys9B-Z4Jc/view?usp=share_link) **)**

**TYPE: Audio**

**The aggregate supply curve in the short run is:**

a) Vertical

b) Horizontal

c) Upsloping

d) Downsloping

Correct Answer: Option (c)

Explanation: In the short run, the aggregate supply curve is upsloping, indicating that firms can increase output by using more labour and capital without having to significantly raise wages or prices. This is due to the presence of underutilized resources, such as unemployed labour and unused capital, which can be utilized to increase production without putting upward pressure on wages or prices.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q110) The multiplier effect is:**

a) The ratio of the change in income to the change in investment

b) The ratio of the change in investment to the change in income

c) The increase in income resulting from an increase in investment

d) The decrease in income resulting from a decrease in investment

Correct Answer: Option (c)

Explanation: The multiplier effect refers to the increase in income resulting from an increase in investment or government spending. It is the ratio of the change in income to the change in investment or spending.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q111) The concept of the Phillips curve relates to the trade-off between:**

a) Inflation and unemployment

b) Growth and inflation

c) Interest rates and inflation

d) Savings and investment

Correct Answer: Option (a)

Explanation: The Phillips curve is a graphical representation of the inverse relationship between inflation and unemployment. It suggests that there is a trade-off between these two variables, i.e., when unemployment is low, inflation tends to be high, and vice versa.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q112) The concept of the natural rate of unemployment refers to:**

a) The level of unemployment that prevails in the long run

b) The level of unemployment that prevails in the short run

c) The level of unemployment that is caused by frictional and structural factors

d) The level of unemployment that is caused by cyclical factors

Correct Answer: Option (c)

Explanation: The natural rate of unemployment is the level of unemployment that prevails in the long run when the economy is at full employment. It is determined by frictional and structural factors such as job search, mismatch between skills and job requirements, and changes in technology and demographics.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q113) Which of the following statements is true for the classical theory of employment?**

a) The market mechanism ensures full employment of labour

b) The aggregate supply curve is upward sloping

c) The level of output and employment is determined by the intersection of the aggregate demand and aggregate supply curves

d) The economy is always at full employment equilibrium

Correct Answer: Option (a)

Explanation: The classical theory of employment posits that in the long run, market forces such as flexible wages and prices would ensure full employment, and any temporary deviations from this equilibrium are automatically corrected through adjustments in prices and wages.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q114) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which of the following is a component of autonomous expenditure?**

a) Government expenditure

b) Net exports

c) Investment expenditure

d) All of the above

Correct Answer: Option (d)

Explanation: Autonomous expenditure is the sum of government expenditure, net exports, and investment expenditure. It does not depend on the level of income or output in the economy.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q115) In the Keynesian model, the equilibrium level of income is determined by the intersection of:**

a) Aggregate demand and aggregate supply

b) Marginal propensity to consume and marginal propensity to save

c) Investment demand and saving supply

d) Consumption demand and investment demand

Correct Answer: Option (b)

Explanation: In the Keynesian model, the equilibrium level of income is determined by the intersection of the consumption function and the 45-degree line, which represents the level of income where aggregate expenditure equals output. The consumption function is determined by the marginal propensity to consume and the marginal propensity to save.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q116) According to the Phillips curve, which of the following relationships holds in the short run?**

a) Inflation and unemployment are positively related

b) Inflation and unemployment are negatively related

c) Inflation and output are positively related

d) Inflation and output are negatively related

Correct Answer: Option (b)

Explanation: The Phillips curve shows the inverse relationship between unemployment and inflation in the short run. As unemployment falls, firms have to compete for workers, driving up wages and costs, leading to higher inflation.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q117) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1pyum9gFKOB08Xn4KjCaT0okh0cNg4nGY/view?usp=share\_link**](https://drive.google.com/file/d/1pyum9gFKOB08Xn4KjCaT0okh0cNg4nGY/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following policies is most likely to lead to an increase in the equilibrium level of income?**

a) An increase in the marginal propensity to save

b) A decrease in government expenditure

c) A decrease in taxes

d) An increase in the marginal propensity to consume

Correct Answer: Option (d)

Explanation: An increase in the marginal propensity to consume means that consumers will spend a larger fraction of their income, leading to a larger increase in aggregate demand for any given increase in autonomous expenditure. This will lead to a higher equilibrium level of income.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q118) Which of the following is a limitation of the Keynesian model of income determination?**

a) It assumes that prices are fixed in the short run

b) It does not consider the impact of supply-side factors on output and employment

c) It assumes that the economy is always operating below full employment

d) It does not consider the impact of international trade on output and employment

Correct Answer: Option (b)

Explanation: The Keynesian model focuses on demand-side factors that determine the level of output and employment in the economy, and does not consider the impact of supply-side factors such as changes in productivity or technological progress.

Thus, the correct answer is option (b).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Analyze

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**Q119) Which of the following is NOT an assumption of the classical theory of employment?**

a) Perfect competition in the labour market

b) Wages and prices are flexible

c) Government intervention in the economy

d) Real wage equals nominal wage

Correct Answer: Option (c)

Explanation: The classical theory of employment assumes perfect competition in the labour market, wages and prices are flexible, and real wage equals nominal wage. It does not assume government intervention in the economy.

Thus, the correct answer is option (c).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Analyze

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**Q120) According to the Keynesian theory of employment, which of the following can cause a recession?**

a) A decrease in aggregate demand

b) An increase in aggregate demand

c) An increase in aggregate supply

d) A decrease in aggregate supply

Correct Answer: Option (a)

Explanation: According to the Keynesian theory of employment, a decrease in aggregate demand can cause a recession by decreasing output and employment levels. An increase in aggregate demand can increase output and employment levels. An increase in aggregate supply would result in an increase in output and employment levels, and a decrease in aggregate supply would result in a decrease in output and employment levels.

Thus, the correct answer is option (b).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Analyze

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**Q121) Which of the following is not a function of money?**

a) Store of value

b) Medium of exchange

c) Unit of account

d) Stock of production

Correct answer: Option (d)

Explanation: Money plays a crucial role in the economy as it facilitates transactions, measures the value of goods and services, and stores purchasing power over time. However, it is not a factor of production that directly contributes to the production process.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q122) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which of the following is an example of narrow money?**

a) M1

b) M2

c) M3

d) M4

Correct answer: Option (a)

Explanation: M1 is a measure of the money supply that includes the most liquid forms of money, such as currency in circulation, demand deposits, and other types of checkable deposits that can be easily used for transactions.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q123) Which of the following is not a function of central banks?**

a) Regulating the money supply

b) Conducting monetary policy

c) Ensuring price stability

d) Issuing currency to the public

Correct answer: Option (d)

Explanation: Central banks usually issue currency to commercial banks, which then distribute it to the public. This indirect distribution is the most common way currency is issued in most countries.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q124) Which of the following is not a tool of monetary policy?**

a) Open market operations

b) Reserve requirements

c) Taxation

d) Discount rate

Correct answer: Option (c)

Explanation: Fiscal policy refers to changes in government spending and taxation, while monetary policy involves changes in interest rates and the money supply by central banks.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q125) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which of the following is not a type of deposit?**

a) Time deposit

b) Demand deposit

c) Certificate of deposit

d) Bond deposit

Correct answer: Option (d)

Explanation: A bond deposit, also known as a bond pledge, is not considered a traditional deposit because it involves a bond that has been pledged as collateral for a loan or other obligation. In this case, the bond serves as security for the lender in case of default by the borrower.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q126) Which of the following is not a function of commercial banks?**

a) Providing loans and advances

b) Accepting deposits

c) Issuing currency

d) Facilitating payments

Correct answer: Option (c)

Explanation: Commercial banks do not have the legal authority to create currency or coins; instead, they obtain currency from the central bank or other banks and distribute it to customers as part of their normal banking operations.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q127) Which among the following is a function of the Reserve Bank of India (RBI)?**

a) Issuing passports

b) Conducting elections

c) Regulating the supply of money

d) Maintaining law and order

Correct Answer: Option (c)

Explanation: The Reserve Bank of India (RBI) is responsible for regulating and supervising the financial system in India, and one of its primary functions is to formulate and implement monetary policies to control the supply of money in the economy, maintain price stability, and promote economic growth.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q128) Which among the following is not a tool of credit control used by the RBI?**

a) Open market operations

b) Cash reserve ratio

c) Income tax rates

d) Statutory liquidity ratio

Correct Answer: Option (c)

Explanation: Income tax rates are set by the government and are not a tool of credit control used by the RBI. In contrast, the RBI uses tools such as cash reserve ratio, statutory liquidity ratio, and repo rate to regulate credit in the economy.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q129) Which among the following is not a type of commercial bank?**

a) Public sector bank

b) Private sector bank

c) Cooperative bank

d) Government bank

Correct Answer: Option (d)

Explanation: "Government bank" is not a term used in the banking industry, and there is no such category. Public sector banks are owned by the government, but they are classified as separate entities from government banks, which do not exist.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q130) Which among the following is not a function of a commercial bank?**

a) Accepting deposits

b) Lending money

c) Issuing passports

d) Providing overdraft facilities

Correct Answer: Option (c)

Explanation: Commercial banks do not have the authority to issue passports, but they do engage in various functions such as accepting deposits, making loans, providing credit, and facilitating transactions.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q131) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which among the following is an example of a non-cash mode of payment?**

a) Cheque

b) Demand draft

c) Credit card

d) All of the above

Correct Answer: Option (d)

Explanation: Non-cash modes of payment refer to any payment method that does not involve the use of physical cash, such as electronic transfers, credit and debit cards, and mobile payments.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q132) Which among the following is a type of credit facility provided by banks?**

a) Savings account

b) Fixed deposit

c) Loan

d) None of the above

Correct Answer: Option (c)

Explanation: Loans are a type of credit facility provided by banks, where they lend money to customers at an interest rate. The other options are not credit facilities, but savings and investment options.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q133) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which of the following is not a function of money?**

a) Medium of exchange

b) Unit of account

c) Store of value

d) Price ceiling

Correct Answer: Option (d)

Explanation: Price ceiling is a tool used to regulate markets, while money serves as a medium of exchange and a store of value. A price ceiling can lead to shortages or surpluses, while money can be used for transactions, savings, and investment.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q134) Which of the following is a type of non-cash payment?**

a) Cash

b) Cheque

c) Credit card

d) Debit card

Correct Answer: Option (c)

Explanation: A credit card is a type of non-cash payment that allows the holder to borrow funds up to a certain limit to make purchases. The other options are all forms of cash or cash-like payments.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q135) Which of the following is true about the role of the Reserve Bank of India (RBI)?**

a) It is responsible for the fiscal policy of the country.

b) It is responsible for regulating the stock market.

c) It is responsible for the monetary policy of the country.

d) It is responsible for the administration of income tax.

Correct Answer: Option (c)

Explanation: The Reserve Bank of India is responsible for formulating and implementing the monetary policy of the country, which includes setting interest rates and managing the money supply. It is not responsible for fiscal policy or the administration of income tax. The Securities and Exchange Board of India (SEBI) is responsible for regulating the stock market.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q136) Which of the following is NOT a function of a commercial bank?**

a) Accepting deposits

b) Granting loans

c) Issuing currency notes

d) Providing insurance policies

Correct Answer: Option (d)

Explanation: Providing insurance policies is not a function of a commercial bank. Accepting deposits, granting loans, and issuing currency notes are among the primary functions of a commercial bank.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q137) Which of the following is NOT a type of deposit account?**

a) Savings account

b) Current account

c) Demat account

d) Equity account

Correct Answer: Option (d)

Explanation: Equity account refers to a type of financial account that reflects ownership in a company, while deposit accounts refer to accounts in which customers deposit money for safekeeping or earning interest. Examples of deposit accounts include savings accounts, current accounts, and fixed deposit accounts.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q138) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which of the following is NOT a function of the Reserve Bank of India (RBI)?**

a) Issuing currency notes

b) Regulating the money supply

c) Regulating the foreign exchange market

d) Granting loans to individuals

Correct Answer: Option (d)

Explanation: Granting loans to individuals is not a function of the Reserve Bank of India (RBI). Issuing currency notes, regulating the money supply, and regulating the foreign exchange market are among the primary functions of the RBI.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q139) Which of the following is NOT a tool used by the RBI to regulate the money supply?**

a) Open market operations

b) Reserve requirement ratio

c) Interest rate adjustments

d) Offering overdraft facilities to customers

Correct Answer: Option (d)

Explanation: Offering overdraft facilities to customers is not a tool used by the RBI to regulate the money supply. Open market operations, reserve requirement ratio, and interest rate adjustments are commonly used tools.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q140) Which of the following is NOT a source of income for commercial banks?**

a) Interest on loans

b) Fees for various services

c) Interest on deposits

d) Dividends from the government

Correct Answer: Option (d)

Explanation: Dividends from the government are not a source of income for commercial banks. Interest on loans, fees for various services, and interest on deposits are among the primary sources of income.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q141) Answer the following question with reference to the audio**

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**TYPE: Audio**

**Which of the following is NOT a type of credit card?**

a) Visa

b) Mastercard

c) American Express

d) Apple Pay

Correct Answer: Option (d)

Explanation: Apple Pay is a payment system that allows users to make payments using their Apple devices, such as iPhones and Apple Watches. It is not a credit card but rather a mobile payment and digital wallet service. In contrast, credit cards like Visa, Mastercard, and American Express are payment instruments issued by financial institutions that allow users to borrow funds to make purchases.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q142) What is the function of a Central Bank?**

a) To make profits

b) To regulate the flow of money and credit in the economy

c) To compete with other commercial banks

d) To provide loans to businesses

Correct Answer: Option (b)

Explanation: The central bank of a country is responsible for regulating the flow of money and credit in the economy. It implements monetary policy, sets interest rates, and manages the money supply. Its main objective is to maintain price stability and promote economic growth.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q143) Which of the following is a non-monetary asset?**

a) Gold

b) Currency

c) Government bonds

d) Bank deposits

Correct Answer: Option (a)

Explanation: Gold has been traditionally used as a store of value and a means of exchange before the emergence of paper currency. While it is not a medium of exchange, gold is still widely traded and can be bought and sold as an investment or a commodity. It is also considered a hedge against economic uncertainty and inflation.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q144) What is the difference between primary and secondary credit markets?**

a) Primary markets deal with new securities, while secondary markets deal with existing securities

b) Primary markets deal with short-term securities, while secondary markets deal with long-term securities

c) Primary markets deal with securities of private companies, while secondary markets deal with securities of public companies

d) Primary markets deal with high-risk securities, while secondary markets deal with low-risk securities

Correct Answer: Option (a)

Explanation: The primary market is where new securities are issued and sold for the first time, typically through an initial public offering (IPO). The secondary market, on the other hand, is where existing securities are bought and sold among investors.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q145) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1vcRkBO7Kwq1zD2G\_e2yhCmRCLPMz22Rz/view?usp=share\_link**](https://drive.google.com/file/d/1vcRkBO7Kwq1zD2G_e2yhCmRCLPMz22Rz/view?usp=share_link) **)**

**TYPE: Audio**

**What is the difference between nominal and real interest rates?**

a) Nominal interest rates include inflation, while real interest rates do not

b) Real interest rates include inflation, while nominal interest rates do not

c) Nominal interest rates are the same for all borrowers, while real interest rates vary depending on the borrower's creditworthiness

d) Real interest rates are fixed, while nominal interest rates fluctuate with market conditions

Correct Answer: Option (a)

Explanation: Nominal interest rates are the stated or advertised rates of interest on a loan or investment. Real interest rates, on the other hand, are adjusted for inflation and reflect the true cost of borrowing or the true return on an investment.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q146) What is the function of a commercial bank?**

a) To regulate the flow of money and credit in the economy

b) To provide loans to businesses

c) To make profits for its shareholders

d) To issue currency

Correct Answer: Option (b)

Explanation: A commercial bank is a financial institution that accepts deposits from customers and provides loans to businesses and individuals. Its main function is to provide credit to the economy and to facilitate the flow of money.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q147) What is the difference between a demand deposit and a time deposit?**

a) Demand deposits earn higher interest rates than time deposits

b) Time deposits have longer maturity periods than demand deposits

c) Time deposits can be withdrawn at any time, while demand deposits have a fixed maturity period

d) Demand deposits have a fixed interest rate, while time deposits have a variable interest rate

Correct Answer: Option (b)

Explanation: A demand deposit is a type of deposit account that allows the account holder to withdraw funds at any time without prior notice. A time deposit, also known as a certificate of deposit (CD), requires the account holder to deposit funds.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q148) Which of the following is not a function of the RBI?**

a) Regulating the money supply in the economy

b) Conducting monetary policy

c) Regulating the foreign exchange market

d) Collecting income tax

Correct Answer: Option (d)

Explanation: The Reserve Bank of India (RBI) is responsible for regulating the money supply in the economy, conducting monetary policy, and regulating the foreign exchange market. It is not responsible for collecting income tax, which is the responsibility of the Income Tax Department.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q149) Which of the following is a characteristic of commercial banks?**

a) They issue currency notes

b) They provide short-term loans

c) They are owned by the government

d) They lend only to the agricultural sector

Correct Answer: Option (b)

Explanation: Commercial banks are financial institutions that provide a wide range of financial services to individuals, businesses, and other organizations. One of their key functions is to provide short-term loans to customers. They do not issue currency notes, are not owned by the government, and lend to various sectors of the economy, not just agriculture.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q150) The fractional reserve system refers to:**

a) The system of issuing currency notes by the government

b) The system of holding only a fraction of deposits as reserves

c) The system of lending only to the agricultural sector

d) The system of regulating the foreign exchange market

Correct Answer: Option (b)

Explanation: The fractional reserve system is a banking system in which banks hold only a fraction of customer deposits as reserves and lend out the rest. This allows them to create money through the process of lending and borrowing. It is not related to the issuance of currency notes, lending only to the agricultural sector, or regulating the foreign exchange market.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q151) Which of the following is a measure of the money supply in the economy?**

a) Gross Domestic Product (GDP)

b) Consumer Price Index (CPI)

c) Broad Money (M3)

d) Foreign Exchange Reserves

Correct Answer: Option (c)

Explanation: Broad Money (M3) is a measure of the money supply in the economy that includes currency, demand deposits, and time deposits. It is a key indicator of the availability of money in the economy and is used by policymakers to make decisions about monetary policy. Gross Domestic Product (GDP) measures the total value of goods and services produced in an economy, while Consumer Price Index (CPI) measures the average price of a basket of goods and services consumed by households. Foreign Exchange Reserves refer to the foreign currency holdings of a country's central bank.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q152) Which of the following is an example of a non-bank financial institution?**

a) State Bank of India

b) ICICI Bank

c) Life Insurance Corporation (LIC)

d) HDFC Bank

Correct Answer: Option (c)

Explanation: Non-bank financial institutions are financial intermediaries that do not hold a banking license but offer financial services similar to banks. Life Insurance Corporation (LIC) is an example of a non-bank financial institution that provides life insurance, pension plans, and investment products. State Bank of India, ICICI Bank, and HDFC Bank are all examples of commercial banks.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q153) Which of the following is a tool of monetary policy used by the Reserve Bank of India (RBI)?**

a) Fiscal Policy

b) Exchange Rate Policy

c) Open Market Operations

d) Minimum Support Price

Correct Answer: Option (c)

Explanation: Open Market Operations refer to the buying and selling of government securities by the central bank in the open market. This tool is used by the RBI to influence the liquidity in the economy, and thereby regulate the money supply.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q154) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/11zaByKN0FqhcjRLhs-In9o-q2q4-\_p6k/view?usp=share\_link**](https://drive.google.com/file/d/11zaByKN0FqhcjRLhs-In9o-q2q4-_p6k/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is not a function of commercial banks?**

a) Accepting deposits

b) Granting loans and advances

c) Issuing currency notes

d) Providing investment advice

Correct Answer: Option (d)

Explanation: The primary functions of commercial banks include accepting deposits, granting loans and advances, and issuing currency notes. Providing investment advice is not a core function of commercial banks.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q155) What is the primary function of the Reserve Bank of India (RBI)?**

a) Printing and issuing currency notes

b) Regulating and supervising banks and other financial institutions

c) Collecting taxes on behalf of the government

d) Formulating monetary policy

Correct Answer: Option (b)

Explanation: The Reserve Bank of India is the central bank of the country and its primary function is to regulate and supervise banks and other financial institutions. It also formulates monetary policy, but this is not its primary function.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q156) Which of the following is not a characteristic of a commercial bank?**

a) Mobilizing savings

b) Providing short-term loans

c) Accepting deposits

d) Providing long-term loans

Correct Answer: Option (d)

Explanation: In addition to short-term loans and deposit services, commercial banks also offer various financial services, such as credit cards, foreign exchange, and investment products, to individuals and businesses. They play a crucial role in the economy by facilitating financial intermediation and promoting economic growth.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q157) Which of the following is not a type of deposit account offered by commercial banks?**

a) Savings account

b) Current account

c) Fixed deposit account

d) Credit card account

Correct Answer: Option (d)

Explanation: A credit card account is not a type of deposit account offered by commercial banks. It is a type of revolving credit account that allows customers to borrow money up to a certain limit.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q158) What is the difference between a demand deposit and a time deposit?**

a) A demand deposit earns interest while a time deposit does not

b) A time deposit has a fixed term while a demand deposit does not

c) A time deposit can be withdrawn at any time while a demand deposit cannot

d) A demand deposit has a fixed term while a time deposit does not

Correct Answer: Option (b)

Explanation: A demand deposit account allows customers to withdraw money at any time, while a time deposit account has a fixed term during which the customer cannot withdraw the money without incurring a penalty. Time deposits usually offer higher interest rates than demand deposits.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q159) Which of the following is an example of a non-bank financial institution?**

a) ICICI Bank

b) HDFC Bank

c) LIC Housing Finance Limited

d) Axis Bank

Correct Answer: Option (c)

Explanation: LIC Housing Finance Limited is a subsidiary of Life Insurance Corporation of India and primarily provides home loans to customers. While it is a financial institution, it does not have the full range of services provided by commercial banks, such as accepting deposits or issuing credit cards.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q160) Which of the following is not a feature of Money Market Instruments?**

a) Low Credit Risk

b) High Liquidity

c) Low Returns

d) Long Maturity Period

Correct Answer: Option (d)

Explanation: Money Market Instruments are short-term debt securities that are highly liquid and have a low credit risk. These instruments are typically issued by governments, financial institutions, and corporations and have a low maturity period, usually less than a year. Because of their low risk and high liquidity, they offer low returns compared to other investment options.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q161) What is the primary objective of the Reserve Bank of India?**

a) To regulate the issue of banknotes

b) To maintain price stability

c) To promote economic growth

d) To manage foreign exchange reserves

Correct Answer: Option (b)

Explanation: In addition to regulating monetary policy and maintaining price stability, the Reserve Bank of India also manages foreign exchange, supervises and regulates financial institutions, and promotes the development of the financial system in India.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q162) Which of the following is not a function of Banks?**

a) Providing Loans and Advances

b) Issuing Currency Notes

c) Accepting Deposits

d) Clearing and Settlement of Payment Transactions

Correct Answer: Option (b)

Explanation: The Reserve Bank of India is the sole authority for issuing currency notes in India. Commercial banks can obtain currency from the RBI, but they are not authorized to issue currency on their own.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q163) What is the Repo Rate?**

a) The rate at which banks can borrow money from the RBI

b) The rate at which the RBI lends money to banks

c) The rate at which banks lend money to their customers

d) The rate at which banks accept deposits from their customers

Correct Answer: Option (b)

Explanation: The Repo Rate is an important tool of monetary policy used by the Reserve Bank of India to regulate liquidity and inflation in the economy. It affects the interest rates offered by commercial banks to their customers and influences economic growth.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Remember

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**Q164) Which of the following is not a component of the Money Supply in India?**

a) M1

b) M2

c) M3

d) M4

Correct Answer: Option (d)

Explanation: In India, the Money Supply is measured by four components: M1, M2, and M3. M4 is not a commonly recognized component of the Money Supply, although some economists may use it to refer to a broader definition that includes non-monetary assets.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Remember

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**Q165) What is the difference between a Savings Account and a Current Account?**

a) Savings Account earns higher interest than Current Account

b) Current Account offers overdraft facility while Savings Account does not

c) Savings Account can be opened by individuals only, while Current Account can be opened by individuals and firms

d) Savings Account has no restriction on the number of transactions, while Current Account has a limit on the number of transactions

Correct Answer: Option (b)

Explanation: Current Accounts offer an overdraft facility, while Savings Accounts do not. Other differences include the interest rates, the target customer segments, and the number of transactions allowed.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q166) Which of the following is NOT a function of the Reserve Bank of India (RBI)?**

a) Regulating and supervising the financial system

b) Issuing currency notes and coins

c) Conducting monetary policy to achieve price stability

d) Providing loans to the public

Correct Answer: Option (d)

Explanation: The RBI does not provide loans to the public. Its main functions are to regulate and supervise the financial system, issue currency notes and coins, and conduct monetary policy to achieve price stability.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q167) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/154o7ZqcJRzCKCahSMEm91-TWuBOidrZP/view?usp=share\_link**](https://drive.google.com/file/d/154o7ZqcJRzCKCahSMEm91-TWuBOidrZP/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is an example of near money?**

a) Gold coins

b) Currency notes

c) Bank deposits

d) Bonds

Correct Answer: Option (c)

Explanation: Near money refers to highly liquid assets that are not cash, but can be quickly converted into cash, such as savings accounts, money market funds, and time deposits. These assets are considered near money because they are very liquid and can be used as a substitute for cash.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Remember

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**Q168) Which of the following is a characteristic of a commercial bank?**

a) It accepts deposits from the public

b) It is owned by the government

c) It provides long-term loans to businesses

d) It issues currency notes and coins

Correct Answer: Option (a)

Explanation: Commercial banks play a crucial role in the economy by providing a range of financial services such as accepting deposits, issuing loans, and facilitating transactions. They are profit-oriented institutions and are owned by private individuals, corporations, or groups.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q169 ) Which of the following is a function of the Securities and Exchange Board of India (SEBI)?**

a) Regulating the insurance sector

b) Regulating the stock market

c) Regulating the banking sector

d) Regulating the real estate sector

Correct Answer: Option (b)

Explanation: SEBI, the Securities and Exchange Board of India, is the regulator of the Indian securities market. Its functions include regulating stock exchanges, protecting investor interests, and overseeing intermediaries like brokers and mutual funds, among other responsibilities.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q170) Which of the following is a characteristic of a demand deposit account?**

a) It earns a high rate of interest

b) It requires a minimum balance to be maintained

c) It cannot be withdrawn by the account holder

d) It pays a fixed rate of interest

Correct Answer: Option (b)

Explanation: A demand deposit account, such as a checking account, typically requires a minimum balance to be maintained by the account holder. It may earn a low rate of interest or no interest at all.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q171) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1ojiDswNYx8oolInx7eYVc5Y5Lyk477N-/view?usp=share\_link**](https://drive.google.com/file/d/1ojiDswNYx8oolInx7eYVc5Y5Lyk477N-/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is an example of a non-bank financial institution?**

a) State Bank of India

b) Industrial Development Bank of India

c) Life Insurance Corporation of India

d) National Bank for Agriculture and Rural Development

Correct Answer: Option (c)

Explanation: Life Insurance Corporation of India is an example of a non-bank financial institution, which provides financial services such as insurance, pensions, and mutual funds, but does not accept deposits from the public like a bank.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Remember

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**Q172) In the context of commercial banking, which of the following is true about the term 'bank credit'?**

a) It refers to the loans taken by a bank from other financial institutions.

b) It refers to the sum total of all the deposits in a bank.

c) It refers to the loans and advances granted by a bank to its customers.

d) It refers to the interest earned by a bank on its investments.

Correct Answer: Option (c)

Explanation: Bank credit is a key function of commercial banks, through which they lend money to individuals and businesses for various purposes such as investment, consumption, and working capital. Banks earn interest on these loans and advances, which is a significant source of their revenue.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q173) In the context of the monetary policy of a country, what is the meaning of the term 'open market operations'?**

a) The purchase and sale of government securities by the central bank.

b) The exchange of foreign currency by the central bank.

c) The setting of interest rates by the government.

d) The regulation of the reserve requirements of commercial banks.

Correct Answer: Option (a)

Explanation: Open market operations is a monetary policy tool used by central banks to regulate the money supply in the economy. In open market operations, the central bank buys or sells government securities in the open market, thereby influencing the level of reserves in the banking system and ultimately the interest rates.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q174) Which of the following is a feature of a 'term loan'?**

a) It is a short-term loan provided by banks to their customers.

b) It is a loan that is repaid in a single instalment at the end of the loan term.

c) It is a loan that is granted for a fixed period of time and is repaid in instalments.

d) It is a loan that is granted without any collateral security.

Correct Answer: Option (c)

Explanation: A term loan is a type of loan that is provided for a specific duration of time and requires repayment in regular instalments. These loans may be secured or unsecured and are often used for major purchases, business expansion, or other long-term financial needs.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q175) In the context of commercial banks, what is the meaning of the term 'cash credit'?**

a) A loan that is granted against the security of fixed assets.

b) A loan that is granted for a specific purpose, such as the purchase of a car.

c) A loan that is granted against the security of stocks and shares.

d) A type of overdraft facility that is granted against the security of current assets.

Correct Answer: Option (d)

Explanation: Cash credit is a short-term loan facility that enables the borrower to withdraw funds from their account beyond the available balance, up to a certain limit. The loan is granted against the security of current assets like stock-in-trade, inventory, and receivables. The interest is charged only on the amount utilized by the borrower.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**176) Which of the following is a tool of the monetary policy of a country?**

a) Fiscal policy

b) Trade policy

c) Exchange rate policy

d) Reserve requirements

Correct Answer: Option (d)

Explanation: Reserve requirements are the minimum amount of funds that banks are required to hold as reserves, which can include cash, deposits with the central bank, and government securities. By adjusting these requirements, the central bank can influence the amount of money that banks have available for lending, which in turn affects the overall money supply in the economy.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q177) In the context of the money market, what is the meaning of the term 'commercial paper'?**

a) A type of currency that is issued by the central bank of a country.

b) A short-term promissory note issued by companies to raise funds.

c) A type of bank account that pays a higher rate of interest than a savings account.

d) A type of loan that is granted by banks to their customers.

Correct Answer: Option (b)

Explanation: Commercial paper is an unsecured, negotiable debt instrument issued by companies to investors, usually for a short-term period ranging from 1 to 364 days. It is a cost-effective way for companies to raise short-term funds without having to pledge any collateral.

Difficulty Level- Very Hard

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**178) Which of the following is not a function of the Reserve Bank of India (RBI)?**

a) Formulating and implementing monetary policy

b) Issuing and managing the currency in circulation

c) Providing loans to the government

d) Regulating and supervising the financial system

Correct Answer: Option (c)

Explanation: The Reserve Bank of India (RBI) is not authorized to provide loans to the government. Its primary functions include formulating and implementing monetary policy, issuing and managing the currency in circulation, and regulating and supervising the financial system.

Thus, the correct answer is option (c).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Understand

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**Q179) Answer the following question with reference to the audio**

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**TYPE: Audio**

**The quantity theory of money states that:**

a) The price level of goods and services is directly proportional to the money supply

b) The interest rate is directly proportional to the money supply

c) The money supply is directly proportional to the level of economic output

d) The velocity of money is directly proportional to the money supply

Correct Answer: Option (a)

Explanation: The quantity theory of money states that the price level of goods and services is directly proportional to the money supply. This theory suggests that changes in the money supply have a direct impact on inflation.

Thus, the correct answer is option (a).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Remember

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**Q180) Which of the following is not a characteristic of money?**

a) Divisibility

b) Durability

c) Limited availability

d) Portability

Correct Answer: Option (c)

Explanation: Limited availability is not a characteristic of money. Money should be widely available and easily accessible to facilitate transactions. The other characteristics of money include divisibility, durability, and portability.

Thus, the correct answer is option (c).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Understand

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**Q181) Which of the following is a component of Balance of Payments (BoP)?**

a) Current account

b) Savings account

c) Fixed deposit account

d) Credit card account

Correct Answer: Option (a)

Explanation: The current account is one of the three components of the Balance of Payments (BoP), which records a country's economic transactions with the rest of the world. It includes transactions related to the import and export of goods and services, income flows, and unilateral transfers, such as aid and gifts.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q182) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1WmOa7J0aawRo1Mr7iWi33PSXeqf3h2Pz/view?usp=share\_link**](https://drive.google.com/file/d/1WmOa7J0aawRo1Mr7iWi33PSXeqf3h2Pz/view?usp=share_link) **)**

**TYPE: Audio**

**Which exchange rate system allows the exchange rate to be determined by market forces?**

a) Fixed exchange rate system

b) Managed exchange rate system

c) Floating exchange rate system

d) Pegged exchange rate system

Correct Answer: Option (c)

Explanation: In a floating exchange rate system, the value of a country's currency is determined by the demand and supply in the foreign exchange market. The exchange rate fluctuates continuously due to changes in the market forces and is not subject to any fixed government or central bank intervention.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q183) Which of the following factors can lead to an increase in the exchange rate of a currency?**

a) Increase in inflation rate

b) Increase in imports

c) Decrease in exports

d) Decrease in interest rates

Correct Answer: Option (c)

Explanation: When a country's exports increase, there is a higher demand for its currency to pay for those exports, which in turn can cause an appreciation of its currency. This appreciation can increase the exchange rate, making imports cheaper and exports more expensive.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q184) Which of the following is a capital account transaction?**

a) Payment for import of goods

b) Payment for travel expenses

c) Investment in a foreign company

d) Remittance received from abroad

Correct Answer: Option (c)

Explanation: Capital account transactions refer to the movement of capital between countries, such as investments in foreign companies, foreign direct investments, and acquisition of real estate in a foreign country. These transactions have an impact on a country's balance of payments and exchange rate.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q185) Which exchange rate system involves the central bank intervening in the foreign exchange market to influence the exchange rate?**

a) Fixed exchange rate system

b) Managed exchange rate system

c) Floating exchange rate system

d) Pegged exchange rate system

Correct Answer: Option (b)

Explanation: In a managed exchange rate system, the central bank of a country can buy or sell foreign currency to stabilize the exchange rate. This can involve direct intervention in the market or setting certain policies and regulations that can influence the demand and supply of the currency in the market. The goal of a managed exchange rate system is to promote stability and avoid sudden fluctuations in the exchange rate.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q186) Which of the following is a unilateral transfer in the Balance of Payments?**

a) Payment for export of goods

b) Payment for import of services

c) Remittance received from abroad

d) Investment in a foreign company

Correct Answer: Option (c)

Explanation: A remittance received from abroad is a unilateral transfer in the Balance of Payments, which represents transfers of resources between residents and non-residents without any corresponding return.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q187) Which of the following is NOT a component of the Balance of Payments?**

a) Current account

b) Capital account

c) Reserve account

d) Financial account

Correct answer: Option (c)

Explanation: The Balance of Payments (BoP) is a record of all international transactions between a country and the rest of the world. The current account shows the flow of goods and services, income, and unilateral transfers, while the capital account shows the flow of capital. The financial account is a sub-component of the capital account, which includes the flow of financial assets and liabilities.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q188) Which of the following measures the value of a country's currency in terms of another country's currency?**

a) Balance of payments

b) Exchange rate

c) Capital account

d) Current account

Correct answer: Option (b)

Explanation: Exchange rate is the value of a currency in terms of another currency, which determines the cost of goods and services traded between countries. Exchange rates can fluctuate depending on various factors such as economic conditions, political events, and market sentiment.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q189) Which of the following leads to a decrease in the value of a country's currency?**

a) Increase in exports

b) Increase in imports

c) Increase in interest rates

d) Increase in GDP

Correct answer: Option (b)

Explanation: When a country imports more than it exports, it results in a trade deficit, which requires the country to buy more foreign currency to pay for the imports. This increased demand for foreign currency can lead to a decrease in the value of the country's currency relative to other currencies in the foreign exchange market.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q190) Which of the following is NOT a type of exchange rate system?**

a) Fixed exchange rate

b) Floating exchange rate

c) Managed exchange rate

d) Adjusted exchange rate

Correct answer: Option (d)

Explanation: There are primarily two types of exchange rate systems in the Indian economy: fixed exchange rate and floating exchange rate. A managed exchange rate is a variation of the fixed exchange rate system.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q191) Which of the following is a method used by central banks to control the exchange rate of their country's currency?**

a) Monetary policy

b) Fiscal policy

c) Trade policy

d) All of the above

Correct answer: Option (a)

Explanation: Central banks use monetary policy tools such as adjusting interest rates and the money supply to influence the value of their country's currency in relation to other currencies. Fiscal policy and trade policy may indirectly affect the exchange rate, but are not direct methods of controlling it.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q192) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1V-CQmkgN6tPvDVNYp6j1b4aDNRSk91MV/view?usp=share\_link**](https://drive.google.com/file/d/1V-CQmkgN6tPvDVNYp6j1b4aDNRSk91MV/view?usp=share_link) **)**

**TYPE: Audio**

**What is the meaning of balance of payments?**

a) It is the difference between exports and imports of a country

b) It is the difference between a country's savings and investments

c) It is the difference between government revenue and expenditure

d) It is the difference between a country's current account and capital account

Correct Answer: Option (d)

Explanation: The balance of payments (BoP) is a record of all financial transactions made between a country and the rest of the world. It is divided into two accounts - the current account and the capital account. The difference between the two accounts is known as the balance of payments.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q193) Answer the following question with reference to the audio**

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**TYPE: Audio**

**What is the exchange rate?**

a) The rate at which a country exports its goods and services

b) The rate at which a country imports goods and services

c) The rate at which a country's currency can be exchanged for another country's currency

d) The rate at which a country borrows money from the international market

Correct Answer: Option (c)

Explanation: The exchange rate represents the price of one currency in terms of another currency, reflecting the relative strength or weakness of the two economies. It can be influenced by various factors, including interest rates, inflation, political stability, and trade flows.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q194) What is the difference between fixed and floating exchange rates?**

a) Fixed exchange rates are determined by market forces while floating exchange rates are set by governments

b) Fixed exchange rates are determined by governments while floating exchange rates are set by market forces

c) Fixed exchange rates are set daily while floating exchange rates are set annually

d) Fixed exchange rates are used by developed countries while floating exchange rates are used by developing countries

Correct Answer: Option (b)

Explanation: Fixed exchange rates are set by governments while floating exchange rates are determined by market forces of supply and demand. Under a fixed exchange rate system, the central bank of a country intervenes in the foreign exchange market to maintain a specific exchange rate. Under a floating exchange rate system, the exchange rate is determined solely by market forces.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q195) What is meant by the current account of the balance of payments?**

a) It includes all transactions related to the purchase and sale of goods and services

b) It includes all transactions related to the purchase and sale of financial assets

c) It includes all transactions related to the movement of capital in and out of a country

d) It includes all transactions related to the payment of interest and dividends on foreign investments

Correct Answer: Option (a)

Explanation: The current account of the balance of payments includes all transactions related to the purchase and sale of goods and services. This includes exports and imports of goods, as well as income from services like tourism and transportation.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q196) Answer the following question with reference to the audio**

**(**[**https://drive.google.com/file/d/1e8OPHa1OuPK6ieff9n9t736xJASz2TrL/view?usp=share\_link**](https://drive.google.com/file/d/1e8OPHa1OuPK6ieff9n9t736xJASz2TrL/view?usp=share_link)**)**

**TYPE: Audio**

**What is meant by the capital account of the balance of payments?**

a) It includes all transactions related to the purchase and sale of goods and services

b) It includes all transactions related to the purchase and sale of financial assets

c) It includes all transactions related to the movement of capital in and out of a country

d) It includes all transactions related to the payment of interest and dividends on foreign investments

Correct Answer: Option (c)

Explanation: The capital account of the balance of payments includes all transactions related to the movement of capital in and out of a country. This includes foreign direct investment, portfolio investment, and other types of investment.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q197) The Balance of Payments (BoP) consists of which two accounts?**

a) Current Account and Capital Account

b) Financial Account and Capital Account

c) Current Account and Financial Account

d) Current Account and Reserve Account

Correct Answer: Option (a)

Explanation: The Balance of Payments consists of two accounts: Current Account and Capital Account. The Current Account records the inflows and outflows of goods and services, while the Capital Account records the inflows and outflows of capital.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q198) The exchange rate system in which the value of a currency is determined solely by the forces of supply and demand in the foreign exchange market is known as:**

a) Fixed Exchange Rate System

b) Managed Float Exchange Rate System

c) Free Float Exchange Rate System

d) Pegged Exchange Rate System

Correct Answer: Option (c)

Explanation: In a Free Float Exchange Rate System, the central bank does not intervene in the foreign exchange market to influence the exchange rate. The exchange rate is solely determined by market forces of supply and demand, and the currency value can fluctuate freely.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q199) Which of the following is not a tool used by the central bank to manage the exchange rate?**

a) Open Market Operations

b) Fiscal Policy

c) Foreign Exchange Reserves

d) Interest Rates

Correct Answer: Option (b)

Explanation: Fiscal Policy refers to the government's decisions about taxation and spending. It is not a tool used by the central bank to manage the exchange rate. The tools used by the central bank include Open Market Operations, Foreign Exchange Reserves, and Interest Rates.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q200) The term "Current Account Deficit" refers to:**

a) Excess of imports over exports

b) Excess of exports over imports

c) Excess of receipts over payments

d) Excess of payments over receipts

Correct Answer: Option (d)

Explanation: Current Account Deficit refers to the excess of payments over receipts in the Current Account. It indicates that a country is spending more on imports, foreign aid, and other payments than it is earning through exports, tourism, and other receipts.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q201) The exchange rate at which a currency is officially pegged by the government is known as:**

a) Fixed Exchange Rate

b) Managed Float Exchange Rate

c) Free Float Exchange Rate

d) Market Exchange Rate

Correct Answer: Option (a)

Explanation: In a Fixed Exchange Rate System, the exchange rate at which a currency is officially pegged by the government remains constant, and the central bank intervenes in the foreign exchange market to maintain the fixed exchange rate.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q202) The balance of payments account is divided into two categories, which are:**

a) Capital Account and Current Account

b) Goods Account and Services Account

c) Income Account and Transfer Account

d) Expenditure Account and Saving Account

Correct Answer: Option (a)

Explanation: The Capital Account and Current Account are the two main components of the Balance of Payments account. The Capital Account records transactions related to the transfer of capital, while the Current Account records transactions related to trade in goods and services, income flows, and unilateral transfers.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q203) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1spessh6XKtmCkqqTdUx0re3\_V4SpsDLy/view?usp=share\_link**](https://drive.google.com/file/d/1spessh6XKtmCkqqTdUx0re3_V4SpsDLy/view?usp=share_link) **)**

**TYPE: Audio**

**When a country's exchange rate appreciates, its goods become:**

a) More Expensive

b) Less Expensive

c) Unavailable

d) More Profitable

Correct Answer: Option (a)

Explanation: When a country's exchange rate appreciates, its currency becomes stronger relative to other currencies. This makes its goods more expensive when purchased with foreign currencies.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q204) The exchange rate system in which the exchange rate is determined by market forces of supply and demand is called:**

a) Fixed Exchange Rate System

b) Managed Float Exchange Rate System

c) Floating Exchange Rate System

d) Pegged Exchange Rate System

Correct Answer: Option (c)

Explanation: In a Floating Exchange Rate System, the central bank does not intervene in the foreign exchange market to influence the exchange rate. The exchange rate is free to fluctuate based on market forces, such as changes in trade flows and investment.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q205) In a country's balance of payments account, the capital account includes:**

a) Imports and Exports of Goods

b) Income from Abroad and Remittances

c) Short-term and Long-term Loans

d) Government Grants and Aid

Correct Answer: Option (c)

Explanation: In addition to the capital account, the balance of payments account includes the current account, which records the transactions related to imports and exports of goods and services, as well as income flows and unilateral transfers. Together, these two accounts reflect the overall economic transactions between a country and the rest of the world.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q206) If the exchange rate between two currencies is 1:2, it means that:**

a) One unit of currency A can buy two units of currency B

b) Two units of currency A can buy one unit of currency B

c) One unit of currency A can buy one-half unit of currency B

d) Two units of currency B can buy one unit of currency A

Correct Answer: Option (b)

Explanation: If the exchange rate between two currencies is expressed as 2:1, it means that one unit of currency B can buy two units of currency A. In this system, the value of a currency is determined by its demand in the foreign exchange market, and changes in the exchange rate can have a significant impact on a country's economy.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q207) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1JNnPc3gX3iUWKEN9FNWU17K4SGBn1MTE/view?usp=share\_link**](https://drive.google.com/file/d/1JNnPc3gX3iUWKEN9FNWU17K4SGBn1MTE/view?usp=share_link) **)**

**TYPE: Audio**

**The demand for a country's currency in the foreign exchange market is determined by:**

a) The country's interest rates and inflation rate

b) The country's balance of payments surplus or deficit

c) The country's government policies

d) The country's population size

Correct Answer: Option (b)

Explanation: The demand for a country's currency in the foreign exchange market is determined by factors such as the country's balance of payments surplus or deficit, economic growth, and political stability.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q208) Which of the following is a tool used by the central bank to control the exchange rate in a fixed exchange rate system?**

a) Open market operations

b) Fiscal policy

c) Interest rate adjustments

d) Currency devaluation

Correct Answer: Option (d)

Explanation: In addition to currency devaluation, a central bank may also use other tools, such as foreign exchange reserves, to maintain a fixed exchange rate. If the value of the country's currency becomes too high or too low, the central bank may buy or sell foreign currency to stabilize the exchange rate.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q209) Which of the following is not a component of the current account in the balance of payments account?**

a) Imports and exports of goods

b) Income from abroad

c) Remittances from citizens living abroad

d) Foreign direct investment

Correct Answer: Option (d)

Explanation: Foreign direct investment refers to an investment made by a company or individual in one country into a business located in another country. This type of investment is considered a component of the capital account, which tracks flows of capital between countries. It is distinct from the current account, which records transactions of goods and services, as well as transfers of income and payments.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q210) In a floating exchange rate system, the exchange rate is determined by:**

a) Market forces of supply and demand

b) Government intervention

c) The IMF

d) Currency pegs

Correct Answer: Option (a)

Explanation: In a floating exchange rate system, the value of a currency is not fixed and is determined by the market's supply and demand. This means that the exchange rate can fluctuate daily and can be influenced by a variety of economic and political factors. In this system, the central bank may intervene in the market to prevent excessive volatility, but ultimately the exchange rate is determined by market forces.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q211) Which of the following policies would a country adopt to correct a balance of payments deficit?**

a) Increasing government spending

b) Increasing interest rates

c) Devaluing the currency

d) Reducing taxes

Correct Answer: Option (c)

Explanation: Currency devaluation can help a country with a balance of payments deficit by making its exports more attractive to foreign buyers. This can improve the country's trade balance and reduce the deficit over time. However, it can also lead to inflationary pressures and higher import costs.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q212) A current account surplus implies that a country:**

a) Is exporting more than it is importing

b) Is borrowing more than it is lending

c) Has more capital inflows than outflows

d) Is spending more than it is earning

Correct Answer: Option (a)

Explanation: A devalued currency can also make it more expensive for a country to service its external debt denominated in foreign currency, which can exacerbate the financial difficulties of the country. Therefore, devaluation is not always the optimal solution for a country with a balance of payments deficit.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q213) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1RazPQvbdEiesLHq7ZliTXJQSkmNsctob/view?usp=share\_link**](https://drive.google.com/file/d/1RazPQvbdEiesLHq7ZliTXJQSkmNsctob/view?usp=share_link) **)**

**TYPE: Audio**

**The purchasing power parity theory suggests that:**

a) The exchange rate should reflect the relative price levels of two countries

b) The exchange rate should reflect the balance of payments position of a country

c) The exchange rate should be fixed by the central bank

d) The exchange rate should be determined by market forces of supply and demand

Correct Answer: Option (a)

Explanation: Under the purchasing power parity theory, if the price of goods and services in one country is higher than another country, the currency of the first country should depreciate to adjust for the difference and maintain parity. However, this theory has limitations in practice.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q214) Which of the following is a measure of a country's international competitiveness?**

a) Gross domestic product

b) Gross national product

c) Real exchange rate

d) Nominal exchange rate

Correct Answer: Option (c)

Explanation: A higher real exchange rate implies that a country's goods and services are more expensive compared to those of other countries, making it less competitive in international trade. A lower real exchange rate, on the other hand, implies greater competitiveness.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q215) What happens to the exchange rate if a country's interest rates rise relative to other countries?**

a) The exchange rate appreciates

b) The exchange rate depreciates

c) The exchange rate remains unchanged

d) The exchange rate becomes unpredictable

Correct Answer: Option (a)

Explanation: Higher interest rates can attract foreign investors seeking higher returns, leading to an increased demand for the currency. This can result in an appreciation of the exchange rate, which can make imports cheaper but exports less competitive.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q216) Which of the following is a component of the capital account in the balance of payments account?**

a) Imports and exports of goods

b) Income from abroad

c) Remittances from citizens living abroad

d) Foreign portfolio investment

Correct Answer: Option (d)

Explanation: Foreign portfolio investment refers to the purchase of stocks, bonds, and other financial assets in a country by foreign investors. This type of investment is recorded in the capital account, which also includes foreign direct investment and other capital flows.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q217) A country with a fixed exchange rate system may use which of the following tools to maintain its exchange rate?**

a) Currency devaluation

b) Interest rate adjustments

c) Government spending

d) Tax cuts

Correct Answer: Option (b)

Explanation: In a fixed exchange rate system, the value of a currency is fixed to another currency or a basket of currencies. To maintain the fixed exchange rate, the central bank may use interest rate adjustments to influence the demand for and supply of the currency in the foreign exchange market.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q218) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1UMO3HV\_cGD2PY1zO63MJ3GZIHSGHpplU/view?usp=share\_link**](https://drive.google.com/file/d/1UMO3HV_cGD2PY1zO63MJ3GZIHSGHpplU/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is a measure of a country's international competitiveness?**

a) Gross domestic product

b) Gross national product

c) Real exchange rate

d) Nominal exchange rate

Correct Answer: Option (c)

Explanation: A higher real exchange rate implies that a country's goods and services are more expensive compared to those of other countries, making it less competitive in international trade. A lower real exchange rate, on the other hand, implies greater competitiveness.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q219) What happens to the exchange rate if a country's interest rates rise relative to other countries?**

a) The exchange rate appreciates

b) The exchange rate depreciates

c) The exchange rate remains unchanged

d) The exchange rate becomes unpredictable

Correct Answer: Option (a)

Explanation: Higher interest rates can attract foreign investors seeking higher returns, leading to an increased demand for the currency. This can result in an appreciation of the exchange rate, which can make imports cheaper but exports less competitive.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q220) Which of the following is a component of the capital account in the balance of payments account?**

a) Imports and exports of goods

b) Income from abroad

c) Remittances from citizens living abroad

d) Foreign portfolio investment

Correct Answer: Option (d)

Explanation: Foreign portfolio investment refers to the purchase of stocks, bonds, and other financial assets in a country by foreign investors. This type of investment is recorded in the capital account, which also includes foreign direct investment and other capital flows.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q221) A country with a fixed exchange rate system may use which of the following tools to maintain its exchange rate?**

a) Currency devaluation

b) Interest rate adjustments

c) Government spending

d) Tax cuts

Correct Answer: Option (b)

Explanation: In a fixed exchange rate system, the value of a currency is fixed to another currency or a basket of currencies. To maintain the fixed exchange rate, the central bank may use interest rate adjustments to influence the demand for and supply of the currency in the foreign exchange market.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q222) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1c8E9e\_wXXuyEXaf7u0JFzLIUOhQ\_sviZ/view?usp=share\_link**](https://drive.google.com/file/d/1c8E9e_wXXuyEXaf7u0JFzLIUOhQ_sviZ/view?usp=share_link) **)**

**TYPE: Audio**

**What is the difference between a current account deficit and a capital account deficit?**

a) A current account deficit occurs when a country's imports exceed its exports, while a capital account deficit occurs when a country is investing more abroad than it is receiving in foreign investment.

b) A current account deficit occurs when a country is spending more than it is earning, while a capital account deficit occurs when a country's external debt is greater than its foreign exchange reserves.

c) A current account deficit occurs when a country's income from abroad is less than its income paid to foreign countries, while a capital account deficit occurs when a country is experiencing a net outflow of capital.

d) A current account deficit occurs when a country's exchange rate is overvalued, while a capital account deficit occurs when a country's exchange rate is undervalued.

Correct Answer: Option (a)

Explanation: A current account deficit occurs when a country's imports exceed its exports, while a capital account deficit occurs when a country is investing more abroad than it is receiving in foreign investment.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q223) Which of the following is a tool used by a central bank to manage the exchange rate in a floating exchange rate system?**

a) Currency pegs

b) Currency devaluation

c) Open market operations

d) Fiscal policy

Correct Answer: Option (c)

Explanation: In a floating exchange rate system, a central bank may use open market operations to manage the exchange rate by buying or selling domestic currency in the foreign exchange market.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q224) Which of the following is a factor that affects the demand for a country's currency in the foreign exchange market?**

a) Domestic interest rates

b) Foreign interest rates

c) Economic growth

d) All of the above

Correct Answer: Option (d)

Explanation: The demand for a country's currency in the foreign exchange market is affected by a variety of factors, including domestic interest rates, foreign interest rates, and economic growth.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q225) What is the relationship between a country's current account balance and its capital account balance?**

a) They are independent of each other.

b) They are always equal in magnitude but opposite in sign.

c) A surplus in one account can offset a deficit in the other account.

d) A country can have a surplus in one account and a deficit in the other account simultaneously.

Correct Answer: Option (c)

Explanation: A capital account surplus can represent an inflow of financial resources into a country, which can be used to finance a current account deficit resulting from a trade imbalance. However, relying on capital inflows can also lead to economic vulnerabilities.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q226) Which of the following is a policy tool used by a government to manage its exchange rate in a fixed exchange rate system?**

a) Open market operations

b) Fiscal policy

c) Monetary policy

d) Currency devaluation

Correct Answer: Option (d)

Explanation: A government may devalue its currency to increase the competitiveness of its exports, as cheaper currency makes its goods and services more attractive to foreign buyers. However, devaluation can also lead to inflation and other economic challenges.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q227) What is the difference between a currency board system and a fixed exchange rate system?**

a) In a currency board system, the central bank sets the exchange rate, while in a fixed exchange rate system, the exchange rate is determined by market forces.

b) In a currency board system, the central bank must hold foreign currency reserves equal to the amount of domestic currency in circulation, while in a fixed exchange rate system, there is no such requirement.

c) A currency board system is more flexible than a fixed exchange rate system.

d) A currency board system is more vulnerable to speculative attacks than a fixed exchange rate system.

Correct Answer: Option (b)

Explanation: In a currency board system, the central bank must hold foreign currency reserves equal to the amount of domestic currency in circulation, while in a fixed exchange rate system, there is no such requirement.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q228) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1pZklcrO1UKnlDOv7JdFut2Q6rowWMPq8/view?usp=share\_link**](https://drive.google.com/file/d/1pZklcrO1UKnlDOv7JdFut2Q6rowWMPq8/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is an example of a capital account transaction?**

a) Exporting goods to a foreign country

b) Importing goods from a foreign country

c) Investing in a foreign company

d) Receiving income from a foreign investment

Correct Answer: Option (c)

Explanation: Investing in a foreign company, whether through the purchase of stocks or other equity instruments, represents a capital account transaction. This type of investment is recorded in a country's balance of payments, which tracks all international transactions with non-residents.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q229) What is the difference between a currency depreciation and a currency devaluation?**

a) Currency depreciation is a natural process that occurs over time, while currency devaluation is a deliberate policy action taken by a government.

b) Currency depreciation occurs when the value of a currency falls due to market forces, while currency devaluation occurs when a government reduces the value of its currency in relation to other currencies.

c) Currency depreciation and currency devaluation are two terms that refer to the same thing.

d) Currency depreciation and currency devaluation are both policy tools used by a government to manage its exchange rate.

Correct Answer: Option (b)

Explanation: Currency depreciation occurs when the value of a currency falls due to market forces, while currency devaluation occurs when a government reduces the value of its currency in relation to other currencies.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q230) Which of the following is not a method of financing the balance of payments deficit?**

a) Increase in foreign liabilities

b) Devaluation of domestic currency

c) Reduction in imports

d) Increase in exports

Correct answer: Option (b)

Explanation: Devaluation of the domestic currency can make imports more expensive, leading to higher prices for goods and services. This can trigger inflation, reduce foreign investments, and diminish the demand for domestic currency in the foreign exchange market.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q231) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1yqmeOFHua47iVbk3Y0lRdXaTzq-h1UCR/view?usp=share\_link**](https://drive.google.com/file/d/1yqmeOFHua47iVbk3Y0lRdXaTzq-h1UCR/view?usp=share_link) **)**

**TYPE: Audio**

**What is the effect of a decrease in the foreign exchange rate on imports and exports of a country?**

a) Increase in imports, decrease in exports

b) Decrease in imports, increase in exports

c) Increase in both imports and exports

d) Decrease in both imports and exports

Correct answer: Option (b)

Explanation: A decrease in the foreign exchange rate makes the country's goods cheaper for foreign buyers, which can lead to an increase in exports. It also makes foreign goods relatively more expensive, which can lead to a decrease in imports.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q232) What is the relationship between the exchange rate and the current account balance?**

a) A higher exchange rate leads to a higher current account balance

b) A higher exchange rate leads to a lower current account balance

c) The exchange rate has no effect on the current account balance

d) The relationship between the exchange rate and the current account balance is uncertain

Correct answer: Option (b)

Explanation: A higher exchange rate makes a country's exports relatively more expensive and imports relatively cheaper, which can lead to a decrease in exports and an increase in imports, thus reducing the current account balance.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q233) What is the main difference between fixed and flexible exchange rate systems?**

a) In a fixed exchange rate system, the exchange rate is determined by market forces, while in a flexible exchange rate system, the exchange rate is set by the government.

b) In a fixed exchange rate system, the exchange rate is set by the government, while in a flexible exchange rate system, the exchange rate is determined by market forces.

c) Both fixed and flexible exchange rate systems are determined by market forces.

d) Both fixed and flexible exchange rate systems are set by the government.

Correct answer: Option (b)

Explanation: In a fixed exchange rate system, the government sets the exchange rate and intervenes in the market to maintain that rate. In a flexible exchange rate system, the exchange rate is determined by the market forces of supply and demand.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q234) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1vP6qIRVbU0TYRZy0zmxcQ2gFR6wr5Ugg/view?usp=share\_link**](https://drive.google.com/file/d/1vP6qIRVbU0TYRZy0zmxcQ2gFR6wr5Ugg/view?usp=share_link) **)**

**TYPE: Audio**

**What is the main function of the International Monetary Fund (IMF)?**

a) To promote free trade among member countries

b) To maintain fixed exchange rates among member countries

c) To provide loans to member countries experiencing balance of payments problems

d) To regulate the flow of capital among member countries

Correct answer: Option (c)

Explanation: The IMF's lending programs are designed to provide temporary financial assistance to member countries that are facing external imbalances or other economic challenges. The loans typically come with policy conditions aimed at restoring macroeconomic stability and promoting economic growth.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q235) Which of the following is not a motive for international capital movements?**

a) Portfolio motive

b) Speculative motive

c) Liquidity motive

d) Revenue motive

Correct Answer: Option (d)

Explanation: The correct option is (d) as revenue motive is not a motive for international capital movements. Portfolio motive, speculative motive, and liquidity motive are the three motives for international capital movements.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q236) Which of the following is not an element of the Balance of Payments (BOP)?**

a) Capital Account

b) Current Account

c) Financial Account

d) Fiscal Account

Correct Answer: Option (d)

Explanation: While the fiscal account is an important component of a country's overall economic performance, it is not included in the BOP. Instead, the BOP focuses on tracking international transactions, including trade in goods and services, capital flows, and financial investments between residents and non-residents.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Remember

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**Q237) Which of the following is not a determinant of exchange rate?**

a) Inflation rate

b) Interest rate

c) Political stability

d) Fiscal policy

Correct Answer: Option (d)

Explanation: While fiscal policy can have an impact on a country's overall economic performance, it is not a direct determinant of exchange rates. Instead, exchange rates are influenced by factors such as inflation, interest rates, political stability, and the balance of payments.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q238) Which of the following is not a function of the International Monetary Fund (IMF)?**

a) Promoting international monetary cooperation

b) Facilitating international trade

c) Promoting exchange rate stability

d) Providing long-term loans to member countries

Correct Answer: Option (b)

Explanation: Facilitating international trade is not a function of the International Monetary Fund (IMF). The IMF's functions include promoting international monetary cooperation, promoting exchange rate stability, providing financial assistance to member countries, and providing a forum for international monetary negotiations.

Thus, the correct answer is option (b).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Analyze

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**Q239) Which of the following is not a method of sterilization of foreign exchange intervention?**

a) Open market operations

b) Change in reserve requirements

c) Taxation

d) Capital controls

Correct Answer: Option (d)

Explanation: Capital controls are not a method of sterilization of foreign exchange intervention. The methods of sterilization include open market operations, change in reserve requirements, and taxation.

Thus, the correct answer is option (d).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Analyze

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**Q240) Which of the following is not a type of exchange rate regime?**

a) Fixed exchange rate

b) Floating exchange rate

c) Managed float exchange rate

d) Joint float exchange rate

Correct Answer: Option (d)

Explanation: Joint float exchange rate is not a type of exchange rate regime. The three types of exchange rate regimes are fixed exchange rate, floating exchange rate, and managed float exchange rate.

Thus, the correct answer is option (d).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Understand

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**Q241) Which of the following is not a type of tax?**

a) Income tax

b) Sales tax

c) Gift tax

d) Bankruptcy tax

Correct answer: Option (d)

Explanation: Bankruptcy tax is often misunderstood as a type of tax, but it is actually a fee charged by the government for filing for bankruptcy. This fee helps cover the administrative costs associated with processing bankruptcy cases.

Thus, the correct answer is option (d).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q242) What is the difference between direct and indirect taxes?**

a) Direct taxes are paid by the individual or organization on whom the tax is levied, while indirect taxes are passed on to the consumer.

b) Direct taxes are paid by the consumer, while indirect taxes are paid by the individual or organization on whom the tax is levied.

c) Direct taxes are levied on income, while indirect taxes are levied on goods and services.

d) There is no difference between direct and indirect taxes.

Correct answer: Option (a)

Explanation: Direct taxes are based on the ability to pay principle and are typically progressive in nature, meaning that those with higher incomes pay a larger percentage of their income in taxes. In contrast, indirect taxes are regressive, meaning that they take a larger percentage of income from lower-income individuals.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q243) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/184at99-Pq5Vga84y\_Y3Za3pwWYzJ24Vc/view?usp=share\_link**](https://drive.google.com/file/d/184at99-Pq5Vga84y_Y3Za3pwWYzJ24Vc/view?usp=share_link) **)**

**TYPE: Audio**

**Which of the following is an example of an indirect tax?**

a) Property tax

b) Excise tax

c) Estate tax

d) Gift tax

Correct answer: Option (b)

Explanation: Excise tax is typically used as a way to discourage the consumption of certain goods that are considered harmful to society, while also generating revenue for the government. The tax is typically included in the price of the goods and paid by the consumer at the point of sale.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q244) What is a fiscal deficit?**

a) The difference between a government's total revenue and total expenditure.

b) The difference between a government's direct taxes and indirect taxes.

c) The difference between a government's capital expenditure and revenue expenditure.

d) The difference between a government's current expenditure and capital expenditure.

Correct answer: Option (a)

Explanation: A fiscal deficit can lead to government borrowing and can increase a country's public debt. Governments often use various fiscal policies to address fiscal deficits, such as reducing government spending or increasing taxes.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q245) What is the difference between a progressive tax and a regressive tax?**

a) A progressive tax is a tax where the tax rate increases as the taxable amount increases, while a regressive tax is a tax where the tax rate decreases as the taxable amount increases.

b) A progressive tax is a tax where the tax rate decreases as the taxable amount increases, while a regressive tax is a tax where the tax rate increases as the taxable amount increases.

c) A progressive tax is a tax where the tax rate remains constant regardless of the taxable amount, while a regressive tax is a tax where the tax rate varies depending on the taxable amount.

d) There is no difference between a progressive tax and a regressive tax.

Correct answer: Option (a)

Explanation: In a progressive tax system, taxpayers with higher income levels are required to pay a higher percentage of their income in taxes, while in a regressive tax system, taxpayers with lower income levels pay a higher percentage of their income in taxes.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q246) Which of the following is a source of revenue for the government?**

a) Grants-in-aid from other countries

b) Sale of government bonds

c) Transfer payments to individuals

d) None of the above

Correct answer: Option (b)

Explanation: When the government sells bonds, it is essentially borrowing money from the public and promising to pay it back with interest. This allows the government to raise funds for various projects or to finance budget deficits.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q247) Which of the following is an example of a direct tax?**

a) Sales tax

b) Excise tax

c) Income tax

d) None of the above

Correct answer: Option (c)

Explanation: Direct taxes are considered to be progressive, as they are typically based on the taxpayer's ability to pay. Examples of direct taxes include income tax, property tax, and inheritance tax.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q248) Which of the following is a type of government expenditure?**

a) Dividends paid to shareholders

b) Interest paid on government debt

c) Salaries paid to private sector employees

d) All of the above

Correct answer: Option (b)

Explanation: In addition to interest payments on government debt, government expenditure can also include spending on education, healthcare, defense, infrastructure, and social welfare programs. The size and composition of government expenditure can have a significant impact on the economy and the fiscal health of the government.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q249) Which of the following is a characteristic of a regressive tax system?**

a) The tax rate increases as income increases

b) The tax rate decreases as income increases

c) The tax rate remains the same regardless of income

d) None of the above

Correct answer: Option (b)

Explanation: Regressive tax systems typically rely on taxes that are the same for everyone, such as sales taxes or flat taxes, without taking into account differences in income. As a result, lower-income individuals may bear a disproportionate burden of the tax, which can lead to increased economic inequality.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Understand

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**Q250) Which of the following is a type of transfer payment?**

a) Subsidies to businesses

b) Grants to state governments

c) Loans to individuals

d) None of the above

Correct answer: Option (b)

Explanation: Transfer payments are usually made to support individuals or groups who are in need of financial assistance, such as the elderly, disabled, and unemployed. They can also be used to provide subsidies to certain industries or regions, or to support research and development in specific areas.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q251) Which of the following is not a source of revenue for the government?**

a) Income Tax

b) Sales Tax

c) Education Tax

d) Excise Duty

Correct answer: Option (c)

Explanation: Governments around the world earn revenue through various taxes such as income tax, sales tax, excise duty, and customs duty, among others. While some countries may impose education tax, it is not a common source of revenue for the government, as education is often subsidized by the state.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q252) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1Elx4M8m4W3OZCGX1ErCwnF\_h6zJalRs5/view?usp=share\_link**](https://drive.google.com/file/d/1Elx4M8m4W3OZCGX1ErCwnF_h6zJalRs5/view?usp=share_link) **)**

**TYPE: Audio**

**Which type of tax is levied on income earned from salary or business?**

a) Income Tax

b) Property Tax

c) Sales Tax

d) Excise Duty

Correct answer: Option (a)

Explanation: Income tax is levied on income earned from various sources, such as salary or business income. Property tax is levied on property owned by an individual, sales tax is levied on goods and services sold, and excise duty is levied on the production of goods.

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q253) What is the tax levied on goods and services called?**

a) Income Tax

b) Sales Tax

c) Excise Duty

d) Custom Duty

Correct answer: Option (b)

Explanation: Sales tax is a common form of indirect tax that is imposed on the final consumer. The tax amount is added to the selling price of the product, and the seller is responsible for collecting and remitting the tax to the government. The rate of sales tax varies by jurisdiction and can be a fixed percentage or a variable amount depending on the product or service being taxed.

Thus, the correct answer is option (b).

Difficulty Level- Easy

Bloom’s Taxonomy- Remember

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**Q254) Which of the following is not a type of government expenditure?**

a) Capital Expenditure

b) Current Expenditure

c) Fiscal Expenditure

d) Development Expenditure

Correct answer: Option (c)

Explanation: Fiscal expenditure is not a commonly used term in public finance. The other options, such as capital expenditure, current expenditure, and development expenditure, are all types of government expenditure.

Thus, the correct answer is option (c).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q255) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/13w3haIocLKd0Zc0OEWdoo-Jti0CEl85S/view?usp=share\_link**](https://drive.google.com/file/d/13w3haIocLKd0Zc0OEWdoo-Jti0CEl85S/view?usp=share_link) **)**

**TYPE: Audio**

**What is the purpose of a budget in public finance?**

a) To allocate resources efficiently

b) To regulate the economy

c) To increase government revenue

d) To decrease government expenditure

Correct answer: Option (a)

Explanation: The purpose of a budget in public finance is to allocate resources efficiently and effectively to various sectors of the economy. It is not primarily used to regulate the economy, increase government

Thus, the correct answer is option (a).

Difficulty Level- Easy

Bloom’s Taxonomy- Analyze

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**Q256) Which of the following is not a source of revenue for the government?**

a) Direct taxes

b) Indirect taxes

c) Corporate taxes

d) All of the above

Correct answer: Option (d)

Explanation: All the options listed are sources of revenue for the government.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q257) Which among the following taxes is levied on the income of an individual or a firm?**

a) Sales Tax

b) Income Tax

c) Excise Duty

d) Customs Duty

Correct Answer: Option (b)

Explanation: Income tax is usually calculated as a percentage of the income earned, and the percentage may vary depending on the income level. In many countries, income tax is one of the main sources of government revenue, and it is used to fund various public programs and services.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q258) Which of the following is a source of revenue for the central government in India?**

a) Property Tax

b) Professional Tax

c) Corporate Tax

d) Entertainment Tax

Correct Answer: Option (c)

Explanation: Corporate tax is an essential source of revenue for the Indian government, accounting for a significant portion of the country's tax revenue. The tax rate varies based on the income level of the corporation or company, and the government uses the revenue to fund various programs and services.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q259) Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1V4YWnieSBlk0hxZFUVxk9hHjsf0OI1Gr/view?usp=share\_link**](https://drive.google.com/file/d/1V4YWnieSBlk0hxZFUVxk9hHjsf0OI1Gr/view?usp=share_link) **)**

**TYPE: Audio   
In which year was the Goods and Services Tax (GST) introduced in India?**

a) 2015

b) 2016

c) 2017

d) 2018

Correct Answer: Option (c)

Explanation: The GST replaced multiple indirect taxes, such as central excise duty, service tax, and value-added tax, and created a uniform tax structure for goods and services across the country. It is a consumption-based tax, with the revenue being shared between the central and state governments.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q260) Which of the following is an example of a regressive tax?**

a) Income Tax

b) Wealth Tax

c) Sales Tax

d) Property Tax

Correct Answer: Option (c)

Explanation: In a regressive tax system, the tax rate decreases as the taxable amount increases, which means that lower-income individuals end up paying a larger percentage of their income in taxes than higher-income individuals. Sales tax is a regressive tax because it places a greater burden on lower-income individuals who spend a larger proportion of their income on goods and services.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q261) What is the full form of FRBM Act?**

a) Fiscal Responsibility and Budget Management Act

b) Financial Responsibility and Budget Management Act

c) Fiscal Responsibility and Balance Management Act

d) Financial Responsibility and Balance Management Act

Correct Answer: Option (a)

Explanation: The FRBM Act set targets for the reduction of the fiscal deficit, elimination of revenue deficit, and stabilization of debt levels in India. It also mandated the creation of a Fiscal Responsibility and Budget Management Committee to review the government's fiscal performance and provide recommendations for improvement.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q262) Which of the following is an example of non-tax revenue for the government?**

a) Income Tax

b) Excise Duty

c) Customs Duty

d) Dividend Income

Correct Answer: Option (d)

Explanation: Dividend income is an example of non-tax revenue for the government as it is earned by the government from its investments in public sector undertakings and other companies, and is not collected as a tax from the taxpayers.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q263) Which of the following is not a component of the government budget?**

a) Revenue Budget

b) Capital Budget

c) Fiscal Budget

d) Public Account

Correct Answer: Option (c)

Explanation: Fiscal Budget is not a component of the government budget. The two main components of the government budget are Revenue Budget and Capital Budget, and Public Account is a part of government accounts.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q264) Which of the following is an example of automatic stabilizer in public finance?**

a) Unemployment benefits

b) Income tax

c) Corporate tax

d) Excise duty

Correct Answer: Option (a)

Explanation: Unemployment benefits are an example of an automatic stabilizer in public finance, as they automatically increase during an economic downturn, providing financial support to those who have lost their jobs and helping to stabilize the economy.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q265) Which of the following is a direct tax in India?**

a) Goods and Services Tax (GST)

b) Customs Duty

c) Corporate Tax

d) Excise Duty

Correct Answer: Option (c)

Explanation: Corporate tax is an important source of revenue for the Indian government, and the rate of corporate tax is determined based on the profits earned by the company or corporation. The current corporate tax rate in India is 25%.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q266) Which of the following statements about the Goods and Services Tax (GST) is true?**

a) GST is a direct tax.

b) GST is a value-added tax.

c) GST is levied by state governments only.

d) GST is applicable only on goods and not on services.

Correct Answer: Option (b)

Explanation: GST is a comprehensive indirect tax that is levied on the supply of goods and services. It is based on the principle of value-added tax, which means that the tax is levied on the value added at each stage of production and distribution. GST has replaced various indirect taxes such as excise duty, service tax, and value-added tax, among others. Option a is incorrect as GST is an indirect tax, not a direct tax. Option c is incorrect as GST is levied by both central and state governments. Option d is incorrect as GST is applicable to both goods and services. This question tests the student's understanding of the basic features of GST and its classification as a value-added tax.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q267) Which of the following is not a principle of taxation?**

a) Principle of Ability to Pay

b) Principle of Equitable Distribution of Burden

c) Principle of Convenience

d) Principle of Cheapness

Correct Answer: Option (d)

Explanation: Principle of Cheapness is not a principle of taxation. The three main principles of taxation are Principle of Ability to Pay, Principle of Equitable Distribution of Burden, and Principle of Convenience.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q268)Answer the following question with reference to the audio**

**(** [**https://drive.google.com/file/d/1Klx0d\_51T532TsbXMakLkO9hBbAPQX-R/view?usp=share\_link**](https://drive.google.com/file/d/1Klx0d_51T532TsbXMakLkO9hBbAPQX-R/view?usp=share_link) **)**

**TYPE: Audio**

**What is the difference between revenue deficit and fiscal deficit?**

a) Revenue deficit is the difference between revenue receipts and revenue expenditure, while fiscal deficit is the difference between total expenditure and total receipts.

b) Revenue deficit is the difference between revenue expenditure and capital expenditure, while fiscal deficit is the difference between revenue receipts and total expenditure.

c) Revenue deficit is the difference between revenue receipts and capital receipts, while fiscal deficit is the difference between total receipts and total expenditure.

d) Revenue deficit is the difference between revenue receipts and capital expenditure, while fiscal deficit is the difference between total expenditure and total receipts.

Correct Answer: Option (d)

Explanation: Revenue deficit and fiscal deficit are both important indicators of a government's financial health. While revenue deficit focuses on the shortfall between revenue receipts and revenue expenditure, fiscal deficit measures the shortfall between total expenditure and total receipts, including borrowings.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q269) What is the main objective of public debt management?**

a) To reduce the fiscal deficit of the government

b) To raise revenue for the government

c) To manage the government's borrowing requirements

d) To regulate the flow of money in the economy

Correct Answer: Option (c)

Explanation: The main objective of public debt management is to manage the government's borrowing requirements and ensure that the public debt remains sustainable and within manageable limits.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q270) Which of the following is not a component of the government budget?**

a) Revenue Budget

b) Capital Budget

c) Fiscal Budget

d) Public Account

Correct Answer: Option (c)

Explanation: Fiscal Budget is not a component of the government budget. The two main components of the government budget are Revenue Budget and Capital Budget, and Public Account is a part of government accounts.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q271) Which of the following is an example of automatic stabilizer in public finance?**

a) Unemployment benefits

b) Income tax

c) Corporate tax

d) Excise duty

Correct Answer: Option (a)

Explanation: Unemployment benefits are an example of an automatic stabilizer in public finance, as they automatically increase during an economic downturn, providing financial support to those who have lost their jobs and helping to stabilize the economy.

Thus, the correct answer is option (a).

Difficulty Level- Medium

Bloom’s Taxonomy- Understand

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**Q272) Which of the following is a direct tax in India?**

a) Goods and Services Tax (GST)

b) Customs Duty

c) Corporate Tax

d) Excise Duty

Correct Answer: Option (c)

Explanation: Corporate tax is an important source of revenue for the Indian government and is levied on both domestic and foreign companies operating in India. The corporate tax rate in India is determined by the Finance Act passed by the Indian Parliament every year.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q273) Which of the following is not a principle of taxation?**

a) Principle of Ability to Pay

b) Principle of Equitable Distribution of Burden

c) Principle of Convenience

d) Principle of Cheapness

Correct Answer: Option (d)

Explanation: The Principle of Cheapness is not a principle of taxation. Instead, the three main principles of taxation are the Principle of Ability to Pay, which states that those with higher incomes should pay a greater proportion of their income as tax, the Principle of Equitable Distribution of Burden, which states that the tax burden should be distributed fairly, and the Principle of Convenience, which suggests that the tax system should be easy to understand and comply with.

Thus, the correct answer is option (d).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q274) Which of the following is a source of revenue for the government?**

a) Increase in the price of goods

b) Decrease in the tax rates

c) Sale of government bonds

d) None of the above

Correct Answer: Option (c)

Explanation: When the government needs to borrow money, it can issue bonds that investors can buy. These bonds pay interest to the investors, which provides a source of revenue for the government. Government bonds are generally considered a safe investment, and they can be sold to individuals, banks, and other institutions.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q275) Which of the following is a direct tax?**

a) Sales tax

b) Excise duty

c) Income tax

d) None of the above

Correct Answer: Option (c)

Explanation: Direct taxes are taxes that are imposed and collected directly from taxpayers by the government, and income tax is a prime example of such taxes. In an income tax system, the tax liability of individuals or entities is determined based on the income they earn.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q276) What is the purpose of a tax?**

a) To increase the profits of companies

b) To generate revenue for the government

c) To decrease the prices of goods

d) None of the above

Correct Answer: Option (b)

Explanation: Taxes are an important source of revenue for governments around the world, used to fund public services such as healthcare, education, infrastructure, and defence. Taxes can also be used to promote social and economic policies by encouraging or discouraging certain behaviours, such as investing in renewable energy or reducing the use of tobacco products.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Remember

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**Q277) Which of the following is an example of progressive taxation?**

a) Flat tax

b) Sales tax

c) Income tax

d) None of the above

Correct Answer: Option (c)

Explanation: Progressive taxation is a system in which the tax rate increases as the income or wealth of the taxpayer increases. This means that higher-income individuals pay a higher percentage of their income in taxes than lower-income individuals. Income tax is one example of a progressive tax, which is designed to redistribute wealth and reduce income inequality.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q278) Which of the following is an example of regressive taxation?**

a) Flat tax

b) Sales tax

c) Income tax

d) None of the above

Correct Answer: Option (b)

Explanation: Regressive taxes, like sales tax, often place a greater burden on low-income individuals, as they have to spend a larger portion of their income on goods and services. This can lead to income inequality and exacerbate the financial challenges faced by those with limited resources.

Thus, the correct answer is option (b).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q279) Which of the following is an example of an indirect tax?**

a) Property tax

b) Corporate tax

c) Excise duty

d) None of the above

Correct Answer: Option (c)

Explanation: Indirect taxes, such as excise duty, are usually embedded in the price of goods and services, making the consumer pay the tax without directly being aware of it. This can result in a broader tax base and a more stable revenue stream for the government.

Thus, the correct answer is option (c).

Difficulty Level- Medium

Bloom’s Taxonomy- Analyze

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**Q280) What is the difference between direct and indirect taxes?**

a) Direct taxes are levied on goods and services, while indirect taxes are levied on individuals and businesses.

b) Direct taxes are progressive, while indirect taxes are regressive.

c) Direct taxes are paid directly to the government, while indirect taxes are paid through intermediaries.

d) None of the above.

Correct Answer: Option (c)

Explanation: Direct taxes are paid directly to the government by individuals or businesses, while indirect taxes are collected by intermediaries like retailers or manufacturers and ultimately passed on to the consumer.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q281) What is the purpose of a tax base?**

a) To determine the amount of revenue generated by a tax

b) To determine the individuals or entities that are subject to a tax

c) To determine the rate at which a tax is levied

d) None of the above

Correct Answer: Option (b)

Explanation: The tax base is the group of individuals or entities that are subject to a tax, and it is used to determine the scope of the tax. The amount of revenue generated by a tax and the rate at which it is levied depend on the tax base.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q282) What is the difference between a proportional tax and a progressive tax?**

a) Proportional taxes have a flat tax rate, while progressive taxes have a variable tax rate.

b) Proportional taxes are regressive, while progressive taxes are proportional.

c) Proportional taxes are based on income, while progressive taxes are based on consumption.

d) None of the above.

Correct Answer: Option (a)

Explanation: Proportional taxes are also known as a flat tax, where everyone pays the same percentage of their income in taxes. On the other hand, progressive taxes have higher tax rates for higher-income individuals and lower tax rates for lower-income individuals to ensure a fair distribution of the tax burden.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q283) What is the incidence of a tax?**

a) The amount of revenue generated by a tax

b) The burden of a tax on taxpayers

c) The rate at which a tax is levied

d) None of the above.

Correct Answer: Option (b)

Explanation: The incidence of a tax can fall on different parties, such as the producer, the consumer, or both, depending on the specific circumstances. In some cases, producers may pass on the tax to consumers in the form of higher prices, while in other cases, they may absorb the tax and accept lower profits.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q284) What is the difference between a tax credit and a tax deduction?**

a) Tax credits reduce the amount of tax owed, while tax deductions reduce taxable income.

b) Tax credits are only available to low-income taxpayers, while tax deductions are available to all taxpayers.

c) Tax credits are based on income, while tax deductions are based on expenditures.

d) None of the above.

Correct Answer: Option (a)

Explanation: Tax credits and tax deductions are two ways in which taxpayers can reduce their tax liability. Tax credits reduce the actual amount of tax owed, while tax deductions lower the taxable income of the taxpayer, ultimately reducing the amount of tax owed. Both tax credits and deductions can be subject to limitations and restrictions, and taxpayers should consult with a tax professional to ensure they are taking advantage of all available deductions and credits.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q285) What is the Laffer curve?**

a) A graph that shows the relationship between tax rates and tax revenue.

b) A graph that shows the relationship between government spending and economic growth.

c) A graph that shows the relationship between inflation and unemployment.

d) None of the above.

Correct Answer: Option (a)

Explanation: The Laffer curve was named after economist Arthur Laffer and gained prominence during the Reagan administration in the United States. It shows that when tax rates are too low, revenue is also low, but when tax rates are too high, revenue can decrease due to reduced economic activity and tax avoidance. The optimal tax rate that maximizes revenue is somewhere in between, and the curve helps policymakers determine the best tax rate for a given economy.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q286) What is the difference between a budget deficit and a national debt?**

a) A budget deficit occurs when government spending exceeds revenue, while a national debt is the total amount of money owed by the government.

b) A budget deficit is the total amount of money owed by the government, while a national debt occurs when government spending exceeds revenue.

c) A budget deficit is the difference between government revenue and government expenditures, while a national debt is the total amount of money owed by the government.

d) None of the above.

Correct Answer: Option (c)

Explanation: A budget deficit occurs when the government spends more than it earns in a specific period, typically a fiscal year, and has to borrow money to make up the difference. The national debt is the accumulation of all budget deficits over time, and it represents the total amount of money that the government owes to its creditors. The national debt can increase or decrease depending on the budget deficit or surplus in a given year.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q287) What is the difference between a public good and a private good?**

a) Public goods are provided by the government, while private goods are provided by the private sector.

b) Public goods are non-excludable and non-rival, while private goods are excludable and rival.

c) Public goods are financed by taxes, while private goods are financed by consumers.

d) None of the above.

Correct Answer: Option (b)

Explanation: Public goods are goods or services that are non-excludable and non-rival in consumption, meaning that they are available to all and one person's consumption does not reduce the amount available to others. Private goods, on the other hand, are excludable and rival, meaning that they can be withheld from those who do not pay and one person's consumption reduces the amount available to others.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q288) Which of the following is a progressive tax system?**

a) Flat tax

b) Regressive tax

c) Graduated tax

d) Value-added tax

Correct Answer: Option (c)

Explanation: A progressive tax system is often used to achieve the principle of ability to pay, which states that those with higher incomes should contribute a higher proportion of their income towards taxes. Graduated tax, also known as a tiered tax system, is a common example of a progressive tax system, where tax rates increase as the taxable amount increases.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q289) Which of the following is not a characteristic of a good tax system?**

a) Certainty

b) Elasticity

c) Simplicity

d) Complexity

Correct Answer: Option (d)

Explanation: A good tax system should have characteristics like certainty, elasticity, simplicity, equity, economy, flexibility, convenience, and productivity. Complexity is not a desirable characteristic of a good tax system.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q290) What is the difference between tax evasion and tax avoidance?**

a) Tax evasion is legal, while tax avoidance is illegal.

b) Tax evasion is the use of legal means to reduce taxes, while tax avoidance is the use of illegal means to reduce taxes.

c) Tax evasion is the intentional non-payment or underpayment of taxes, while tax avoidance is the legal use of tax laws to minimize taxes.

d) Tax evasion is the illegal use of tax laws to reduce taxes, while tax avoidance is the legal use of tax laws to minimize taxes.

Correct Answer: Option (c)

Explanation: Tax evasion involves intentional actions to deceive tax authorities, such as hiding income or claiming false deductions. It is considered a criminal offense and can result in fines, penalties, and even imprisonment. Tax avoidance, on the other hand, involves using legal methods to reduce tax liability, such as investing in tax-efficient financial products or deducting legitimate business expenses.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q291) Which of the following is not a source of revenue for the government?**

a) Taxation

b) Borrowing

c) Grants

d) Privatization

Correct Answer: Option (d)

Explanation: Privatization is a process by which the ownership and control of government-owned assets or services are transferred to private entities. While privatization may not be a direct source of revenue for the government, it can generate funds through the sale of assets or the transfer of ownership rights. Additionally, it can lead to increased efficiency and productivity in the private sector, which can result in long-term economic benefits for the government and the country as a whole.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q292) Which of the following is a fiscal policy measure to combat inflation?**

a) Increase in government spending

b) Decrease in government spending

c) Decrease in taxes

d) Increase in taxes

Correct Answer: Option (b)

Explanation: Fiscal policy measures are implemented by the government to influence the economy through changes in government spending and taxation. Another tool that can be used to combat inflation is monetary policy, which involves adjusting interest rates and the money supply. The effectiveness of these policies depends on various factors, including the state of the economy and the timing of implementation.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q293) What is the difference between direct and indirect taxes?**

a) Direct taxes are paid directly to the government, while indirect taxes are paid indirectly through a third party.

b) Direct taxes are proportional to income, while indirect taxes are not proportional to income.

c) Direct taxes are levied on goods and services, while indirect taxes are levied on income and property.

d) Direct taxes are progressive, while indirect taxes are regressive.

Correct Answer: Option (a)

Explanation: Direct taxes are paid directly to the government by the taxpayer, while indirect taxes are paid indirectly through a third party like a vendor or a retailer. Direct taxes include income tax, property tax, and wealth tax, while indirect taxes include goods and services tax (GST), customs duty, and excise duty.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q294) Which of the following is not a type of tax based on the time period?**

a) Income Tax

b) Property Tax

c) Excise Duty

d) Turnover Tax

Correct Answer: Option (b)

Explanation: Taxes levied on the basis of time period, such as income tax, excise duty, and turnover tax, are also known as transaction taxes, as they are imposed on specific transactions. Property tax, on the other hand, is a type of ad valorem tax that is levied on the value of the property, usually real estate.

Thus, the correct answer is option (b).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q295) Which of the following is not a feature of a progressive tax system?**

a) Tax rates increase as income increases

b) High-income taxpayers pay a higher percentage of their income in taxes

c) The tax burden is more evenly distributed across all income levels

d) The tax system is designed to reduce income inequality

Correct Answer: Option (c)

Explanation: In a progressive tax system, tax rates increase as income increases and high-income taxpayers pay a higher percentage of their income in taxes. The tax system is designed to reduce income inequality. However, the tax burden is not evenly distributed across all income levels as the principle of ability to pay suggests that individuals with higher income should bear a higher tax burden.

Thus, the correct answer is option (c).

Difficulty Level- Hard

Bloom’s Taxonomy- Analyze

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**Q296) Which of the following is not a criterion for an efficient tax system?**

a) Equity

b) Certainty

c) Convenience

d) Simplicity

Correct Answer: Option (a)

Explanation: An efficient tax system is one that can be easily administered, does not create undue compliance costs for taxpayers, and does not have unintended consequences such as discouraging work or investment. While equity is important to ensure that the tax system is fair and just, an efficient tax system should balance this with the need for simplicity and convenience for both taxpayers and the government.

Thus, the correct answer is option (a).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q297) Which of the following is not a method of deficit financing?**

a) Printing currency

b) Borrowing from the public

c) Borrowing from the central bank

d) Increasing taxes

Correct Answer: Option (d)

Explanation: Deficit financing is a method used by the government to finance its expenditures by borrowing money, which can lead to an increase in inflation and interest rates. Increasing taxes can help reduce the deficit but may also lead to a decrease in consumer spending and economic growth.

Thus, the correct answer is option (d).

Difficulty Level- Hard

Bloom’s Taxonomy- Understand

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**Q298) Which of the following is not a function of a budget?**

a) Allocation of resources

b) Determination of public revenue

c) Management of public debt

d) Provision of subsidies to private companies

Correct Answer: Option (d)

Explanation: A budget is a financial plan that outlines the government's expected revenue and expenditure for a given period. Its primary functions are to ensure efficient allocation of resources, determine the sources of public revenue, and manage the public debt. Providing subsidies to private companies falls outside the purview of budgeting.

Thus, the correct answer is option (d).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Analyze

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**Q299) Which of the following is not a type of direct tax?**

a) Income Tax

b) Capital Gains Tax

c) Corporate Tax

d) Excise Duty

Correct Answer: Option (d)

Explanation: Direct taxes are taxes that are levied on individuals or entities directly by the government. Income tax, capital gains tax, and corporate tax are all examples of direct taxes. Excise duty, on the other hand, is an indirect tax.

Thus, the correct answer is option (d).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Analyze

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**Q300) Which of the following is the main objective of Fiscal Policy?**

a) To stabilize the price level in the economy

b) To reduce unemployment rate in the economy

c) To increase the output and income level of the economy

d) To promote international trade and investment

Correct Answer: Option (c)

Explanation: The main objective of fiscal policy is to promote economic growth and development by influencing the level and composition of government spending, taxes, and borrowing. The policy aims to increase the output and income level of the economy, reduce inflation and maintain price stability.

Thus, the correct answer is option (d).

Difficulty Level- Very Hard

Bloom’s Taxonomy- Analyze

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