

BUSINESS ECONOMICS III - SEM 3

Objectives Question Bank

Module 1- Introduction

Q1. Select the correct answers from the alternatives provided and rewrite the statement.

1. The following is not a subject matter of macroeconomics:
[a] National income accounting [b] **Law of demand and supply**
[c] Business cycle [d] General price level

2. One of the major assumptions of the classical school is
[a] Lack of aggregate demand causes involuntary unemployment
[b] Government's fiscal operations can reduce unemployment
[c] Unemployment and inflation can exist together
[d] **Economy will be in full employment equilibrium in the long run**

3. Keynesian theory is not based on which of the following assumptions?
[a] **Supply creates its own demand**
[b] Market can fail
[c] Government intervention can reduce the impact of recession
[d] Aggregate demand determines national output

4. Which branch of macroeconomics specially focuses on the problems of developing economies?
[a] Development economics [b] **Public Finance**
[c] Monetary Economics [d] Trade Cycle Theory

5. Which of the following measurements indicate how national income is distributed?
[a] GDP [b] GNP
[c] **Per Capita Income** [d] NNP

6. The phenomenon of stagflation can be explained with which of the following macroeconomic theories?
[a] Keynesian demand –pull theory [b] **Supply-side cost-push theory**
[c] Classical theory [d] Monetarist theory

7. Which of the following is not one of limitations of macroeconomics?
[a] **Unable to study aggregate measurements pertaining to an economy**
[b] Models and theories are abstract and mathematical
[c] Does not account for micro-level differences
[d] prescribes policies that are too general to solve specific problems

8. Which of the following type of economy deals with the rest of the world?
 [a] Closed [b] **Open**
 [c] Only developed [d] Only developing
9. Which of the following economy is in equilibrium when investment is equal to saving?
 [a] **Closed** [b] Open
 [c] Developing [d] Developed
10. In which of the economy the leakages in the form of saving and taxes arise in the circular flow of income?
 [a] Two-sector [b] **Three-sector** [c] Open [d] One-sector
11. In a circular flow economy, firms supply
 [a] Labour [b] **Goods and services** [c] Land
12. In a three sector, we do not include income expenditure of
 [a] Government [b] **External sector** [c] Household
13. The four-sector circular flow economy does not include
 [a] World economy
 [b] Financial market
 [c] **Crude oil reserves in oil wells**
14. What is the total money value of final goods and services produced within the domestic territory of the country during a given year?
 [a] **GDP** [b] GNI [c] NNI [d] None of the above
15. What is the total money value of the goods and services produced by the nationals during a given year?
 [a] **GNI** [b] GDP [c] NDP [d] None of the above
16. Which of the following measures the real growth of the economy?
 [a] **GDP at constant prices** [b] GDP at current prices
 [c] NDP at current prices [d] GNI
17. Which of the following is the sum of all income actually received by the people in the country?
 [a] **Personal income** [b] National income
 [c] GDP [d] GNI
18. GNI in an open economy is equal to
 [a] $GDP + [X - M]$ [b] **$GDP + [X - M] + R - P$** [c] $GDP + [R - P]$
19. Price deflator helps us to work out national income at
 [a] **Constant price** [b] Current price [c] Future price

20. Which of the following formula is used to calculate GGDP?
 [a] GDP + Net factor income from abroad
 [b] GDP+C+I+G
 [c] GDP – Depreciation
 [d] **GDP- Net Natural Capital Consumption**
21. Which of the following will not result in increase in economic welfare when the national income increases?
 [a] Increase in subsidy spending by the government
 [b] **Increased production in the defence sector at the cost of other sectors**
 [c] Reduction in price level
 [d] Rational increase in taxes on the rich
22. Which of the following is not a drawback of GGDP?
 [a] **Provides an alternative to the conventional measures of the national income**
 [b] Cannot measure economic sustainability
 [c] Difficult to measure natural capital in terms of money
 [d] Not able to capture the economic welfare aspects of GDP
23. In which of the following phase the economy registers an upward trend in output, income and employment?
 [a] **Recovery** [b] Depression [c] Prosperity [d] Recession
24. In which of the following phase there is considerable fall in production, employment, income and investment?
 [a] Recession [b] **Depression** [c] Recovery [d] Prosperity
25. In which of the following phase, output, employment, income, etc. begin to decline?
 [a] **Recession** [b] Prosperity [c] Depression [d] Recovery
26. The recession phase of a trade cycle begins at
 [a] Trough [b] **Peak** [c] Midpoint of expansion
27. When economic variable move together in a predictable way, it is called
 [a] Cumulative [b] **Comovement** [c] Upward movement
28. During recession /depression public expenditure should
 [a] remain constant [b] decrease [c] **increase**
29. According to whom the equality between saving and investments cannot be brought about by changes in the rate of interest?
 [a] Classical economists [b] **J.M. Keynes** [c] J.B. Say [d] Pigou
31. According to which law the supply creates its own demand?
 [a] Keynes [b] **Say's** [c] Pigou's [d] Samuelson's

Q.2 State whether the following statements are true or false:

1. The circular flow of income explains the process that determines national income and national output simultaneously.
2. In a two-sector economy without savings, income will be equal to payments for goods and services.
3. In a two-sector economy with savings and investment, saving which is a leakage, gets injected back into the economy in the form of investment.
4. In a three-sector economy, leakages in the form of savings and taxes do not get injected back into the economy.
5. Under circular flow economy households supply factor service.
6. Under circular flow in a closed economy, there is inflow of foreign capital.
7. In the calculation of national income, no allowance should be made for depreciation.
8. There is no difference between GNI and GDP in the open economy.
9. There is no difference between NNI at factor cost and at market price.
10. National income estimates include value of intermediate goods and also of final good.
11. GDP includes income earned by nationals outside the country.
12. Personal income includes transfer payments.
13. National income data can be used to measure changes in price level.
14. It is very easy to calculate green GDP.
15. Growth of national income always results in increase in economic welfare.
16. Heavy taxes on the rich will always increase economic welfare.
17. The expansion is a period in which the level of economic activity is falling.
18. The contraction is a period in which the level of economic activity is falling.
19. A trade cycle is not periodic.
20. A depression is a period of high-economic activity.
21. During contraction period prices of goods and services increase.
22. Monetary policy is very effective to revive downward phase of a business cycle.
23. According to Say's Law, supply creates its own demand.
24. According to Pigou's, the flexibility of prices and wage rates will not rule out the possibility of unemployment.
25. According to Keynes wages are flexible downwards.

ANSWERS:

1. **TRUE**
2. **TRUE**
3. **TRUE**
4. **FALSE**
5. **TRUE**
6. **FALSE**
7. **FALSE**
8. **FALSE**
9. **TRUE**
10. **FALSE**
11. **FALSE**
12. **TRUE**

- 13. TRUE
- 14. FALSE
- 15. FALSE
- 16. FALSE
- 17. FALSE
- 18. TRUE
- 19. TRUE
- 20. FALSE
- 21. FALSE
- 22. FALSE
- 23. TRUE
- 24. FALSE
- 25. FALSE

Business Economics III - Dept. of Economics , Sheth NKTT College