

SHETH T.J. EDUCATION SOCIETY'S
SHETH NKTT COLLEGE OF COMMERCE AND SHETH JTT COLLEGE OF
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Multiple Choice Questions of Business Economics III

Module -1 -Introduction

1. ____ indicate how national income is distributed
 - a. GDP
 - b. GNP
 - c. PCI
 - d. NNP
2. ____ type of economy deals with rest of the world
 - a. Closed
 - b. Open
 - c. Only Developing
 - d. Only Developed
3. ____ type of economy is in equilibrium when investment is equal to savings
 - a. Closed
 - b. Open
 - c. Developing
 - d. Developed
4. In which type of economy leakages in the form of savings and taxes arise in the circular flow of income
 - a. Two sector
 - b. Three sector
 - c. Open
 - d. One sector
5. The four-sector circular flow economy does not include____
 - a. World economy
 - b. Financial market
 - c. Crude oil reserves
 - d. Export and import
6. ____ is the total money value of final goods and services produced with in the domestic territory of the country during a given year
 - a. GDP
 - b. GNP
 - c. NNI
 - d. None of the above
7. ____ measures the real growth of the economy
 - a. GDP at constant prices
 - b. GDP at current prices
 - c. NDP at current prices
 - d. GNI

8. Gross National Income in an open economy is equal to ____
 - a. $GDP + (X - M)$
 - b. $GDP + (X - M) + (R - P)$
 - c. $GDP + (R - P)$
 - d. $GDP + (M - X)$
9. ____ formula is used to calculate Green GDP
 - a. $GDP + \text{Net factor income from abroad}$
 - b. $GDP + C + I + G$
 - c. $GDP - \text{Depreciation}$
 - d. $GDP - \text{Net natural capital consumption}$
10. In ____ phase economy registers an upward trend in output, income and employment
 - a. Recovery
 - b. Depression
 - c. Recession
 - d. Prosperity
11. In ____ phase there is considerable fall in production, employment, income and investment
 - a. Recovery
 - b. Depression
 - c. Recession
 - d. Prosperity
12. In ____ phase output, employment, income etc begin to decline
 - a. Recovery
 - b. Depression
 - c. Recession
 - d. Prosperity
13. The recession phase of a trade cycle begins at ____
 - a. Through
 - b. Peak
 - c. Midpoint of expansion
 - d. Midpoint of contraction
14. According to J B Say, “ ____ creates its own demand”
 - a. Supply
 - b. Consumption
 - c. Investment
 - d. None of these
15. According to which law supply creates its own demand
 - a. Keynes’
 - b. Say’s
 - c. Pigou’s
 - d. Samuelson’s
16. According to ____ wages are non-flexible downwards
 - a. Keynes
 - b. Pigou
 - c. Say
 - d. Classical economists
17. In barter economy, according to say’s law Aggregate demand equals ____

- a. Price
 - b. Aggregate supply
 - c. Investment
 - d. None of these
18. According to Say's Law if there is any divergence between savings and investment , the equality is maintained through the flexibility of ____
- a. prices
 - b. wages
 - c. interest rate
 - d. exchange rate
19. Except ____ is the subject matter of macroeconomics
- a. National income accounting
 - b. Law of demand and supply
 - c. Business cycle
 - d. General price level
20. Macroeconomics is concerned with all except ____
- a. National income accounting
 - b. International trade
 - c. Inflation
 - d. Equilibrium of an individual firm
21. A closed economy is one in which ____
- a. There are only imports
 - b. There are only exports
 - c. There are neither exports nor imports
 - d. There is government expenditure and imports
22. National income is a ____ concept
- a. Flow
 - b. Stock
 - c. Both stock and flow
 - d. None of these
23. Green accounting can play a crucial role in the ____
- a. Sustainable development
 - b. Economic development
 - c. Rural development
 - d. Urban development
24. Green gross domestic product is an index of ____
- a. Loss of biodiversity
 - b. Cost of climate change
 - c. Environmental costs of economic activities
 - d. All of the above
25. Through is ____
- a. The lowest point of a business cycle
 - b. The highest point of a business cycle
 - c. The average point of a business cycle
 - d. The middle point of a business cycle
26. Recovery phase refers to the ____ turning point

- a. Upper
 - b. Lower
 - c. middle
 - d. horizontal
27. Say's law of market states that _____
- a. Demand creates its own supply
 - b. Supply creates its own demand
 - c. Demand is greater than supply
 - d. Supply is greater than demand
28. Full employment is a normal situation according to _____
- a. Multiplier theory
 - b. IS-LM Model
 - c. Say's Law of markets
 - d. None of these
29. Macro economics deals with _____
- a. Individual income
 - b. Individual output
 - c. Individual saving
 - d. General price level
30. _____ is a leakage from the circular flow of income and expenditure
- a. Taxes
 - b. Investment
 - c. Exports
 - d. Government expenditure
31. In a circular flow economy firms supply _____
- a. Labour
 - b. Land
 - c. Goods and services
 - d. Capital
32. _____ economy deals with rest of the world
- a. Closed economy
 - b. Open economy
 - c. 2 sector economy
 - d. 3 sector economy
33. _____ is the sum of all income actually received by the people in the country
- a. Personal income
 - b. GDP
 - c. National income
 - d. Gross national income
34. The classical theory of employment is propounded by _____
- a. Adam Smith
 - b. J.B.Say
 - c. J.S. Mill
 - d. Bo Soderstein
35. National income is the flow of goods and services produced in an economy in course of _____
- a. A year

- b. A month
 - c. Six months
 - d. Three months
36. The duration of a trade cycle varies from a minimum of ____
- a. 2 years to a maximum of 12 years
 - b. 2 years to a maximum of 14 years
 - c. 2 years to a maximum of 16 years
 - d. 2 years to a maximum of 18 years
37. ____ items are not included in GNP
- a. Buying and selling of securities, shares , bonds etc
 - b. Government transfer payments
 - c. Private transfer payments
 - d. Foreign residents income earned within country
38. ____ studies the economy as a whole
- a. Microeconomics
 - b. Macro economics
 - c. Theory of firm
 - d. Theory of households

Module- 2- Basic concepts of Keynesian economics

1. The point where Aggregate demand and Aggregate Supply curves intersect is called ____
- a. Total demand
 - b. Effective demand
 - c. Equilibrium demand
 - d. Non equilibrium demand
2. According to Keynes in order to increase employment we have to increase aggregate ____
- a. Supply
 - b. Output
 - c. Demand
 - d. Investment
3. ____ curve is a schedule of minimum amount of proceeds required to provide various levels of employment
- a. Aggregate supply
 - b. Aggregate supply
 - c. Employment
 - d. Total spending
4. Keynes' consumption function helps to invalidate
- a. Keynes' theory
 - b. Fisher's equation
 - c. Say's law
 - d. Employment theory
5. The MPS is the counterpart of ____
- a. APC

- b. MPC
 - c. APS
 - d. None of the above
6. According to Keynes, as income increases both MPC and APC ____
 - a. Rise
 - b. Fall
 - c. Remain constant
 - d. Is zero
 7. Investment will be in equilibrium when ____ becomes equal to given current rate of interest.
 - a. MEC
 - b. Profit
 - c. Savings
 - d. None of the above
 8. MEC curve ____
 - a. Slopes upwards
 - b. Slopes downwards
 - c. Remain constant
 - d. Does not change
 9. MEC refers to what type of return from an investment
 - a. Expected rate of return
 - b. Actual price
 - c. Expected rate of interest
 - d. Actual interest
 10. If a part of an increase in income is spent on imports the value of multiplier ____
 - a. Will be high
 - b. Will be low
 - c. Will not change
 - d. Will increase
 11. The value of multiplier is inversely related to ____
 - a. MPC
 - b. MPS
 - c. APC
 - d. APS
 12. In what way multiplier is relate to MPS
 - a. Directly related
 - b. Reciprocal of
 - c. Not related to
 - d. Equal to
 13. $\Delta Y = k \cdot$ ____
 - a. ΔC
 - b. ΔS
 - c. ΔI
 - d. None of these
 14. If $\Delta I = 1000$, $MPS = 1/5$, $\Delta Y =$ ____
 - a. 2000
 - b. 3000

- c. 5000
d. 10000
15. MPC = _____
a. $\Delta S / \Delta Y$
b. $\Delta C / \Delta Y$
c. $\Delta Y / \Delta S$
d. $\Delta Y / \Delta C$
16. _____ is a schedule representing costs involved at each possible level of employment
a. Aggregate demand function
b. Aggregate supply function
c. Both a and b
d. None of the above
17. _____ is a schedule representing the expectation of maximum receipts of the entrepreneurs at each possible level of employment
a. Aggregate demand function
b. Aggregate supply function
c. Effective demand
d. All of the above
18. According to Keynes, the level of employment is determined by the level of _____
a. Market demand
b. Market supply
c. Effective demand
d. None of these
19. After reaching full employment, the aggregate supply curve becomes _____
a. Horizontal straight line
b. Vertical straight line
c. Upward sloping
d. Downward sloping
20. According to Keynes in order to increase employment we have to increase aggregate _____
a. supply
b. Demand
c. Output
d. Investment
21. MPC is always _____
a. Positive but less than one
b. Positive but greater than one
c. Equal to one
d. None of these
22. When income increases consumption will increase in a _____ proportion.
a. Greater
b. Lesser
c. Constant
d. None of these
23. Investment will be in equilibrium when _____ becomes equal to the given current rate of interest
a. Marginal efficiency of capital

- b. Profits
 - c. Savings
 - d. None of these
24. Marginal efficiency of capital refers to the ____ of a capital asset.
- a. Expected rate of interest
 - b. Expected rate of profit
 - c. Both a and b
 - d. None of these
25. Investment Multiplier is ____ MPS
- a. Directly related to
 - b. A reciprocal of
 - c. Not related to
 - d. Equal to
26. Paradox of thrift was popularised by ____
- a. J M Keynes
 - b. David Ricardo
 - c. Samuelson
 - d. None of these
27. Higher the value of ____, higher will be the value of Multiplier.
- a. Average propensity to consume
 - b. Marginal propensity to consume
 - c. Average propensity to save
 - d. Marginal propensity to save
28. Investment will be in equilibrium when ____ becomes equal to given current rate of interest.
- a. MEC
 - b. Profit
 - c. Savings
 - d. None of the above
29. MEC refers to what type of return from an investment
- a. Expected rate of return
 - b. Actual profit
 - c. Expected rate of interest
 - d. None of the above
30. MPC is always ____
- e. Positive but less than one
 - f. Positive but greater than one
 - g. Equal to one
 - h. None of these
31. When income increases consumption will increase in a ____ proportion.
- e. Greater
 - f. Lesser
 - g. Constant
 - h. None of these
32. Investment will be in equilibrium when ____ becomes equal to the given current rate of interest
- e. Marginal efficiency of capital

- f. Profits
 - g. Savings
 - h. None of these
33. Marginal propensity to save is the counterpart of ____
- a. MPC
 - b. APC
 - c. APS
 - d. All of these
34. When income is equal to consumption, savings will be ____
- a. Positive
 - b. Negative
 - c. Zero
 - d. Infinity
35. MEC is influenced by ____
- a. supply price
 - b. Prospective yield
 - c. Prospective yield and supply price
 - d. Exchange rate
36. When $MEC > 1$, the effect will be ____
- a. Neutral
 - b. Favourable
 - c. Unfavourable
 - d. None of the above
37. MEC refers to ____
- a. Consumption
 - b. Savings
 - c. Expected rate of profit
 - d. Expected rate of interest
38. Investment will be in equilibrium when ____ become equal to the given current rate of interest.
- a. Marginal efficiency of capital
 - b. Profits
 - c. Savings
 - d. None of the above

Module- 3- Post Keynesian developments in Macro economics

1. ____ curve shows the goods market equilibrium
 - a. IS curve
 - b. AD curve
 - c. LM curve
 - d. AS curve
2. On which side of the following curve is excess supply in the goods market
 - a. Right side of IS Curve
 - b. Left side of IS Curve
 - c. Right side of LM Curve

- d. Left side of IS Curve
3. ____ of the following is the slope of the IS curve
 - a. Positive
 - b. Negative
 - c. Direct
 - d. None of the above
 4. ____ will shift IS curve to the left
 - a. increase in government expenditure
 - b. Decrease in government expenditure
 - c. increase in autonomous spending
 - d. none of these
 5. LM curve will shift to the right due to ____
 - a. increase in money supply
 - b. decrease in money supply
 - c. increase in rate of interest
 - d. decrease in government expenditure
 6. When IS and LM curve intersect ____ markets are in equilibrium
 - a. goods and capital
 - b. money and goods
 - c. money and foreign exchange
 - d. capital and foreign exchange
 7. In ____ case LM curve is horizontal
 - a. Classical case
 - b. Crowding out case
 - c. Liquidity trap
 - d. None of the above
 8. Phillips curve brings out trade- off between ____
 - a. wage and employment
 - b. inflation and unemployment
 - c. inflation and value of money
 - d. none of these
 9. In the long run Phillips curve is
 - a. Horizontal
 - b. Slopes upwards to the right
 - c. Vertical
 - d. Slopes downwards
 10. Stagflation results in ____
 - a. increase in price level
 - b. increase in supply of goods and services
 - c. increase in employment
 - d. none of these
 11. stagflation brings down ____
 - a. prices
 - b. employment
 - c. both prices and employment
 - d. none of these
 12. Supply side economics aims at increasing income by ____

- a. Reducing taxes
 - b. Reducing prices
 - c. increasing government's expenditure
 - d. none of these
13. A tax cut according to Milton Friedman
- a. Decreases prices
 - b. increases budgetary deficit
 - c. increases budgetary surplus
 - d. none of these
14. Laffer curve brings out the relationship between
- a. Price level and employment
 - b. tax revenue and marginal tax rate
 - c. Price level and investment
 - d. None of these
15. ____ are causes of stagflation
- a. Supply shock
 - b. Cost push
 - c. Both supply shock and cost push
 - d. Fall in cost
16. The IS curve shows the combinations of output and the real interest rate for which ____
- a. The goods market is in equilibrium
 - b. The labour market is in equilibrium
 - c. The foreign exchange market is in equilibrium
 - d. The financial asset market is in equilibrium
17. The LM curve will shift down when the ____
- a. Nominal money supply declines
 - b. Price level rises
 - c. Expected inflation declines
 - d. Real money demand declines
18. Which of the following will cause the IS curve to shift to the left
- a. Increase in government expenditure
 - b. Decrease in government expenditure
 - c. Increase in money supply
 - d. None of these
19. The natural rate of unemployment is termed as the ____
- a. Non-accelerating inflation rate of unemployment
 - b. Non-accelerating inflation rate of poverty
 - c. Accelerating rate of unemployment
 - d. All of these
20. In the long run, the Phillips curve is ____ line
- a. Vertical straight
 - b. Horizontal straight
 - c. Both a and b
 - d. None of these
21. ____ explains the relationship between unemployment rate and inflation rate.
- a. Engel curve

- b. Offer curve
 - c. Phillips curve
 - d. Demand curve
22. Stagflation occur when an economy experience_____
- a. High inflation
 - b. High unemployment
 - c. Low economic growth
 - d. All of the above
23. LM curve will shift to the left due to _____
- a. increase in money supply
 - b. decrease in money supply
 - c. increase in rate of taxes
 - d. decrease in government expenditure
24. The LM curve represents the equilibrium in the _____
- a. Goods market
 - b. Money market
 - c. Labour market
 - d. foreign market
25. Monetary policy operates through shifts in
- a. Demand curve
 - b. Supply curve
 - c. IS curve
 - d. LM curve
26. _____ of the following is the slope of the IS curve
- a. Positive
 - b. Negative
 - c. Direct
 - d. Horizontal
27. _____ will shift IS curve to the left
- a. increase in government expenditure
 - b. Decrease in government expenditure
 - c. increase in autonomous spending
 - d. decrease in taxes
28. The IS curve shows the combinations of output and the real interest rate for which _____
- a. The goods market is in equilibrium
 - b. The labour market is in equilibrium
 - c. The exchange rate market is in equilibrium
 - d. The financial asset market is in equilibrium
29. The IS curve represents _____
- a. The money market equilibrium
 - b. The goods market equilibrium
 - c. The labour market equilibrium
 - d. All of these
30. The IS curve is a _____
- a. Upward sloping curve
 - b. Parallel to Y axis

- c. Downward sloping curve
 - d. Parallel to X axis
31. IS-LM Model is a ____
 - a. Micro economic tool
 - b. Macroeconomic tool
 - c. Noneconomic tool
 - d. None of the above
 32. When the rate of inflation has no effect on rate of unemployment , then the rate of unemployment is called ____
 - a. Increasing rate of unemployment
 - b. Natural rate of unemployment
 - c. Decreasing rate of unemployment
 - d. Constant rate of unemployment
 33. ____ presented an empirical theory of inflation known as ‘ Phillips Curve’
 - a. J M Keynes
 - b. David Ricardo
 - c. Adam Smith
 - d. A W Phillips
 34. During Stagflation, an economy experiences ____
 - a. High inflation only
 - b. Low growth only
 - c. high inflation and Low growth
 - d. high growth rate
 35. The demand side factors of stagflation shift the aggregate demand curve to the ____
 - a. Left
 - b. Backward
 - c. Right
 - d. Same point
 36. The economists who stress on supply-side of market and supply management are called as ____
 - a. Supply -siders
 - b. Demand – siders
 - c. Price – siders
 - d. Output- siders

Module- 4- Money, Prices and Inflation

1. Traditional measure of money supply includes ____
 - a. Demand deposits and time deposits
 - b. Currency and time deposits
 - c. Currency and demand deposits
 - d. None of these
2. The main authors of broad money are
 - a. Marshall, J M Keynes, A C Pigou
 - b. Gurley-shaw, Milton Friedman, Radcliff committee
 - c. Paul Krugman, Irving fisher, Robertson
 - d. Adam Smith and David Ricardo

3. The value of money multiplier is determined by
 - a. Currency deposit ratio and time deposits
 - b. Currency deposit ratio and coins and notes
 - c. Currency deposit ratio and reserve ratio
 - d. Deposit currency ratio and time deposits
4. The Radcliff committee suggested that money supply should include
 - a. Liabilities of NBFIs
 - b. Time deposits
 - c. Funds lent by financial institutions
 - d. None of these
5. The broader measure of money supply adopted by the RBI is referred to as
 - a. Aggregate monetary resources
 - b. Aggregate monetary measurements
 - c. Aggregate money supply
 - d. Aggregate monetary ratios
6. The aggregate number of times a unit of money is used for making payments for final goods and services is known as
 - a. Transaction velocity
 - b. Monetary velocity
 - c. Income velocity
 - d. Growth velocity
7. The money multiplier is measured as
 - a. $mm = 1 + r / 1 + k$
 - b. $mm = 1 + r / r + k$
 - c. $mm = 1 + k / 1 + r$
 - d. $mm = 1 + k / r + k$
8. Which of the following is not true of excess reserves held by commercial banks
 - a. Banks statutorily hold them
 - b. They are determined by clearing drain and currency drain
 - c. They are voluntarily held by banks
 - d. They influence the money multiplier
9. Transactions demand for money is explained by
 - a. Neo-classical economists
 - b. Classical economists
 - c. Post-Keynesian economists
 - d. None of the above
10. Transaction motive is further sub-divided into
 - a. Speculative and precautionary
 - b. Profit and business
 - c. Income and business
 - d. None of the above
11. Demand for speculative motive is referred to as demand for
 - a. Active cash balance
 - b. Idle cash balance
 - c. Both active and idle cash balance
 - d. None of these
12. Demand for transaction and precautionary motive is interest

- a. Elastic
 - b. Inelastic
 - c. Unit elastic
 - d. None of these
13. According to Friedman, households demand money to have command over
- a. Property
 - b. Real goods and services
 - c. Future interest income
 - d. None of these
14. Which of the following is not true of liquidity trap
- a. It is a condition that takes place at a very low rate of interest
 - b. An increase in money supply would not affect the rate of interest
 - c. It represents perfectly elastic demand for liquidity
 - d. People prefer bonds instead of cash
15. The inverse relationship between the rate of interest and bond prices is due to
- a. High opportunity cost of holding money
 - b. Constant money supply
 - c. Inflation
 - d. All of these
16. The inverse of price level measures
- a. Inflation
 - b. Value of money
 - c. Deflation
 - d. Multiplier
17. Which of the following represents Fisher's equation
- a. $MV=PT$
 - b. $M= kPY$
 - c. $V=M/P$
 - d. $P=M/kT$
18. In Fisher's equation, which of the following is exogenously determined
- a. P
 - b. T
 - c. V
 - d. M
19. ___ first developed the Cambridge version of the quantity theory of money
- a. Adam Smith
 - b. J S Mill
 - c. Alfred Marshall
 - d. David Ricardo
20. Cambridge 'k' represents
- a. Velocity of circulation of money
 - b. Money supply
 - c. Average price
 - d. A proportion of real income held as cash balances
21. Which of the following is not true of the Cambridge version of quantity theory of money
- a. Considers store of value function of money

- b. Considers only transaction motive for holding money
 - c. Considers k as a constant
 - d. Considers M to be exogenously determined
22. Inflation is beneficial to _____
- a. Fixed income group
 - b. Business people
 - c. Creditors
 - d. None of these
23. In cost – push inflation the supply curve shifts to the
- a. Left
 - b. Right
 - c. Horizontally upward
 - d. Horizontally downward
24. During inflation
- a. Value of money increases
 - b. Value of money remains constant
 - c. Value of money declines
 - d. None of these
25. Government’s budgetary policy during inflation should aim at
- a. Increasing expenditure
 - b. Decreasing expenditure
 - c. Increase in investment
 - d. Lowering taxes
26. Inflation targeting helps to control
- a. Economic growth
 - b. Rate of interest
 - c. Both a and b
 - d. None of these
27. Transaction motive of liquidity preference is
- a. Interest elastic
 - b. Income inelastic
 - c. Interest inelastic
 - d. None of these
28. Precautionary demand for liquidity is determined by
- a. Rate of interest
 - b. Rate of inflation
 - c. Bond prices
 - d. Income
29. At a very low rate of interest liquidity preference curve becomes
- a. Perfectly inelastic
 - b. Perfectly elastic
 - c. Relatively inelastic
 - d. Relatively elastic
30. The quantity of money supply is determined by
- a. Demand and supply of money
 - b. Capital market
 - c. Money market

- d. Monetary authority
31. When Liquidity preference curve shifts downward, with no change in the Money supply curve
- Rate of interest will fall
 - Rate of interest will rise
 - Rate of interest will remain constant
 - Rate of interest will become zero
32. A rise in the interest rate can take place due to
- A downward shift in Liquidity preference curve, with no change in money supply
 - An upward shift in Liquidity preference curve, with no change in money supply
 - An increase in money supply with no change in Liquidity preference
 - None of the above
33. Which of the following is not true of excess reserves held by commercial banks
- Banks statutorily hold them
 - They are determined by clearing drain and currency drain
 - They are voluntarily held by banks
 - They influence the money multiplier
34. Which of the following represents Fisher's equation
- $MV=PT$
 - $M= kPY$
 - $V=M/P$
 - $P=M/kT$
35. When money supply is viewed at a point of time, it is a
- Stock of money
 - Flow concept
 - Liquid concept
 - None of the above
36. When money supply is viewed over a period of time, it is a
- Stock of money
 - Flow concept
 - Liquid concept
 - Solid concept
37. The Cash Reserve Ratio is determined by
- Commercial banks
 - The IMF
 - The central bank of a country
 - The WTO
38. Money supply will increase when there is _____
- Increase in CRR and SLR
 - Decrease in CRR and SLR
 - A surplus budget
 - A rise in public debt
39. A rise in the interest rate can take place due to
- A downward shift in Liquidity preference curve, with no change in money supply
 - An upward shift in Liquidity preference curve, with no change in money supply
 - An increase in money supply with no change in Liquidity preference

- d. An increase in money supply
40. The transactions demand for money is ____
- a. Interest – elastic
 - b. Income- elastic
 - c. Income-inelastic
 - d. None of the above
41. ____ is an important factor determining the precautionary demand for money.
- a. The uncertainty about future
 - b. The uncertainty about present
 - c. The certainty about future
 - d. The uncertainty about past
42. Speculative demand for money is said to be
- a. Interest – elastic
 - b. Income- elastic
 - c. Interest-inelastic
 - d. Income determined
43. Keynes's liquidity preference theory indicates that the demand for money is ____
- a. Constant
 - b. Negatively related to bond values
 - c. Positively related to interest rates
 - d. negatively related to interest rates
