

SAMPLE PAPER 6

Maximum Marks : 200

Time : 60 Minutes

General Instructions :

- (i) This paper consists of 50 MCQs, attempt any 40 out of 50
- (ii) Correct answer or the most appropriate answer: Five marks (+5)
- (iii) Any incorrect option marked will be given minus one mark (-1)
- (iv) Unanswered/Marked for Review will be given no mark (0)
- (v) If more than one option is found to be correct then Five marks (+5) will be awarded to only those who have marked any of the correct options
- (vi) If all options are found to be correct then Five marks (+5) will be awarded to all those who have attempted the question.
- (vii) Calculator / any electronic gadgets are not permitted.

1. Which of the following is a stock?
(1) Wealth (2) Savings
(3) Exports (4) Profits
2. Which of the following sources of receipts in government budget increases its liabilities?
(1) Direct taxes
(2) Recovery of loans
(3) Borrowings
(4) Dividend from public sector undertakings
3. Suppose a student has 2 hours in which he can only watch a movie or study. What is the opportunity cost of studying?
(1) Opportunity cost of studying is not watching a movie.
(2) Opportunity cost of studying is watching a movie.
(3) Opportunity cost of studying is partying with friends.
(4) There is no opportunity cost of studying.
4. Consumption depends on:
(1) Income (2) Saving
(3) Aggregate Demand (4) Both (1) and (2)
5. AR curve is a horizontal straight line, the MR curve will be:
(1) Downward sloping
(2) Horizontal straight line
(3) Upward sloping
(4) Inversely shaped
6. Which of the following statement is true about perfect competition?
(1) There are large number of buyers and sellers
(2) The firms sell differentiated products
(3) There is no free entry and exit.
(4) Each firms possesses imperfect knowledge
7. states that as the consumer will distribute his money income between the goods in such a way that the utility derived from the last rupee spent on each good is equal.
(1) Law of Equi-Marginal Utility
(2) Law of Diminishing Marginal Utility
(3) Both (1) and (2)
(4) Neither (1) nor (2)
8. The shape of supply curve is _____.
(1) Downward sloping (2) Upward sloping
(3) U-shaped (4) Inverse S-shaped
9. A firm is able to sell any quantity of a good at a given price. The firm's Marginal Revenue will be _____.
(1) More than average revenue
(2) Less than average revenue
(3) Equal to average revenue
(4) None of the above
10. In case of an under-employment equilibrium, which of the following alternatives is not true?
(1) Aggregate Demand is equal to Aggregate Supply.
(2) There exists excess production capacity in the economy.
(3) Resources are not fully and efficiently utilised.
(4) Resources are fully and efficiently utilised.
11. Equilibrium price falls and equilibrium quantity rises when:

- (1) Decrease in demand < Decrease in supply
- (2) Increase in demand = Increase in supply
- (3) Decrease in demand < Increase in supply
- (4) Decrease in demand = Increase in supply

12. Read the following statements and choose the correct alternative from the following:

Statement 1: The implication of price floor is that when the producers are not able to sell all they want to sell, they illegally sell the good at below the minimum price.

Statement 2: Government enters the market and buys the product. This way price support system works.

- (1) Both the statements are true.
- (2) Both the statements are false.
- (3) Statement 1 is true but statement 2 is false.
- (4) Statement 1 is false but statement 2 is true.

13. In case of _____ supply curve is a vertical straight line parallel to Y-axis.

- (1) Perfectly elastic (2) Unitary elastic
- (3) Perfectly inelastic (4) Less elastic

14. If in an economy the value of Net Factor Income from Abroad is ₹ 200 crores and the value of Factor Income to Abroad is ₹ 40 crores. Identify the value of Factor Income from Abroad:

- (1) ₹ 200 crores (2) ₹ 160 crores
- (3) ₹ 240 crores (4) ₹ 180 crores

15. Match the following items in Group A to that in Group B and choose the correctly matched pair.

Group A	Group B
(1) Assumption of Law of diminishing marginal utility	(a) Homogeneous units of commodity
(2) Assumption of Law of equimarginal utility	(b) Continuous consumption without any time lag
(3) Assumption of Law of diminishing total utility	(c) Standard units of commodity
(4) Assumptions of Law of diminishing utility	(d) No change in tastes, preferences, or income of the consumer

- (1) 1 – (a) (2) 2 – (b)
- (3) 3 – (c) (4) 4 – (d)

16. If quantity supplied increases by 60% due to a 50% increase in price, then elasticity of supply is:

- (1) (–) 1.2 (2) (+) 1.2
- (3) (–) 0.83 (4) (+) 0.83

17. Where will sale of machinery to abroad be recorded in the balance of payment accounts?

- (1) Positive side (credit items).
- (2) Negative side (debit items).
- (3) Both (1) and (2)
- (4) None of these

18. Borrowing in government budget is:

- (1) Revenue deficit. (2) Fiscal deficit
- (3) Primary deficit (4) Deficit in taxes.

19. Which of the following statements is not correct regarding Excess Demand?

- (1) Excess Demand raises the market value of output.
- (2) Excess Demand means Aggregate Demand is more than Aggregate Supply.
- (3) Excess Demand is caused due to reduction in the public expenditure.
- (4) Excess Demand is the result of decline in exports.

20. The balance of trade shows a deficit of ₹5,000 crores and the value of imports are ₹9,000 crores. What is the value of exports?

- (1) ₹5,000 crores (2) ₹4,000 crores
- (3) ₹3,000 crores (4) ₹1,000 crores

21. Indifference curve are convex to the origin because of:

- (1) Increasing MRS
- (2) Diminishing MRS
- (3) Law of diminishing MU
- (4) Law of equi-marginal utility

22. Identify the correctly matched pair of items in Column A to those in Column B:

Column A	Column B
1. Income Tax	(a) Forced Transfer
2. Services of Housewives	(b) Market Activities
3. Retirement Pension	(c) Taxable for Firm
4. Annual value of goods and services produced	(d) Income method

- (1) 1 – (a) (2) 2 – (b)
- (3) 3 – (c) (4) 4 – (d)

23. If the price of good X rises and it leads to an increase in demand for good Y, both are goods.

- (1) Substitutes (2) Complementary
- (3) Normal (4) Inferior

24. Which of the following statement is true:

- (1) Marginal Product refers to total output produced by a firm during a given period of time with given number of inputs.
- (2) Average Product refers to total output produced by a firm during a given period of time with given number of inputs.
- (3) Total Product refers to total output produced by a firm during a given period of time with given number of inputs.
- (4) Total Product refers to total input produced by a firm during a given period of time with given number of output.

25. We say that there is a decrease in demand when:

- (1) Fall in demand, with same price.
- (2) Fall in demand, with decrease in price.
- (3) Fall in demand, with increase in price.
- (4) None of the above.

26. The expenditure on a good would change in the opposite direction as the price changes only when demand is

- (1) Elastic
- (2) Inelastic
- (3) Both (1) and (2)
- (4) None of the above

27. Identify the correctly matched pair from Column A to Column B:

Column A	Column B
(1) $Y = AD$	(a) Level of output at full employment
(2) Forward Multiplier	(b) Withdrawal of investment decreases income
(3) Paradox of Thrift	(c) People save less or same as before
(4) Multiplier $(k) < 1$	(d) $0 < MPC < 1$

- (1) 1 – (a)
- (2) 2 – (b)
- (3) 3 – (c)
- (4) 4 – (d)

28. Identify the correct matched pair from Column A to Column B and choose the correct alternative:

Column A	Column B
1. Export of weapons to Vietnam	(a) Credit side of Current Account
2. Import of Apache Helicopter from USA	(b) Capital Account of Balance of Payments
3. Remittances from relative from UAE	(c) Debit side of Current Account of Balance of Payments
4. Investment by Tesla Incorporation in India	(d) Credit side of Current Account of Balance of Payments

- (1) 1 – (a)
- (2) 2 – (b)
- (3) 3 – (c)
- (4) 4 – (d)

29. With a rise in real national income, welfare of the people:

- (1) rises.
- (2) falls.
- (3) remains unchanged.
- (4) none of the above.

30. How does Robbins define Economics?

- (1) Science of Markets
- (2) Science of Business
- (3) Science of Life
- (4) Science of Scarcity

31. Assertion (A): Fiscal deficit is measured in terms of borrowings.

Reason (R): External borrowings increases the Fiscal deficit.

- (1) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of the Assertion (A).
- (2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).
- (3) Assertion (A) is true, but Reason (R) is false.
- (4) Assertion (A) is false, but Reason (R) is true.

32. Assertion (A): Car purchased by the hotel for the purpose of tourism facilitation is a Capital Good.

Reason (R): The car is purchased by the hotel to provide long term service to the consumers.

- (1) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of the Assertion (A).
- (2) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).
- (3) Assertion (A) is true, but Reason (R) is false.
- (4) Assertion (A) is false, but Reason (R) is true.

33. _____ constitute the third element in the BoP which is the 'balancing item'.

- (1) Capital account
- (2) Current account
- (3) Errors and Omissions
- (4) None of these

34. Level of planned output coincides with planned expenditure when:

- (1) $AD = AS$
- (2) $C = I$
- (3) both (1) and (2)
- (4) none of these

35. Consider the following statements about Export of cotton Textiles.

- i. It is shown in the debit side of the current account.
- ii. It reduces the balance of payment deficit.
- iii. It is shown in the credit side of the current account.

Which of the following statements are true?

- (1) iii only (2) i and ii
(3) ii and iii (4) None of these

36. A producer starts the business in the building owned by him and borrows money for running it. The Imputed rent of own building is _____.

- (1) Explicit costs
(2) Implicit costs
(3) Opportunity costs
(4) Variable cost

37. When percentage change in quantity demanded is equal to percentage change in price, then demand for such a commodity is said to be

- (1) Perfectly Elastic (2) Relatively Elastic
(3) Unitary Elastic (4) None of the above

38. Identify the correctly matched items in Column A to that of Column B:

Column A	Column B
1. Welfare of the people	(a) Social Welfare
2. Total of economic and non-economic welfare	(b) Economic Welfare
3. Benefits or harms of an activity caused by a firm	(c) Externalities
4. Material well being of the people	(d) Real GDP

- (1) 1 – (a) (2) 2 – (b)
(3) 3 – (c) (4) 4 – (d)

39. Under monopoly, price elasticity of demand is

- (1) Less than one
(2) Equal to one
(3) Greater than one
(4) Infinity

40. Identify the correctly matched pair from Column A to that of Column B:

Column A	Column B
1. Inflationary Gap	(a) Selling of government securities
2. Deflationary Gap	(2) Increase in Statutory Liquidity Ratio
3. Effects of Deficient Demand	(c) Rise in production level
4. Plans to Expand Exports	(d) $AD > AS$ (at full employment level)

- (1) 1 – (a) (2) 2 – (b)
(3) 3 – (c) (4) 4 – (d)

41. Total output is maximum when marginal product is _____.

- (1) One
(2) Zero
(3) Maximum
(4) Minimum

42. Which of the following statement is not true about the need for import substitution for Indian economy?

- (1) Unfavourable balance of trade.
(2) Devaluation of rupee.
(3) Abundance of foreign aid.
(4) Shortage of essential commodities.

43. Purchase of shares is related to:

- (1) revenue receipt
(2) revenue expenditure
(3) capital receipt
(4) capital expenditure

44. What is the root cause of all economic problems?

- (1) Human beings have wants that are unlimited.
(2) Resources have alternative uses.
(3) Scarcity of Resources
(4) Problem of choice

45. Identify the correctly matched items in Column A to that of Column B:

Column A	Column B
1. Social Welfare	(a) Total of economic and non-economic welfare
2. Comparison of GDP of different countries	(b) GDPs evaluated at current market prices
3. Economic welfare	(c) Situation of unemployment
4. GDP deflator	(d) Includes prices of imported goods

- (1) 1 – (a) (2) 2 – (b)
(3) 3 – (c) (4) 4 – (d)

46. There is a sudden change in climatic conditions resulting in hot weather. Assuming no change in the price of the cold drinks, it will lead to:

- (1) upward movement along the same market demand curve.
(2) downward movement along the same market demand curve.
(3) rightward shift in the market demand curve.
(4) leftward shift in the market demand curve.

I. Read the below case and answer the questions that follow:

In a 40 minute long speech Prime Minister Narendra Modi announced the demonetisation of existing notes of ₹ 500 and ₹ 1,000 during a televised address on Tuesday evening.

Modi announced that the notes of ₹ 500 and ₹ 1,000 "will not be legal tender from midnight tonight" and these will be "just worthless pieces of paper. PM also urged people to 'join this mahayojna against the ills of corruption.

– "What is demonetisation and why was it done?"*The Economic Times, Nov 09, 2016*

47. Under whose purview does the issue of new currency fall in?

- (1) Reserve Bank of India
- (2) Central Government of India
- (3) State Government
- (4) All of the above

48. Which two currency denominations were demonetised?

- (1) ₹ 100 and ₹ 500
- (2) ₹ 500 and ₹ 2,000
- (3) ₹ 1,000 and ₹ 2,000
- (4) ₹ 500 and ₹ 1,000

49. _____ is issued by the government of India.

- (1) Coins
- (2) ₹500 note
- (3) ₹1000 note
- (4) All of these

50. ₹1 currency note is issued by _____.

- (1) Finance Ministry
- (2) RBI
- (3) NITI Aayog
- (4) None of the above

□□□

SOLUTIONS

1. Option (1) is correct.

Explanation: Wealth is the accumulated value of economic goods or past savings measured at a given point of time.

2. Option (3) is correct.

Explanation: Borrowings is a capital receipt as it creates a liability.

3. Option (2) is correct.

Explanation: The opportunity cost of an activity is what you have given up to do in the time when you have done some other activity. Therefore, while you chose to study you had given up the idea of watching a movie.

4. Option (1) is correct.

Explanation: $C = f(Y)$

5. Option (2) is correct.

Explanation: In case of perfect competition, AR curve is horizontal straight line. Hence, TR curve rises at a constant rate, and, thus, AR and MR curve is horizontal straight line.

6. Option (1) is correct.

Explanation: In the perfect competition, there are very large number of buyers and sellers. They are so large that the share of each buyer or seller in the market is insignificant. Hence, they cannot influence the price in the market.

7. Option (1) is correct.

Explanation: Law of diminishing marginal utility states that as more and more units of a commodity are consumed, marginal utility derived from every additional unit must decline. The law of equi-marginal utility states that the consumer will distribute his money income between the goods in such a way that the utility derived from the last rupee spent on each good is equal.

8. Option (2) is correct.

Explanation: Supply curve is upward sloping which shows that as the price of the commodity rises, quantity supplied also rises and as the price falls, quantity supplied also falls.

9. Option (3) is correct.

Explanation: When a firm is able to sell any quantity of a good at a given price. This happens under perfect competition when price of a good remains constant. Then, firm's marginal revenue is equal to average revenue.

10. Option (4) is correct.

Explanation: When aggregate demand is equal to aggregate supply at less than full employment, it is a situation of under employment equilibrium.

11. Option (3) is correct.

Explanation: When decrease in demand is less than increase in supply, then there is fall in equilibrium price but rise in equilibrium quantity.

12. Option (1) is correct.

Explanation: Price floor by the government creates excess supply. This excess supply creates buffer stock. Since the producers are not able to sell all they want to sell, they sell illegally below the minimum price.

13. Option (3) is correct.

Explanation: When supply is perfectly inelastic, then supply curve is a vertical straight line parallel to Y-axis.

14. Option (3) is correct.

Explanation: Net Factor Income from Abroad = Factor Income from Abroad – Factor Income to Abroad
 $\text{₹}200 = \text{Factor Income from Abroad} - \text{₹}40$
 $\text{Factor Income from Abroad} = \text{₹}200 + \text{₹}40$
 $= \text{₹}240 \text{ crores}$

15. Option (1) is correct.

Explanation: Following are some assumptions of the law of diminishing marginal utility:

- (i) It is assumed that utility can be measured and a consumer can express his satisfaction in quantitative terms such as 1, 2, 3... etc.
- (ii) Consumption of reasonable quantity.
- (iii) Continuous consumption.
- (iv) Monetary measurement of utility.

- (v) No change in quantity.
- (vi) Rational consumer.
- (vii) MU of money remains constant.
- (viii) Independent utilities.
- (ix) Fixed income and price of the goods.
- (x) Commodities should be Homogeneous in nature.

16. Option (2) is correct.

Explanation: Es Percentage change in quantity supplied / Percentage change in price = $\frac{60}{50}$ = 1.2

17. Option (1) is correct.

Explanation: Sale of machinery to abroad is a part of Current accounts. Current account records imports and exports of goods and services and unilateral transfers. Sale of machinery to abroad leads to inflow of foreign currency and receipt from exports is shown on the positive side (credit items).

18. Option (2) is correct.

Explanation: Fiscal deficit is defined as excess of total budget expenditure over total budget receipts excluding borrowings during a fiscal year

19. Option (4) is correct.

Explanation: Excess demand arises when demand for exports increases due to comparatively lower prices of domestic goods or due to decrease in the exchange rate for domestic currency.

20. Option (2) is correct.

Explanation: Balance of Trade = - ₹ 5,000 crores
Value of Imports = ₹ 9,000 crores
Balance of Trade (Deficit) = Value of Exports - Imports
Value of Exports = Balance of Trade (Deficit) + Imports = - ₹ 5,000 crores + ₹ 9,000 crores = ₹ 4,000 crores

21. Option (2) is correct.

Explanation: An Indifference Curve will ordinarily be convex to the origin. This is because of Diminishing Marginal Rate of Substitution.

22. Option (1) is correct.

Explanation: Income tax is a forced transfer as tax payer cannot avoid it.

23. Option (1) is correct.

Explanation: When the goods can be used instead of the other they are termed as substitutes. That is the increase in the price of one will lead to an increase in the demand of another. For eg : Tea and Coffee.

24. Option (3) is correct.

Explanation: Total product can be defined as total output produced from a given number of inputs. Total product is equal to average product multiplied by number of units of variable factor.

25. Option (1) is correct.

Explanation: The Y-axis of the demand curve represents the price of the commodity, whenever there is a decrease in demand the curve shifts and the quantity demanded is decreased.

26. Option (1) is correct.

Explanation: Price Elasticity of Demand is defined as the measurement of percentage in quantity demanded in response to a given percentage change in own price of the commodity.

27. Option (3) is correct.

Explanation: The paradox states that an increase in autonomous saving leads to a decrease in aggregate demand and thus a decrease in gross output which will in turn lower total saving.

28. Option (1) is correct.

Explanation: The export of goods, services and unilateral receipts is entered on the credit side of the Current Account. Therefore, being categorised as such, the export of weapons to Vietnam will be credited to the current account as well.

29. Option (1) is correct.

Explanation: With a rise in real national income, welfare of the people rises as people have more money to spend on the needs and wants.

30. Option (4) is correct.

Explanation: Lionel Robbins defines economics as a science of scarcity. Prof. Robbins in his book Nature and Significance of Economic Science states, "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

31. Option (1) is correct.

Explanation: Fiscal Deficit refers to the excess of total expenditure over total receipts excluding borrowings. It indicates borrowing requirements of the government.

32. Option (1) is correct.

Explanation: Capital goods includes those fixed or tangible assets that are purchased by producers or businesses to produce goods and services.

33. Option (3) is correct.

Explanation: Errors and Omissions constitute the third element in the BoP (apart from the current and capital accounts) which is the 'balancing item' reflecting our inability to record all international transactions accurately.

34. Option (1) is correct.

Explanation: When $AD=AS$, all the producers who wish to produce during the year is exactly equal to what the buyers wish to spend on the purchase of goods and services during the year.

35. Option (1) is correct.

Explanation: Current account is that account of BoP, which records exports and imports of visible and invisible items and unilateral transfers. A major part of transactions in foreign trade is in the form of export and import of goods (visible items). Payment for import of goods is written on the negative side (debit items) and receipt from exports is shown on the positive side (credit items). Balance of these visible exports and imports is known as balance of trade (or trade balance). Export of cotton textile leads to inflow of foreign exchange thus, recorded as credit item.

36. Option (2) is correct.

Explanation: When the producer starts the business in the building owned by him then instead of hiring building from outside he is renting out his own land. Hence, imputed rent of own building is the implicit cost.

37. Option (3) is correct.

Explanation:

(a) **Perfectly Elastic Demand ($E_d = \infty$) :** When percentage change in quantity demanded is infinite with a slight rise in the price, then demand for such a commodity is said to be perfectly elastic. In such a situation, demand curve is parallel to X-axis.

(b) **Unitary Elastic Demand ($E_d = 1$) :** When percentage change in quantity demanded is equal to percentage change in price, then demand for such a commodity is said to be unitary elastic. Shape of demand curve is rectangular hyperbola and elasticity at every point on this curve is unity.

(c) **Relatively Elastic Demand ($E_d > 1$) :** When percentage change in price of a commodity causes greater percentage change in quantity demanded then demand is said to be highly elastic.

38. Option (3) is correct.

Explanation: Externalities refer to positive and negative impact of an economic activity on the others without involving any price or penalty.

39. Option (1) is correct.

Explanation: Price elasticity of demand is less than one, under monopoly market.

40. Option (1) is correct.

Explanation: Inflationary gap measures the difference between the current level of real GDP and the GDP that would exist if an economy was operating at full employment.

41. Option (2) is correct.

Explanation: In the second phase, total product increases at a decreasing rate and then reaches maximum. When TP is maximum, MP becomes zero.

42. Option (3) is correct.

Explanation: Import Substitution industrialization (ISI) is a trade and economic policy that advocates replacing foreign imports with domestic production to protect domestic industries. Thus, there was no requirement of foreign aid.

43. Option (4) is correct.

Explanation: Purchase of shares is an investment for the government and increases assets.

44. Option (3) is correct.

Explanation: All resources that are available to the people at any point in time for satisfying their wants are scarce and limited.

45. Option (1) is correct.

Explanation: Social welfare is an aggregate of the utilities or satisfaction of all the individuals in the society.

46. Option (3) is correct.

Explanation: Shift in the Demand Curve is the situation when the demand changes with the change in other factors affecting the demand other than price.

47. Option (1) is correct.

Explanation: The Central Bank plays the role of the sole note issuing authority in the economy.

48. Option (4) is correct.

49. Option (1) is correct.

Explanation: As per the above paragraph, Narendra Modi announced the demonetisation of existing notes of ₹500 and ₹1,000.

50. Option (1) is correct.

Explanation: The one rupee note and coins are issued by ministry of finance and it bears the signature of Finance Secretary.