

PRACTICE PAPER

6

E
C
O
N
O
M
I
C
S

Time allowed: 45 minutes

Maximum Marks: 200

General Instructions: Same as Practice Paper-1.

SECTION-A: INTRODUCTORY MICROECONOMICS

Choose the correct option:

- Microeconomics studies the economic activities of:
(a) an individual household (b) an individual industry
(c) an individual market (d) all of these
- _____ is driven by the forces of supply and demand.
(a) Market economy (b) Centrally planned economy
(c) Mixed economy (d) All of these
- Which of the following is the principal limitation of utility analysis?
(a) Marginal utility of money does not change
(b) Utility can be expressed in terms of cardinal numbers
(c) The consumer's preference is well defined
(d) None of these
- _____ goods are bought due to their high price.
(a) Veblen (b) Inferior (c) Giffen (d) None of these
- A consumer demands 18 units of a commodity at the price of ₹ 9 per unit. He demands 16 units when the price rises to ₹ 10 per unit. Price elasticity of demand is equal to _____.
(a) 0.5 (b) 1 (c) 2 (d) 1.125
- Using total expenditure approach, find elasticity of demand when price and demand are as under:

| | | |
|----------------|----|----|
| Price (₹) | 10 | 15 |
| Demand (Units) | 40 | 20 |

- (a) $E_d = 1$ (b) $E_d < 1$ (c) $E_d > 1$ (d) $E_d = 0$
- In the following question, two statements are given. Read the statements carefully and choose the correct alternative among those given below:

Statement 1 : Income of the consumer is a determinant of individual demand function.

Statement 2 : Related goods show cross-price effect.

Alternatives:

- (a) Both the statements are true
(b) Both the statements are false
(c) Statement 1 is true and Statement 2 is false
(d) Statement 2 is true and Statement 1 is false

8. In the following question, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct alternative among those given below:

Assertion (A) : Utility is the 'want-satisfying power' of a commodity.

Reason (R) : Marshall believes that we can measure satisfaction in terms of cardinal numbers.

Alternatives:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
 (c) Assertion (A) is true but Reason (R) is false
 (d) Assertion (A) is false but Reason (R) is true

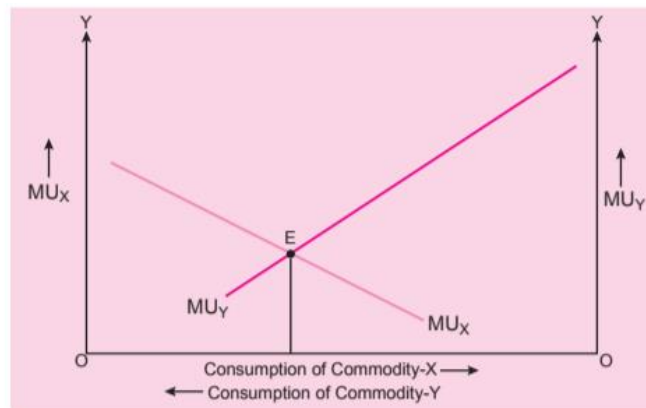
9. Match the concepts given in Column I with their respective explanation in Column II:

| Column I | Column II |
|---------------------|---|
| A. Normal goods | (i) Complementary goods |
| B. Giffen goods | (ii) Income effect is positive |
| C. Inferior goods | (iii) Income effect > Substitution effect |
| D. Bread and butter | (iv) Income effect is negative |

Alternatives:

- (a) A—(ii), B—(iii), C—(iv), D—(i)
 (b) A—(ii), B—(iv), C—(iii), D—(i)
 (c) A—(iii), B—(iv), C—(i), D—(ii)
 (d) A—(ii), B—(iv), C—(i), D—(iii)

10.



On the basis of the given diagram, what does point E indicate?

- (a) Point of consumer's equilibrium
 (b) Point of producer's equilibrium
 (c) Point of maximum satisfaction
 (d) Both (a) and (c)

SECTION-B: INTRODUCTORY MACROECONOMICS

Choose the correct option:

11. Theory of employment is studied under:

- (a) microeconomics
 (b) macroeconomics
 (c) both (a) and (b)
 (d) neither (a) nor (b)

12. Gross Value Added =

- (a) Value of output + Intermediate consumption
 (b) Value of output – Intermediate consumption
 (c) Value of output × Intermediate consumption
 (d) Value of output ÷ Intermediate consumption

13. Domestic income is greater than national income when net factor income from abroad is:

- (a) positive
 (b) negative
 (c) zero
 (d) remains constant

- 14. Household inventory is:**
 (a) not included in national income (b) a stock concept
 (c) both (a) and (b) (d) none of these
- 15. Credit creation by the commercial banks is equal to:**
 (a) $\frac{1}{RR}$ (b) $\frac{1}{RR} \times \frac{1}{\text{Cash Reserves}}$
 (c) $\frac{1}{RR} \times \text{Total Deposits}$ (d) $\frac{1}{RR} \times \text{Cash Reserves}$
- 16. Money that the commercial banks can create on the basis of CRR is:**
 (a) the maximum amount of money that they can create
 (b) the minimum amount of money that they can create
 (c) the amount of money that they wish to create
 (d) none of these
- 17. Suppose in a hypothetical economy, the income rises from ₹ 4,000 crore to ₹ 5,000 crore. As a result, the consumption expenditure rises from ₹ 3,000 crore to ₹ 3,600 crore. Marginal propensity to consume in such a case would be _____.**
 (a) 0.2 (b) 0.4 (c) 0.6 (d) 0.8
- 18. If consumption function is $C = bY$, saving function will be _____.**
 (a) $S = \bar{C} + bY$ (b) $S = (1 - b)Y$ (c) $S = \bar{C} + (1 - b)Y$ (d) $S = -bY$
- 19. In a situation of deficient demand, level of income, output and employment in the economy, will be _____.**
 (a) low (b) maximum (c) zero (d) negative
- 20. Which of the following is a cause of excess demand?**
 (a) Increase in public expenditure (b) Increase in money supply
 (c) Fall in taxes (d) All of these
- 21. Borrowing by the government is a:**
 (a) revenue receipt (b) capital receipt
 (c) revenue expenditure (d) capital expenditure
- 22. Identify which of the following statements is true?**
 (a) Par rate of exchange means flexible rate of exchange
 (b) Devaluation of currency is same as depreciation of currency
 (c) Flexible exchange rate is determined by the World Bank
 (d) Bretton woods system was a system of fixed exchange rate
- 23. Which of the following is a demerit of the flexible exchange rate?**
 (a) Disregards stability (b) Uncertainty
 (c) Instability in Foreign Exchange (d) All of these

In the following questions, two statements are given. Read the statements carefully and choose the correct alternative among those given below:

Alternatives:

- (a) Both the statements are true
 (b) Both the statements are false
 (c) Statement 1 is true and Statement 2 is false
 (d) Statement 2 is true and Statement 1 is false
- 24. Statement 1 :** Brokerage on the sale/purchase of shares and bonds is to be included in national income.
Statement 2 : Expenditure on shares and bonds is included in total expenditure.
- 25. Statement 1 :** Domestic income is the sum total of factor incomes generated within the domestic territory of a country.
Statement 2 : National income is the sum total of factor incomes earned by normal residents of a country.

In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct alternative among those given below:

Alternatives:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true but Reason (R) is false
- (d) Assertion (A) is false but Reason (R) is true

26. Assertion (A) : Capital account transactions do not give rise to future claims.

Reason (R) : Capital account transactions reveal borrowings from rest of the world.

27. Assertion (A) : Monetary system of exchange facilitates much greater exchange than the barter system.

Reason (R) : Monetary system (unlike barter system) does not require double coincidence of wants.

28. Assertion (A) : Ex-post investment can be less than ex-ante investment.

Reason (R) : Equilibrium GDP is struck only when planned saving = planned investment.

29. From the following given sets of statements in column I and II, choose the correct pair of statements:

| Column I | Column II |
|--------------------|---|
| A. Tax | (i) Financial assistance |
| B. Capital budget | (ii) Impacts asset-liability status of the government |
| C. Wealth tax | (iii) An indirect tax |
| D. Revenue deficit | (iv) Total expenditure – Revenue receipts |

Alternatives:

- (a) A—(i)
- (b) B—(ii)
- (c) C—(iii)
- (d) D—(iv)

30.

| Items | ₹ crore |
|------------------|---------|
| Revenue Receipts | 200 |
| Capital Receipts | 210 |
| Borrowings | 350 |
| Interest Payment | 35 |

On the basis of the above-mentioned information answer the following question:

The value of primary deficit will be:

- (a) ₹ 140 crore
- (b) ₹ 315 crore
- (c) ₹ 385 crore
- (d) ₹ 375 crore

SECTION-C: INDIAN ECONOMIC DEVELOPMENT

Choose the correct option:

31. India and China are a habitat of nearly _____ per cent of the world's population.

- (a) 38
- (b) 48
- (c) 58
- (d) 68

32. Identify the incorrect statement from those given below.

- (a) SEZ is an area within the country where economic regulations are different from those in the rest of the country
- (b) The SEZ is not conducive to Foreign Direct Investment
- (c) The businesses operating within an SEZ get the advantages of lower taxes and tariffs
- (d) The SEZ model of China has shown greater success than any other country in the world

33. The _____ phase of economic reforms in China led to the withdrawal of the commune system of farming.

- (a) first
- (b) second
- (c) third
- (d) none of these

- 34. Which of the following is an option of employment outside agriculture?**
 (a) Animal husbandry (b) Horticulture
 (c) Fisheries (d) All of these
- 35. Which of the following is not an indicator of expansion of health services in India between the period 1951-2017?**
 (a) Rise in number of government hospitals and dispensaries
 (b) The number of nursing personnels has increased
 (c) A fall in the doctor to patient ratio
 (d) None of these
- 36. Which of the following is the source of non-institutional credit?**
 (a) Landlords (b) Village traders (c) Moneylenders (d) All of these
- 37. Human capital refers to the stock of _____ of a nation at a point of time.**
 (a) skill (b) welfare
 (c) production (d) education
- 38. Poverty can exist even when:**
 (a) nominal GDP is rising (b) real GDP is rising
 (c) GDP per capita is rising (d) all of these
- 39. Which of the following is not a reason for emission of greenhouse gases?**
 (a) Burning of coal and petroleum products (b) Deforestation
 (c) Increase in industrialisation (d) None of these
- 40. Identify the principal cause behind environmental crisis.**
 (a) Population explosion (b) Widespread poverty
 (c) Disregard for the civic norms (d) All of these
- 41. In a small-scale industry, investment limit is:**
 (a) < ₹1 crore (b) < ₹5 crore
 (c) < ₹10 crore (d) < ₹20 crore
- 42. Which of the following is not correct about the planning in India?**
 (a) Mixed economy has been the framework of planning in India
 (b) The duration of the Twelfth Five Year Plan was 2012-17
 (c) Equality has not been an objective of planning in India
 (d) Planning in India started with a heavy reliance on the public sector
- 43. Per Capita Income =**
 (a) $\frac{\text{National Income}}{\text{Total Population}}$ (b) $\frac{\text{National Income}}{\text{Population}} \times 100$
 (c) $\frac{\text{Gross Domestic Product}}{\text{National Income}}$ (d) $\frac{\text{Gross Domestic Product}}{\text{National Income}} \times 100$

In the following questions, two statements are given. Read the statements carefully and choose the correct alternative among those given below:

Alternatives:

- (a) Both the statements are true
 (b) Both the statements are false
 (c) Statement 1 is true and Statement 2 is false
 (d) Statement 2 is true and Statement 1 is false
- 44. Statement 1 :** Among women, the percentage of self-employed is a bit higher than that among men.
Statement 2 : Unlike men, women are risk averse and hence are ready to work at a lesser wage rate.
- 45. Statement 1 :** Urban poverty is a spillover of rural poverty.
Statement 2 : People tend to migrate from rural areas to urban areas in search of jobs.

In the following questions, a statement of Assertion (A) is followed by a statement of Reason (R). Choose the correct alternative among those given below:

Alternatives:

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true but Reason (R) is false
- (d) Assertion (A) is false but Reason (R) is true

46. Assertion (A) : People work to earn a living.

Reason (R) : Working is essential for existence in a system of mutual interdependence.

47. Assertion (A) : The proponents of agricultural subsidy are against its elimination.

Reason (R) : The gulf between the rich and poor farmers will expand if subsidies are eliminated.

48. Assertion (A) : The twin goals of self-sufficiency and self-reliance were accorded a high priority during the first seven five year plans.

Reason (R) : India wanted to be self-sufficient in order to avoid uncertainties of supply from rest of the world.

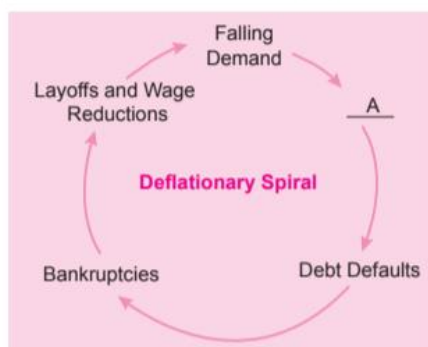
49. From the following given sets of statements in column I and II, choose the correct pair of statements:

| Column I | Column II |
|----------------------------------|--|
| A. Livestock sector | (i) Deficient veterinary care |
| B. White Revolution | (ii) Launched in 1969 |
| C. Alternative Marketing Channel | (iii) Sale by the farmers to the middlemen |
| D. TANWA | (iv) A project launched in Kerala |

Alternatives:

- (a) A—(i)
- (b) B—(ii)
- (c) C—(iii)
- (d) D—(iv)

50.



Source: <https://upscfever.com/upsc-fever/en/economy/economy1/en-econ1-chp11.html>

Choose the correct alternative to be filled in given blank A.

- (a) Rising prices
- (b) Falling prices
- (c) Neutral prices
- (d) None of these

Answers

PRACTICE PAPER — 6

- | | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|
| 1. (d) | 2. (a) | 3. (b) | 4. (a) | 5. (b) | 6. (c) | 7. (a) |
| 8. (a) | 9. (a) | 10. (d) | 11. (b) | 12. (b) | 13. (b) | 14. (c) |
| 15. (d) | 16. (a) | 17. (c) | 18. (b) | 19. (a) | 20. (d) | 21. (b) |
| 22. (d) | 23. (d) | 24. (c) | 25. (a) | 26. (d) | 27. (a) | 28. (d) |
| 29. (b) | 30. (b) | 31. (a) | 32. (b) | 33. (a) | 34. (d) | 35. (c) |
| 36. (d) | 37. (a) | 38. (d) | 39. (d) | 40. (d) | 41. (c) | 42. (c) |
| 43. (a) | 44. (d) | 45. (a) | 46. (a) | 47. (a) | 48. (a) | 49. (a) |
| 50. (b) | | | | | | |