

## Examrace

# Competitive Exams: Economics MCQs (Practice\_Test 47 of 122)

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1. Consider the following diagram in the context of India importing edible oil. Before trade, demand curve DD and supply curve SS intersect at E to give domestic price OP, which is higher than world price OW. At world price OW: Demand for edible oil = OB domestic supply of edible oil = OA import of edible oil = AB Assume that a tariff is levied on import of edible oil. Price rises to OT. The following inferences may be drawn from the diagram regarding the effect of tariff. The import tariff

- a. reduces consumption.
- b. increases production.
- c. decreases the volume of trade.

Select the correct answer using the codes given below:

- a. 1, 2 and 3
- b. 1 and 2
- c. 2 and 3
- d. 1 and 3

2. The country can improve its balance of Payments by Devaluation when the sum of elasticities of demand for exports and imports is

- a. greater than unity
- b. equal to unity
- c. less than unity
- d. zero

3. The Purchasing Power Parity (PPP) theory of the exchange-rate implies that the currency of a country A would depreciate against that of country B if:

- a. the inflation rate in A exceeds that in B
- b. the normal interest-rate in A exceeds that in B
- c. the growth rate of GDP in B exceeds that in A

- d. foreign direct investment moves from b to A.
4. In a freely floating exchange rate system
- a. the current account and capital account add to zero
  - b. each account can individually be equal to zero
  - c. exchange rate is determined by market forces
  - d. all the above statements are correct
5. In the diagram showing the demand and supply curves for dollars, the Central Authority wants to maintain the exchange rate (rupees per dollar) at E<sub>2</sub>. Then the Central Authority will need to
- a. buy dollars and sell rupees
  - b. sell dollars and buy rupees
  - c. reduce tariff on imports
  - d. impose a tax on exports
6. Which one of the following is NOT permissible under India's current account convertibility?
- a. Residents holding foreign exchange accounts
  - b. foreigners holding accounts in Indian banks
  - c. exports holding foreign currency accounts
  - d. free movement of short term capital
7. During the last visit to India, Bill Gates traveled by the government-owned airline. He also watched cricket at Bangalore and for the growth of the game, donated one million dollars to the Karnataka fund for Cricket (KFC). The amount he paid for the air ticket and his donation of KFC would be classified as
- a. service exports and unilateral transfers to India respectively
  - b. unilateral transfers to India in both the cases respectively
  - c. service imports and service exports respectively
  - d. merchandise imports and service imports respectively
8. In a flexible exchange-rate system and increase in the domestic interest rate would tend to
- a. improve the current account and worsen the capital account.
  - b. improve both the current and capital accounts

- c. worsen both the accounts
  - d. worsen the current account and improve the capital account.
9. In the current international monetary system the Indian rupee is pegged to
- a. US dollar
  - b. UK pound
  - c. euro
  - d. a basket of currencies
10. Neutrality of money implies that a given increase in the money supply will
- a. increase all prices in the same proportion
  - b. increase all prices in different proportions
  - c. decrease all prices in the same proportion
  - d. not change prices at all
11. The theory that the transactions demand for money also depends on the rate of interest, was put forward, by
- a. Keynes and Pigou
  - b. Baumol and Tobin
  - c. Hicks and slow
  - d. Samuelson and Meade
12. Where M is money-supply, i is the interest and I is investment. The correct likely sequence would be
- a. m decrease, i goes down, I goes down, GNP goes down
  - b. M decrease, I goes down, I goes up, GNP goes down
  - c. M decreases, i goes up, I goes up, GNP goes up
  - d. m goes up, i goes up, I goes up, GNP goes up
13. The quantity theory of money implies that an increase in the price level will be associated with
- a. an increase in output
  - b. and increase in money supply
  - c. a decrease in money supply

d. both a and b

14. High powered money is

a. banks' reserves at the central Bank

b. all loans and advance of banks

c. money held by banks

d. currency held by public and reserve with the central bank.

15. Which one of the following pair is NOT correctly matched?

a. Inflation Gap—Keynes

b. Cash Balance approach—Pigou

c. Accelerator-Multiplier analysis—Hicks

d. Equation of Exchange—Marshall

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