



11. Profit is also known as  
 a) Contractual rent                      **b) Residual income**  
 c) Net income                              d) None of the above
12. Changes in the rate of interest affect the amount of money held for  
 (a) transaction motive                      (b) precautionary motive  
**(c) speculative motive**                      (d) Normal Motive
13. The marginal productivity theory of distribution is associated with  
 (a) Adam Smith                              (b) Lionel Robbins  
**(c) J. B. Clark**                              (d) Bergson
14. Who has contributed the modern theory of interest rate determination?  
 (a) Paul A. Samuelson                      (b) Gunnar Myrdal  
 (c) Knut Wicksell                              **(d) J.R. Hicks**
15. Whose name is associated with the “Uncertainty-bearing theory of profit”?  
 (a) J. Schumpeter                              **(b) F.H. Knight**  
 (c) J.B. Clark                                  (d) F.W. Watker
16. Who has sought to measure Consumer’s Surplus with the help of indifference curve technique?  
 (a) Edgeworth                                  (b) Alfred Marshall  
**(c) J.R. Hick**                                  (d) Pareto
17. Which among the following is NOT an assumption of Pareto optimality?  
 (a) Every consumer wishes to maximize his level of satisfaction.  
 (b) All the factors of production are used in the production of every commodity.  
 (c) Conditions of perfect competition exist making all the factors of production perfectly mobile  
**(d) The concept of utility is cardinal and cardinal utility function of every consumer is given.**
18. When a firm’s average revenue is equal to its average cost, it gets \_\_\_\_\_.  
 (a) Sub normal profit                              **(b) Normal profit**  
 (c) Abnormal profit                              (d) Super profit
19. Given the price, if the cost of production increases because of higher price of raw materials, the supply  
**(a) Decrease**                                  (b) Increase  
 (c) Remains the same                              (d) Any of the above
20. Under \_\_\_\_\_, price is determined by the interaction of total demand and total supply in the market.  
**(a) Perfect competition**                      (b) Monopoly  
 (c) Imperfect competition                      (d) Monopolistic Competition
21. Standard of living of workers depends upon their  
 (a) Nominal wages                              **(b) Real wages**  
 (c) Average product                              (d) Govt. policy
22. Under Marginal productivity Theory, reward for labour is determined by

- (a) Owner (b) Labour  
(c) Government (d) **Marginal Product**

23. The economist Ricardo argued that prices were \_\_\_\_\_ because land rents were \_\_\_\_\_  
(a) High, High (b) Low, Low  
(c) Low, High (d) **High, Low**

24. As for the cost of production of an individual farmer, the rent paid by him  
(a) **Enters into the price of his product** (b) None of these  
(c) Does not enter into price of his product (d) Is unjustified

25. He presented a theory of rent  
(a) Malthus (b) Prof. Knight  
(c) **Ricardo** (d) Marshall

26. The following affect rent EXCEPT  
(a) Better location (b) Fertility of land  
(c) **Cleverness of landlords** (d) Scarcity of land

27. These are kinds of rent EXCEPT  
(a) Differential rent (b) Scarcity rent  
(c) **Mobility rent** (d) Location rent

28. This is capital:  
(a) Money (b) Forests  
(c) **Machinery** (d) Trademarks

29. According to Keynes interest is a payment for  
(a) Consumer's preference (b) Producer's preference  
(c) **Liquidity preference** (d) State Bank's preference

30. Interest is paid because  
(a) **Capital is scarce** (b) Capital is productive  
(c) Capital is attractive (d) Capital is surplus

31. With decrease in price of bonds, rate of interest:  
(a) Decreases (b) **Increases**  
(c) Does not change (d) None of the above

32. Every factor of production gets reward equal to its:  
(a) Cost (b) **Marginal product**  
(c) Price (d) Increasing return

33. According to Keynes, interest is a payment for:  
(a) Use of durable goods (b) Use of capital  
(c) **Use of money** (d) Use of land

34. In economics capital refers to:  
(a) Money (b) High quality goods  
(c) Trade mark (d) **Machinery and factories**

35. Professor Knight is famous for his theory of:  
 (a) Rent (b) **Profit**  
 (c) Population (d) Wages
36. Profits:  
 (a) **Are residual payment** (b) Are pre-determined  
 (c) Are fixed contract (d) Are always higher than wages
37. Profits:  
 (a) Are lower in the long run than in the short run (b) Can be negative  
 (c) Are less in perfect competition than in monopoly (d) **All of the above**
38. Profits arise because an entrepreneur:  
 (a) Prepares plan (b) Innovates  
 (c) Lends money (d) **Both (a) and (b)**
39. Gross profit does NOT include:  
 (a) Rent of land owned by the firm (b) Pure profit  
 (c) Interest on capital owned by firm (d) **Taxes**
40. Some economists say that profit earner is a kind of:  
 (a) **Wage earner** (b) Rent receiver  
 (c) Interest receiver (d) Govt. officer
41. Risks in the business arise because of:  
 (a) Introduction of the new products (b) Uncertain policy of rival firms  
 (c) Changes in tastes (d) **All the above**
42. According to Professor Knight risks are of \_\_\_\_\_ kinds:  
 (a) **two** (b) three  
 (c) four (d) many
43. This is not a function of the entrepreneur:  
 (a) Supervise (b) Innovate  
 (c) **Lend money** (d) Prepare plan
44. According to Modern Theory of Rent, rent accrues to  
 (a) Land only (b) **Any factor**  
 (c) Capital only (d) Labour only
45. An increase in the wage rate:  
 (a) Will usually lead to more people employed  
 (b) Will decrease total earnings of employees if the demand for labour is wage elastic  
 (c) Is illegal in a free market  
 (d) Will cause a shift in the demand for labour
46. A decrease in the supply of labour is likely to lead to:  
 (a) A lower equilibrium wage and lower quantity of labour employed

- (b) A lower equilibrium wage and higher quantity of labour employed
- (c) A higher equilibrium wage and higher quantity of labour employed
- (d) A higher equilibrium wage and lower quantity of labour**

## UNIT-II

47. In order to maximize profits, a firm should produce at the output level for which
- (a) Average cost is minimised
  - (b) Marginal cost equals marginal revenue**
  - (c) marginal cost is minimised
  - (d) All of the above
48. A market system where there is only one buyer, is known as.
- a) Monopoly
  - b) Monopolistic competition
  - c) Monopsony**
  - d) Monopsonistic competition
49. The market, where the services of factor of production are bought and sold is, is
- a) Product market
  - b) Factor market**
  - c) Commodity market
  - d) Monopoly market
50. Factor prices are determined in the market under forces of
- a) Elasticity of demand
  - b) Elasticity of supply
  - c) Elasticity and supply
  - d) None of the above**
51. The firm is in equilibrium in the factor market when it employs units of labour upto the point where
- a) The marginal revenue product of labour is equal to its marginal cost**
  - b) The marginal revenue product of labour is more than its marginal cost
  - c) The marginal revenue product of labour is less than its marginal cost
52. A market system, where there is only one seller is known as
- a) Monopoly**
  - b) Monopolistic competition
  - c) Oligopoly
  - d) Monopsony
53. Equilibrium in the factor market achieved at the factor price and factor quantity is given by
- a) The intersection of the factor demand curve and the factor supply curve**
  - b) The sum total of the elasticities of demand and supply
  - c) The product of the elasticities of demand and supply
54. Monopsony means
- a) A single seller
  - b) A single buyer**
  - c) Large number of buyers
  - d) None of the above
55. Monopoly means
- a) A single seller**
  - b) A single buyer
  - c) Large number of buyers
  - d) None of the above
56. Factor prices are determined in the factor market under the forces of
- a) Marginal productivity
  - b) Elasticity of demand
  - c) Elasticity of supply
  - d) Demand and supply**
57. The labour market equilibrium determines the wage rate and
- a) Investment
  - b) Employment**
  - c) Savings
  - d) Profits

58. Equilibrium conditions for factor market is  
 (a) **Demand for factors is equal to supply of factors**  
 (b) Demand for factors is less than supply of factors  
 (c) Demand for factors is more than supply of factors  
 (d) None of the above
59. Demand for factor of production is  
 a) Supplementary demand      b) Intermediate goods  
 c) **Derived demand**      d) Complementary demand
60. Factor market will be in equilibrium when  
 a) Demand for factors is less than its supply  
 b) **Demand for factors is equal to supply of factors**  
 c) Supply of factors is less than for it  
 d) All of the above
61. Which of the following is not a factor of production?  
 a) Land      b) Labour  
 c) **Money**      d) Capital
62. A monopolist maximizes profit by producing the quantity at which  
 a) **marginal revenue equals marginal cost.**      b) marginal revenue equals price.  
 c) marginal cost equals price.      d) marginal cost equals demand.
63. The supply of a good refers to:  
 a) Stock available for sale  
 b) Total stock in the warehouse  
 c) Actual Production of the good  
 d) **Quantity of the good offered for sale at a particular price per unit of time**
64. The cost of one thing in terms of the alternative given up is called:  
 a) Real cost      b) **opportunity cost**  
 c) Production cost      d) Physical cost
65. The producer's demand for a factor of production is governed by the \_\_\_\_ of that factor.  
 a) Price      b) **Marginal Productivity**  
 c) Availability      d) Profitability
66. Under conditions of perfect competition in the product market:  
 a) **MRP=VMP**      b)  $MRP > VMP$   
 c)  $VMP > MRP$       d) None of the above
67. In a perfectly competitive market a firm in the long run will be in equilibrium when:  
 a)  $AC = MC$       b)  $AR = MR$   
 c)  $MR = MC$       d) **Price=AR=MR=AC=MC**
68. Which of the following is a characteristic of capital as a factor of production?  
 a) It is fixed in supply      b) It never depreciates  
 c) **It is a passive factor of production**      d) It is an active factor of production



- b) Decrease in equilibrium price and increase in equilibrium quantity
- c) No change in equilibrium price and increase in equilibrium quantity**
- d) Increase in equilibrium price and no change in equilibrium quantity

81. Every factor of production gets reward equal to:

- a) Value of average product
- b) Value of marginal product**
- c) Value of total product
- d) Total revenue

82. Under perfect competition, demand for a factor is its:

- a) MRP curve**
- b) ARP curve
- c) TRP curve
- d) TR – TC

83. We should employ units of a factor to a point where:

- a) MR is negative
- b) MP is equal to price of the factor**
- c) MP is positive
- d) MP is rising

84. If marginal product of labour rises because of new technology:

- a) Wages will rise**
- b) Wages will fall
- c) Wages will be unaffected
- d) May rise or fall

85. Increasing the minimum wage for workers will:

- a) Sole the unemployment problem
- b) Result in scarcity of workers
- c) Cause a substitution of capital for labour**
- d) Decrease the MP of those workers

86. The price of capital is

- (a) money
- (b) Interest**
- (c) profits
- (d) wages

87. If  $MRP > \text{Price of the factor}$ : firm should hire

- (a) less factors
- (b) more factors**
- (c) the same factors
- (d) All of the above

88. If  $MRP = \text{Price of the factor}$ : firm should \_\_\_\_\_ at the unit of factor

- (a) less factors
- (b) more factors
- (c) stop hiring more**
- (d) All of the above

89. If  $MRP < P$  of the factor, firm should hire

- (a) less factors**
- (b) more factors
- (c) the same factors
- (d) All of the above

90. The labour market equilibrium determines the wage rate and

- (a) market
- (b) employment**
- (c) money
- (d) interest

91. Union leaders are in a worse position to bargain for higher wages if demand for labour is

- a) perfectly Elastic**
- b) perfectly Inelastic
- c) Very large
- d) permanent

## UNIT-V

161. The basis of trade between countries lies in the  
 a) Difference in monetary standard      b) Difference in political system  
 c) **Difference in resource endowment**      d) None of the above
162. One similarity between international trade and inter-regional trade is that in general both must overcome  
 a) The difference in language      b) Tariffs  
 c) **Distance or space**      d) The difference in currencies
163. The basis of trade between countries lies in the  
 a) The difference in factor endowment      b) The difference in money standard  
 c) Difference in political system      d) **All of the above**
164. The absolute advantage theory of international trade is associated with  
 a) David Ricardo      b) **Adam Smith**  
 c) Samuelson      d) Heckscher-Ohlin
165. Trade between nations occur due to  
 a) Difference in monetary      b) **Difference in resource endowment**  
 c) Difference in political status      d) Difference in population
166. Adam Smith propounded the theory of  
 a) Comparative cost      b) Opportunity cost  
 c) **Absolute advantage in international trade**      d) None of the above
167. David Ricardo propounded theory of  
 a) Law of reciprocal demand      b) Absolute theory of international trade  
 c) **Comparative theory of international trade**      d) None of the above
168. In Heckscher-Ohlin model, factor abundance have been defined in two terms. Those are  
 a) Price and location criteria      b) Physical and location criteria  
 c) **Price and physical criteria**      d) None of the above
169. The absolute advantage theory of international trade is associated with  
 a) David Ricardo      b) **Adam Smith**  
 c) Alfred Marshall      d) Heckscher-Ohlin
170. Trade among different regions within the same country is known as  
 a) International trade      b) **Interregional trade**  
 c) Bilateral trade      d) Trilateral trade
171. Heckscher-Ohlin theory of international trade is based on  
 a) Factor price equalization      b) Absolute advantage  
 c) **Factor endowment differentials**      d) Labour productivity
172. The main objective of international trade is  
 a) **To maximize production**      b) To remove political bondage  
 c) To establish world bank      d) To remove poverty
173. Import quota implies  
 (a) Physical limitation of quantities of goods traded to other countries  
 (b) **Physical limitation of quantities of goods traded from other countries**

- (c) A duty imposed by the government upon the goods traded
- (d) All of the above

174. According to Heckscher-Ohlin theory as a result of international trade, the difference in factor price between nations

- (a) **diminishes**
- (b) increases
- (c) is constant
- (d) All of the above

175. The imposition of an import tariff by a nation usually

- (a) improves the nation's terms of trade and increases the volume of trade
- (b) worsens the nation's terms of trade but increases the volume of trade
- (c) **improves the nation's terms of trade but reduces the volume of trade**
- (d) None of the above

176. If a nation has a comparative advantage in the production of a good,

- (a) **it can produce that good at a lower opportunity cost than its trading partner.**
- (b) it can benefit by restricting imports of that good
- (c) it can produce that good using fewer resources than its trading partner.
- (d) it must be the only country with the ability to produce that good

177. According to the principle of comparative advantage,

- (a) countries should specialize in the production of goods that they enjoy consuming.
- (b) **countries should specialize in the production of goods for which they have a lower opportunity cost of production than their trading partners.**
- (c) countries with a comparative advantage in the production of every good need not specialize.
- (d) countries should specialize in the production of goods for which they use fewer resources in production than their trading partners.

178. Suppose a country's workers can produce 4 watches per hour or 12 rings per hour. If there is no trade,

- (a) the domestic price of 1 ring is 1/4 of a watch.
- (b) the domestic price of 1 ring is 3 watches.
- (c) **the domestic price of 1 ring is 1/3 of a watch.**
- (d) the domestic price of 1 ring is 12 watches

179. Suppose the world consists of two countries: the UK and Spain. Further, suppose there are only two goods--food and clothing. Which of the following statements is true?

- (a) If the UK has an absolute advantage in the production of food, then Spain must have an absolute advantage in the production of clothing.
- (b) If the UK has a comparative advantage in the production of food, Spain might also have a comparative advantage in the production of food.
- (c) If the UK has a comparative advantage in the production of food, it must also have a comparative advantage in the production of clothing
- (d) **If the UK has a comparative advantage in the production of food, then Spain must have a comparative advantage in the production of clothing**

180. Who propounded the opportunity cost Theory of international trade?

- (a) Ricardo
- (b) Marshall
- (c) Heckscher & Ohlin
- (d) **Haberler**

181. 'Infant industry argument' in international trade is given in support of:  
(a) **Granting Protection**      (b) Free trade  
(c) Curbing export      (d) None of the above
182. The Heckscher-Ohlin approach to international trade provides important insights, in  
(a) Gains from trade  
(b) Effect of trade on production and consumption  
(c) Effect of trade on the incomes of production factors  
(d) **All of the above**
183. Which of the following trade policies limits specified quantity of goods to be imported at one tariff rate.  
(a) **Quota**      (b) Import tariff  
(c) Specific tariff      (d) All of the above
184. In the 2-factor, 2 good Heckscher-Ohlin model, the two countries differ in  
(a) Military capabilities  
(b) labour productivities  
(c) **relative availabilities of factors of production**  
(d) tastes
185. According to Ricardo, a country will have a comparative advantage in:  
(a) Industries in which there are neither imports nor exports  
(b) import competing industries  
(c) **Industries that sell to domestic and foreign buyers**  
(d) industries that sell to only foreign buyers
186. Nations conduct international trade because:  
(a) Some nations prefer to produce one thing while others produce other things.  
(b) **Resources are not equally distributed among all trading nations.**  
(c) Trade enhances opportunities to accumulate profits.  
(d) Interest rates are not identical in all trading nations
187. Which of the following is a determinant of trade?  
(a) Tastes      (b) Per capita income  
(c) Technological change      (d) **All of the above**
188. Which of the following is not a benefit of international trade?  
(a) **High wage levels for all domestic workers**  
(b) Lower domestic prices  
(c) Development of more efficient methods and new products.  
(d) A greater range of consumption choices.

189. Who benefits from tariff protection?
- (a) Domestic consumers on the good produced
  - (b) Domestic producers of the good produced**
  - (c) Foreign producers of the good produced
  - (d) Foreign consumers of the good produced.
190. A closed economy is one in which:
- (a) Imports exactly equal exports, so that trade is balanced.
  - (b) Domestic firms invest in industries overseas.
  - (c) The home economy is isolated from foreign trade**
  - (d) Saving exactly equals investment at full employment.
191. What determines the pattern of specialisation and trade in industries with external economies of scale?
- (a) Product differentiation
  - (b) Monopolistic competition
  - (c) Historical competition**
  - (d) None of the above
192. David Ricardo's trading principle emphasis the:
- (a) Demand side of the market
  - (b) supply side of the market
  - (c) role of comparative costs**
  - (d) role of absolute costs
193. Under Heckscher-Ohlin Model, international trade can lead to increases in:
- (a) Consumer welfare only if output of both products is increased
  - (b) Output of both products and consumer welfare in both countries**
  - (c) Total production of both products, but not consumer welfare in both countries
  - (d) Consumer welfare in both countries, but not total production of both products.
194. A main advantage in specialisation results from:
- (a) Economies of large-scale production**
  - (b) The specializing country behaving as monopoly
  - (c) Smaller production runs resulting in lower unit costs.
  - (d) High wages paid to foreign workers.
195. The exchange of goods and services are known as
- (a) International Trade
  - (b) Trade**
  - (c) None of these
  - (d) Domestic Trade
196. Which is not an advantage of international trade:
- (a) Export of surplus production
  - (b) Import of defence material
  - (c) Dependence on foreign countries**
  - (d) Availability of cheap raw material

197. The first classical theory of International Trade is given by

- (a) Friedman
- (b) Keynes
- (c) **Adam Smith**
- (d) Heckscher-Ohlin

198. In classical theory of International Trade, the exchange of goods and services takes on the basis of ..... system?

- (a) **Barter**
- (b) Money
- (c) Labour
- (d) Capital

199. If capital is available in large proportion and labour is less, then that economy is known as

- (a) **Capital Intensive**
- (b) Labour Intensive
- (c) Both a. and b
- (d) None of above

200.. In Heckscher Ohlin theory, what is assumed to be same across the countries?

- (a) Capital
- (b) Labour
- (c) Transportation cost
- (d) **Technology**