BACHELOR OF ACCOUNTING AND FINANCE

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SEMESTER III

BUSINESS ECONMICS II

SAMPLE QUESTIONS

1. The theory of comparative cost advantage is put forward by _____.
a) Marshall
b) Mill
c) Haberler
d) David Ricardo
2. H-O theory of international trade is known as _____ theory.
a) Classical
b) Modern
c) Neo – classical
d) Opportunity cost
3. Terms of trade express the relationship between_____.
a) Export and import
b) Demand and supply
c) Export price and import price
d) Price
4. Commodity terms of trade is also known as _____.
a) Net barter terms of trade
b) Gross barter terms of trade
c) Income terms of trade
d) Utility terms of trade
5. Which of the following statement is true?
a) FDI causes greater technology transfers to developing countries than to developed countries.
b) FDI has little effect on technology transfers between countries, unlike other forms of international investment.
c) FDI is more likely to promote economic growth in countries that maintain protectionist trade policies protection increases the competitive need to innovate.
d) FDI causes fewer technology transfer to developing countries than to developed countries.
6. A multinational enterprise (MNE) is defined as a firm that:
a) Exports more than it imports.
b) Sells in many markets around the globe
c) Operate and controls production or distribution facilities in more than one country.

d) Has foreign stockholders.
7. An exchange rate is the.
a) Amount of foreign currency that can be bought
b) Price of one currency on the international market
c) Price of one currency against another currency
d) Amount other countries are willing to pay for your currency
8. The balance of trade is given by _____.
a) Income receipts minus income payments on investments
b) The balance of unilateral transfers.
c) Merchandise and service imports
d) Merchandise exports minus merchandise imports
9. People who practice arbitrage will create mutually consistent exchange rates if
a) They operate in a country that practice exchange controls
b) Exchange rates are set properly by government
c) Productivity increases in the economy of the country whose currency is being traded
d) They buy a currency in one market at a low price and then sell at a high price in another market
10. In an economy's balance of payments account, _____
a) The capital and current accounts must add to one
b) The current account is always greater than the capital account
c) Both the balance on current account and the balance on capital account are zero
d) The capital plus current account balances must equal zero
11. Which of the following is NOT part of the balance of payments?
a) The current account
b) The financial account
c) The capital account
d) The treasury account
12. How might a government attempt to reduce a medium term balance of payments deficit?
a) By reducing foreign exchange holdings
b) By restructuring the macro economy
c) By seeking a loan from the IMF
d) By allowing overseas business to takeover certain sector of the economy
13. Arbitrageurs in foreign exchange markets
a) Attempt to make profits by outguessing the market
b) Take advantage of the small inconsistencies that develop between markets
c) Need foreign exchange in order to buy foreign goods
d) Make their profits through the spread between bid and offer rates of exchange.
14. Portfolio investments are included in_____.
a) Capital account balance
b) Current account balance
c) Trading account balance
d) None of these
15. Balance of payment should always _____.

a) Balance
b) Be surplus
c) Gain
d) Equal
16. Which of these not a part of unilateral transfer _____
a) Loan
b) Gift
c) Grand
d) Donation
17. It is not a disequilibrium in the BOP
a) Cyclical
b) Structural
c) Short run
d) Medium run
18. Which of the following is not a monetary measure to correct disequilibrium in BOP_____
a) Devaluation
b) Depreciation
c) Tariff
d) Deflation
19. Which of the following is not true for foreign exchange market _____
a) Existing of a central market place
b) High liquidity
c) Volatile market
d) Buying and selling of currency
20. Speculators and arbitrages are interested in _____.
a) Profit
b) Loss
c) Covering risk
d) Helping customer
21. Speculation in a foreign exchange mean_____.
a) Buying & selling foreign currency with the aim of profit
b) Buying currency with the aim of profit
c) Selling currency with the aim of profit
d) None of these
22. Hedging refers to the _____.
a) International capital flow
b) Avoidance of foreign exchange risk
c) A large firm
d) Foreign currency
23. The forward transaction is an agreement between_____.
a) Three parties
b) Two parties

c) Among themselves
d) Four number

24. A major characteristic of government is _____.
a) Anonymity
b) Resistance
c) Sovereignty
d) Homogeneity

25. Fiscal policy refers to the _____.
a) Government ability to regulate the functioning of financial markets.
b) Spending and taxing policies used by the government to influence the level of economy activity.
c) Techniques used by firms to reduce its tax liability
d) The policy by MAS to affect the cash rate.

26. Which of the following does NOT function as an automatic stabilizer _____.
a) The personal income tax system
b) Government expenditure on road building programmes
c) Unemployment benefit payments
d) The goods and service tax (GST)

27. An automatic stabilizer is
a) The tendency for inflation to fall as unemployment rises.
b) A monetary or fiscal policy that aims to smooth out the business cycle.
c) A tax or form of government expenditure that has the effect of reducing the size of business cycle fluctuations.
d) A policy for growth of an economy where the current account of the balance of payment is kept imbalance.

28. Which of the following is an example of discretionary fiscal policy?
a) An increase in unemployment benefit payment during a recession due to rising unemployment
b) The tax increases to combat rising inflation
c) A decrease in income tax receipts during a recession because incomes are falling
d) An increase in income tax receipts during an expansion because incomes are rising

29. Which of the following may be an appropriate policy if real equilibrium GDP falls below the long-run aggregate supply curve?
a) An increase in business income taxes to increase tax fairness
b) An increase in government purchase
c) An increase in individual income taxes to balance the budget
d) Contractionary fiscal policy to increase the budget surplus

30. To help fight a recession, the government could
a) Lower interest rates by decreasing the cash rate
b) Decrease taxes to increase aggregate demand
c) Conduct contractionary fiscal policy by raising taxes
d) Decrease government spending to balance the budget

31. If the economy were in recession, we would expect

a) Government expenditure to below and tax revenues to be low, probably leading to a budget surplus
b) Government expenditure to be high and tax revenues to be low, probably leading to a budget surplus
c) Government expenditure to be high and tax revenues to be low, probably leading to a budget deficit
d) Government expenditure to be high and tax revenues to be high, probably leading to a budget deficit

32. If the government wants to try to reduce unemployment, it could _____ spending and/or taxes should be_____.
a) Decrease; increase
b) Increase ; increased
c) Decrease ; decreased
d) Increased ; decreased

33. The concept of functional finance is coined by _____
a) Hugh Dalton
b) A.P Larner
c) Musgrave
d) Keynes

34. _____ implies that the government which spends the least is the best,
a) Sound finance
b) Public finance
c) Private finance
d) Functional finance

35. The word cannon of taxation refers to _____.
a) Principle
b) Policy
c) Practice
d) Promotion

36. The tax _____ the purchasing power of the tax pay.
a) Increase
b) Decrease
c) Neutralizes
d) Equal

37. All public loans are _____ compulsory
a) Voluntary
b) Annually
c) Monthly
d) Weekly

38. Which is the fourth budget of Modi government and the 87th budget_____.
a) Budget 2015-16
b) Budget 2016 – 17
c) Budget 2017 – 18

d) Budget 2018 – 19

39. How much has been allotted for the infrastructure sector for 2017 -18 _____.
a) Rs. 2,96,144
b) Rs.5,87,256
c) Rs. 1,76,354
d) Rs. 3,96,13

40. Union budget 2017 – 18 has introduced SANKALAP which stands for?
a) Skill acquisition and knowledge awareness for livelihood promotion program
b) Smart city land acquisition awareness program
c) Skill acquisition and knowledge awareness for life programe
d) Small scale knowledge promotion.

41. Which of the following is a union tax
a) Corporation tax
b) Taxes on agriculture income
c) Capitation taxes
d) Land revenues

42. The difference between revenue expenditure and revenue receipts is
a) Revenue deficit
b) Fiscal deficit
c) Budget deficit
d) Primary deficit

43. Fiscal solvency is a government ability _____ debts.
a) To postpone
b) To pay
c) To refuse
d) To withdraw

44. Which one of the following is not a function of money _____.
a) Store of value
b) Unit of account
c) Standard of deferred payment
d) Means of barter

45. Money supply M3 includes _____.
a) M3 = C + DD + OD
b) M3 = C + DD + Deposits with post office
c) M3 = M1 + Time deposits with the banks
d) M3 = C + DD + SS

46. The quantity theory of money is a theory of _____
a) How the money supply is determined
b) How interest rates are determined
c) How the nominal value of aggregate income is determined
d) How the money demand is determined

47. The velocity of money is _____.

a) The average number of times that a money is spent in buying the total amount of final goods and services.
b) The ratio of the money stock to high – powered money
c) The ratio of the money stock to interest rates
d) Demand money

48. If the money is 500 and nominal income is 3,000, the velocity of money is _____.
a) 60
b) 6
c) 1/6
d) Undefined

49. The velocity of money is defined as _____.
a) Real GDP divided by the money supply
b) Nominal GDP divided by the money supply
c) Real GDP times the money supply
d) Nominal GDP times the money supply

50. Irving Fisher took the view that the institutional features of the economy which affect velocity change _____ over time so that velocity will be fairly _____ in the short run.
a) Rapidly ; erratic
b) Rapidly ; stable
c) Slowly ; stable
d) Slowly ; erratic

51. According to the quantity theory of money demand _____
a) An increase in interest rates will cause the demand for money to fall.
b) A decrease in interest rates will cause the demand for money to increase.
c) An increase in money will cause the demand for money to fall.
d) Interest rates have no effect on the demand for money.

52. The Keynesian theory of money demand emphasizes the importance of _____.
a) A constant velocity.
b) Irrational behavior on the part of some economic gents.
c) Interest rates on the demand for money.
d) A constant demand

53. The demand for money as a cushion against unexpected contingencies is called the _____.
a) Transactions motive
b) Precautionary motive
c) Insurance motive
d) Speculative motive

54. Of the three motives for holding money suggested by Keyne's, which did he believe to be the most sensitive to interest rates _____.
a) The transactions motive
b) The precautionary motive
c) The speculative motive
d) The altruistic motive

55. Monetary policy refers to _____.
a) Central bank
b) Commercial bank
c) Regional rural bank
d) RBI
56. Primary objective of monetary policy is _____.
a) Economic growth
b) Economic development
c) Price stability
d) Price stability + Growth
57. Not an instrument of monetary policy of _____.
a) Repo rate
b) Reverse Repo Rate
c) Developed infrastructure
d) Marginal standing facility
58. Demand pull inflation occurs when _____
a) Imports exceed exports
b) Aggregate demand rises more rapidly than the economy's productive potential
c) Supply function'
d) Demand analysis
59. Low inflation is characterized by which of the following
a) People trust money
b) Prices rising slowly and predictably
c) People are willing to write long – term contracts in money terms
d) People does not trust money
60. How many countries adopt inflation targeting _____
a) 14
b) 28
c) 38
d) 7
61. Inflation targeting was first adopted by _____.
a) The RBI of Sweden
b) The RBI of U.K.
c) The RBI of USA
d) The RBI New Zealand
62. The neo-classical approach the demand for money function is written as _____.
a) $MV = k\,Y$
b) $MV = PT$
c) $M = M1 + M2$
d) $L2 = f\,(r)$
63. Reverse Repo rate absorbs _____.
a) Liquid asset
b) Securities

c) Liquidity
d) Tangible asset

64. During Recession
a) Bank credits grow rapidly
b) Growth rate is below the level
c) Idle funds are channelized into productive areas
d) Growth rate may remain above the steady growth

65. At the peak
a) Prosperity begins
b) Recession ends
c) Prosperity ends
d) Depression ends

66. There is no beginning or ending point in _____
a) National Income
b) Per capita Income
c) National consumption S
d) Circular flow

67. Green accounting can play a crucial role in the _____
a) Sustainable development
b) Economic development
c) Rural development
d) Urban development

68. GNP _____.
a) GDP + Income from abroad
b) GDP + Income from India
c) GDP / Net factor income from abroad
d) GDP + Income from abroad – depreciation

69. Multiplier K = _____
a) 1/1 – MPC
b) I/C
c) $\Delta S/\Delta Y$
d) I – C

70. Keynesian economics is _____
a) Micro economics
b) Macro economics
c) Monetary economics
d) Welfare economics

71. Commodity terms of trade is also known as _____
a) Gross barter terms of trade
b) Net barter terms of trade
c) Income terms of trade
d) Utility terms of trade

72. Which statement is true _____

a) National expenditure = National Income
b) National Expenditure = National Income + National savings
c) National Expenditure = National Income + Taxes
d) National Expenditure = National Income – Taxes

73. There are methods of measuring national Income _____
a) 5
b) 3
c) 2
d) 6

74. If we compare GDP and GNP, then _____.
a) GNP = GDP – Net income from abroad
b) GNP = GDP + net income from abroad
c) GNP = NNP – net income from abroad
d) GNP = NNP + net income form abroad

75. GDP stands for _____
a) Gross Domestic Progress
b) Grand development plan
c) Gross Domestic product
d) Gross domestic plan

76. The average propensity to consume is measured by _____.
a) C/Y
b) C * Y
c) Y/C
d) C + Y

77. An increase in the marginal propensity to consume will_____
a) Lead to the consumption function becoming steeper
b) Shift the consumption function upwards
c) Shift the consumption function downwards
d) Shift the savings function upwards

78. An increase in consumption at any given level of income is likely to lead to _____
a) Higher aggregate demand
b) An increase in exports
c) A fall in taxation revenue
d) A decrease in import spending

79. Lower interest rates are likely to _____
a) Decrease consumption
b) Increase cost of borrowing
c) Encourage saving
d) Increase borrowing and spending

80. In a Macroeconomics model without foreign trade or a government, aggregate demand is the sum _____
a) Personal saving and private investment
b) Personal saving and personal consumption

c) Personal consumption private investment
d) Government consumption

81. The multiplier tells us how much _____ changes after a shift in _____
a) Consumption, Income
b) Investment, output
c) Savings, investment
d) Output, aggregate

82. The multiplier is calculated as
a) 1/(1-MPC)
b) 1/MPS
c) 1/MPC
d) 1/(1-MPC) 1/MPC

83. If the MPC s 0.5, the multiplier is _____
a) 2
b) ½
c) 0.2
d) 20

84. In a circular flow economy firms supply _____
a) Labour
b) Goods and services
c) Land
d) Cost

85. An economy which has no foreign trade is known as _____.
a) Closed economy
b) Investment
c) Closed
d) Leakages

86. _____ is an injection into the circular flow of income.
a) Investment
b) Closed
c) Leakages
d) Injections

87. In a _____ economy, GDP = GNP
a) Investment
b) Closed
c) Leakages
d) Injections

88. Taxes are _____ in the circular flow of income.
a) Investment
b) Closed
c) Leakages
d) Injections

89. _____ increase the circular flow of income.

e) Investment
f) Closed
g) Leakages
h) Injections

90. Macro economics is derived from the Greek work _____.
a) Investment
b) Closed
c) Whole economy
d) Makros

91. Macro economics deals with _____.
a) Investment
b) Closed
c) Makros
d) Whole economy

92. National income is the flow of goods and services produces in an economy in course of _____.
a) A year
b) A month
c) Six month
d) Eight month

93. Green accounting can play a crucial role in the _____.
a) Sustainable development
b) Economic development
c) Rural development
d) Urban development

94. National income of a country is the total market value of _____ goods and services produced in the economy during a year.
a) Final
b) Intermediate
c) Between
d) First

95. GNI in an open economy is equal to _____.
a) $GDP + (X - M)$
b) $GDP + (X - M) + R - P$
c) $GDP + (R - P)$
d) $GDP + GNP$

96. Net factor income from abroad is ____ in GNP.
a) Included
b) Excluded
c) Capital
d) Income

97. Gross domestic product at factor cost _____ indirect taxes.
a) Excluded
b) Capital
c) Income
d) Include

98. Gross national product at market prices _____ subsidies.
a) Income
b) Exclude
c) Domestic
d) Flow

99. NEW stands for _____.
a) Net economic welfare
b) Included
c) Exclude
d) Loss

100. National income is a _____ concept.
a) Flow
b) Income
c) Loss
d) Include