



**SEBI GRADE A**

**50 MOST  
IMPORTANT  
ECONOMICS  
MCQS**

**FREE PRACTICE QUESTIONS**



**FOR SEBI GRADE A EXAM**

## SEBI Grade A and RBI Grade B 2020

## Lecture 1



Coverage:  
Economics-Part 1

The background of the slide is a photograph of a sunset or sunrise over a mountain range. The sky is a mix of dark blue, orange, and yellow. The mountains are silhouetted against the bright sky. In the foreground, there is a body of water reflecting the light from the sky.

**What is success? It is being  
able to go to bed each night  
with your soul at peace.**

Paulo Coelho

 quote fancy

### Question No.1

Q.1) Which of the following is a tabulated statement that indicates different quantities of commodity that would be demanded at different prices?(1M)

- A) Law of Demand
- B) Demand Schedule
- C) Demand Curve
- D) Demand Elasticity
- E) None of the above

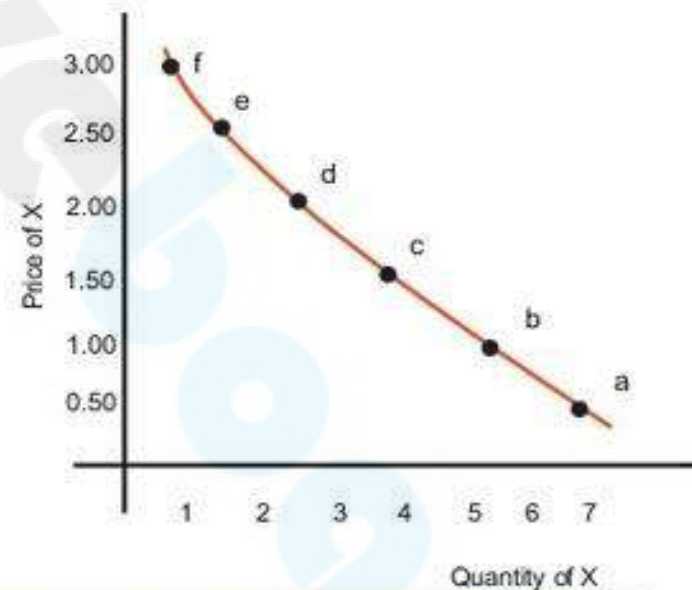
**Answer: Option B**

## Demand Schedule and Individual Demand Curve

**Demand Schedule**

Point	Price [Rs per unit]	Quantity demanded of X [kg. per month]
a	0.50	7.0
b	1.00	5.0
c	1.50	3.5
d	2.00	2.5
e	2.50	1.5
f	3.00	1.0

**Demand Curve**



### Question No.2

Q.2) Which among the following is also called as Prestige Goods Effect?(1M)

- A) Veblen Effect
- B) Giffen Goods Effect
- C) Philips Effect
- D) A and B
- E) None of the above

**Answer: Option A**

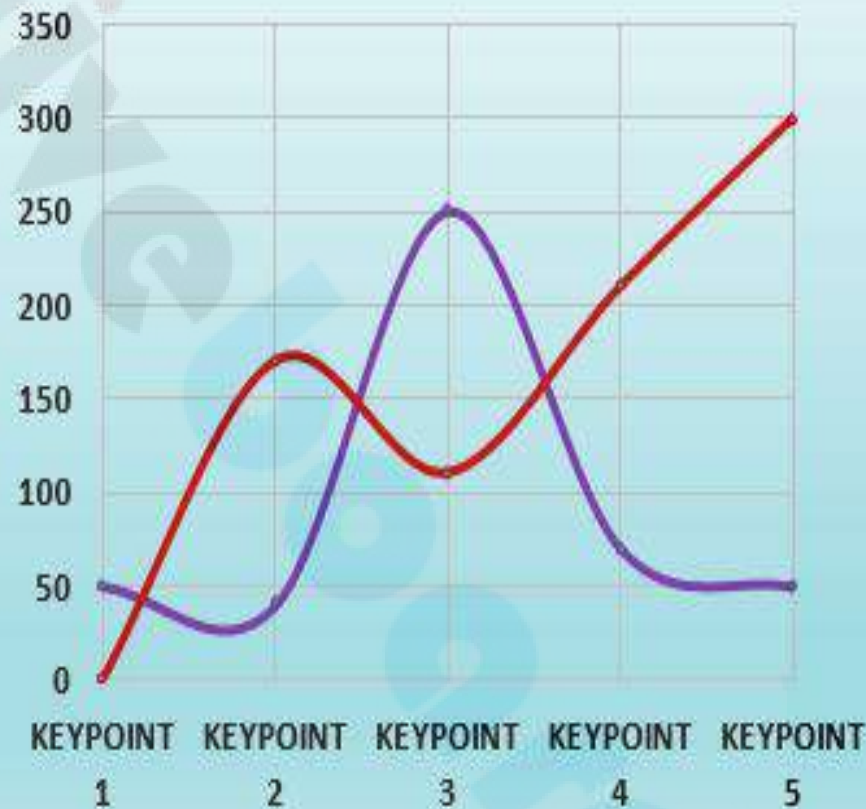


## Veblen Goods

Veblen Goods are the kinds of luxury goods that result from a price rise in demand.

### Types of Veblen Goods

- 01 **Invidious Comparison**  
It indicates a person's inclination not to be perceived as a lower-class member.
- 02 **Pecuniary Emulation**  
It indicates a person's willingness to be viewed as an upper-class member.



### Question No.3

Q.3) Unitary Elastic Demand is related with which of the following?(1 M)

- A) Cross Elasticity of Demand
- B) Income Elasticity of Demand.
- C) Price Elasticity of Demand
- D) A and B.
- E) B and C

**Answer: Option C**



## PRICE ELASTICITY OF DEMAND

TYPES OF PRICE  
ELASTICITY OF DEMAND

1

PERFECTLY  
ELASTIC DEMAND

2

PERFECTLY  
INELASTIC DEMAND

3

RELATIVELY  
ELASTIC DEMAND

4

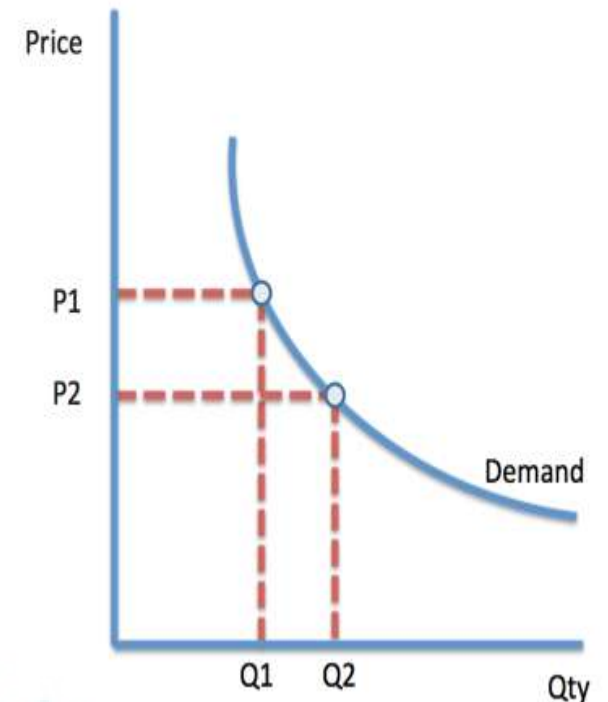
RELATIVELY  
INELASTIC DEMAND

5

UNITARY  
ELASTIC DEMANDUnitary Elastic Demand ( $P_{ed} = 1$ )

A demand curve with unitary price elasticity has a coefficient of PED equal to 1 (unity) throughout

- With a demand curve of unitary price elasticity, a change in price is met with a proportionate change in demand
- This means that total spending by consumers on the product will remain the same at each price level

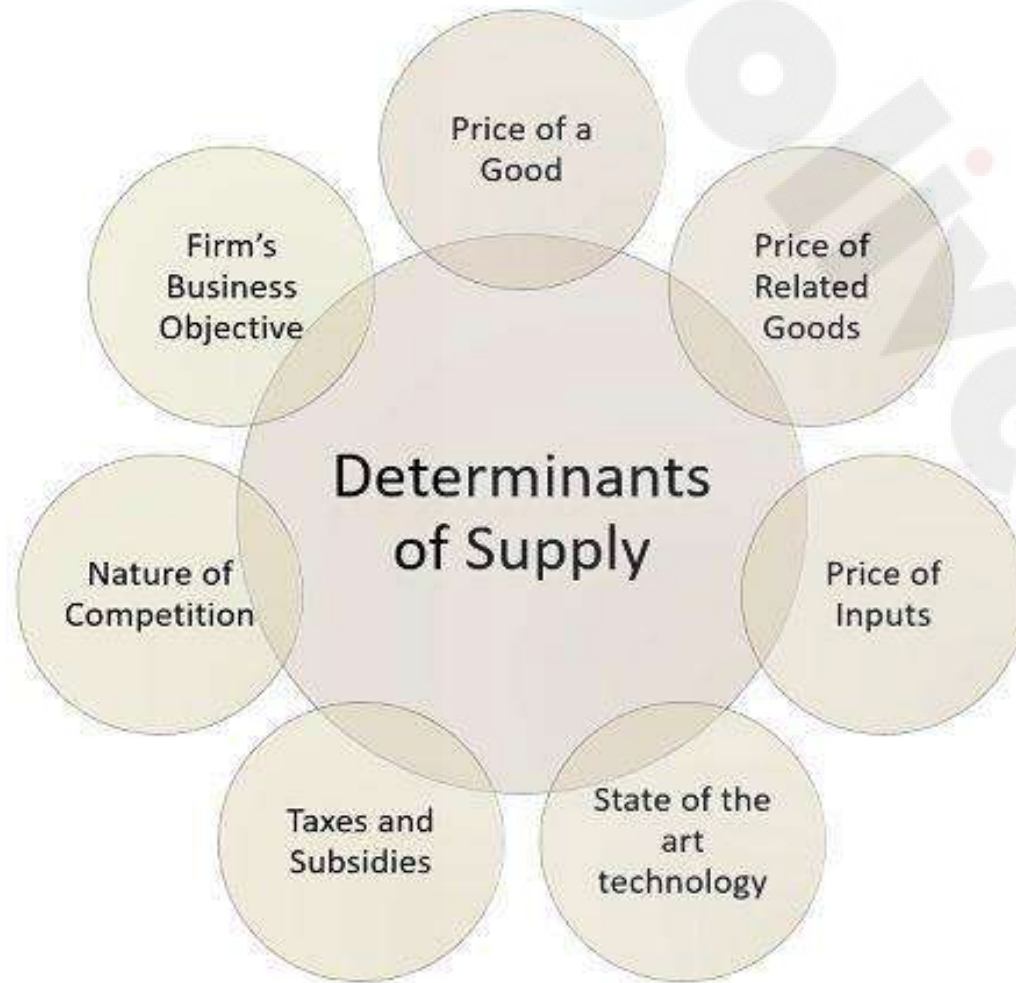


### Question No.4

Q.4) Which of the following are conditions are exception to the Law of Supply ?(1 M)

- A) A market ruled by single seller.
- B) Huge Competition.
- C) Hoarding
- D) Auction Goods
- E) All of the above

**Answer: Option E**



## EXCEPTIONS TO SUPPLY

1. MONOPOLY MARKET
2. COMPETITION
3. PERISHABLE GOODS
4. GOVT POLICIES
5. ARTISTIC AND AUCTION GOODS
6. HOARDING

### Question No.5

Q.5) When a when a greater change in price leads to smaller change in quantity supplied ,it is called as\_\_\_\_\_? (1 M)

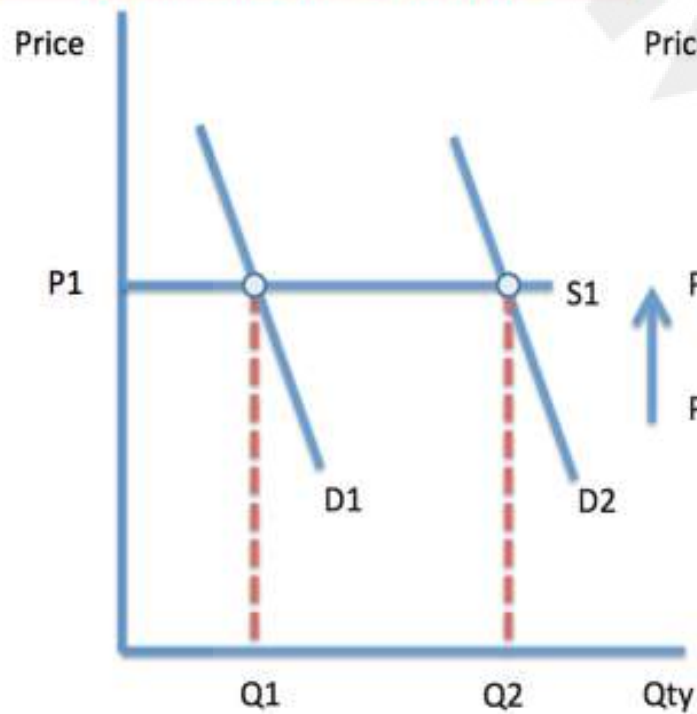
- A) Perfectly Elastic Supply
- B) Perfectly Inelastic Supply
- C) Relatively Elastic Supply
- D) Relatively Inelastic Supply
- E) Unitary Elastic Supply

**Answer: Option D**

## Perfectly Elastic and Perfectly Inelastic Supply Curves

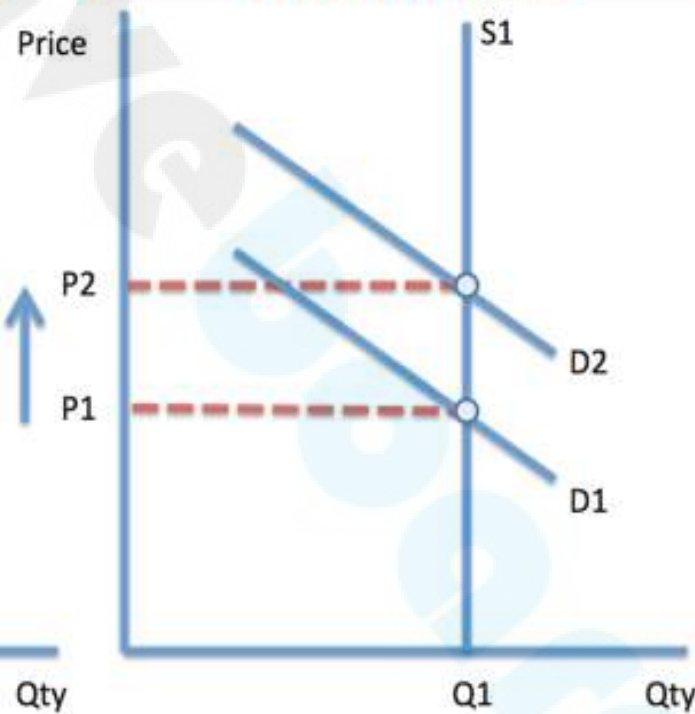
Perfectly elastic supply

An increase in demand can be met without any change in price



Perfectly inelastic supply

Supply is fixed and cannot respond to a change in demand



### Question No.6

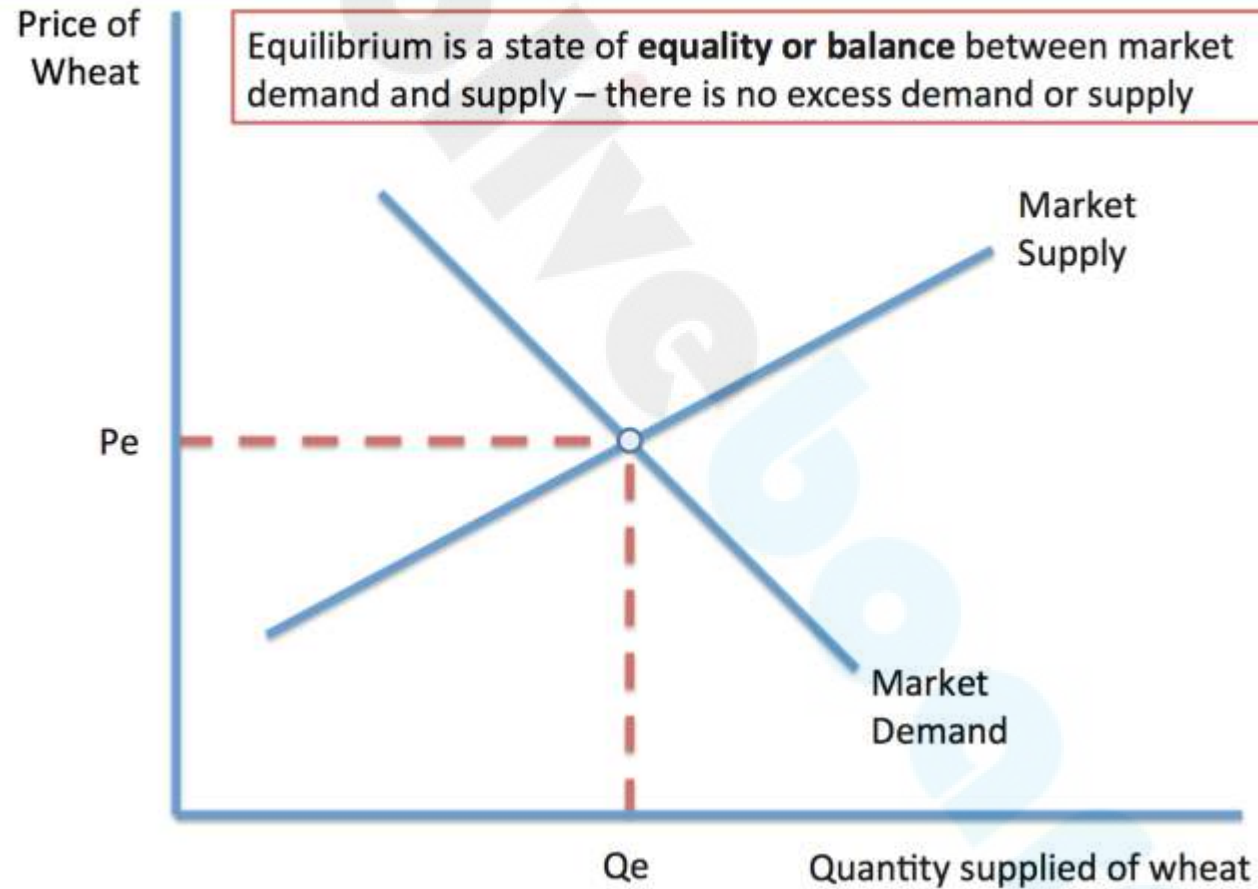
Q.6) Which of the following situations best explains the Equilibrium Price?(1M)

- A) When every customer who wishes to buy the product at the market price is able to do so.
- B) When every customer who wishes to buy the product at the market price is unable to do so
- C) When Supplier is left with any unwanted inventory.
- D) A and B
- E) A and C

**Answer: Option E**



### Equilibrium Prices in a Supply and Demand Diagram

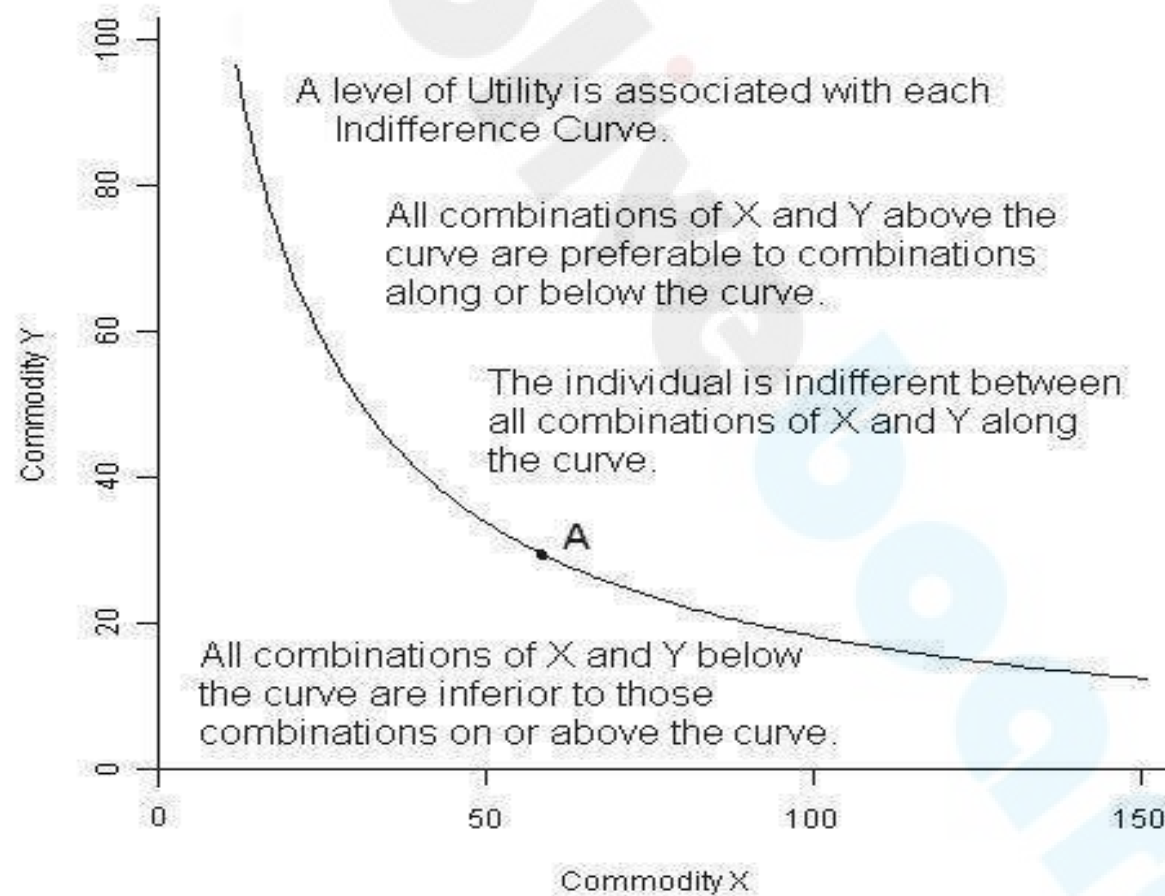


### Question No.7

Q.7) Which of the following is not a quantitative method of explaining consumer demand?(2 M)

- A) Law of Diminishing Marginal Utility
- B) Indifference Curve
- C) Total Utility Analysis
- D) A and C
- E) None of the above.

**Answer: Option B**

**Figure 1. An Indifference Curve**

### Question No.8

Q.8) Which of the following is a part of Intangible Capital?

- A) Raw Materials
- B) Workforce
- C) Durable Goods
- D) Intellectual Patent Rights
- E) B and D

**Answer: Option D**

An **intangible asset** is an asset that lacks physical substance.

Examples are **patents**, **copyright**, **franchises**, **goodwill**, **trademarks**, and **trade names**, as well as **software**.

This is in contrast to physical assets (machinery, **buildings**, etc.) and financial assets (government securities, etc.).

An intangible asset is usually very difficult to **evaluate**. They suffer from typical market failures of **non-rivalry** and **non-excludability**.



### Question No.9

Q.9) Which of the following refers to the change in the total product per unit change in the quantity of variable factor? (1 M)

- A) Total Product
- B) Average Product
- C) Marginal Product
- D) Gross Product
- E) None of the above

**Answer: Option C**



## Production - Total, Marginal and Average Product

- **Total Product** can be referred to as the sum total of the output of each unit of the variable factor used in the process of production.
- **Marginal Product** refers to the change in the total product when an additional unit of the variable factor is used, fixed factor remaining constant.
- **Average Product** refers to the Physical output per unit of the variable factor used in the production process.

Tutor's Tips



Total Product



Marginal Product



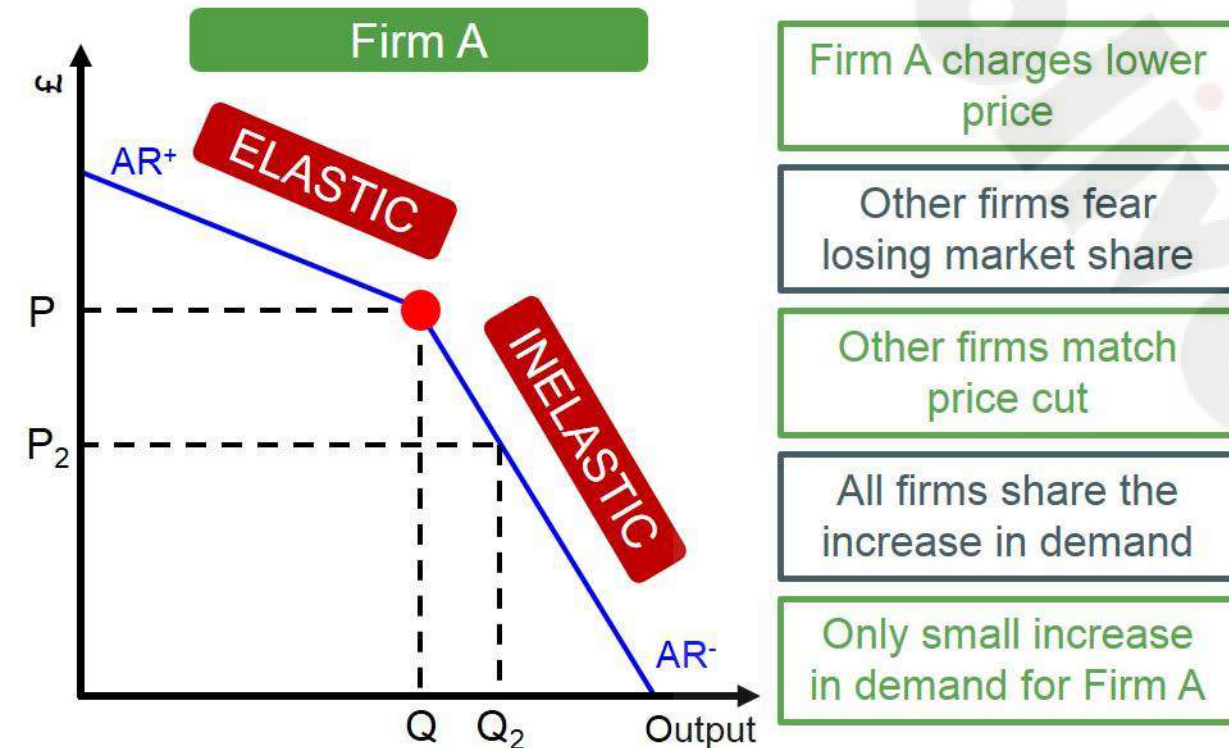
Average Product

### Question No.10

10) Which of the following is correct with respect to a kinked demand curve?(1M)

- A) It occurs when the demand curve is a straight line with same elasticity for higher and lower prices
- B) It occurs when the demand curve is not a straight line but has a different elasticity for higher and lower prices
- C) It occurs when the demand curve is not a straight line but has a different elasticity for higher and lower supplies.
- D) It occurs when the demand curve is a straight line but has same elasticity for higher and lower supplies.
- E)None of the above

**Answer: Option C**



## Kinked Demand Curve – Overview

On oligopoly firms have price-setting power but may be reluctant to use it

Rivals unlikely to match a price rise and rivals likely to match a price fall

If a firm is settled on one price, there may be little point in changing it

Even if costs change we often see price rigidity / stability in an oligopoly

This increases the importance attached to non-price competition

## EXERCISE QUESTIONS

### Question No.1

Q.1) In Short-Run Production Function , which of the following factors of production are constant?(1M)

- A) Land
- B) Labor
- C) Capital
- D) Entrepreneur
- E) None of the above

**Answer: Option C**

### Question No.2

Q.2) Which of the following are the features of the perfect market?(1M)

- A) Large number of Sellers and Buyers
- B) Presence of Homogenous Commodities
- C) Free Entry and Exit
- D) Very Low transport cost
- E) All of the above

**Answer: Option E**



### Question No.3

Q.3) Cournot Model ,Cartel Model and Price Leadership Model are type of which of the following market?(1M)

- A) Monopoly
- B) Duopoly
- C) Oligopoly
- D) Perfect Competition
- E) None of the above

**Answer: Option C**

## SEBI Grade A and RBI Grade B 2020

## Lecture 2

50 MOST IMPORTANT QUESTIONS  
FOR ECONOMICS

Coverage:  
Economics-Part 2

### Question No.1

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- A) Land
- B) Labor
- C) Capital
- D) Entrepreneur
- E) None of the above

**Answer: Option C**

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- C) Oligopoly
- D) Perfect Competition
- E) None of the above

**Answer: Option**



# CLARIFICATION OF DOUBTS

INDIFFERENCE CURVE-HOW IS IT NOT QUANTITATIVE?

## 1.6 Theory of Consumer Behavior

Total Utility and  
Marginal Utility



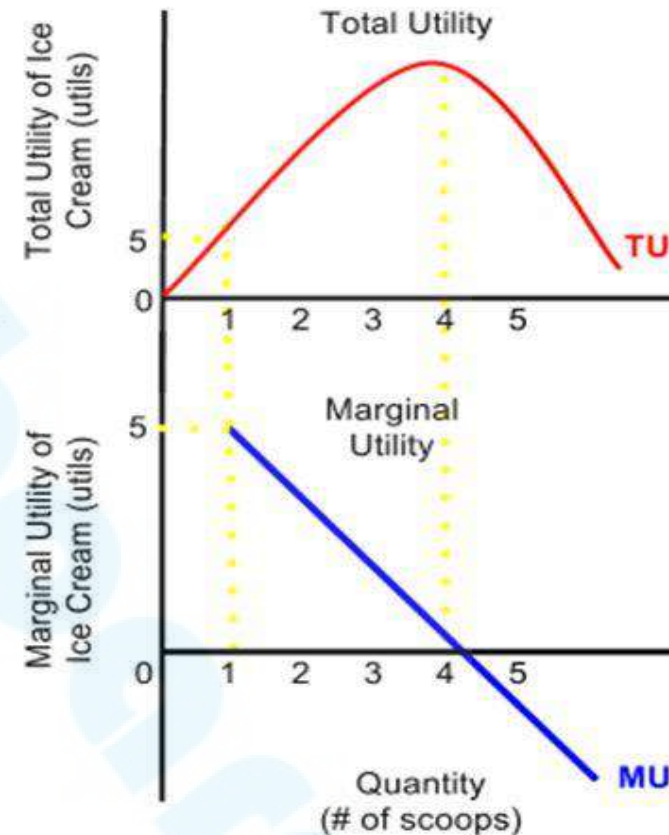
### The Law of Diminishing Marginal Utility

Recall from earlier units that demand for a particular good is *inversely related to the good's price*. One of the explanations for this relationship was the *law of diminishing marginal utility*, which states:

*The greater the level of consumption of a particular good, the less utility consumers derive from each additional unit of the good.*

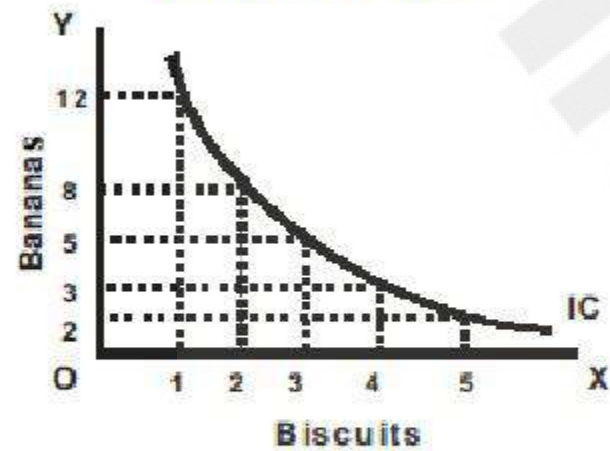
Consider the total and marginal utility one derives from consuming ice cream. Notice the following:

- The first scoop provides you with 5 utils, so  $TU = 5$  at  $Q=1$
- Additional scoops of ice cream provide you with *less and less additional happiness*. Nothing tastes quite as good as that first scoop! MU declines beyond the first scoop, but TU continues to increase, until...
- The fourth scoop: At four scoops your TU is maximized, but the 4<sup>th</sup> scoop provided you with no additional utility.
- Beyond four scoops, you've "had too much". TU begins decreasing while MU becomes negative.





**Figure**  
**Indifference Curve**



**Table Indifference Schedule**

Combination (Good X)	Biscuits (Good Y)	Bananas
A	1	12
B	2	8
C	3	5
D	4	3
E	5	2

**LETS BEGIN !**

### Question No.1

Q.1) Which of the following are not included in the calculation of Gross Domestic Product?(1M)

- A) Work performed within the family
- B) Black Market
- C) Transfer Payments
- D) Intermediate Goods and Services
- E) All of the above

**Answer: Option E**

**GDP** stands for **gross domestic product** and represents the total production of a nation within its domestic borders.

### **What's Not Included in the GDP**

So here is a list of things that are not included:

- Sales of goods that were produced outside our domestic borders
- Sales of used goods
- Illegal sales of goods and services (which we call the black market)
- Transfer payments made by the government
- Intermediate goods that are used to produce other final goods

### Question No.2

Q.2) Which among the following will be included as a part of Gross National Product(GNP)?(1M)

- A) Profits earned by Y, an Indian Company in UK
- B) Profits earned by X, a foreign Company in India
- C) Depreciation
- D) A and C
- E) B and C

**Answer: Option D**

**Gross National Product (GNP)** is referred to as the total value of all the goods and services produced by the residents and businesses of a country, irrespective of the location of production.

GNP takes into account the investments made by the businesses and residents of the country, living both inside and outside the country. It also takes into account the value of the products that are produced by the industries of domestic origin.

GNP does not take into consideration the incomes earned by the foreign nationals in the country and also any such products that are produced by a foreign company having manufacturing units in the country.

<b>GDP</b> <b>Gross Domestic Product</b>	<b>GNP</b> <b>Gross National Product</b>
Value of national output produced in a country. <ul style="list-style-type: none"><li>- National income</li><li>- National output</li><li>- National expenditure</li></ul>	$\text{GNP} = \text{GDP} + \text{net property income from abroad.}$
Includes income of foreign multinationals	Excludes income earned by multinational when profit is sent back to other country



### Question No.3

Q.3) Which of the following is considered as National Income(NI)?(1 M)

- A) Gross National Product at Factor Cost.
- B) Net National Product at Factor Cost.
- C) Gross National Product at Market Price.
- D) Net National Product at Market Price.
- E) Net Domestic Product at Factor Cost.

**Answer: Option B**

## Net National Product (NNP) at factor Cost

- For this, first find Net Indirect taxes
- Net Indirect Taxes = Indirect taxes – subsidies
- $\text{NNP at factor cost} = \text{NNP at market price} - \text{Net Indirect taxes}$
- The Net National Product (*NNP*) at factor cost is also commonly known as National Income
- Thus National Income i.e Net National Product at factor cost can be calculated from GDP using following formula

$$\text{NI} = \text{GDP}_{\text{Market Price}} + \text{Net factor Income} - \text{Depreciation} - \text{Net Indirect tax}$$

Difference between **Market Price** and **Factor Cost** is Net Indirect Taxes



### Question No.4

Q.4) Which of the following are included in Personal Income ?(1 M)

- A) Social Security Benifits
- B) Unemployment Compensation.
- C) Undistributed Corporate Profits
- D) A and C
- E) A and B

**Answer: Option E**



## Personal Income Formula

$$PI = \text{Salaries/Wages Received} + \text{Interest Received} + \text{Rent Received} + \text{Dividends Received} + \text{Any Transfer Payments}$$

$$PI = NI + \text{Income Earned But Not Received} + \text{Income Received But Not Earned}$$



### Question No.5

Q.5) Which of the following methods of national income shows unduplicated contribution by each industry to total output?(1 M)

- A) Value Added Method
- B) Income Method
- C) Expenditure Method
- D) A and B
- E) All of the above

**Answer: Option A**

## Value-Added Method

- The value-added method is one of the three methods of determining national income. The other two methods being the expenditure method and income method.
- The value-added method is also known as **product method or output method**, and its primary objective is calculating the national income by taking into account the value added to a product during the various stages of production.
- This method of calculating national income **arranges the economy into different categories of industries** such as transportation, fishing, agriculture, communication etc.

As this method focuses on **net value addition** by each of the components in production, therefore the following elements should be **excluded or subtracted from the output** of the enterprise.

- 1.Raw materials consumption
- 2.Capital consumption
- 3.Net Indirect Taxes

### Question No.6

Q.6) 'People demand to hold money balances to take advantage of future changes in the rate of interest'.

This is the consideration under which of the following theories of demand for money?(1M)

- A) Quantity Theory of Money
- B) Cambridge Approach
- C) Keynesian Theory of Money
- D) A and B
- E) A and C

**Answer:** Option C





## Keynesian Theories of Money Demand

- Keynes's Liquidity Preference Theory
- Why do individuals hold money? Three Motives
  - Transactions motive
  - Precautionary motive
  - Speculative motive
- Distinguishes between real and nominal quantities of money

### Question No.7

Q.7) 'Savings deposits with post office savings bank' is included in which of the following monetary aggregates?(2 M)

- A) M0
- B) M1
- C) M2
- D) M3
- E) M4

**Answer: Option C**

The Reserve bank of India calculates the four concepts of Money supply in India. They are called Monetary Aggregates or Money Stock Measures.

$$\mathbf{M2 = M1 + Post Office Savings.}$$

### Question No.8

Q.8) Which of the following is the most liquid of all the Monetary aggregates?

- A) M1
- B) M2
- C) M3
- D) M4
- E) M0

**Answer: Option A**

## M1 = Currency with the public + Demand Deposits of public in Banks

At any point of time, the money held with the **public** has two most liquid components

- **Currency Component:** This consists of all the coins and notes in the circulation
- **Demand Deposit Component:** Demand Deposit component is the money of the general public with the banks, which can be withdrawn by them using cheques, withdrawals and ATMs.

## Money supply aggregates in India

RBI calculates various concepts of money supply which are known as money supply aggregates or measures of monetary aggregates.

**M1:** Currency with public, i.e. coins and notes + demand deposits of public with banks. (very liquid assets)

- It is also known as **Narrow Money**

**M2:** M1 + Post office savings deposits

**M3:** M2 + Time deposits of the public with banks+ “Other” deposits with RBI

- It is also known as **Broad Money**.

**M4:** M3 + All other deposits with Post office

**M0:** Currency in circulation+ Bankers’ deposits with RBI+ “Other” deposits with RBI.

- It is also called **Reserve Money**.

### Question No.9

Q.9) Which of the following are included in 'Other deposits of RBI' component of M1? (1 M)

- A) Demand Deposits
- B) Currency
- C) IMF/World Bank Deposits
- D) Interbank Deposits
- E) All of the above

**Answer: Option C**



OD stands for **other deposits** with the RBI

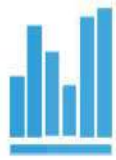


1. Demand **deposits** of public financial institutions
2. Demand **deposits** of foreign central banks and international financial institutions like IMF, World Bank, etc.

### Question No.10

Q.10) The ratio of change in consumption to the change in income is referred as ?(1M)

- A) Investment Function
- B) Replacement Consumption
- C) Average Propensity to Consume
- D) Marginal Propensity to Consume
- E) None of the above

**Answer: Option D**


$$\text{MPC Formula} = \frac{\text{Change in Consumer Spending}}{\text{Change in Income}}$$


- In **economics**, the **marginal propensity to consume (MPC)** is a metric that quantifies **induced consumption**, the concept that the increase in personal consumer spending occurs with an increase in **disposable income** (income after taxes and transfers).
- The proportion of disposable income which individuals spend on consumption is known as propensity to consume.
- MPC is the proportion of additional income that an individual consumes.
- For example, if a household earns one extra dollar of disposable income, and the marginal propensity to consume is 0.65, then of that dollar, the household will spend 65 cents and save 35 cents.
- According to **John Maynard Keynes**, marginal propensity to consume is less than one

## EXERCISE QUESTIONS

### Question No.1

Q.1) Which of the following are part of calculation of Disposable Personal Income(DI)?(1M)

- A)  $DI = \text{Personal Income} - \text{Direct Taxes}$
- B)  $DI = \text{Per Capita Income} - \text{Direct Taxes}$
- C)  $DI = \text{Personal Income} - \text{Indirect Taxes}$
- D)  $DI = \text{Per Capita Income} - \text{Indirect Taxes}$
- E) None of the above

**Answer: Option**

### Question No.2

Q.2) Which of the following is also called as Factor Payment Method ?(1M)

- A) Value Added Method
- B) Income Method
- C) Expenditure Method
- D) A and B
- E) B and C

**Answer: Option**

### Question No.3

Q.3) Which of the following factors does not influence Autonomous Investment?(1M)

- A) Income
- B) Government Policies
- C) Innovation
- D) Change in Population.
- E) All of the above

**Answer:** Option



## SEBI Grade A and RBI Grade B 2020

## Lecture 3

50 MOST IMPORTANT QUESTIONS  
FOR ECONOMICS

Coverage:  
Economics-Part 3

### Question No.1

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- A)  $DI = \text{Personal Income} - \text{Direct Taxes}$
- B)  $DI = \text{Per Capita Income} - \text{Direct Taxes}$
- C)  $DI = \text{Personal Income} - \text{Indirect Taxes}$
- D)  $DI = \text{Per Capita Income} - \text{Indirect Taxes}$
- E) None of the above

**Answer: Option A**

### Question No.2

Q.2) Which of the following is also called as Factor Payment Method ?(1M)

- A) Value Added Method
- B) Income Method
- C) Expenditure Method
- D) A and B
- E) B and C

**Answer: Option B**

### Question No.3

Q.3) Which of the following factors does not influence Autonomous Investment?(1M)

- A) Income
- B) Government Policies
- C) Innovation
- D) Change in Population.
- E) All of the above

**Answer: Option A**

### Question No.1

Q.1)'Supply created its own demand' is the consideration of which of the following theories?(1M)

- A) Keynes Law
- B) Philips Law
- C) Says Law
- D) Walras Law
- E) None of the above

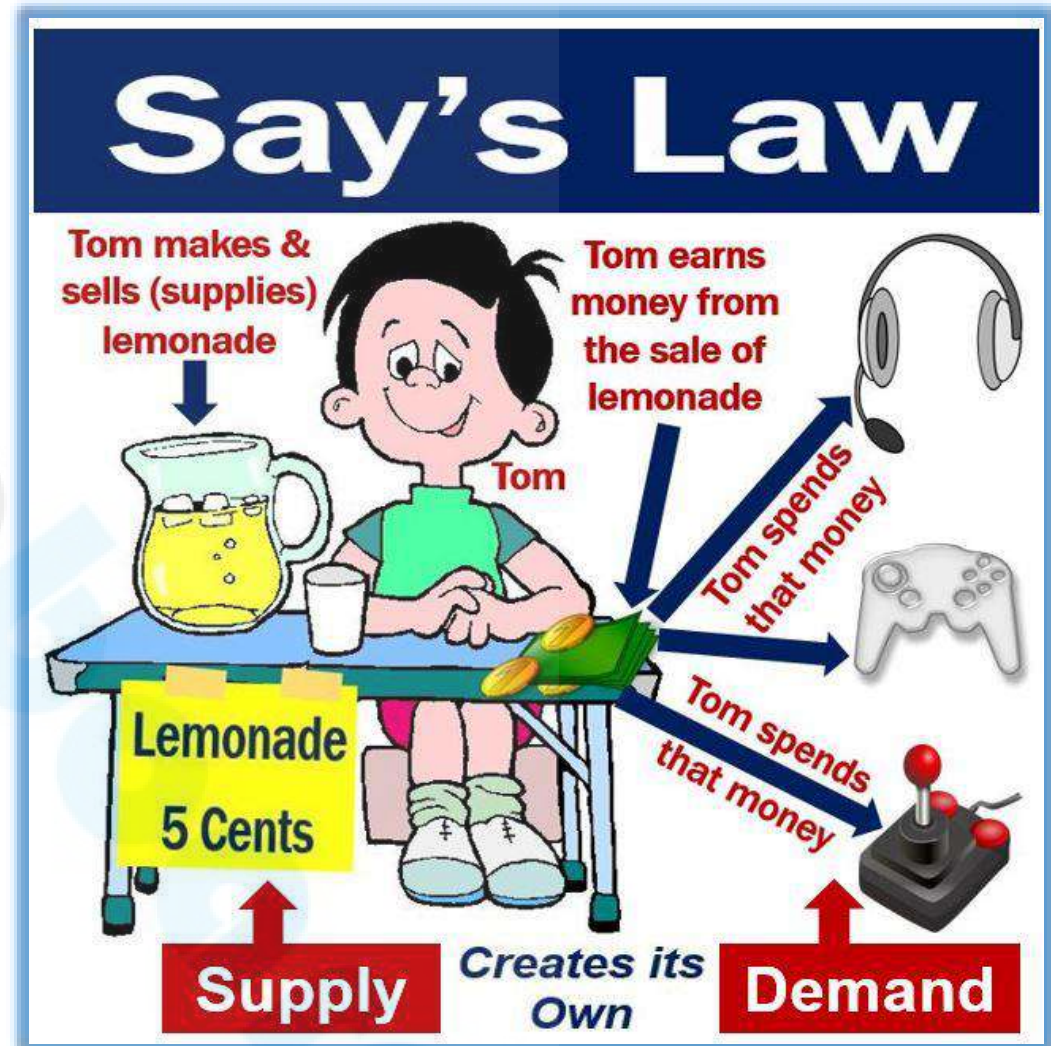
**Answer: Option C**



## 1. Classical Theory of Employment

### 1. Say's Law of Markets

- ✧ Say's law of markets is the core of classical theory of employment.
- ✧ A famous French Economist *Jeane Baptiste Say* enunciated the formal statement that *"Supply creates its own demand."*
- ✧ It implies that the supply of goods generates sufficient income to create demand for goods equal to its supply.
- ✧ Therefore, there is no possibility of overproduction and unemployment in the economy.
- ✧ Even if there is some unemployment in the short-run, the economy automatically tends towards full employment in the long-run.



### Question No.2

Q.2) Which among the following is correct with respect to Effective Demand(ED)?(1M)

- A) It includes the money spent on Consumption.
- B) It includes the money spent on Investment.
- C) It refers to the demand without considering the inflationary changes.
- D) A and B
- E) All of the above

**Answer: Option D**

## Effective Demand

- **Keynes:** Output and employment are affected by changes in Effective D in the economy.
- $\text{Effective D} = \text{Consumption D} + \text{Investment D}$
- If Effective D is low, then employment and output will also be low.
- In capitalist systems, Effective D is always low.



### Question No.3

Q.3) Which of the following measure of unemployment is considered as a comprehensive measure of employment? (1 M)

- A) Usual Principal Status
- B) Current Weekly Status
- C) Current Daily Status
- D) Chronic Status
- E) None of the above

**Answer: Option C**

## Measurement of Unemployment

- National Sample Survey Organisation (NSSO) estimates unemployment. 5 yearly survey.
- Three measures to estimate unemployment.
  1. **Usual Status (US) basis**, unemployed for the major part of the reference year.  
Shows Long term and Open unemployment.
  2. **Current Weekly Status (CWS)**,
    - persons who have not worked during an entire week.
    - Ignores those unemployed for less than a week.

## Measurement of Unemployment

### 3. Current Daily Status (CDS):

- Proportion of labour force that is unemployed per day.
- Measured in terms of number of hours worked per day.
- 4 hours or < is half day employment.
- More than 4 hours a day = full day employment.

### Question No.4

Q.4) Which of the following fall into the category of frictional unemployment ?(1 M)

- A) Work suspension due to strikes, outbreaks like COVID etc.
- B) Losing jobs because of 4<sup>th</sup> Industrial Revolution
- C) Job Loss due to recession
- D) A and C
- E) A and B

**Answer: Option A**

# What Is Frictional Unemployment?

Frictional unemployment is when workers are jobless and looking for work in a healthy economy—whether they leave voluntarily or are fired



Differentiated from other types of unemployment because it's part of normal labor turnover

**OLD JOB**

**NEW JOB**

## Types of Unemployment



### FRICTIONAL

When workers leave their old jobs but haven't yet found new ones

**STRUCTURAL**  
When shifts in the economy create a mismatch between the skills workers have and the skills needed by the employers



### CYCLICAL

Caused by the contraction phase of the business cycle

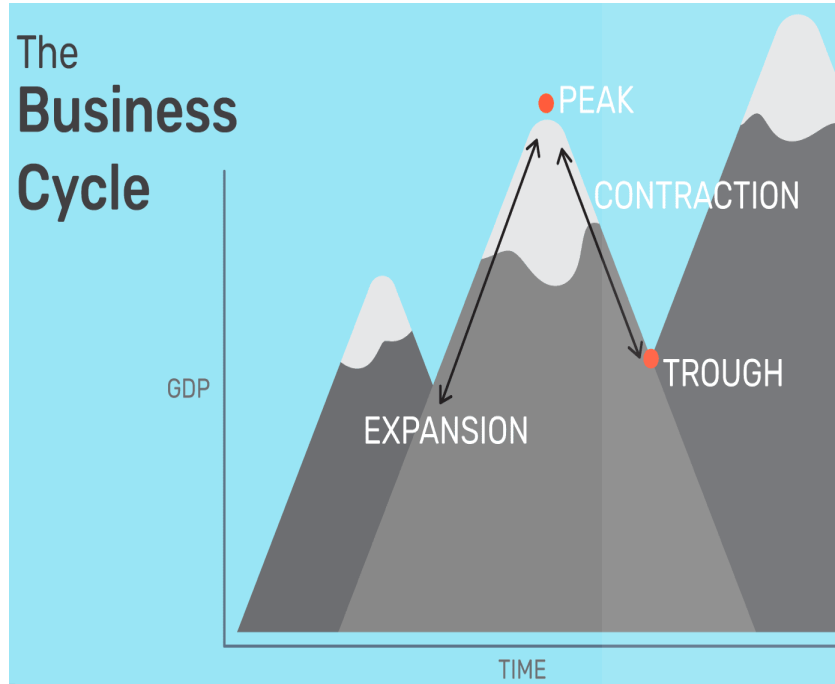
### Question No.5

Q.5) The turning point in the business cycle at which output stops increasing and starts decreasing?(1 M)

- A) Expansion
- B) Peak
- C) Contraction
- D) Depression
- E) None of the above

**Answer: Option B**



**Phase of cycle****Description**

Expansion

When real GDP is increasing and unemployment is decreasing

Peak

The turning point in the business cycle at which output stops increasing and starts decreasing

Recession

When output is decreasing and unemployment is increasing

Trough

The turning point at which a recession ends and output starts increasing again

### Question No.6

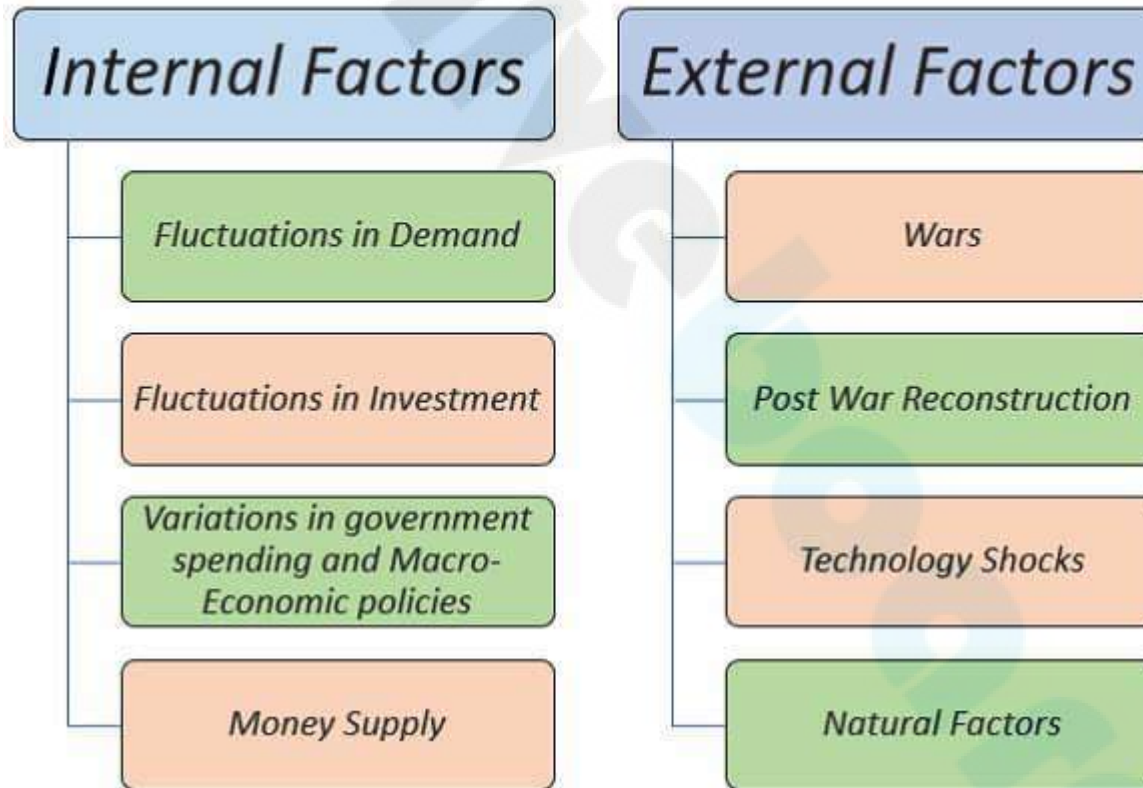
Q.6) Which of the following are not factors of a business cycle ?(1M)

- A) Fluctuations in effective demand
- B) Fluctuations in investment
- C) Psychological Factors
- D) Money Supply
- E) None of the above

**Answer:** Option E



## *Causes of Business Cycle*



### Question No.7

Q.7) Which type of unemployment is a feature of Indian Agriculture?(2 M)

- A) Structural Unemployment
- B) Cyclical Unemployment
- C) Disguised Unemployment
- D) Open Unemployment
- E) Voluntary Unemployment

**Answer: Option C**

## Disguised Unemployment



When more people are engaged in some activity than the number of person required for that, this is called disguised unemployment

### EXAMPLE:

An agricultural field require 3 laborers but people engaged in this activity is 6 then this unemployment for 3 labors is called disguised unemployment

### Question No.8

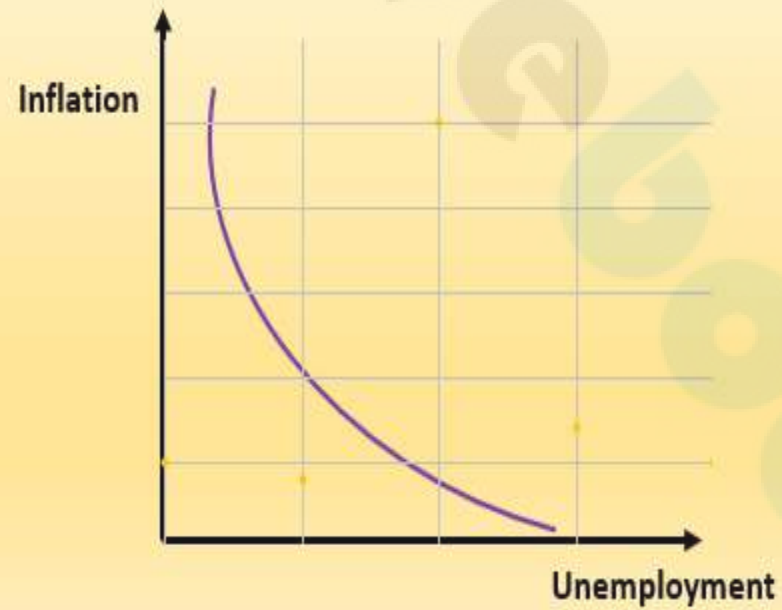
Q.8) Which of the following situation is correct according to Philips curve?

- A) The higher the inflation rate ,the lower is the unemployment.
- B) The higher the inflation rate ,the lower is the employment
- C) The higher the inflation rate ,the higher is the unemployment
- D) The higher the inflation rate ,the higher is the employment
- E) None of the above

**Answer: Option A**

## Phillips Curve

When presented or graphically charted, the inverse relationship between inflation & unemployment rate is called as Phillips Curve.



### Question No.9

Q.9)' $MV=PT$ ' summarizes the belief of Quantity Theory of Money. 'V' in the equation refer to which of the following?(1 M)

- A) Money Circulation in the economy
- B) Total No. of Transactions
- C) No. of Transactions that each unit of money is able to finance.
- D) General Price Level
- E) None of the above

**Answer: Option C**



## FORMULA

VELOCITY OF MONEY CAN BE EXPRESSED AS:

$$\text{Velocity formula: } V = \frac{P \times Y}{M}$$

Example with one good: pizza.

In 2012,

$Y$  = real GDP = 3000 pizzas

$P$  = price level = price of pizza = \$10

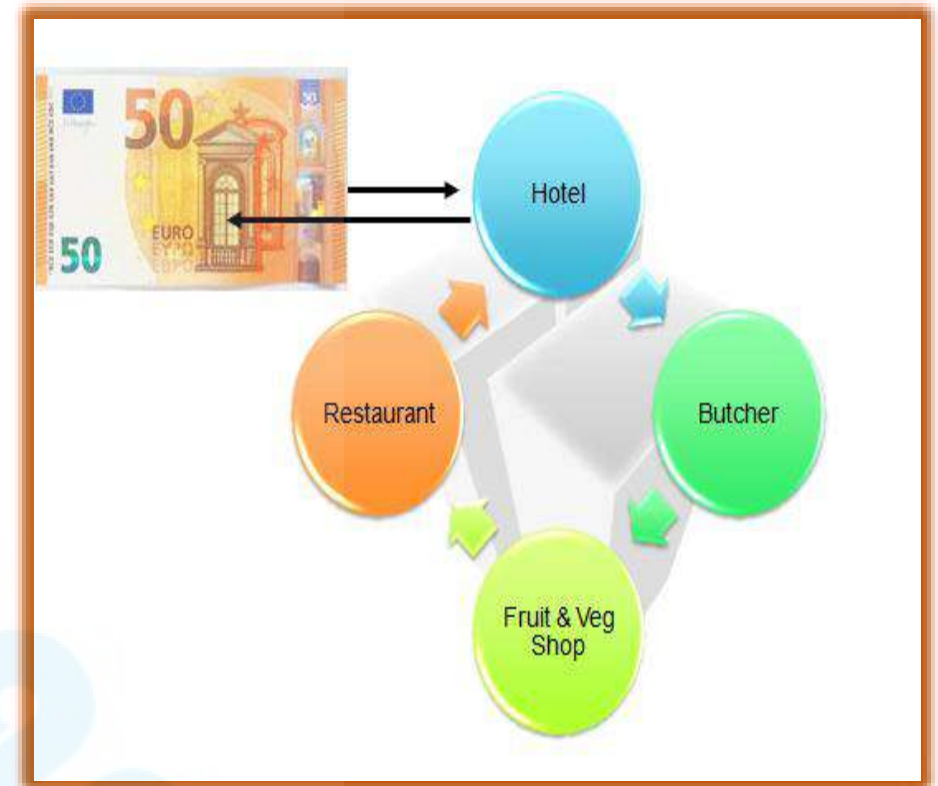
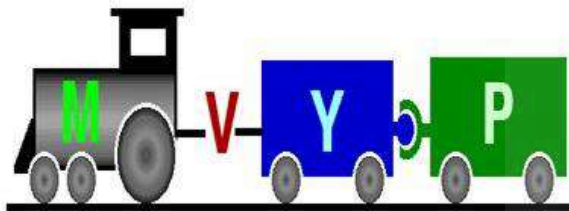
$P \times Y$  = nominal GDP = value of pizzas = \$30,000

$M$  = money supply = \$10,000

$V$  = velocity = \$30,000/\$10,000 = 3

*The average dollar was used in 3 transactions.*

$$V = \frac{P \times Y}{M}$$



### Question No.10

Q.10) Which of the following is correct with respect to Accelerator theory in investment ?(1M)

- A) Investment is dependent on the level of consumption/output
- B) Investment is dependent on the change in the consumption/output
- C) Demand for the consumption goods increases the demand for capital goods
- D) A and B
- E) B and C

**Answer: Option E**



## Acceleration Theory

The principle of acceleration states that if demand for consumption goods rises, there will be an increase in the demand for factor of production, say machine, which is used to produce the goods. In other words, the accelerator measures the changes in investment goods industries as a result of changes in consumption goods industries.

**K K Kurihara,** " The acceleration coefficient is the ratio between induced investment and an initial change in consumption."

### Accelerator Effects



$$\text{Accelerator } (\beta) = \frac{\Delta I}{\Delta C}$$

## EXERCISE QUESTIONS

### Question No.1

Q.1) Which of the following is correct with respect to MP(Market Price ) of a product?(1M)

- A)  $MP = \text{Factor Cost (FC)} - \text{Net Indirect Taxes}$
- B)  $MP = \text{Factor Cost (FC)} + \text{Indirect Taxes} - \text{Subsidies}$
- C)  $MP = \text{Factor Cost (FC)} - \text{Indirect Taxes} + \text{Subsidies}$
- D)  $MP = \text{Factor Cost (FC)} + \text{Direct Taxes} - \text{Subsidies}$
- E) None of the above

**Answer: Option**

### Question No.2

Q.2) Which of the following method of national income computation is most suitable in developed economies?(1M)

- A) Value Added Method
- B) Income Method
- C) Expenditure Method
- D) A and B
- E) B and C

**Answer: Option**

### Question No.3

Q.3) Which of the following is the correct representation of calculation of Per capita Income?(1M)

- A) Per capita Income =  $\text{GDP} / \text{Total Population}$
- B) Per capita Income =  $\text{GNP} / \text{Total Population}$
- C) Per capita Income =  $\text{NDP} / \text{Total Population}$
- D) Per capita Income =  $\text{NNP} / \text{Total Population}$
- E) Per capita Income =  $\text{National Income} / \text{Total Population}$

**Answer:** Option

## SEBI Grade A and RBI Grade B 2020

## Lecture 4



Coverage:  
Economics-Part 4



### Question No.1

Q.1) Which of the following is correct with respect to MP(Market Price ) of a product?(1M)

- A)  $MP = \text{Factor Cost (FC)} - \text{Net Indirect Taxes}$
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- D)  $MP = \text{Factor Cost (FC)} + \text{Direct Taxes} - \text{Subsidies}$
- E) None of the above

**Answer: Option B**

### Question No.2

Q.2) Which of the following method of national income computation is most suitable in developed economies?(1M)

- A) Value Added Method
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- C) Expenditure Method
- D) A and B
- E) B and C

**Answer: Option B**



### Question No.3

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- D) Per capita Income =NNP/Total Population
- E) Per capita Income =National Income/Total Population

**Answer: Option E**

### Question No.1

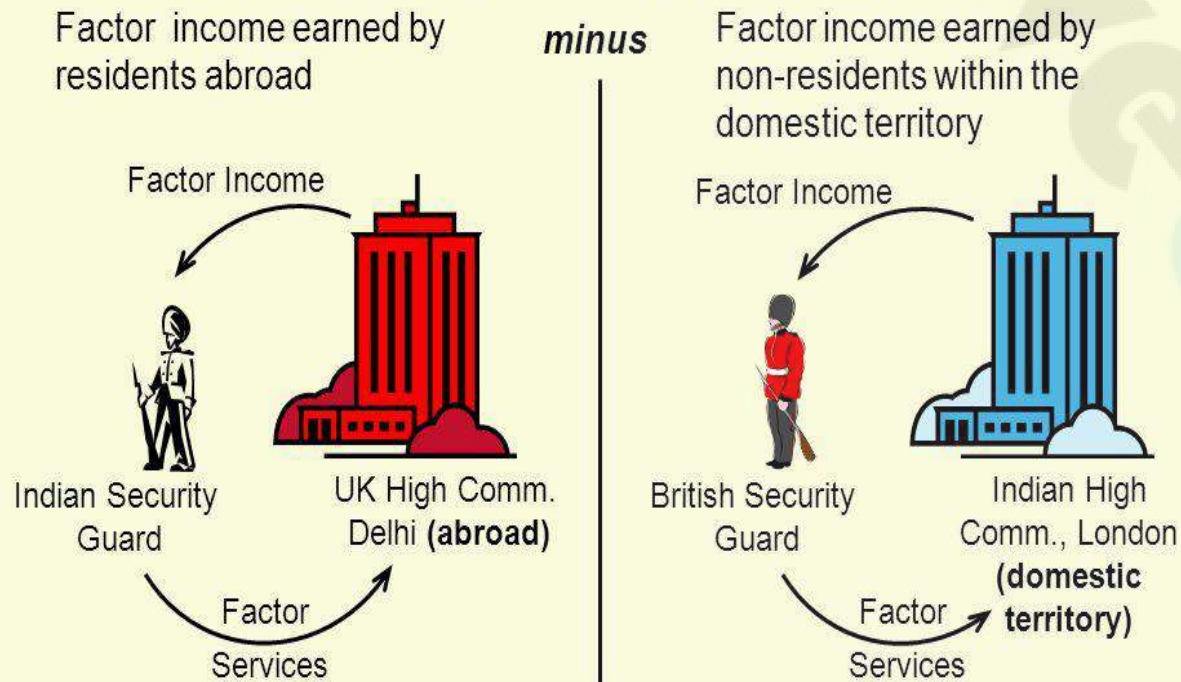
Q.1) Net Factor Income from Abroad(NFIA) is used to calculate GNP. Which of the following are included as part of NFIA?(1M)

- A) Private Remittances
- B) Interest on External Loans
- C) Trade Balance
- D) A and B
- E) All of the above

**Answer: Option E**

## Net factor income from abroad (NFIFA)

- ♦ NFIFA = Factor income earned by residents abroad  
- Factor income earned by non-residents in  
the domestic territory



### 3 Main components:

(i) Trade Balance

(ii) Interest of External Loans

(iii) Private Remittances

### Question No.2

Q.2) From 2015 onwards, which of the following estimates are used as estimates of economic activity?(1M)

- A) GDP at Factor Cost.
- B) GDP at Market Price.
- C) GVA(Gross Value Added).
- D) B and C
- E) All of the above

**Answer: Option D**

In 2015, the Central Statistics Office (CSO) did away with GDP at factor cost and adopted the international practice of GDP at market price and the Gross Value Addition (GVA) measure to better estimate economic activity.

$$\text{GDP at market price} = \text{GDP at factor cost} + \text{Indirect Taxes} - \text{Subsidies}$$

- **Gross Value Added (GVA)** is a measure of **total output and income in the economy**.
- It provides the **rupee value** for the number of goods and services produced in an economy after **deducting the cost of inputs and raw materials** that have gone into the production of those goods and services.
- It also gives **sector-specific picture** like what is the growth in an area, industry or sector of an economy.

**Gross Value Added = GDP + subsidies on products - taxes on products**

### Comparison Between GVA and GDP

- While GVA gives a picture of the state of economic activity from the **producers' side or supply side**, the GDP gives the picture from the **consumers' side or demand perspective**.
- GVA is considered a **better gauge of the economy**. GDP fails to gauge real economic scenario because a sharp increase in the output, only due to higher tax collections which could be on account of better compliance or coverage, rather than the real output situation.
- A **sector-wise breakdown** provided by the GVA measure helps policymakers decide which sectors need incentives or stimulus and accordingly formulate sector-specific policies. But GDP is a key measure when it comes to making cross-country analysis and comparing the incomes of different economies.

### Question No.3

Q.3) Which of the following meets on a daily basis to review the liquidity conditions so as to ensure the operating target of monetary policy ? (1 M)

- A) Monetary Policy Dept.
- B) Financial Market Operating Dept.
- C) Financial Market Committee
- D) All of the above
- E) None of the above

**Answer: Option C**



- The Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy. Views of key stakeholders in the economy, and analytical work of the Reserve Bank contribute to the process for arriving at the decision on the policy repo rate.
- **The Financial Market Committee (FMC)** meets daily to review the liquidity conditions so as to ensure that the operating target of monetary policy (weighted average lending rate) is kept close to the policy repo rate.
- Carved out of the Financial Markets Department in November 2014, the Financial Markets Operations Department (FMOD) has been entrusted with the responsibility of carrying out market operations towards implementing the Reserve Bank's monetary policy objectives

### Question No.4

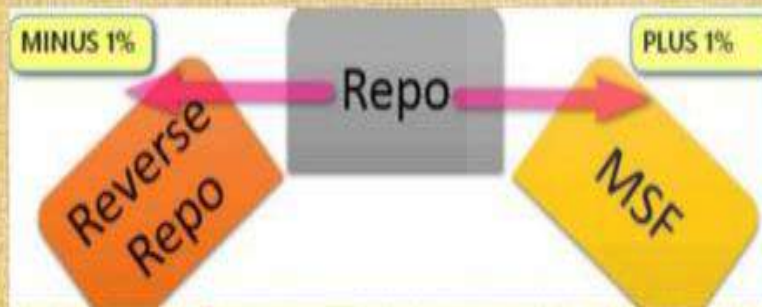
Q.4) Marginal Standing Facility is a scheme introduced by RBI in which of the following years ?(1 M)

- A) 2010.
- B) 2011
- C) 2013
- D) 2014
- E) None of the above

**Answer: Option B**

## Marginal Standing Facility

- Marginal Standing Facility is a new Liquidity Adjustment Facility (LAF) window created by Reserve Bank of India in its credit policy of May 2011. MSF is the rate at which the banks are able to borrow overnight funds from RBI against the approved government securities.



Marginal standing facility (MSF) is a window for banks to borrow from the Reserve Bank of India in an emergency situation when inter-bank liquidity dries up completely.

By pledging government securities at a rate higher than the repo rate under liquidity adjustment facility or LAF in short.

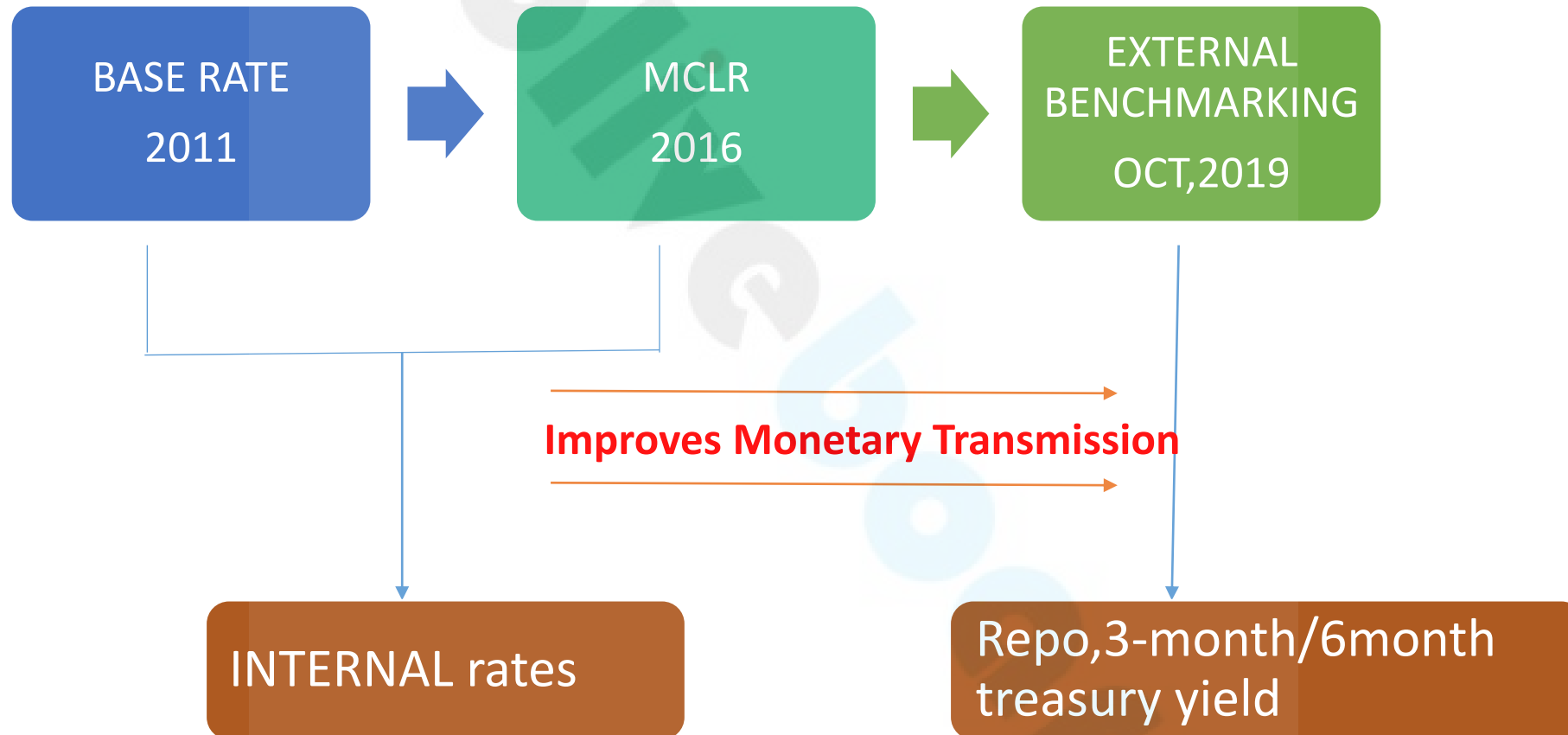
Under MSF, banks can borrow funds up to one percentage of their net demand and time liabilities (NDTL).

### Question No.5

Q.5) Base Rate System has been replaced with which of the following system ?(1 M)

- A) External Bench Marking
- B) Marginal Cost Based Lending Rate
- C) Weighted Average Call Money Rate
- D) A and B
- E) B and C

**Answer: Option B**



### Question No.6

Q.6) Which of the following measures will help RBI fight Inflation?(1M)

- A) Increase Cash Reserve Ratio
- B) Decrease Statutory Liquid Ratio
- C) RBI sells securities through Open Market Operations
- D) A and B
- E) A and C

**Answer:** Option E

## Monetary Policy to Control Inflation

**Problem: Inflation**

**Measures:**

- 1) Central Banks sells securities through OMO
- 2) Increases Bank Rate
- 3) Raises CRR





### Question No.7

Q.7) Balance of Payments(BOP) is a statement of all transactions of which of the following entities ?(2 M)

1. Individuals
  2. Companies
  3. Governments
- A) 1 and 2
- B) 2 and 3
- C) 1 and 3
- D) All of the above
- E) None of the above

**Answer: Option D**

- The balance of payments (BoP) records all economic transactions in goods, services, and assets of the country with the rest of the world for a specified time period, usually a year.
  - In simple terms, it is a systematic accounting balance sheet of the country and includes both debit and credit transactions.
  - BoP is used to monitor all international monetary transactions.
  - All trades conducted by both the private and public sectors are accounted for in the BoP in order to determine how much money is going in and out of the country.
- There are two main accounts in the BoP – the **current account and the capital account**.
  - The current account records exports and imports in goods, trade in services and transfer payments.
  - The capital account records all international purchases and sales of assets such as money, stocks, bonds, etc.
  - It also includes foreign investments and loans.

## The Difference Between

## BALANCE OF PAYMENTS DEFICIT



- The country imports more goods, services & capital than it exports.
- It must borrow from other countries to pay for its imports.
- In the short-term, this fuels economic growth.
- In the long-term, it will have to go into debt to pay for consumption.

## BALANCE OF PAYMENTS SURPLUS



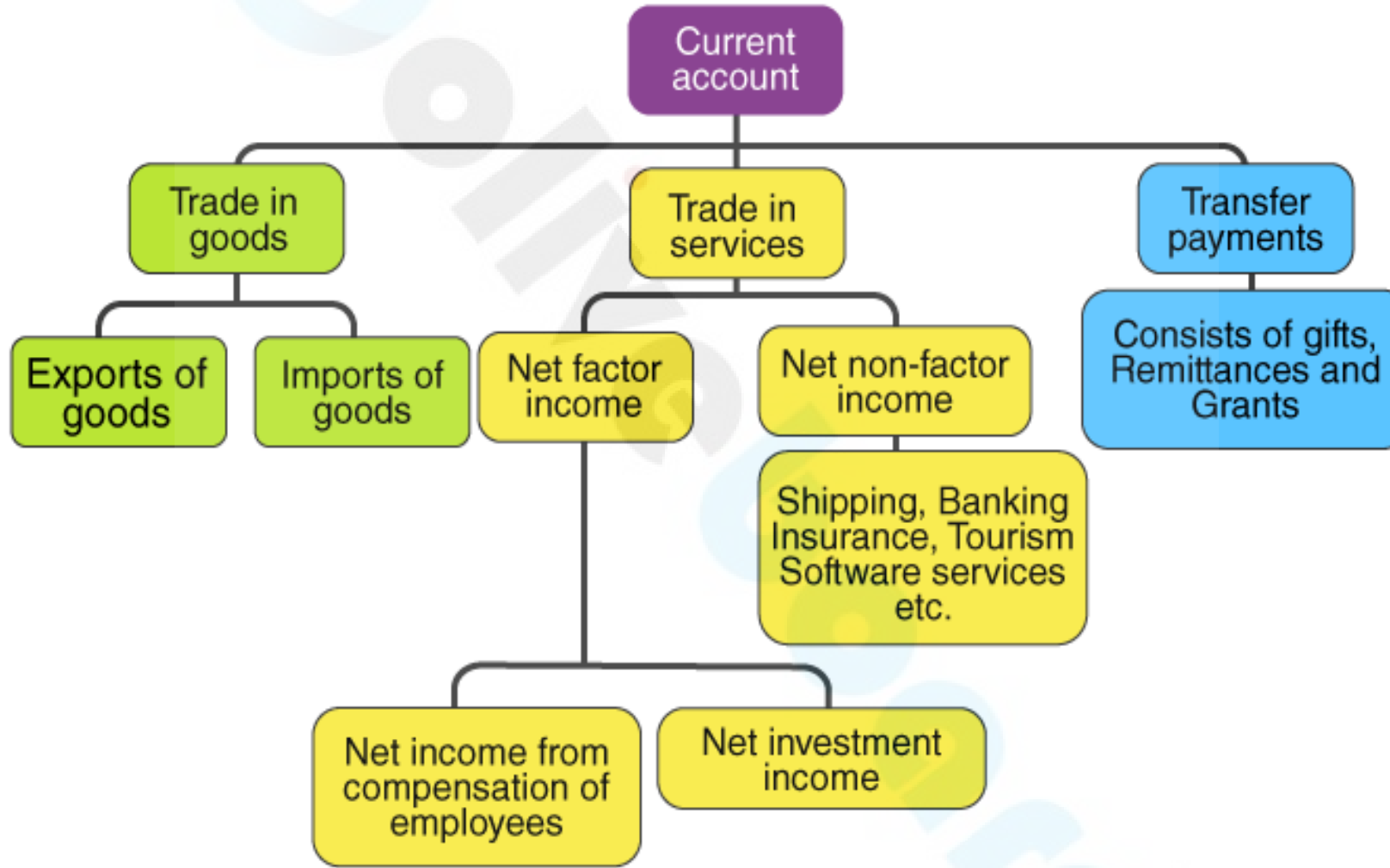
- The country exports more than it imports.
- Country provides enough capital to pay for all domestic production.
- A surplus boosts economic growth in the short term.
- In the long run, it becomes too dependent on export-driven growth.

### Question No.8

Q.8) Which of the following are considered as a part of current account?

- A) Exports and Imports of Goods.
- B) Exports and Imports of Services.
- C) Transfer Payments
- D) Remittances
- E) All of the above

**Answer: Option E**

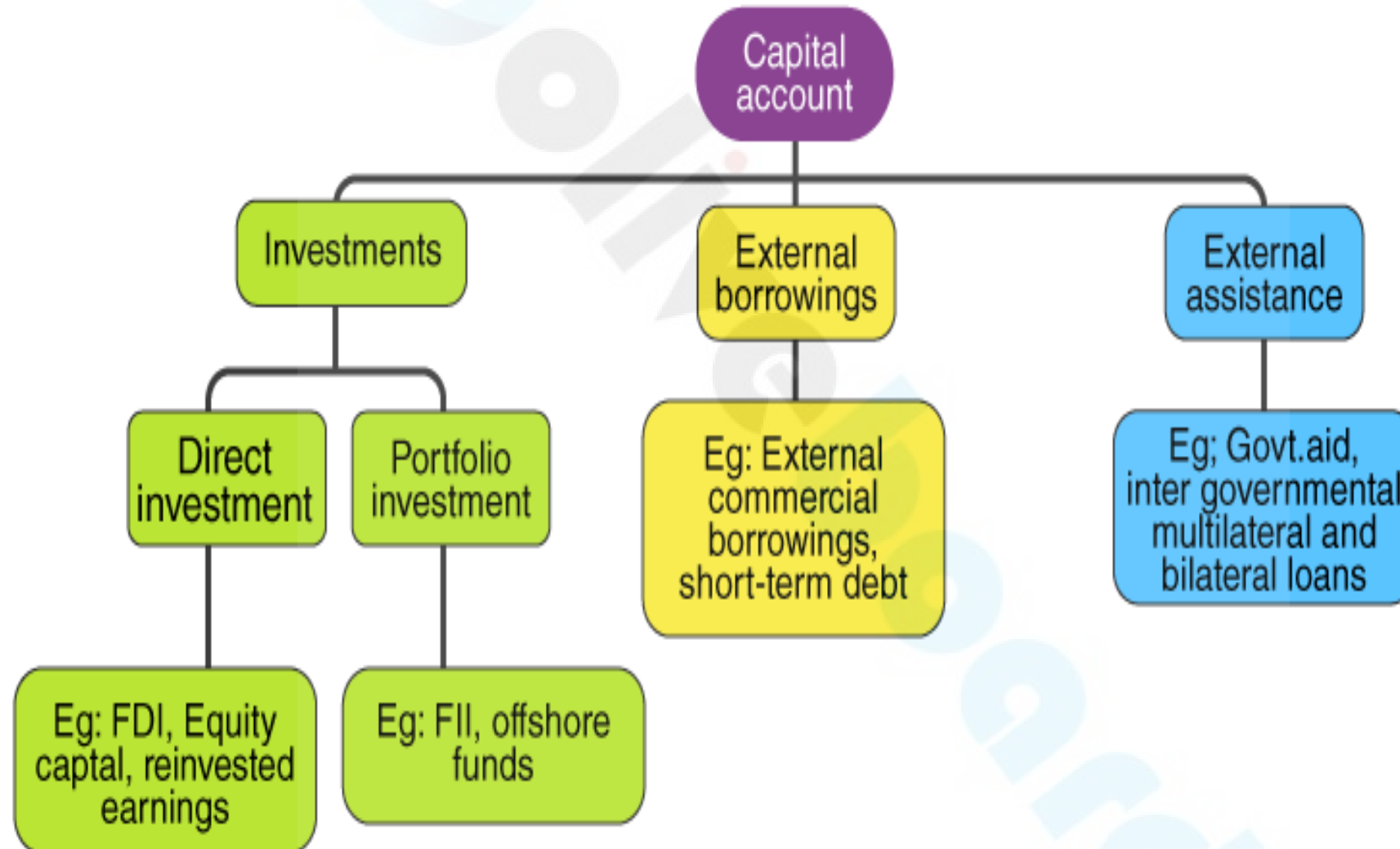


### Question No.9

Q.9) Which of the following are included as a part of the Capital Account?(1 M)

- A) External Commercial Borrowing
- B) Foreign Direct Investment
- C) Foreign Portfolio Investment
- D) A and B
- E) All of the above

**Answer: Option E**





### Question No.10

Q.10) Which of the following has the highest weightage in India's Foreign Exchange Reserves?(1M)

- A) Foreign Currency Assets
- B) Gold
- C) Special Drawing Rights
- D) Reserve Tranche
- E) None of the above

**Answer: Option A**

## Forex Reserve

Foreign Currency Assets

Gold Reserves

Special Drawing Rights

Reserve Tranche in IMF

- **Gold reserves** are passively managed by RBI and accounts for around 9% of total reserves.
- **SDR** is international reserve created by IMF which is allocated as per the member country's quota at IMF.
- **Reserve position in IMF** is a reserve where India can draw upon to purchase other foreign currencies from the fund.
- Generally, preferred level of forex reserves is that a country's reserves should equal short-term external debt so that a country has enough reserves to resist a massive withdrawal of short term foreign capital.
- RBI publishes data on forex reserves every week (on Friday).

## EXERCISE QUESTIONS

### Question No.1

Q.1) A Situation where the exchange rate of a domestic currency is cut down by its government against a foreign currency is called as\_\_\_\_?(1M)

- A) Depreciation
- B) Devaluation
- C) Appreciation
- D) Revaluation
- E) None of the above

**Answer: Option B**

### Question No.2

Q.2) Which of the following refers to the currency in which most number of transactions takes place globally?(1M)

- A) Hot money
- B) Soft Currency
- C) Hard Currency
- D) Heated Money
- E) Dear Currency

**Answer: Option C**

### Question No.3

Q.3) Which of the following statements are correct?(1M)

- A) India never had a period of current account surplus.
- B) S.S Tarapore Committee recommended for Full Capital Account Convertibility
- C) Forex Reserve is used as a cushion against potential BOP Crisis.
- D) B and C
- E) All of the above

**Answer: Option D**

### Question No.4

Q.4) Which of the following exchange rates takes into account inflation?(1M)

- A) Flexible Exchange Rate
- B) Managed Exchange Rate
- C) Nominal Effective Exchange Rate(NEER)
- D) Real Effective Exchange Rate(REER)
- E) None of the above

**Answer: Option D**



### Question No.5

Q.5) Which of the following falls under Qualitative credit control mechanism of RBI?(1M)

- A) Rationing of Credit
- B) Adjusting Margin of loans
- C) Repo and Reverse Repo
- D) A and B
- E) B and

**Answer: Option D**

### Question No.6

Q.6) ELI Method adopted in calculation of GDP refers to?(1M)

- A) Effective Labour Input Method
- B) Effective Liquidity Method
- C) Enhanced Labour Input Method
- D) Enhanced Liquidity Method
- E) None of the above

**Answer: Option A**

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