S-23

Entrance Examination, June 2010

MA (Economics)

Time: 2 Hours   **Maximum Marks: 100**

HALL TICKET NUMBER

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INSTRUCTIONS

1. **Read these instructions carefully before answering.**

2. Enter your Hall Ticket Number on this page <u>and</u> also on the OMR answer sheet.

3. Answers are to be marked on the OMR answer sheet following the instructions provided there upon.

4. Handover <u>both</u> the question paper booklet and the OMR answer sheet at the end of the examination.

5. Use of non-programmable calculators is allowed.

6. The Question Paper has <u>**two**</u> parts – PART-A and PART-B. There are 100 questions in this paper: 25 questions in PART-A and 75 questions in PART-B. Marks obtained in PART-A will determine the merit rank in case of a tie in the total number of marks obtained.

7. Each correct answer carries <u>one</u> mark.

8. **There is negative marking. Each wrong answer carries –0.33 marks.**

9. This question paper contains 20 pages excluding the cover page.

Department of Economics

MA Economics Entrance Exam 2010 (Booklet C)

Please answer all questions from Parts A and B in the stipulated time of 2 hours.

Max Marks: 100 (Each correct answer: 1 mark, Wrong Answer: - 0.33 mark)

Part A (Answer all 25 Questions)

1. Suppose the government wants to increase aggregate demand without increasing interest rates. You would recommend

A. reducing transfer payments and increasing the money supply.
B. increasing government spending and reducing the money supply.
C. increasing taxes and the money supply.
D. increasing government spending and the money supply.

2. Macroeconomic policy Trilemma refers to:

A. Incompatibility among the three policies of an independent monetary policy, free capital mobility and a floating exchange rate system.
B. Incompatibility among the policies of independent monetary policy, independent fiscal policy and the fixed exchange rate system.
C. Incompatibility among the three policies of stabilization, structural adjustment and independent fiscal policy.
D. None of the above.

3. Walras' law states the following –

A. If (n-1) markets clear in a total of n markets, market n will also automatically clear.
B. There are economic profits in a state of general equilibrium of the economy.
C. Other things being equal, an increase in the price of a commodity will reduce the quantity demanded of it.
D. An individual's utility is determined by consumption and leisure.

4. Suppose a monopolist faces two market demand functions $D(P_1) = 80 - 5 Q_1$ and $D(P_2) = 170 - 20 Q_2$, and has a marginal cost of Rs 10. If the monopolist is able to discriminate the demanders in the two markets, what are the prices that he would charge?
A. $P_1 = 20, P_2 = 40$
B. $P_1 = 45, P_2 = 90$
C. $P_1 = 10, P_2 = 40$
D. $P_1 = 90, P_2 = 45$

5. According to Keynesian macreconomics, employment is determined via:

A Labour market
B. Financial market
C. Product market
D. Money market

6. In 1967, Milton Friedman stated that there is no trade-off between inflation and unemployment in the long run. Which of the following refutes that position?

A. The long-run Phillips Curve is vertical.
B. Unemployment returns to its natural level.
C. All changes in inflation are correctly anticipated.
D. The long-run Phillips Curve is steeper than originally imagined, but it is not vertical.

7. Public goods have the following characteristics:

A. Non-exclusivity and non-perishability
B. Non-exhaustiveness and non-rivalness
C. Non-rivalness and non-exclusivity
D. Non-exclusivity and non-exhaustiveness

8. Which statement below reflects the essence of Arrow's impossibility theorem?

A. It is impossible to achieve pareto efficiency in the economy.
B. It is impossible to maximize technical efficiency in the economy.
C. No collective decision-making rule can guarantee results that are not unfair or paradoxical.
D. It is impossible to do any collective action.

9. Rational Expectations means:

A. Economic Agents' expectations of the future are always right.
B. Economic Agents' expectations of the future are always reasonable.
C. Economic Agents' expectations of the future are never systematically wrong.
D. Economic Agents' expectations of the future are consistent with the past experience.

10. The effect that holds that nominal interest rates should move to the natural rate of interest plus the expected rate of inflation is called the:

A. Adaptive Effect
B. Keynes Effect
C. Pigou Effect
D. Fisher Effect

11. In the liquidity trap case where the LM schedule is nearly horizontal,

A. both monetary and fiscal policy are highly effective.
B. monetary and fiscal policy are ineffective.
C. monetary policy is ineffective and fiscal policy is effective.
D. fiscal policy is ineffective and monetary policy is effective.

12. Given the function Y = 25 + 0.65 X, which is true?

A. Variables X and Y are positively related and correlation coefficient is 0.65
B. Variables X and Y are positively related and correlation coefficient is equal to 1
C. Variables X and Y are inversely related and correlation coefficient is 25
D. Variables X and Y are positively related and correlation coefficient is between 25 and 0.65

13. Poverty gap

A. Is the proportion of people below poverty line
B. Is the gap between total number of people and the number of poor.
C. Is the income inequality among people in a country.
D. Is the mean distance separating the population from the poverty line expressed as a percentage of the poverty line (non-poor have zero distance)

14. Labour Theory of Value states that

A. Value of a commodity is produced only by current workers.
B. Value of a commodity is the sum of the value of all inputs (past labour) as well as the current value added by workers.
C. Value of a commodity is equal to the sum of wages and salaries of workers.
D. Value of a commodity is equal to the sum of the marginal products of different factors of production

15. A firm is employing 100 units of labor and 50 units of capital to produce 200 widgets. Labor costs Rs.10 per unit and capital Rs.5 per unit. For the quantities of inputs employed, $MP_L = 2$ and $MP_K = 5$. In this situation, the firm

A. is producing the maximum output possible given the prices and relative productivities of the inputs.
B. could lower its production costs by using more labor and less capital.
C. could increase its output at no extra cost by using more capital and less labor.
D. should use more of both inputs in equal proportions.

16. The Nobel Prize Winner for the work on 'Governing the Commons' is:

A. George Akerlof
B. Garrett Hardin
C. Gunnar Myrdal
D. Elinor Ostrom

17. The kinked demand curve faced by an oligopolist is based on the assumption that

A. rivals will follow a price increase but not a price cut.
B. rivals will follow a price decrease but not a price increase.
C. rivals will follow both a price decrease and a price increase.
D. rivals will ignore both a price increase and a price decrease.

18. A typical Cournot solution is defined as

A. one in which the solution is identical to the purely competitive market.
B. one in which the solution is identical to the monopoly solution.
C. one in which the output is above the monopoly and below the purely competitive result.
D. none of the above.

19. The Keynesian aggregate demand curve slopes downward because for any given money supply, an increase in the price level _____ real money holdings which _____ the interest rate and _____ income.

A. increases; lowers; increases
B. reduces; raises; reduces
C. reduces; lowers; increases
D. increases; raises; reduces

20. Suppose a competitive firm produces 100 units of X for a price of Rs.10 a unit. The firm is employing labor and capital such that the marginal physical product of labor and capital is 20 and 5 and the prices paid to labor and capital are Rs.60 and Rs.40 respectively. How would you characterize the firm?

A. The firm is in long-run equilibrium.
B. The firm is earning excess profits.
C. The firm should expand production.
D. The firm should contract production.

21. If $U = a(XY)^{1/2}$, money income is 656 per week, $P_x = 8$, calculate the demand function for Y

A. $328/P_y$
B. $168/P_y$
C. $316/P_y$
D. $350/P_y$

22. In the stackelberg leader – follower model the equilibrium is defined at the

A. the intersection of the two reaction functions of the two agents
B. The tangency of the iso-profit curve of leader and reaction function of the follower
C. The tangency of iso-profit curve of follower and reaction function of the leader
D. The tangency of the isoprofit curves of leader and follower

23. If the total revenue from sales of X is given by the equation $R = 100Q - 2Q^2$. what is the point elasticity of demand when MR = 20.

A. 1
B. 1.5
C. 2
D. 2.5

24. Recent global recession is supposed to have been caused by:

A. Increased indebtedness in American households
B. Indiscriminate lending in the American Financial Sector
C. Stock market crash in the Wall street
D. a and b

25. In the Keynesian model with a fixed money wage but a flexible price level, an increase in taxes will lower

A. output and the price level, but leave the interest rate unchanged.
B. output, the price level and the interest rate.
C. output and the interest rate, but leave the price level unchanged.
D. output and the price level, but increase the interest rate.

Part B: Answer All 75 Questions

26. Suppose a vaccine for the common cold is discovered. Although the government begins producing the vaccine in as large a volume as possible, there is not enough vaccine available to meet demand. Consequently, the government must also set up an allocation scheme to control the vaccine's distribution. Which of the following is true about the price of the vaccine?

A. It is above equilibrium.
B. It is below equilibrium.
C. It is at equilibrium.
D. Nothing can be determined from the information given.

27. Inflation is bad for

A. Bank Employees
B. Government Employees
C. Borrowers
D. Lenders

28. The main causes for the rising Indian inequality after economic reforms are:

A. Rising rural-urban gap
B. Rising intra-urban inequality
C. Rising inter-state inequality
D. All of the above

29. Indian growth 2002 onwards until the global economic crisis can be termed as:

A. Consumption-led
B. Investment-led
C. Government Spending-led
D. Net-Export led

30. India's average annual economic growth between 2004 and 2009 is:

A. More than 9% until 2007-08 and less than 7% after that.
B. More than 10% until 2007-08 and less than 5% after that.
C. Less than 8% until 2007-08 and less than 4% after that.
D. None of the above.

31. The following is true of the Classical School in Macroeconomics:

A. Investment is a function of interest rates while savings are a function of income.
B. Demand creates its own Supply.
C. Increase in money supply causes an increase in prices but leaves the output unaffected.
D. Employment is determined in the capital market.

32. If a monopolist had no costs, the best possible price would be where demand is

A. infinitely elastic.
B. relatively (but not perfectly) elastic.
C. unit elastic.
D. relatively (but not completely) inelastic.

33. The imposition by government of a minimum wage (above the existing wage level) will

A. reduce employment in a competitive labor market.
B. reduce, raise, or leave unchanged employment in a monopsonistic labor market.
C. result in (a) and (b).
D. reduce employment in any labor market.

34. "I would rather spend all my time in the country or all in the town, rather than divide myself between the two". Does the above remark represent convex preference ordering?

A. Yes
B. No
C. Need more information
D. Maybe true

35. In a linear programming problem, which is not true?

A. It has linear objective function
B. Both negative and nonnegative restrictions are put on choice variables
C. Optimal solution values in the primal and dual problems may nor may not be similar
D. Objective function values in the primal and dual solutions are similar

36. Which one of the following statements is false?

A. The null set is a subset of all sets
B. If S is a set, then S union S is equal to S.
C. If M is a set with four elements, then M intersection M is equal to M
D. If V is an empty set, then V has one zero element, i.e., V = { 0 }

37. In comparing an excise subsidy and a cash grant of the same amount, the recipient will

A. always prefer the excise subsidy
B. always will prefer a cash subsidy
C. be indifferent to both
D. sometime prefer excise subsidy and some time cash grant.

38. The cause for the increased agrarian distress since 1990s in India is:

A. Increased dependence of farmers on moneylenders
B. Decreased public investment in agriculture as a proportion of GDP
C. Decreased yields since 1990s.
D. Each of the above

39. Conditions for successful price discrimination are

A. firms must have some degree of market power
B. the firms must be able to separate customers into two or more groups
C. the firms must be able to prevent arbitrage
D. all the above

40. If the foreign exchange rate between the Japanese yen and the US dollar went from 100 yen=1 $. to 200 yen = 1 $.

A. More Japanese electronics goods would be sold in the US market.
B. More US super computers would be sold in Japan.
C. Trade would not be affected.
D. Fewer Japanese electronics goods would be sold in the US market.

41. Stabilisation loans to countries are given by:

A. IMF
B. World Bank
C. OPEC
D. UNCTAD

42. The condition when the individual demand function can be aggregated to generate the aggregate demand function

A. substitution effect = 0
B. total effect is zero
C. Income effect = 0
D. always can aggregate the individual demand function

43. Hecksher-Ohlin theorem states that a Capital rich country

A. Exports Capital intensive goods
B. imports capital intensive goods
C. exports labour intensive goods
D. imports labour intensive goods

44. The following are known as Bretton Woods institutions

A. IMF& IBRD
B. IMF& GATT
C. IMF& WTO
D. None of the above

45. According to Laffer Curve hypothesis, revenues of the state will eventually increase if

A. Tax base is increased
B. Tax rates are lowered
C. Tax incidence is increased
D. Tax impact is reduced

46. Net National Income at factor price is:

A. Gross national income at market prices – depreciation – direct taxes
B. Gross national income at factor prices – depreciation – indirect taxes
C. Gross national income at market prices – depreciation – indirect taxes
D. Gross national income at factor prices – depreciation – direct taxes

47. If a consumer's marginal rate of substitution equals 2 eggs for 1 sandwich,

A. the consumer's indifference curve must be positively sloped.
B. the consumer's indifference curve must be convex with respect to the origin of the graph.
C. the ratio of the consumer's marginal utility of 1 egg to that of 1 sandwich must equal ½.
D. all of the above are true.

48. Dumping in international trade refers to

A. Dumping commodities into market by illegal import
B. Dumping commodities into foreign markets at lesser price than world prices
C. Dumping commodities into foreign markets at prices less than average cost plus transport costs
D. Dumping commodities threatening environmental safety

49. The annual rate of interest on a 3-month Rs. 10,000 bond that sells for Rs. 9,600 is:

A. 12%
B. 10%
C. 14%
D. 16%

50. According to Lewis model of development with unlimited supply of labour surplus, expansion of the modern sector is determined by:

A. Availability of market surplus from agriculture
B. Availability of surplus labour
C. Both of the above
D. None of the above

51. According to Adam Smith, growth of national income of an economy is limited by

A. Size of the exports
B. Size of the capital resources
C. Size of the market
D. Size of the manufacturing sector

52. What is the basic difference between a set and a matrix?

A. The number of elements is fixed in a set and unlimited in a matrix
B. The position of elements is not important in a set but important in a matrix
C. A set can have subsets but a matrix can not be divided into sub matrices
D. None of the above

53. In the IS-LM model, the implicit assumption made about aggregate supply was that the

A. aggregate supply schedule was vertical because prices were flexible.
B. aggregate supply schedule was horizontal because prices were fixed.
C. aggregate supply schedule was upward sloping to the right because wages and prices were fixed.
D. supply of output was fixed.

54. In the Keynesian model with a fixed price level and a fixed money wage, an increase in the money supply will cause

A. output to fall and interest rates to fall.
B. output to remain unchanged.
C. output to rise and the price level to fall.
D. output to rise and interest rates to fall.

55. If interest rates, prices, and output are all rising, then according to the Keynesian model, these changes must be caused by

A. an increase in aggregate supply.
B. a shift to the right of the LM curve.
C. a shift to the right of the LM curve.
D. a shift up in the IS curve.

56. Population rate is not a constraint to economic growth

A. As long as rate of technological growth and rate of capital formation exceeds rate of population
B. As long as rate of exploitation of non-exhaustible resources exceeds population rate
C. As long as agricultural output growth exceeds population rate
D. As long as national income growth exceeds population rate.

57. Human Development indicates:

A. A country's level of poverty
B. A process of enlargement of people's choices
C. A country's level of happiness
D. A country's level of wealth

58. According to Engel's law, as family income rises

A. Households face diminishing returns to labour
B. Households spend more money on luxury goods
C. Spending on food declines as proportion of total consumption
D. Industry becomes more capital intensive

59.   Given a utility function $U = X_1 X_2$ own price elasticity is

A. 0
B. 1
C. -1
D. -2

60. What does not fall under instruments of fiscal policy:

A. Interest rates
B. Tax rates
C. Government expenditures
D. Subsidies

61. Paul Krugman won the Nobel Prize in Economics mainly because of his:

A. Contributions to Geographical Economics and International Trade.
B. Contributions to the theory of Economic Growth.
C. Forecast of the Global Economic Crisis
D. His criticisms of the economic policies of George Bush Jr.

62. The Paradox of thrift states:

A. Increased spending in the short-run leads to an eventual fall in savings
B. Increased savings in the short-run leads to an eventual fall in savings
C. Increased investment in the short-run leads to an eventual fall in savings
D. None of the above

63. If p^1_z and q^1_b are price and quantity in year 1 and p^0_z and q^0_b are price and quantity in year O (Base Year), which of the following is true?

A.   Laspeyer's Index Number   = $\sum p^1_z q^0_b / \sum p^0_z q^0_b$
B.   Laspeyer's Index Number   = $\sum p^1_z q^1_b / \sum p^0_{1z} q^0_b$
C.   Paasche's Index Number   = $\sum p^1_z q^1_b / \sum p^0_{1z} q^0_b$
D.   Paasche's Index Number   = $\sum p^1_z q^1_b / \sum p^1_a q^0_b$

64. An example of Central Bank Sterilisation is:

A. Central Bank sells government bonds domestically when it buys foreign exchange to prevent appreciation of domestic currency.
B. Central Bank buys bonds when it buys foreign exchange to prevent appreciation of domestic currency.
C. Central Bank prints money in order to prevent contraction of money supply and appreciation of currency.
D. None of the above.

65. The probability of obtaining three "Heads" on tossing a fair coin three times is:

A.   1/3
B.   1/6
C.   1/8
D.   1/9

66. British colonial economy prospered due to:

A. Extraction of Tributes from colonies
B. A new international division of labour
C. Industrial Revolution
D. All of the above

67. The three givens in neoclassical economic theory are:

A. Technology, preferences and endowments
B. Markets, technology and innovation
C. Markets, preferences and profits
D. Preferences, technology and innovation.

68. The expansion path identifies

A. the least costly combination of inputs required to produce various levels of output.
B. the firm's demand curves for the inputs.
C. the various combinations of inputs that can be used to produce a given level of output.
D. the least-cost combination of outputs.

69. The supply curve for a monopolist

A. is equal to the marginal cost curve above the average variable cost curve.
B. is equal to the marginal cost curve above the average cost curve.
C. cannot be uniquely determined.
D. is equal to the average variable cost curve above the marginal cost curve.

70. The Coase Theorem states that:

A. Government action is always needed to solve the problem of externalities.
B. Government action will not always be needed since markets will emerge to solve the problem of externalities
C. If transaction costs are not prohibitive, private bargaining works to solve the problem of externalities.
D. b and c

71. The IS curve shifts when all of the following variables change except

A. tax rates.
B. interest rates
C. government spending.
D. the marginal propensity to consume.

72. Within the IS-LM curve model, an increase in government spending financed by printing money will always

A. have no impact on income.
B. lower income and raise the interest rate.
C. lower the interest rate and increase income.
D. increase income.

73. An increase in the money stock has no effect on equilibrium income whenever the

A. IS curve is horizontal.
B. IS curve is vertical
C. LM curve is vertical.
D. LM curve is horizontal.

74. According to Classical Theory of trade, trade occurs between two countries due to

A. differences in labour productivity
B. differences in transport costs
C. differences in quality of products
D. none of the above

75. In spending all his or her income, the consumer chooses the market basket that maximizes his or her utility. Which of the following statements will be correct?
1. The marginal utility is the same for each commodity.
2. The marginal utility per dollar spent is the same for each commodity.
3. The marginal utility of each commodity is proportional to its price.

A. 1 only.
B. 2 only.
C. 1 and 2 only.
D. 2 and 3 only.

76. Recent inflation in India is said to be primarily due to:

A. Excessive growth of money supply due to heavy accumulation of foreign exchange with RBI
B. Supply constraints in primary articles
C. Dollar appreciation affecting our exports
D. Sub-prime crisis in US

77. Factor price equalization theorem was associated with the name of

A. David Ricardo
B. J.S. Mill
C. Paul Samuelson
D. Adam Smith

78. If a profit-maximizing firm's marginal product of labor equals 1 ton of output, while the marginal product of capital equals 7 tons of output and the use of capital is priced at Rs.14 per unit, then

A. the price of labor must be Rs.2.
B. the price of labor must be Rs.7.
C. the price of labor must be Rs.14 as well.
D. none of the above is true.

79. Where there is perfect equality in an economy, the Gini Coefficient is equal to:

A. 0
B. 1
C. 0.5
D. Infinity

80. India uses the following measure for inflation:

A. CPI-AL
B. CPI-IW
C. WPI
D. GDP deflator

81. The phenomenon of the backward-bending market supply curve for labor

A. reflects the policy of labor unions.
B. results from workers' preference for leisure over work.
C. results from the effect of the decrease in the cost of leisure as wage rates rise.
D. indicates an increasing desire for leisure as wage income rises.

82. The *marginal rate of technical substitution* is

A. the rate at which a producer is able to exchange, without affecting the quantity of output produced, a little bit of one input for a little bit of another input.
B. the rate at which a producer is able to exchange, without affecting the total cost of inputs, a little bit of one input for a little bit of another input.
C. the rate at which a producer is able to exchange, without affecting the total inputs used, a little bit of one output for a little bit of another output.
D. a measure of the ease or difficulty with which a producer can substitute one technique of production for another.

83. How many subsets can be formed from the set N = {7, 3, 8, 2, 9, 6} ?

A. 6 subsets
B. 64 subsets
C. 18144 subsets
D. 35 subsets

84. For a profit maximizing firm, the greatest difference between the total revenue and total cost indicates the

A. equality between AR and TC
B. MR=MC and the highest level of profit
C. equality between total profit and total revenue
D. MR=MC and the highest average cost

85. Which, of the following demand functions, has unitary elasticity everywhere?

A. Linear
B. Quadratic
C. Rectangular hyperbola
D. Polynomial

86. Which of the following variable will come under Stock variable ?

A. Gross domestic product
B. Money supply
C. Exports
D. Imports

87. If GNP deflator is raised by 40%then which of the following statement is correct?

A. Nominal GNP increase by 40%
B. Real GNP will increase by 40%
C. Both nominal and real GNP will increase by 40%
D. Nominal GNP increase by 40% and real GNP decrease by 40%

88. In the case of Giffen good

A. demand increases as price increases
B. demand falls as price raises
C. demand increases as price falls
D. none of the above

89. Keynes psychological law of consumption states that as income increases consumption also increases

A. in the same proportion
B. less than proportionately
C. more than proportionately
D. none of the above

90. The ratio of the change in equilibrium output to the change in autonomous spending:

A. Marginal propensity to consume
B. marginal propensity to save
C. Average propensity to consume
D. Multiplier

91. When ex-ante saving is greater than ex-ante investment

A. output should increase
B. output should decrease
C. output should not change
D. any of the above happens

92. stagflation is a period of

A. High inflation
B. low inflation
C. low inflation and High unemploym ent
D. High inflation and high unemployment

93. Transfer payments are

A. payments made to a factor of production
B. payments transferred from one sector to another
C. payments made for no return service
D. payments made by government of one country to another

94. All entries in the balance of payments statement should collectively sum to

A. GDP of the country
B. official reserve account
C. errors and omission
D. zero

95. The investment income from abroad appears under---------------- head of BOP statement.

A. current account
B. capital account
C. official reserve account
D. unilateral transfer account

96. In the Keynesian model with a variable money wage and variable price level, an increase in the money supply would lead to a rise in all of the following except

A. price level.
B. output.
C. real wage.
D. level of employment.

97. Which of the following is a correct representation of the budget constraint in a world with only food and shelter, where M = income, P_f = price of food, P_s = shelter price, S = the quantity of shelter, and F = the quantity of food.

A. $M = P_f(S) + P_s (F)$
B. $F = M/P_s - P_f/P_s (S)$
C. $S = M/P_s - P_s /P_f (F)$
D. None of the above is correct.

98. The higher the interest sensitivity of investment, the

A. less effective is monetary policy and the more effective is fiscal policy.
B. more effective are both monetary and fiscal policies.
C. less effective are both monetary and fiscal policies.
D. less effective is fiscal policy and the more effective is monetary policy

99. Assume the marginal propensity to consume is .8. To offset a fall in income of 1,000, the government should

A. increase taxes by Rs.200.
B. raise taxes by Rs.250.
C. increase government spending and taxes by Rs. 1,000.
D. cut taxes by Rs.200.

100. A simultaneous reduction in both taxes and the money stock will always

A. increase interest rates.
B. lower income and raise the interest rate.
C. lower income and raise the interest rate.
D. raise income and raise the interest rate.