ECONOMICS MODEL TEST PAPER

Q.1 Which of the following deficits indicates the true current fiscal position of the Indian Economy?
(A) Revenue Deficit
(B) Capital Deficit
(C) Current Account Deficit
(D) Primary Deficit

Q.2 Suppose that one million unemployed persons in a country are receiving Rs. 6000 per month per person as an unemployment allowance. If the government, instead of paying unemployment allowance, hires all of them at the same amount (Rs. 6000 per month per person) and engages them in digging the pits and filling the same pits. What will be the effect on GDP?
(A) No effect on GDP
(B) GDP will rise
(C) GDP will fall
(D) The effect on GDP will be uncertain

Q.3 Which amendments to the constitution have provided constitutional status to the rural and urban local bodies in India?
(A) 80th and 81st Amendments
(B) 73rd and 74th Amendments
(C) 92nd and 93rd Amendments
(D) 71st and 72nd Amendments

Q.4 From the following, who first examined the close negative relationship between the unemployment rate and the output ratio?
(A) Alban W. Phillips
(B) James Tobin
(C) Arthur M. Okun
(D) Robert M. Solow

Q.5 In hypothesis testing, which of the following defines the size of power of the test?
(A) 1 – (Probability of accepting null hypothesis when it is true)
(B) 1 – (Probability of rejecting null hypothesis when it is true)
(C) 1 – (Probability of accepting null hypothesis when it is false)
(D) 1 + (Probability of rejecting null hypothesis when it is not true)

Q.6 A monopoly canteen serves packed meals to two groups of consumers, group X and group Y. The demand for packed meals for X and Y are given by, $QX = 200 − 4P$ and $QY = 300 − P$,

where P is the uniform price per unit. The unit cost of producing each meal is Rs. 50. The value of P (in Rs.) that maximises the canteen's profit is
(A) 75
(B) 50
(C) 125
(D) 175

Q.7 The utility from wealth (w) for an individual is given by $u(w) = \sqrt{w}$. The individual owns a risky asset that is equally likely to yield either Rs. 400 or Rs. 900. The risk premium of the asset (in Rs.) is
(A) 5
(B) 25
(C) 625
(D) 650

Q.8 Let X be a uniformly distributed random variable in $[a, b]$. The values of an independently drawn sample of size five from X are given by {1.3, 0.8, 9.5, 20.2, 8.2}. Let $\hat{a}$ and $\hat{b}$ denote the Maximum Likelihood Estimates for the parameters a and b, respectively. Then,
(A) $\hat{a} = 0.8$; $\hat{b} = 20.2$
(B) $\hat{a} = 1.3$; $\hat{b} = 9.5$
(C) $\hat{a} = 1.3$; $\hat{b} = 8.2$
(D) $\hat{a} = 0$; $\hat{b} = 21$

Q.9 An upstream paper mill dumps effluents in a river. The total benefit and total cost to the mill are $TB = 120Q - Q^2$ and $TC = 20Q$, respectively, where Q is the amount of output it produces. The environmental cost due to the negative externality is $EC = Q^2$. The government wants to impose a production tax of t per unit of output on the mill. The value of t to achieve the socially optimal level of production is
(A) 6
(B) 25
(C) 50
(D) 70

Q.10 Which one of the following statements is NOT correct regarding changes in the occupational structure of the workforce between 1951 and 1991 in India?
(A) Proportion of cultivators has increased
(B) Proportion of agriculture labour has increased
(C) Proportion of those employed in the tertiary sector has increased
(D) Proportion of those employed in the primary sector has decreased

Q.11 Which of the following statements is/are CORRECT in the context of the Absolute Income Hypothesis?
(A) The marginal propensity to consume (MPC) is a constant
(B) As income increases, the average propensity to consume (APC) tends to approach the marginal propensity to consume (MPC)
(C) Average propensity to consume (APC) increases as income increases
(D) Current saving/dis-saving has no bearing on future consumption

Q.12 GDPF = Gross Domestic Product at Factor Cost; GDPM = Gross Domestic Product at Market Price; NNPF = Net National Product at Factor Cost; C = Consumption; I = Investment; G = Government Expenditure; X = Export; M = Import; T = Tax; S = Saving; D = Depreciation; NIA = Net Income from Abroad Which of the following expressions is/are CORRECT?
(A) $GDPF = C + I + G + X - M$
(B) $GDPM = C + I + G + X - M$
(C) $NNPF = C + I + G + X - M - T + S - D + NIA$
(D) $NNPF = C + I + G + X - M - T + S - D$

Q.13 Which of the following major developments have been undertaken after the initiation of structural reforms in 1991 of the Indian Economy?
(A) A general deregulation of interest rates and a greater role for market forces in the determination of both interest and exchange rates
(B) The phase out of ad hoc Treasury Bill, which puts a check on the automatic monetization of the fiscal deficit
(C) An exchange rate anchor under a Proportional Reserve System
(D) A commitment to the Fiscal Responsibility and Budget Management (FRBM) which sought to put ceiling on the overall fiscal deficit

Q.14 Matching List I and List II, choose the CORRECT option(s).

List I	List II
a. Bombay Plan	i. J. P. Narayan
b. People's Plan	ii. J. R. D. Tata
c. Sarvodaya Plan	iii. M. N. Roy

(A) (a, i), (b, iii)
(B) (a, ii), (b, iii)
(C) (b, iii), (c, i)
(D) (a, ii), (c, iii)

Q.15 The real exchange rate is given by $e = EP/P\star$, where e is the price of domestic goods in terms of foreign goods, E is the price of domestic currency in terms of foreign currency, P is the domestic price level, $P\star$ is the foreign price level. If the Indian Rupee depreciates vis-à-vis the Japanese Yen, and the Marshall-Lerner condition holds, then

(A) India's imports will increase
(B) India's trade balance will improve
(C) foreign demand for Indian goods will increase
(D) foreign demand for Indian goods will decrease

Q.16 Which of the following statements is/are CORRECT under the Keynesian Cross (Fixed Price) Model?
(A) The product market and factor market independently determine the full-employment level of output.
(B) Output is determined in the product market by the aggregate expenditure.
(C) Money market determines the price level, given the quantity of money and the level of output.
(D) Employment is determined in the factor market by the output level determined in the product market.

Q.17 In the context of Indian agriculture, which of the following statements is/are CORRECT?
(A) NABARD was established in 1982
(B) One of the objectives of setting up of the CACP was to ensure remunerative prices to farmers
(C) The APMC Act is related to institutional credit supply in agriculture
(D) The National Commission on Agriculture was chaired by V. M. Dandekar

Q.18 The net inflow of foreign currency into a country on current account and capital account combined is negative in a particular year. The country could be following a fixed or a flexible exchange rate regime. Which of the following scenarios is/are possible for the country's economy in that year?
(A) The country's foreign exchange reserves may increase
(B) The country's exchange rate may appreciate
(C) The country's foreign exchange reserves may decrease
(D) The country's exchange rate may depreciate

Q.19 Let $k \in \mathbb{R}$. Which of the following statements is/are correct for the roots of the quadratic equation

$x^2 + 2(k + 1)x + 9k - 5 = 0$

(A) If $k \leq 1$, then the roots are real and positive
(B) If $2 \leq k \leq 4$, then the roots are complex
(C) If $4 < k < 6$, then the roots are real and opposite in sign
(D) If $k \geq 6$, then the roots are real and negative

Q.20 There are two sellers, H and L, in a second-hand goods market where product quality varies. The sellers know the quality of their own product but the buyers cannot distinguish the

product quality without further information. Sellers' valuation of their own product is based on the quality. H is willing to sell his product with quality QH at a price PH per unit and L is willing to sell the product with quality QL at a price PL per unit such that

$QH > QL$ and $PH > PL$. This market will suffer from

(A) adverse selection
(B) moral hazard
(C) market failure
(D) excess supply

Q.21 The amount of money a gambler can win in a casino is determined by three independent rolls of a six-faced fair dice. The gambler wins Rs. 800 if he gets three sixes, Rs. 400 if he gets two sixes, and Rs. 100 in the event of getting only one six. The gambler does not win or lose any money in all other possible outcomes. The probability that a gambler will win at least Rs. 100 is _____. (round off to 2 decimal places)

Q.22 Consider an economy where the full employment output is 1 trillion Rupees and the natural rate of unemployment is 6 %. If actual unemployment rate is 8 %, then according to Okun's law, the absolute gap between the full employment output and actual output (in billion Rupees) will be _____. (in integer)

Q.23 In a small open economy, the desired domestic savings (S^d) and the desired domestic investment (I^d) are as follows, where r^w is the world real interest rate.
$S^d = 10 + 100\ r^w$
$I^d = 15 - 100\ r^w$
If r^w = 3 %, the current account balance in the equilibrium would be _____. (in integer)

Q.24 A consumer always spends 50% of his monthly income on food. Introduction of value added tax on food items has led to a 20% increase in food prices while his monthly income remained unchanged. The consumer's price elasticity of demand for food is _____. (in integer)

Q.25 The following data relate to a country's GDP in 2012-13 (in local currency).

Item	Value
GDP	59,816
Private sector investment	17,811

Exports	14,498
Investment expenditure by the government	5,087
Net Factor Income from Abroad	125
Consumption expenditure by the government	6,620
Private sector consumption	35,695

The value of this country's imports (in local currency) in 2012-13 is _____. (in integer)

Q.26 A number x is randomly chosen from the set of the first 100 natural numbers. The probability that x satisfies the condition $x + 300/x > 65$ is _____ (round off to 2 decimal places).

Q.27 For $k \in \mathbb{R}$, let $f(x) = x^4 + 2x^3 + kx^2 - k$, $x \in \mathbb{R}$. If $x = 3/2$ is a point of local minima of f and m is the global minimum value of f then $f(0) - m$ is equal to _____ (in integer).

Q.28 An individual faces an uncertain prospect, where wealth could be Rs. 10 Lakh with probability 0.75 and Rs. 7 Lakh with probability 0.25. Let the utility function be $U(w) = w^3$. Then the individual will buy full insurance by paying a premium of Rs. _____ Lakh (round off to 2 decimal places)

Q.29 Suppose that the per capita GDP of India and the USA are growing at annual average rates of 8.8% and 1.8%, respectively. Further, consider that in 2019-20, per capita GDP of the USA was USD 41099 and per capita GDP of India was USD 1570. Assuming that the two countries continue to grow at the above rates, India's per capita GDP will be equal to the per capita GDP of USA in _____ years (round off to 2 decimal places)

Q.30 ACD Bank holds a total deposit of Rs. 256412. To expand the money supply in the economy during the COVID-19 pandemic period, the Reserve Bank of India reduced the cash reserve ratio (CRR) from 4.5% to 3.5%. Due to this policy change, the additional money supply generated by ACD Bank is Rs. _____ (in integer).

ANSWER KEY

Question No.	Question Type (QT)	Subject Name (SN)	Key/Range (KY)	Mark (MK)
1	MCQ	EN	D	1
2	MCQ	EN	B	1
3	MCQ	EN	B	1
4	MCQ	EN	C	1
5	MCQ	EN	C	1
6	MCQ	EN	D	2
7	MCQ	EN	B	2
8	MCQ	EN	A	2
9	MCQ	EN	C	2
10	MCQ	EN	A	2
11	MSQ	EN	C;D	2
12	MSQ	EN	A;B	2
13	MSQ	EN	A	2
14	MSQ	EN	B;C	2
15	MSQ	EN	B;C	2
16	MSQ	EN	B;D	2
17	MSQ	EN	A;B	2
18	MSQ	EN	C;D	2
19	MSQ	EN	B;D	2

20	MSQ	EN	A;D	2
21	NAT	EN	0.41 to 0.43	1
22	NAT	EN	40	1
23	NAT	EN	1	1
24	NAT	EN	-1	1
25	NAT	EN	19895	1
26	NAT	EN	0.44 to 0.44	2
27	NAT	EN	54 to 54	2
28	NAT	EN	0.56 to 0.60	2
29	NAT	EN	45 to 50	2
30	NAT	EN	1628012 to 1628013	2