

Entrance Examination, June, 2008

MA (Economics)

Time: 2 Hours

Maximum Marks: 100

HALL TICKET NUMBER

Instructions :

1. Write the hall ticket in the space provided above and also on the OMR answer Sheet.
2. Answers are to be marked on the OMR answer sheet only, following the instructions provided there upon
3. Handover both the question paper booklet and OMR answer sheet at the end of the examination
4. Use of calculators is permitted.
5. There are 100 questions in this paper: 25 questions in PART-A and 75 questions in PART-B
6. Each correct answer carries 1 mark. Each wrong answer carries 0.33 negative marks.
7. The question paper has two parts- Part-A and Part-B. Marks obtained in Part-A will determine the merit rank in case of a tie in the total number of marks obtained.
8. This question paper contains a total of 18 pages excluding the OMR sheet.

PART-A

1. An oligopolistic industry can be characterized by all of the following *except*
 - A. many sellers.
 - B. mutual interdependence.
 - C. economies of scale.
 - D. a homogenous product.

2. The ideas of Keynes focus on the importance of
 - A. Aggregate Supply in the short run
 - B. Aggregate Demand in the short run
 - C. Aggregate Supply in the long run
 - D. Aggregate Demand in the long run

3. According to Malthus,
 - A. Food production grows at an arithmetic progression and population also grows at an arithmetic progression.
 - B. Food production grows at a geometric progression and population also grows at a geometric progression.
 - C. Food production grows at an arithmetic progression and population grows at a geometric progression.
 - D. Food production grows at a geometric progression and population grows at an arithmetic progression.

4. If $y = a^x$, then (dy/dx) is equal to
 - A. $a^x \ln a$
 - B. a^x
 - C. $x a^{x-1}$
 - D. None of the above

5. Inflation accompanied by a slowing of economic activity is known as
 - A. Deflation
 - B. Stagflation
 - C. Recession
 - D. Depression

6. Under a flexible exchange rate system, exchange rate is determined by the
 - A. nation's monetary authority
 - B. nation's foreign exchange reserves
 - C. forces of demand and supply in the foreign exchange market
 - D. price of gold

7. In the Keynesian model,
- the main determinant of consumption is disposable income and the main determinant of savings is rate of interest.
 - the main determinant of consumption is aggregate investment and the main determinant of savings is rate of interest.
 - the main determinant of consumption is disposable income and the main determinant of savings is aggregate investment saving
 - the main determinant of consumption is disposable income and the main determinant of savings is also disposable income.
8. The problem of multicollinearity in econometrics arise due to:
- correlation among error terms
 - correlation between the explanatory variables and the error terms
 - correlation between the dependent and independent variables
 - correlation among the explanatory variables
9. Demand curve for television sets will shift to the left when there is
- an increase in the price of television sets
 - an increase in the rate of interest on the money which the consumers borrow for buying television sets
 - an increase in buyers' incomes
 - an increase in the cost of production of television sets
10. For the roots of the quadratic equation, $4x^2 - 32x + 64 = 0$, which of the following is true?
- It has two distinct real roots, one negative and one positive.
 - It has real and identical roots.
 - It has two distinct real roots which are both positive.
 - It does not have any real roots
11. If two goods x and y are substitutes to each other, then the cross elasticity of demand between x and y is
- positive
 - negative
 - zero
 - can be either positive or negative but not zero
12. Price discrimination is not possible under :
- Natural monopoly
 - Discriminating monopoly
 - Perfect competition
 - All of the above

13. Sita visits her friend Zainab for the first time after they left school and sees a young girl playing in the house. Zainab tells Sita that she has two children including the girl playing there. What is the probability that Zainab has two daughters? (Assume an equal chance of a child to be either a girl or a boy).
- 1/4
 - 1/3
 - 1/2
 - 1
14. An isoquant curve shows
- all the alternative combinations of two inputs that yield the same maximum total product.
 - all the alternative combinations of two products that can be produced by using a given set of inputs fully and in the best possible way.
 - all the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
 - both B and C.
15. The limit of $(1+x)^{2+x}$ as $x \rightarrow 0$
- 0
 - $\frac{1}{2}$
 - 2
 - Infinity
16. According to the Laffer curve, as tax rates increase, tax revenues
- rise continuously.
 - decrease continuously.
 - initially decrease and then increase.
 - initially increase and then decrease.
17. According to Classical macroeconomics, aggregate supply is determined by
- Labour Market
 - Capital Market
 - Product Market
 - Money Market
18. Developing countries often have balance of payments problems because
- they mostly export primary commodities which have low elasticity of demand
 - most of their machinery is imported
 - with increase in growth of income, imports grow even faster
 - all of the above

19. The Kinked Demand curve model explains
- A. Price determination
 - B. Uniqueness of prices
 - C. Price rigidity
 - D. Price stability
20. Which sector has the highest employment share in India?
- A. Agriculture
 - B. Industry
 - C. Services
 - D. All three sectors of the economy have roughly equal shares
21. A bank employee leaves her job under VRS scheme and is now actively looking for a new job. This is a case of,
- A. structural unemployment
 - B. frictional unemployment
 - C. voluntary unemployment
 - D. permanent unemployment
22. Division of Labour refers to:
- A. Specialization of tasks assigned to individual workers in a production process
 - B. A conspiracy hatched by managements to divide the labourers
 - C. Dividing the labour into approximately three shifts in a working day
 - D. Classification of labour into skilled and unskilled categories.
23. Economists identify a tax structure as being progressive if
- A. the marginal tax rate falls as taxable income rises
 - B. the average tax rate remains constant as the level of taxable income rises
 - C. the marginal tax rate remains constant as the level of taxable income rises
 - D. the average tax rate increases as the level of taxable income increases
24. "Dumping" in international trade refers to:
- A. Dumping commodities into foreign markets by illegal imports
 - B. Dumping commodities into foreign markets at lower than world price
 - C. Dumping commodities into foreign markets at prices less than cost of production and transportation
 - D. Dumping junk.

25. The function $y = (7-x)^4$:
- A. attains a relative maximum at (7,0).
 - B. has an inflection point at (7,0).
 - C. attains a relative minimum at (0,7).
 - D. attains a relative minimum at (7,0).

PART-B

26. If the demand curve for a good is downward sloping, then the good
- A. must be a normal good only.
 - B. must be an inferior good only .
 - C. must be a Giffen good.
 - D. may either be a normal or an inferior good.
27. At any given point on an indifference curve, the absolute value of the slope
- A. is always equal to unity--otherwise there would be no indifference.
 - B. is called the marginal rate of substitution.
 - C. shows the consumer's marginal utility.
 - D. none of the above.
28. If the Cash Reserve Ratio was increased from 8 % to 10 %, then the money multiplier
- A. will not change at all
 - B. will fall from 12.5 to 10
 - C. will certainly increase but by how much can not be predicted
 - D. will increase from 8 to 10
29. When commodity tax rate is increased, the Keynesian multiplier
- A. increases
 - B. decreases
 - C. may increase or decrease depending on the nature of government spending
 - D. remains the same, as it depends only on MPC
30. 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 = price of shelter, S = the quantity of shelter, and F = the quantity of food.
- A. $M = P_f S + P_s F$
 - B. $F = (M/P_f - P_s)/P_f S$
 - C. $S = M/P_f - P_s/P_f F$
 - D. None of the above

31. If A, B, C, and D are any four commodity bundles, and if the consumer has ranked them so that D is preferred to C, A is not preferred to B, and B is not preferred to C, then,
- A. A is preferred to C
 - B. A is preferred to D
 - C. B is preferred to D
 - D. D is preferred to A
32. "Good management education has become very expensive as IIMs have increased their annual fee to about Rs. 5-6 lakhs. Yet thousands of students desire admission in the IIMs. Many more students seek admission than those actually admitted." From this observation, we can conclude that the price of IIM education must be,
- A. above equilibrium
 - B. equal to equilibrium
 - C. below equilibrium
 - D. subject to heavy subsidy
33. If the average annual rate of growth of the economy is 7%, then income doubles in approximately
- A. 10 years
 - B. 14 years
 - C. 6 years
 - D. 5 years
34. A rational person does not undertake an action unless
- A. the action is ethical
 - B. the action produces incremental benefits that exceed incremental costs
 - C. the action produces marginal costs that exceed marginal benefits
 - D. the action generates some revenue for the person
35. As the MPC changes from 0.75 to 0.9, the balanced budget multiplier
- A. changes from 4 to 10.
 - B. remains constant at value of 4.
 - C. remains constant at value 1.
 - D. increases from 7.5 to 9.0

36. Suppose an individual spends all his income on only two goods, good X and good Y. Moreover, suppose that you were asked to derive his price consumption curve for good Y. Which of the following would be allowed to vary?
- A. Money income.
 - B. The tastes of the consumer.
 - C. The price of good X.
 - D. The price of good Y.
37. If the demand for petrol is relatively but not completely price inelastic, then it follows that
- A. people would be willing to pay any price to drive.
 - B. a decrease in the price of petrol would increase the supply of petrol.
 - C. a decrease in the price of petrol would reduce the total amount spent on petrol.
 - D. petrol consumption could not be cut without rationing.
38. If a simultaneous and equal percentage decrease in the use of all physical inputs leads to a larger percentage decrease in physical output, a firm's production function is said to exhibit
- A. decreasing returns to scale.
 - B. constant returns to scale.
 - C. increasing returns to scale.
 - D. diseconomies of scale.
39. Does a monopoly have a supply function?
- A. Yes.
 - B. No
 - C. Need more information
 - D. None of the above
40. What is Paradox of Savings/thrift?
- A. Savings are inversely proportional to income
 - B. Savings are directly proportional to investment
 - C. Higher savings rate in the short run leads to a reduction of savings
 - D. None of the above
41. Net National Product at factor price is equal to:
- A. Gross National Product at market prices – depreciation – direct taxes
 - B. Gross National Product at factor prices – depreciation – net indirect taxes
 - C. Gross National Product at market prices – depreciation – net indirect taxes
 - D. Gross National Product at factor prices – depreciation – direct taxes

42. In the short run, which of the following is true:
- A. Quantity produced is smaller and the price paid by the consumer is higher due to imposition of fresh lumpsum taxes
 - B. Quantity produced is smaller and the price paid by the consumer is higher due to imposition of fresh commodity taxes
 - C. Quantity produced is unchanged but the price paid by the consumer is higher due to imposition of fresh lumpsum taxes
 - D. Quantity produced is smaller but the price received by the producer is higher due to imposition of fresh commodity taxes
43. The marginal rate of technical substitution for a technology represented by straight line isoquants
- A. decreases with the increase in labour along an isoquant
 - B. increases with the increase in labour along an isoquant
 - C. is equal to zero everywhere along an isoquant
 - D. is constant along an isoquant
44. Recent slowdown in the US economy is triggered by:
- A. Growing trade deficit due to dollar depreciation
 - B. Outsourcing to India and China
 - C. Sub-prime lending crisis in the housing sector
 - D. Rise in wages
45. Which of the following sectors has the highest share in GDP in India?
- A. Agriculture
 - B. Industry
 - C. Services
 - D. All three sectors of the economy have roughly equal shares
46. How is interest rate determined in classical macroeconomics?
- A. Demand and Supply of Money
 - B. Equilibrating relation between Savings and Investment
 - C. Lender's risk hypothesis
 - D. By Central Bank.
47. Liquidity Trap refers to:
- A. Ineffectiveness of monetary policy in lowering the rate of interest
 - B. Not enough liquidity in the banking system.
 - C. Trapped by the lure of money.
 - D. None of the Above.

48. What is a negative externality?
- A. when the action of an economic decision maker creates benefits for others
 - B. when the action of an individual agent creates costs for others
 - C. Foreign currency lost in international trade.
 - D. All of the above
49. Application of OLS on a simultaneous-equations model leads to
- A. BLUE
 - B. biased estimates
 - C. unbiased estimates
 - D. consistent estimates
50. Given the function $y = x_1x_2x_3$, the partial derivative of y with respect to x_2 i.e. $(\partial y / \partial x_2)$ is :
- A. x_1
 - B. x_2
 - C. x_1x_3
 - D. x_2/x_1
51. Which of the following is true for the correlation coefficient (r) ?
- A. $0 \leq r \leq -1$
 - B. $-1 \leq r \leq +\infty$
 - C. $-\infty \leq r \leq +\infty$
 - D. $-1 \leq r \leq +1$
52. If M and N are disjoint sets, their intersection is
- A. a null set
 - B. a universal set
 - C. equal to union of M and N
 - D. none of the above
53. If P is an identity matrix of order 3. Then, which one is true for P ?
- A. The matrix P is a square matrix
 - B. The rank of P matrix is 3
 - C. The determinant value of P is non-zero
 - D. All of the above

54. There are five envelopes with addresses of five different persons. Five letters addressed to each of these persons are randomly put in these envelopes. The probability that exactly one letter is posted to the wrong address is:
- A. 0
 - B. 0.8
 - C. 0.2
 - D. $(0.8)^5$
55. The sequence $(-1)^n$ is
- A. an increasing sequence
 - B. a decreasing sequence
 - C. either A. or B is correct depending on n
 - D. a non-convergent sequence
56. The probability of obtaining three "heads" on tossing a fair coin three times is
- A. $1/3$
 - B. $1/6$
 - C. $1/8$
 - D. $1/9$
57. If the marginal propensity to consume is 0.50, the value of multiplier is
- A. 2
 - B. 1.75
 - C. 1.5
 - D. 1
58. The whole class of goods that will be under-produced or not produced at all in a completely unregulated market economy would be:
- A. free goods.
 - B. capital goods.
 - C. private goods.
 - D. public goods.
59. Head Count Ratio refers to,
- A. proportion of the poor in population
 - B. Proportion of the unemployed in population
 - C. Proportion of people below median income in population
 - D. proportion of people below per capita income in population

60. NREGA scheme guarantees:
- A. One hundred days of employment in asset creating public works programs at a minimum wage for every rural household.
 - B. Sufficient increase in private investment to provide employment for all rural households.
 - C. Employment in government offices for all rural households.
 - D. Subsidies to employers who provide jobs in rural areas.
61. Steady State refers to:
- A. Capital stock per capita is constant
 - B. Capital is growing at the same rate as population
 - C. Savings generated by the economy is just equal to the investment required to keep capital per capita constant.
 - D. All of the above.
62. Which of the following is not a trade barrier?
- A. Flexible exchange rate
 - B. Quota
 - C. Tariff
 - D. Export subsidy
63. According to the theory of comparative advantage, two countries A and B should trade in two goods X and Y if:
- A. A can produce X at a lower cost than B, and B can produce Y at a lower cost.
 - B. A has a lower opportunity cost in producing one good (say X) than B and B has a lower opportunity cost in producing the other good (Y) than A.
 - C. A has a lower labour cost than B in producing X, and B has a lower labour cost in producing Y.
 - D. None of the above.
64. Given the private savings-investment gap, an increase in the fiscal deficit leads to,
- A. An increase in the current account deficit
 - B. A decrease in the current account deficit
 - C. No change in the current account deficit
 - D. None of the above
65. As income inequality in a country increases
- A. Gini Coefficient rises
 - B. Gini coefficient falls
 - C. Gini coefficient stays the same
 - D. None of the Above

66. Human Development Index is a measure of
- A. Wealth in a country
 - B. Income in a country
 - C. Well-being in a country derived from income, health and literacy.
 - D. None of the above
67. The implicit GDP deflator uses which among the following indexes?
- A. Paasche Index
 - B. Fisher Index
 - C. Laspeyres Index
 - D. Tornquist Index
68. According to Say's law:
- A. Supply creates its own demand
 - B. Demand creates its own supply
 - C. Supply and Demand mutually determine each other.
 - D. All of the above.
69. Euler's theorem refers to
- A. Marginal productivity theory of distribution
 - B. Constant Returns to Scale
 - C. A property of linear homogeneous functions
 - D. Short run cost analysis
70. Iron Law of Wages refers to
- A. Wages are continually rising.
 - B. Wages are continually falling.
 - C. Wages return to a subsistence level after fluctuations.
 - D. Wage fluctuations in the iron industry.
71. For which of the following t-test can be used?
- A. comparing means of two samples
 - B. comparing variances of two samples
 - C. as a goodness of fit test
 - D. testing for overall significance of a multiple regression equation
72. Mutual Fund activities are regulated by
- A. AMFI
 - B. BSE
 - C. NSE
 - D. SEBI

73. The deadweight loss is the
- A. total surplus minus consumers' surplus
 - B. situation of total cost exceeding total revenue
 - C. net loss in the total of consumers' surplus and producers' surplus
 - D. loss due to competitive price decision
74. Labour Theory of Value refers to
- A. Value is determined by costs of production, including wage costs.
 - B. Value is determined by the active labour of the workers and the labour embodied in the means of production.
 - C. Value is determined by the marginal productivity of labour.
 - D. Value is determined only by the labour contributed by workers who have worked on this product.
75. What does not fall under the instruments of fiscal policy?
- A. Interest Rates
 - B. Tax Rates
 - C. Government Expenditures
 - D. Subsidies
76. A Monopoly will never operate on the inelastic segment of the demand curve,
- A. because average revenues are negative.
 - B. because marginal revenue is negative.
 - C. because total revenue is still rising.
 - D. None of the above.
77. Green Revolution was introduced in the 1960s in response to:
- A. Pressures due to food shortages
 - B. Failure of land reforms
 - C. Pressures from World Bank
 - D. All of the above
78. After the introduction of economic reforms in 1991, there has been,
- A. An impressive increase in the growth rate of the services sector.
 - B. A modest increase in the growth rate of the industrial sector.
 - C. Significant slowdown in agricultural growth
 - D. All of the above.

79. Structural Change in a developing economy refers to:
- A. Movement of labour force from agriculture to non-agricultural sector.
 - B. Higher economic growth.
 - C. General mechanisation of the economy.
 - D. Lower levels of infant mortality.
80. Consumption function for an economy is estimated to be $C = 1,000 + 0.80 Y^d$, where Y^d is the disposable income. Which of the following is true if Y^d is zero?
- A. Consumption is zero
 - B. Income must be greater than taxes
 - C. Dis-savings are Rs.1,000
 - D. Savings are zero.
81. If the nominal rate of interest is 7%, and the rate of inflation is 2%, then the real rate of interest is equal to:
- A. 9 %
 - B. 5 %
 - C. 14 %
 - D. 3.5 %
82. What should the RBI do to ease the money supply?
- A. Sell Treasury Bills in the open market
 - B. Increase the repo rate
 - C. Increase the Cash Reserve Ratio
 - D. Lower the Bank Rate
83. The Phillips curve refers to
- A. An inverse relation between unemployment rate and growth rate
 - B. An inverse relation between growth rate and inequality level
 - C. An inverse relation between inflation rate and growth rate
 - D. An inverse relation between inflation rate and unemployment rate
84. The Kuznets curve shows the following relation in a country over time
- A. A U shaped relation between growth rate and inequality
 - B. An inverted U shaped relation between per capita income and level of inequality
 - C. An inverted U shaped relation between inflation rate and unemployment rate.
 - D. A U Shaped relation between GDP and Unemployment.

85. Okun's law states that
- A. Growth rate and unemployment rate are inversely related.
 - B. Growth rate and inequality level are inversely related.
 - C. An inverse relation between inflation rate and unemployment rate
 - D. An inverted U shaped relation between per capita income and level of inequality
86. In the Indian macro economy, what contributes most to GDP?
- A. Investment
 - B. Government Spending
 - C. Consumption
 - D. Net Exports
87. "Individual greed leads to the larger social good". Who conceived this idea in economics, and how is it supposed to come about:
- A. David Ricardo, Through the Invisible Hand
 - B. Adam Smith, Through the Invisible Hand
 - C. Jeremy Bentham, Through the Panopticon
 - D. James Mill, Through Utilitarianism
88. Which of the following would cause the demand curve for an input to shift?
- A. A change in technology.
 - B. A change in demand for the product being produced.
 - C. An increase in the number of firms in the industry.
 - D. All of the above.
89. Countercyclical fiscal policy consists of:
- A. increasing spending and taxes in recessions, and decreasing spending and taxes in inflationary periods.
 - B. decreasing spending and taxes in recessions, and increasing spending and taxes in inflationary periods.
 - C. decreasing spending and increasing taxes in recessions, and increasing spending and decreasing taxes in inflationary periods.
 - D. increasing spending and decreasing taxes in recessions, and decreasing spending and increasing taxes in inflationary periods.
90. Which of the following is not considered to be an important determinant of productivity?
- A. The available amount of physical capital.
 - B. The growth rate of the money supply.
 - C. The available amount of natural resources.
 - D. The level of technological knowledge.

91. Which of the following is an example of foreign direct investment?
- A. Tatas build an assembly plant in Ho Chi Minh City.
 - B. Janaki, an Indian citizen, buys shares of stock in a Japanese firm through the Tokyo Stock Exchange.
 - C. The merger of Airtel and Verizon.
 - D. The purchase of Indian government bonds by a citizen of Netherlands.
92. All of the following are considered to be functions of money *except*
- A. Store of value.
 - B. Medium of exchange.
 - C. Standard of value.
 - D. Measure of power.
93. Which of the following arguments for trade protection is frequently cited by developing countries?
- A. The military-self-sufficiency argument.
 - B. The infant-industry argument.
 - C. The cheap-foreign-labor argument.
 - D. The deadweight-loss argument.
94. In the equation $GDP = C + I + G + NX$, in which NX equals exports *minus* imports, imports are subtracted from the other types of expenditure because:
- A. imports reduce national welfare.
 - B. other countries do not import goods from India.
 - C. the value of imports is included in the other components of spending.
 - D. the value of imports is difficult to determine due to the fact that they are frequently stated in terms of foreign currency.
95. Which of the following is a plausible example of Pareto improvement?
- A. Redistribution of land from the landed to the landless.
 - B. Redistribution of income from the rich to the poor.
 - C. Transfer of firm ownership from capitalists to workers.
 - D. Transfer of income from a philanthropist to a self-interested individual.
96. A contractionary fiscal policy combined with a tight monetary policy will definitely result in
- A. A lower level of output.
 - B. A higher level of output.
 - C. A lower interest rate.
 - D. A higher interest rate.

97. The term *Conspicuous Consumption* was introduced by the following economist:
- A. John Maynard Keynes
 - B. Leon Walras
 - C. Alfred Marshall
 - D. Thorstein Veblen
98. British rule in India was accused by the Indian nationalists of all the following except:
- A. Extraction of Tribute
 - B. Destruction of Indian Railways
 - C. Deindustrialization
 - D. Destruction of Indian textiles
99. Which of the following is not an achievement of the Indian economy during the pre-reform era?
- A. Food self-sufficiency
 - B. Development of a broad industrial base
 - C. Reduction in the rural-urban income gap
 - D. Reductions in poverty levels
100. Which of the following is included in the definition of M_1 ?
- A. Fixed deposits
 - B. Post office savings
 - C. Money market mutual funds
 - D. Demand deposits
