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The Government: Functions and Scope

1) What among the following is NOT an example of 'public goods'?

- a) National defense
- b) Roads
- c) Cars
- d) National Forests

ANSWER: c) Cars

Public goods are those goods that cannot be provided by market mechanisms.

2) What among the following is NOT an example of 'private goods'?

- a) Clothes
- b) Cars
- c) Military
- d) Food items

3) The function of a government to provide goods that cannot normally be provided by market mechanisms between individual customers and producers, is known as:

- a) Distribution function
- b) Allocation function
- c) Stabilization
- d) Protection

ANSWER: b) Allocation function

4) The function of a government to fairly share the public's resources is known as

- a) Distribution function
- b) Allocation function
- c) Stabilization
- d) Protection

ANSWER: a) Distribution function

5) The function of a government by which it seeks to seek a balance of employment, demand-supply, and inflation, is known as:

- a) Distribution function
- b) Allocation function
- c) Stabilization
- d) Protection

ANSWER: c) Stabilization

6) The Government Budget consists of which main component/s?

- a) Revenue Budget and Capital Budget
- b) Capital Budget only
- c) Revenue Budget only
- d) None of the above

ANSWER: a) Revenue Budget and Capital Budget

7) Loans raised by the government from the public are known as:

- a) Corporate borrowings
- b) Common borrowings
- c) Market borrowings
- d) Private borrowings

ANSWER: c) Market borrowings

8) Whenever the government spends more than it collects through revenue, the resulting imbalance is known as :

- a) Public deficit
- b) Market deficit
- c) Government deficit
- d) Budget deficit

ANSWER: d) Budget deficit

9) The idea that government's fiscal policy can be used to stabilize the level of output and employment can be attributed to which of the following economists:

- a) Frederich Hayek
- b) Ludwig von Mises
- c) Frederic Bastiat
- d) John Maynard Keynes

ANSWER: d) John Maynard Keynes

John Maynard Keynes's 1936 book, 'The General Theory of Employment, Interest, and Money' laid the foundations for Macroeconomics

10) The deliberate action of the government to stabilize the economy, as opposed to the inherent automatic stabilizing properties of the fiscal system, is known as

- a) Forced fiscal policy
- b) Manual fiscal policy
- c) Discretionary fiscal policy
- d) Automatic fiscal policy

ANSWER: c) Discretionary fiscal policy

11) The idea that irrespective of how a government chooses to increase spending, either by debt financing or tax financing, the outcome will be the same and demand will remain unchanged, is popularly known as:

- a) Ricardian theory of equivalence
- b) Ricardian theory of competitive advantage
- c) Ricardian theory of stability
- d) None of the above

ANSWER: a) Ricardian theory of equivalence

David Ricardo was a British political economist and his most famous theory was that of comparative advantage (along with above theory of Ricardian equivalence) . Comparative advantage refers to the doctrine that any nation should use its resources solely in industries where it has the most international competitiveness

The theory of Ricardian equivalence, as stated above in the question, was also further developed by Harvard professor Robert Barro who took it much further

12) When was the Fiscal Responsibility and Budget Management Act implemented?

- a) 1950
- b) 1970
- c) 1993
- d) 2003

ANSWER: d) 2003

Part 2

1) Which among the following could be said to be an 'Open Economy'?

- a) A nation that follows the doctrine of Free-market and Laissez-faire economics
- b) A nation that trades with other nations in goods and services and financial assets
- c) An economy that operates without government intervention
- d) None of the above

ANSWER: b) A nation that trades with other nations in goods and services and financial assets

2) The records of exports and imports in goods and services and transfer payments is known as

- a) Current account
- b) Budget surplus
- c) Economic leakage
- d) degree of openness

ANSWER: a) Current account

3) Exchange rates for one currency against another currency, are known as:

- a) Real exchange rate
- b) Nominal exchange rate
- c) Superfluous exchange rate
- d) None of the above

ANSWER: b) Nominal exchange rate

4) The ratio of foreign rates to domestic rates measured in the 'same' currency is known as:

- a) Real exchange rate
- b) Nominal exchange rate
- c) Superfluous exchange rate
- d) None of the above

ANSWER: a) Real exchange rate

5) Which among the following is taken as the real measure of a country's international competitiveness?

- a) Real exchange rate
- b) Nominal exchange rate
- c) Superfluous exchange rate
- d) None of the above

ANSWER: a) Real exchange rate

6) When the exchange rate is determined by the market forces of demand and supply, it is known as :

- a) Real exchange rate
- b) Nominal exchange rate
- c) Superfluous exchange rate
- d) Floating exchange rate

ANSWER: d) Floating exchange rate

7) The Gold Standard was prevalent in the world from:

- a) 15th century to 18th century
- b) 9th century to 18th century
- c) From 1870 till First World War
- d) From 1670 till First World War

ANSWER: c) From 1870 till First World War

8) When was the International Monetary Fund (IMF) set up?

- a) 1912
- b) 1214
- c) 1942
- d) 1944

ANSWER: d) 1944

It was set up by the Bretton Woods conference held in 1944

9) An increase in foreign income generally leads to:

- a) increased exports, increased domestic output
- b) decreased exports, increased domestic output
- c) decreased exports, decreased domestic output
- d) increased exports, decreased domestic output

ANSWER: a) increased exports, increased domestic output

Foreign income is brought by exports and leads to further exports in future, and increased exports means increase in domestic output to meet the demand of exports.

10) What records a country's transactions (made by individuals, firms and government bodies.) with the rest of the world?

- a) Trade deficit
- b) Capital Budget
- c) Foreign imports
- d) Balance of Payments or BoP

ANSWER: d) Balance of Payments or BoP