

PRACTICE QUESTIONS – 2021-22

TERM 1 - CLASS 12 ECONOMICS

1. Money can be used to transfer purchasing power from the present to the future. Which specific function of money is this called?
 - A. store of value
 - B. unit of account
 - C. medium of exchange
 - D. double coincidence of wants
2. There are two statements given below, about the effect of a rise in the general price level of an economy.

P: It will lead to a rise in the value of money.

Q: It will lead to a rise in the demand for money.

Which of these is/are true?

- A. only P
 - B. only Q
 - C. both P and Q
 - D. neither P nor Q
3. Which of the following formulae is **INCORRECT**?
 - A. $M1 = \text{currency} + \text{net demand deposits}$
 - B. $M2 = M1 + \text{savings with post office savings banks}$
 - C. $M3 = M2 + \text{net time deposits of commercial banks}$
 - D. $M4 = M3 + \text{total deposits with post office savings banks}$
 4. Which of the following is **TRUE** about revenue receipts?
 - A. non-recurring in nature
 - B. may create corresponding liability
 - C. do not lead to an increase in liability
 - D. include loans taken by the government
 5. In 2021, the government said that despite the current resource crunch, it has decided to hike its capital expenditure by 34.5%.

Which of the following could be a reason for this hike?

- A. increasing salaries of government employees
 - B. repayment of mounting interests on international loans
 - C. paying pending pensions to the government employees
 - D. rapid employment generation through infrastructural projects
6. Which of the following can help reduce the fiscal deficit?
 - A. increasing subsidies
 - B. increasing the PSU profits
 - C. investing in improving public goods
 - D. decreasing the burden and incidence of tax
 7. Which of the following will be debited on the Capital Account of India's Balance of Payments Account?

- A. an Indian woman buying a Chinese company
 - B. an Indian woman sending remittances home from the UK
 - C. an American company buying shares of an Indian company
 - D. an American company selling mobile phones to Indian customers
8. In 2020, India's purchasing power parity was 22 national currency units (rupees) per US dollar.

Source: OECD

What does this mean?

- A. Goods that can be bought for 1 dollar in the US would require 22 rupees in India.
 - B. Goods in India that can be bought for 1 dollar would require 22 dollars in the US.
 - C. Goods that can be bought for 1 dollar in the US would require 22 dollars in India.
 - D. Goods in India that can be bought for 1 rupee would require 22 dollars in the US.
9. In the 20th century, under British rule, India had an export surplus. Where was this surplus used?
- A. to invest in capital goods industries in India
 - B. to invest in capital goods industries in Britain
 - C. to meet the official and war expenses of the British
 - D. to pay the salaries of Indian government employees
10. The colonial government made no sincere attempts to estimate India's national and per capita income, but most studies found that India's national income growth in the pre-Independence era was _____ and per capita income growth was _____.

Choose the correct option that can fill in the blanks.

- A. close to 5 per cent, more than 2 per cent
 - B. less than 3 per cent, more than 1 per cent
 - C. close to half per cent, almost 0 per cent
 - D. less than 2 per cent, close to half per cent
11. Under the British system of land settlement, the *zamindar's* dues to the state were fixed. What did this mean for the cultivators?
- A. They received investment support to increase production.
 - B. They were exploited and forced to pay rent regardless of the produce.
 - C. They had the support of the landlords against the oppressive policies of the British.
 - D. They were forced to shift from food crops to commercial crops, leading to food scarcity.
12. There are two statements given below, about the changes in India's structural composition in the period 1950-1990.

P: At the beginning of this period, the share of agriculture in the GDP was the highest.

Q: Increase in agricultural productivity during this period led to a further increase in the share of agriculture in the GDP by the end of this period.

Which of these statements is/are true?

- A. only P
 - B. only Q
 - C. both P and Q
 - D. neither P nor Q
13. Which of the following statements about the land ceiling policy is TRUE?
- A. It led to equity in the agricultural sector.

- B. Many landlords were able to escape the legislation.
- C. The implementation of the legislation was challenged by small tenants.
- D. It was successful in Kerala and West Bengal because it met no resistance.

14. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): India's Green Revolution is an example of how the productivity of scarce land resources can be increased with improved production technology.

Reason (R): Because of the Green Revolution, farmers produced far larger quantities of foodgrains than was possible earlier, on the same piece of land.

- A. A is true but R is false.
- B. A is false but R is true.
- C. Both A and R are true and R explains A.
- D. Both A and R are true but R does not explain A.

15. What kind of tariff policy was needed to protect domestic producers from foreign competition, after independence?

- A. low import tariffs, reduced import quota
- B. low import tariffs, increased import quota
- C. high import tariffs, reduced import quota
- D. high import tariffs, increased import quota

16. Manu is a construction worker who travels between his village and the nearby city in search of work. When he is hired, he gets 10-15 days of work, after which he is unemployed again.

Which category of poor does he come under?

- A. chronic poor
- B. churning poor
- C. transient poor
- D. occasionally poor

17. In which of the following ways did the British Raj impact the Indian economy the most?

- A. The British made India an exporter of cotton from an exporter of cloth that led to large-scale unemployment.
- B. The establishment of railways by the British provided short-term employment for many Indians.
- C. The British expanded their army with Indian sepoys and fought in wars overseas.
- D. The British provided tax concessions to rural farmers and landless labourers.

18. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): Land redistribution efforts have failed in reducing levels of poverty in rural India.

Reason (R): The capita per head availability of agricultural land has steadily declined in rural India due to population growth.

- A. A is true but R is false.
- B. A is false but R is true.
- C. Both A and R are true and R explains A.

- D. Both A and R are true but R does not explain A.
19. Who amongst the following, has received the greatest investment in human capital formation?
- A. a nurse in a clinic who is frequently absent because of his ill health
 - B. a 12-year-old who helps her mother with construction work
 - C. a 10th-pass girl who works as a store manager in a mall
 - D. a computer science graduate who works at a call centre
20. Which of the following is the CORRECT difference between physical and human capital?
- A. Physical capital can be sold but human capital cannot be sold.
 - B. Physical capital cannot be separated from its owner while human capital can.
 - C. Physical capital provides both private and social benefits while human capital provides only social benefits.
 - D. The depreciation of physical capital can be arrested with more investment while human capital will continue to deplete.
21. India faces 'educated unemployment'. Even though the number of educated individuals ready for jobs has increased, they are unemployed.

Which of the following is MOST LIKELY the reason for this?

- A. The supply of labour is much higher than demand.
 - B. Investments in health have not taken place proportionally.
 - C. Although more students are enrolled in schools, there is a high dropout rate.
 - D. Reverse migration has not been accompanied by alternative employment opportunities.
22. Which of the following statements correctly represents actions taken by the government towards liberalisation?
- P: levying high tariffs to discourage import and promoting the consumption of domestic goods and services
Q: devaluation of the rupees to encourage inflow of foreign exchange
R: allowing for private banks to make decisions independent of the RBI restrictions
S: fixing prices of certain industrial goods in order to support increased consumption of these goods to boost the manufacturing industry
- A. P and Q only
 - B. P and R only
 - C. Q and R only
 - D. Q and S only
23. Which of the following policies was adopted to increase the competitive position of Indian goods in the international markets?
- A. export duties were removed
 - B. import licensing was abolished
 - C. the rate of corporation tax was reduced
 - D. Foreign Institutional Investors (FII) were allowed to invest in India
24. Which of the following falls under the role of the World Trade Organisation?
- A. setting the limit for domestic and foreign investments in a country
 - B. mandating the level of tax levied on foreign firms in developing countries
 - C. aiding the development of poor countries by providing infrastructural investment
 - D. providing a platform for member countries to decide future tariff-related strategies

25. Assuming all other variables remain constant, what will be the effect of an increase in the velocity of money?
- A. increase in transactional demand for money
 - B. decrease in transactional demand for money
 - C. increase in speculative demand for money
 - D. decrease in speculative demand for money
26. Which of the following actions by the Central Bank will INCREASE the money supply in the country?
- A. decreasing the repo rate
 - B. decreasing the bank rate
 - C. increasing the reverse repo rate
 - D. selling bonds issues by the government in the open market
27. If the reserve ratio is 20%, what will be the amount of total reserves after an initial deposit of Rs. 200?
- A. 4000
 - B. 2000
 - C. 1000
 - D. 400
28. Credit cards are excluded from all measures of the quantity of money, because they are not really a method of payment, but a method of deferring payment. When you buy a meal with a credit card, the bank that issued the card pays the restaurant the amount that is due. At a later date, you will have to repay the bank, perhaps with interest. For this, you might use the money in your demand deposits, and that money is included in the economy's stock of money.

Which of the following can happen with an increased use of credit cards in an economy?

- A. increase in money supply
 - B. decrease in money supply
 - C. increase in money demand
 - D. decrease in money demand
29. A bank 'run' occurs when a large number of customers of a bank withdraw their deposits simultaneously. This can cause a bank to become insolvent if they cannot pay back all the depositors.
- Which of the following facts about a bank make a bank run possible?
- A. Banks hold only about 15 per cent of their deposits as cash. The rest of the deposits are given out as loans.
 - B. Banks have to pay a specific amount to the person in whose name a cheque has been issued.
 - C. Banks charge a higher interest rate on loans than what they offer on deposits.
 - D. Banks pay an amount to account holders as interest on deposits.
30. Which of the following is an example of a public good?
- A. medicines and injections
 - B. books and stationary
 - C. houses and furniture
 - D. law and order
31. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): A high revenue deficit can cause inflation in the country.

Reason (R): Rising expenditure of the government can cause a rise in the aggregate demand in the country.

- A. A is true but R is false.
- B. A is false but R is true.
- C. Both A and R are true and R explains A.
- D. Both A and R are true but R does not explain A.

32. Country X has more inflation than country Y. Which of the following is MOST LIKELY to happen in such a case?

- A. a surplus trade balance in country Y
- B. a deficit trade balance for country X
- C. a rise in exports from country X to country Y
- D. a rise in imports from country Y to country X

33. Which of the following will lead to an appreciation of domestic currency?

P: increased demand for foreign exchange

Q: decreased demand for foreign exchange

R: increased supply of foreign exchange

S: decreased supply of foreign exchange

- A. P and R
- B. P and S
- C. Q and R
- D. Q and S

34. *The Reserve Bank of India is said to have intervened lately to arrest the rupee's slide by selling Dollars on a large scale.*

Source: The Economic Times, March 03, 2021

Which of the following statements regarding the above news is FALSE?

- A. The transaction above will be termed as an accommodating transaction.
- B. The foreign exchange rate for one rupee must be rising before intervention.
- C. The value of the rupee against one dollar must be rising before the intervention.
- D. The transaction will be categorised as a below-the-line item in the balance of payments.

35. Let us assume that the foreign exchange rate of the Indian rupee is speculated to rise in the coming months. This may lead to many investors holding on to their reserves of US dollars.

Which of the following things will this result in?

P: rise in demand of US dollars

Q: rise in the supply of US dollars

R: an actual depreciation of INR

S: fall in demand of INR

- A. only P and S
- B. only Q and R
- C. only P, Q, and R
- D. only P, R, and S

36. Look at the following data of a given country.

No.	Items	Value (in Million US Dollars)
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1.	Exports (of goods)	150
2.	Imports (of goods)	200
3.	Net Invisibles	20

Which of the following is INCORRECT?

- A. Balance of trade is unfavourable for the country.
 - B. Balance of payment cannot be determined by the data.
 - C. There is a Current Account Deficit of 30 million US Dollars.
 - D. There is a Capital Account Surplus of 50 million US Dollars.
37. There are two statements given below marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): The establishment of the Suez Canal intensified Britain's control over India's foreign trade.

Reason (R): The Europeans no longer had to travel around Africa to reach India.

- A. A is true but R is false.
 - B. A is false but R is true.
 - C. Both A and R are true and R explains A.
 - D. Both A and R are true and R does not explain A.
38. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): The British introduced railways in India in 1850, which is considered one of their most important contributions.

Reason (R): The British had India's best interests in mind while developing the infrastructure.

- A. A is true but R is false.
 - B. A is false but R is true.
 - C. Both A and R are true and R explains A.
 - D. Both A and R are true but R does not explain A.
39. In the Swadeshi Movement against the British, started in 1905, Indians started ditching British goods for Indian products.

Which of the following would have been the likely impact of the movement?

P: rise in import of raw materials

Q: fall in imports from Britain

R: rise in production of goods in India

S: rise in export tariffs

- A. only P and R
 - B. only P and S
 - C. only Q and R
 - D. only R and S
40. There are two statements given below marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): In a capitalist economy, private entities own resources, whereas in a socialist economy resources are owned by the state.

Reason (R): In a socialist economy, it is assumed that the government knows the exact needs of the people.

- A. A is true but R is false.
- B. A is false but R is true.
- C. Both A and R are true and R explains A.
- D. Both A and R are true and R does not explain A.

41. C. Rajagopalachari, a founder of the Swatantra Party, coined the term 'permit-license raj' to encapsulate the party's frustrations with Nehru's policies, writing in his magazine Swarajya: *I want the corruptions of the Permit/Licence Raj to go... I want real, equal opportunities for all and no private monopolies created by the Permit/Licence Raj.*

How were these private monopolies indulging in the corruption that C. Rajagopalachari talks about?

- A. They led to lobbying and personal benefits for big industrial houses.
 - B. They continued to function even when running into losses.
 - C. They exploited the people by grossly increasing prices.
 - D. They could not compete with international products.
42. To estimate the poverty levels in his town, the collector conducted an informal survey that compiled all household incomes in the area. Using the national poverty line as a reference point, she then calculated the number of poor. Based on this she wanted to launch a number of welfare schemes.

In what other ways could she have measured poverty so that the most beneficial welfare schemes are launched?

- A. by calculating the head count ratio
 - B. by looking at health and education indicators
 - C. by dividing the poor into further specific categories
 - D. by categorising them as employed and unemployed
43. Recent studies of poverty show that the lower castes of India form the poorest 10% in the country. Every second person from the Scheduled Tribes and every third person from the Scheduled Castes are poor.
- Every second ST, every third Dalit & Muslim in India poor, and not just financially: UN report, The Print, 2019

The above lines show that caste is an important determinant of poverty.

Which of the following statements BEST describes how a person's caste influences poverty?

- A. Lower castes face systemic poverty, leading to a lack of access to public resources like employment, health and education.
 - B. Lower castes have very high consumption and expenditure rates owing to their poor living conditions.
 - C. The Indian government has continuously ignored the lack of welfare schemes for lower castes.
 - D. The population of lower castes is much higher than other castes.
44. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): The 12th Five Year Plan tried to raise India's Gross Enrolment Ratio in higher

education to 25.2% by 2017–18 and to 30% by 2020–21.

Reason (R): The quality of the population ultimately decides the growth rate of the country.

- A. A is true but R is false.
- B. A is false but R is true.
- C. Both A and R are true and R explains A.
- D. Both A and R are true but R does not explain A.

45. Which of the following could aid in human capital formation?
- A. expanding the labour market by increasing supply of jobs
 - B. creating larger industries with more complex equipment
 - C. creating open markets with increased stability
 - D. promoting gender equality in the family

46. How can globalisation increase the standard of living of the people in a country?
- A. by offering more products to buy
 - B. by increasing rural to urban migration
 - C. by improving working conditions for factory workers
 - D. by making cheaper products available due to increased competition

47. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): Devaluation of the Indian rupee in 1991 resulted in the inflow of foreign exchange.

Reason (R): Devaluation of the Indian rupee was a step to get taken to get more foreign investments.

- A. A is true but R is false.
- B. A is false but R is true.
- C. Both A and R are true and R explains A.
- D. Both A and R are true but R does not explain A.

48. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.

Assertion (A): According to the Government of India, the disinvestment of Public Sector Enterprises has brought accountability and professionalism to them.

Reason (R): The Government of India used disinvestment mainly to improve financial discipline and facilitate modernisation.

- A. A is true but R is false.
- B. A is false but R is true.
- C. Both A and R are true and R explains A.
- D. Both A and R are true but R does not explain A.

S.No.	Content	Rs (in crores)	
1.	Revenue Expenditure	100	
2.	Capital Receipts	40	
3.	Net Borrowings	38	

4.	Net Interest Payments	27	
5.	Tax Revenue	50	
6.	Non-tax Revenue	15	

49. What is the revenue deficit?
- Rs 50 cr
 - Rs 45 cr
 - Rs 35 cr
 - Rs 30 cr
50. Which of the following shows fiscal deficit?
- Rs. 38 cr
 - Rs. 45 cr
 - Rs. 40 cr
 - Rs. 50 cr
51. What will be the primary deficit?
- Rs. 17 cr
 - Rs. 23 cr
 - Rs. 11 cr
 - Rs. 20 cr
52. Which of the following is a non-tax revenue for the government?
- return on assets
 - excise duties
 - service tax
 - customs
53. Which of the following is the formula for revenue deficit?
- revenue expenditure-revenue receipts
 - revenue expenditure-non tax revenue
 - revenue receipts-interest payments
 - borrowings-revenue receipts
54. Which of the following is **MOST LIKELY** to be the main contributor to the fiscal deficit in this case?
- high revenue expenditure
 - high capital receipts
 - low interest payments
 - high tax revenue

Access to adequate and timely credit at affordable rates is critical for the rural poor to alleviate high cost debt and invest in livelihood opportunities. Despite the Government of India's best efforts, financial inclusion of the rural poor has been beset with multiple challenges. Lack of adequate banking infrastructure and human resources in rural areas, unplanned expansion leading to unviable bank branches and low levels of financial literacy amongst the rural populace have been some of the key challenges.

The most vulnerable communities, who often had no formal credit history or ability to provide collateral, have often been the worst affected. Inability to access loans from banks meant that the poorest had to resort to moneylenders for loans at unreasonably high rates of interest that invariably led them into a toxic debt trap.

In this context, the SHG-Bank Linkage programme, formalised by the National Bank for Agriculture and Rural Development (NABARD) in 1995, that synthesizes 'formal financial systems' (in terms of a formal institution providing credit) with the 'informal sector' (comprising of rural poor with no formal credit history), has emerged as a preferred vehicle for providing financial services to the hitherto unbanked poor.

Community Based Repayment Mechanisms (CBRMs) have been institutionalised at branches involved in financing SHGs to monitor and ensure timely repayment of loans by SHGs. The number of SHGs with outstanding bank loans stands at nearly 5 million today, implying that the program has brought formal banking services to over 50 million women.

*Source (edited): Kumar, Shantanu; Pinto, Alreena Renita; Arora, Amit; Roy, Sourav. 2020. SHG-Bank Linkage : A Success Story. South Asia Agriculture and Rural Growth Discussion Note Series; No. 3. World Bank, Washington, DC.
<https://openknowledge.worldbank.org/handle/10986/34725>*

55. Why is it important to ensure access to cheap formal sector credit to the rural poor?
- to create a culture of savings and investment
 - to increase the earnings of the regional rural banks
 - to protect them from predatory lending and debt traps
 - to promote collectivization and organisation among them
56. Which of the following is a crucial area of improvement for rural banking?
- risk protection for small businesses
 - profitability of non-farm activities
 - a culture of deposit mobilisation
 - sustainable development
57. There are two statements given below, marked as Assertion (A) and Reason (R). Read the statements and choose the correct option.
- Assertion (A): Micro-credit can help empower women and make them financially independent.
- Reason (R): Micro-credit involves small loans provided at reasonable interest rates that can help people start their own ventures.
- A is true but R is false.
 - A is false but R is true.
 - A and R are true and R explains A.
 - A and R are true and R does not explain A.
58. This programme would be successful if it can support a large number of people. What would the number of beneficiaries depend on?
- community support among them
 - their level of average income
 - their level of financial literacy
 - a culture of saving money
59. What could be the main reason for the institutionalisation of Community Based Repayment Mechanisms (CBRMs)?
- Rural people should play an active role in the bank's day-to-day functions.
 - If repayment rate is low, banks would be reluctant to sanction fresh loans.
 - High number of default loans are a burden on the government budget.

D. Rural people deliberately refuse to pay back loans to banks.

60. Which of the following is likely to be the MAIN objective of this programme?

- A. providing livelihood to women
- B. financial literacy for rural people
- C. building community-bank partnerships
- D. enabling credit access for the rural poor

*****End of Paper*****

Answer Key

1	A	31	C
2	B	32	D
3	C	33	C
4	C	34	C
5	D	35	D
6	B	36	D
7	A	37	C
8	A	38	A
9	C	39	C
10	D	40	D
11	B	41	A
12	A	42	B
13	B	43	A
14	C	44	C
15	C	45	D
16	A	46	D
17	A	47	A
18	D	48	C
19	D	49	C
20	A	50	A
21	A	51	C
22	C	52	A
23	A	53	A
24	D	54	A
25	B	55	C
26	B	56	C
27	C	57	C
28	D	58	B
29	A	59	B
30	D	60	D