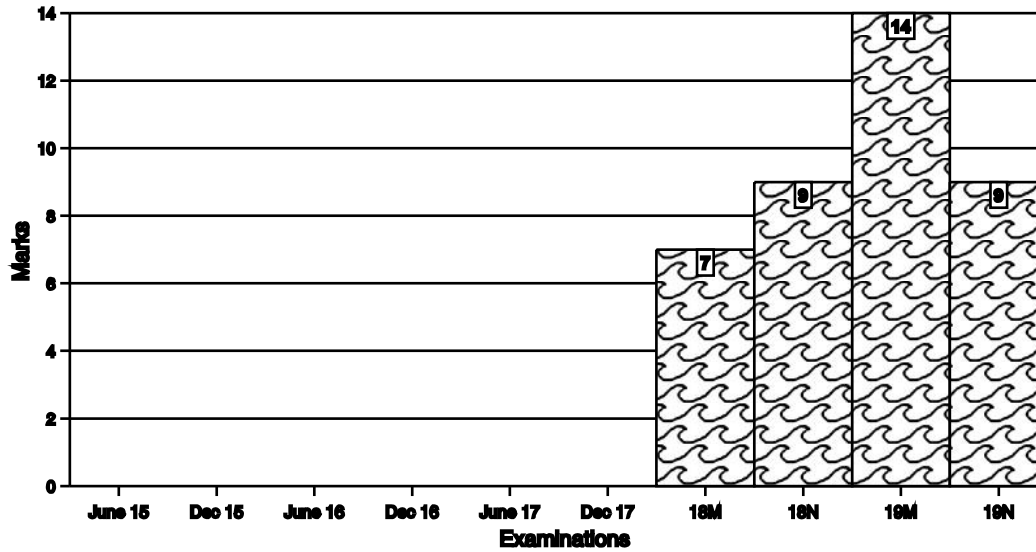
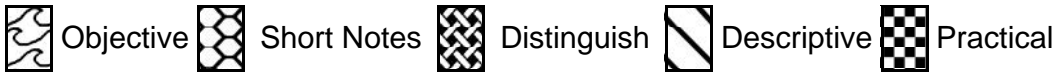


# 1

## NATURE AND SCOPE OF ECONOMICS

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

### Legend



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**PAST YEAR QUESTIONS AND ANSWERS****2006 - NOVEMBER**

- [1] 'Economics is the study of mankind in the ordinary business of life' was given by:
- (a) Adam Smith
  - (b) Lord Robbins
  - (c) Alfred Marshall
  - (d) Samuelson
- (1 mark)
- Answer:**
- (c)** 'Economics is a study of mankind in the ordinary business of life' is the welfare definition given by Alfred Marshall.
- [2] The branch of economic theory that deals with the problem of allocation of resources is :
- (a) Microeconomics
  - (b) Macroeconomics
  - (c) Econometrics
  - (d) None of these
- (1 mark)
- Answer:**
- (a)** The study of microeconomics deals with how a producer allocates his resources and fixes the price of his product for the optimum utilization of resources.
- [3] Capitalistic Economy uses \_\_\_\_\_ as principal means of allocating resources.
- (a) demand
  - (b) supply
  - (c) price
  - (d) all of the above
- (1 mark)

**Answer:**

- (c) A capitalistic economy is characterized by the absence of state intervention. This economy uses price mechanism (forces of demand and supply) to solve their basic economic problems. Demand and supply both depend upon price and therefore capitalistic economy uses price as principal means of allocating resources.

**2007 - FEBRUARY**

- [4] A study of how an increase in the corporate income tax rate will affect the natural unemployment rate is an example of :
- (a) Macroeconomics
  - (b) Descriptive Economics
  - (c) Microeconomics
  - (d) Normative Economics
- (1 mark)

**Answer:**

- (a) Macroeconomics studies the economy as a whole. Therefore, increase in corporate income tax rate and its effect on unemployment is at the macro level.
- [5] In which type of economy do consumers and producers make their choices based on the market forces of demand and supply?
- (a) Open Economy
  - (b) Controlled Economy
  - (c) Command Economy
  - (d) Market Economy
- (1 mark)

**Answer:**

- (d) In a capitalistic economy, producers make their choices based on market forces of demand and supply. The capitalist economy works under the price mechanism i.e. prices are determined by free interplay of demand and supply forces. A capitalist economy is also known as Market Economy.

**2007 - MAY**

- [6] Under a free economy, prices are:
- (a) Regulated
  - (b) Determined through a free interplay of demand and supply
  - (c) Partly regulated
  - (d) None of these
- (1 mark)

**Answer:**

**(b)** Under the free economy (capitalist economy) prices are determined by the price or the market mechanism i.e. there is no authority to determine prices but they are decided by forces of demand and supply.

- [7] Which of the following falls under microeconomics?
- (a) National income
  - (b) General price level
  - (c) Factor pricing
  - (d) National saving and investment
- (1 mark)

**Answer:**

**(c)** Microeconomics studies the economic behavior of individual economic units. Factor pricing is pricing of every factor, and hence is a micro concept.

**2007 - AUGUST**

- [8] In a free- market economy, when consumers increase their purchase of a goods and the level of \_\_\_\_\_ exceeds \_\_\_\_\_ then prices tend to rise :
- (a) demand, supply
  - (b) supply, demand
  - (c) prices, demand
  - (d) profits, supply
- (1 mark)

**Answer:**

- (a) In a market (capitalist) economy prices are determined by market forces of demand and supply. When the demand for goods increases, the supply remaining the same, the prices of goods rise.

**2007 - NOVEMBER**

[9] Under the Inductive method, the logic proceeds from :

- (a) General to particulars                      (b) Particular to general  
(c) Both (a) and (b)                              (d) None    (1 mark)

**Answer:**

- (b) Under the inductive method, conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. The logic proceeds from particular to general. The generalizations are based on the observations of individual examples.

[10] According to Robbins, 'means' are:

- (a) Scarce    (b) Unlimited  
(c) Undefined                                        (d) All of these                                      (1 mark)

**Answer:**

- (a) Robbins in his definition of scarcity explains that there are unlimited ends (wants) and limited means (resources). Resources are limited in nature and have alternative uses.

**2008 - JUNE**

[11] Economics is the study of :

- (a) How society manages its unlimited resources  
(b) How to reduce our wants until we are satisfied  
(c) How society manages its scarce resources  
(d) How to fully satisfy our unlimited wants.    (1 mark)

**Answer:**

- (c) Society has scarce resources and unlimited wants. Economics is the study of how to manage the scarce resources to fulfill the unlimited ends. Economics deals with how to make optimum utilization of scarce resources.

[12] A mixed economy means :

- (a) Co-existence of small and large industries
- (b) Promoting both agriculture and industries in the economy
- (c) Co-existence of rich and poor
- (d) Co-existence of public and private sectors (1 mark)

**Answer:**

- (d) Mixed economy is characterized by the presence of both the private and the public sectors. Under this economy prices are determined both by planning authority and market forces.

**2008 - DECEMBER**

[13] Who defines Economics in terms of Dynamic Growth and Development?

- (a) Robbins
- (b) Paul A Samuelson
- (c) Adam Smith
- (d) None (1 mark)

**Answer:**

- (b) Economics in terms of Dynamic Growth and Development was given by Paul A. Samuelson. Who states that "Economics is the study of how men and society choose, with or without the use of money to enjoy scarce productive resources which could have alternative uses, to produce various commodities over time and to distribute them for consumption now and in the future of amongst various people and groups of society.

[14] A Free Market- economy, solves its Central Problems through\_\_\_\_\_.

- (a) planning authority
- (b) market mechanism
- (c) both
- (d) none (1 mark)

**Answer:**

(b) A free market economy also known as a capitalist economy, has no central planning authority to decide what, how and for whom to produce. Such an economy uses the impersonal market forces of demand and supply or the price mechanism to solve its central problems.

[15] Normative aspect of Economics is given by :

- (a) Marshall (b) Robbins  
(c) Adam Smith (d) Samuelson (1 mark)

**Answer:**

(a) Normative aspect is concerned with welfare propositions. Such an aspect of economics is prescriptive in nature and describes 'what should be the thing'. Example, the question like what should be the level of national income, how the fruits of national product be distributed among people. An aspect of economics given by 'Alfred Marshall'.

2009 - JUNE

[16] Which one is not the characteristic of a capitalistic economy?

- (a) Profit motive (b) Income inequality  
(c) Free employment (d) Collective ownership (1 mark)

**Answer:**

(d) The characteristic of collective ownership does not belong to capitalistic economy. The characteristic of collective ownership is that of a socialistic economy where the entire control is of the Government.

[17] Mixed economy means

- (a) All economic decisions are taken by the Central Authority  
(b) All economic decisions are taken by private entrepreneurs  
(c) Economic decisions are partly taken by the state and partly by private entrepreneurs  
(d) None of these (1 mark)

4.8

■ **Solved Scanner CA Foundation Paper - 4A (New Syllabus)**

**Answer:**

- (c) A mixed economy is characterised by the presence of both private and public enterprises. In this economy, the government as well as private enterprises, exist and hence economic decisions are taken by the government and private enterprises both.

**2009 - DECEMBER**

[18] Capitalistic Economy uses \_\_\_\_\_ as principal means of allocating resources.

- (a) demand (b) supply  
(c) price (d) all of the above (1 mark)

**Answer:**

*Same as Answer 3*

[19] Economic Problem arises when :

- (a) Wants are unlimited  
(b) Resources are limited  
(c) Alternative uses of resources  
(d) All of the above (1 mark)

**Answer:**

- (d) Economic problem arises when wants are unlimited, resources are limited and resources have alternative uses. These reasons give rise to basic economic problems of “what to produce”, “How to produce” and “For whom to produce”.

**2010 - JUNE**

[20] Micro economics is also known as\_\_\_\_\_.

- (a) public economics (b) price theory  
(c) income theory (d) demand theory (1 mark)

**Answer:**

- (b) Micro Economics is also known as Price Theory. (Self Explanatory).



[21] A developed economy uses \_\_\_\_\_ technique in production.

- (a) labour intensive
  - (b) capital intensive
  - (c) home-based
  - (d) traditional
- (1 mark)

**Answer:**

**(b)** Developed Economies have more of technology so they use capital intensive techniques in production to minimize the cost of production.

[22] Which one is the feature of Marshall's definition?

- (a) Limited ends
  - (b) Scarce means
  - (c) Study of wealth as well as study of man
  - (d) Study of allocation of resources
- (1 mark)

**Answer:**

**(c)** Alfred Marshall clearly pointed out that economics is on the one side a study of wealth and on the other and more important side a part of study of man.

**2010 - DECEMBER**

[23] Which one in the following is not correct :

- (a) There are limited wants
  - (b) Means are scarce
  - (c) Resources have alternative uses
  - (d) Economics is science
- (1 mark)

**Answer:**

**(a)** According to two fundamental facts, human beings have unlimited wants and the means of satisfying the wants are scarce.

[24] Micro Economics is concerned with:

- (a) Consumer Behaviour
  - (b) Product pricing
  - (c) Factor Pricing
  - (d) All of the above
- (1 mark)

4.10

■ **Solved Scanner CA Foundation Paper - 4A (New Syllabus)**

**Answer:**

- (d)** Micro-economics is concerned with:
- (i) Product pricing
  - (ii) Consumer behaviour
  - (iii) Factor pricing
  - (iv) Economic conditions of a section of the people
  - (v) Study of firms
  - (vi) Location of an industry

**2011 - JUNE**

[25] Who gave the positive aspect of science?

- (a) Alfred Marshall
- (b) A.C. Pigou
- (c) Adam Smith
- (d) Robbins (1 mark)

**Answer:**

- (d)** A positive or pure science analyses cause and effect relationship between variables but it does not pass value judgments. This positive aspect of science was emphasized by Professor Robbins.

[26] A mixed economy means :

- (a) Coexistence of both private and public sector
- (b) Coexistence of poor and rich people
- (c) Both (a) and (b)
- (d) None (1 mark)

**Answer:**

- (a)** A mixed economy is an economy that includes the best features of both the controlled economy and the market economy. The most important feature of a mixed economy is the co-existence of both private and public enterprises.

[27] Which of these is a part of microeconomics?

- (a) Factor pricing
- (b) National Income
- (c) Balance of payment
- (d) None (1 mark)

**Answer:**

(a) Microeconomics is the study of the economic behaviour of an individual, firm or industry in the national economy. It is the study of a particular unit. Factor pricing relates to the pricing of individual factors and hence is a subject of microeconomics.

[28] Which of these is an example of macroeconomics :

- (a) The problem of unemployment in India
- (b) The rising price level in the country
- (c) Increase in disparities of income
- (d) All of the above (1 mark)

**Answer:**

(d) In macroeconomics we study the economic behaviour of large aggregates such as overall conditions of the economy, total production etc. Therefore, all these are a subject of macroeconomics.

**2011 - DECEMBER**

[29] In a capitalist economy the allocation of resources is performed by:

- (a) Producers
- (b) Government
- (c) Planners
- (d) Price mechanism (1 mark)

**Answer:**

(d) A capitalistic economy has no central planning authority to decide what, how and for whom to produce. Thus, the allocation of resources is performed by the market forces of demand and supply known as price mechanism.

[30] Which of the following statements is incorrect?

- (a) Alfred Marshall propagated the wealth definition of Economics
- (b) L. Robbins introduced the "Scarcity" definition of Economics
- (c) Samuelson emphasized upon the "growth" aspect of Economics
- (d) A.C Pigou believed in the "welfare" aspect of Economics (1 mark)

4.12

■ **Solved Scanner CA Foundation Paper - 4A (New Syllabus)**

**Answer:**

(a) The 'wealth' definition of Economics was given by Adam Smith and JB Say:

"An inquiry into the nature and causes of the wealth of the nations" – Adam Smith.

"Science which deals with wealth" – JB Say.

[31] Inequalities of income do not perpetuate in\_\_\_\_\_.

- (a) socialism (b) mixed economy  
(c) capitalism (d) none (1 mark)

**Answer:**

(a) The relative equality of income is an important feature of a socialistic economy. Educational and other facilities are enjoyed more or less equally, thus the basic causes of inequalities are removed.

**2012 - JUNE**

[32] Which of the following are the features of a mixed economy?

- (a) Planned economy  
(b) Dual system of pricing exists  
(c) Balanced regional development  
(d) All of the above. (1 mark)

**Answer:**

(d) An economy that incorporates the features of capitalist and socialist both the economies is called a mixed economy. It has the following features –

(a) A mixed economy is a planned economy where the government has a clear and definite economic plan.

(b) In a mixed economy, the prices are determined both by price mechanism and central planning authority. Hence a dual system of pricing exists.

(c) There is a balanced regional development in a mixed economy as the public sector enterprises will be set up in backward areas for balanced development.

Hence, the answer will be all of these.

[33] Normative Economics is based on:

- (a) Ethical Considerations
- (b) Facts and Generalisation
- (c) What is?
- (d) All of the above. (1 mark)

**Answer:**

(a) Normative economics is concerned with welfare propositions. It states “what should be the things.” It does not deal with facts but involves value judgments. The ethical aspect of economics is normative economics.

**Example:** What should be the wage rate level? This is a normative statement.

[34] The dual system of pricing exists in:

- (a) Free market economy
- (b) Socialistic economy
- (c) Mixed economy
- (d) None of the above (1 mark)

**Answer:**

(c) A mixed economy is a type of economy which combines the features of both capitalistic and socialistic economy. In this economy, the dual system of pricing exists i.e. prices of essential commodities are determined by the government while the prices of others commodities are fixed by the price mechanism (by the interaction of demand and supply)

[35] In the Inductive method, logic proceeds from:

- (a) General to Particular
- (b) Particular to General
- (c) Both (a) and (b)
- (d) None of these. (1 mark)

**Answer:**

(b) Under the inductive method, conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. Here the logic proceeds from particular to general. This means generalizations are made based on facts collected.

[36] In a capitalist economy, allocation of resources is done by:

- (a) Producers
- (b) Government
- (c) Planners
- (d) Price mechanism (1 mark)

**Answer:**

- (d) In a capitalist economy, there is no government intervention. In this economy, the resources are allocated based on the demand of the consumers. Producers will produce those goods which are in demand without thinking about the public welfare. Hence, this economy is guided by the price mechanism.

**2012 - DECEMBER**

[37] A Capitalist Economy follows the policy of:

- (a) Laissez- faire                      (b) Regulated markets  
(c) Promoting public sector        (d) None of the above.        (1 mark)

**Answer:**

- (a) One of the guiding principles of the capitalistic economy is that the economic system should be **free from government interventions** and be driven by market forces. Laissez- faire means **allow to pass**. Thus, the capitalistic economy follows the policy of laissez- faire.

[38] 'Economics is the science of choice- making' implies:-

- (a) No choice is to be made  
(b) The choice to be made between alternative uses  
(c) The choice to be made between means and ends  
(d) None of the above                      (1 mark)

**Answer:**

- (b) Robbins gave the following definition of economics —

“Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”.

Thus, economics is a science of choice which is to be made between alternative uses.

[39] Which of the following is a part of the subject matter of macro economics?

- (a) Study of firms
- (b) Aggregate profits of a firm
- (c) Market demand for a product
- (d) Net national product.

(1 mark)

**Answer:**

**(d)** In macroeconomics, we study the economic behaviour of large aggregates such as overall conditions of the economy, total production etc. Out of the given options, only NNP studies the national income which is related to the entire economy.

[40] A capitalist economy is by and large \_\_\_\_\_

- (a) a closed economy
- (b) a free market economy
- (c) a centrally controlled economy
- (d) an economy in which a government neither collects any taxes nor incurs any expenditure

(1 mark)

**Answer:**

**(b)** A capitalist economy also known as free- market economy has no central planning authority to decide what, how and for whom to produce. Such an economy uses the impersonal force of the market demand and supply or the price mechanism to solve its central problems.

**2013 - JUNE**

[41] Deductive and Inductive methods are complementary to each other. It is:

- (a) Absolutely correct
- (b) Absolutely incorrect
- (c) Partially incorrect
- (d) None of the above

(1 mark)

**Answer:**

- (a) Deductive and inductive methods are not mutually exclusive and are used side by side in any scientific inquiry. Conclusions drawn from the deductive method of reasoning are verified by the inductive method of observing concrete facts of life. Thus, it can be said that Deductive and inductive methods are **complementary** to each other is **absolutely correct**.

[42] A free- market economy's driving force is:

- (a) Profit motive
- (b) Welfare of the people
- (c) Rising income and levels of living
- (d) None of the above (1 mark)

**Answer:**

- (a) A free market economy or a capitalist economy is one in which all the means of production are owned and controlled by private individuals for profit. Thus, **the profit motive** is the driving force of a free market economy.

[43] "Economics is neutral between ends". The statement is given by:

- (a) L. Robbins
- (b) Mrs. Joan
- (c) Alfred Marshall
- (d) A.C. Pigou (1 mark)

**Answer:**

- (a) According to Prof. Lionel Robbins "economics is neutral between ends" Ends refer to wants. Human wants are unlimited. When one want is satisfied, other wants crop up.

[44] A system of economy in which all the means of production are owned and controlled by the private individuals for the purpose of profit is called:

- (a) Socialist Economy
- (b) Capitalist Economy
- (c) Mixed Economy
- (d) All of the above (1 mark)

**Answer:**

- (b) **Capitalistic** economic system is one in which all the means of production are owned and controlled by private individuals for profit. In this system, the government does not interfere in the management of economic affairs.



2013 - DECEMBER

[45] Where does the price mechanism exist?

- (a) Capitalist Economy                      (b) Socialist Economy  
(c) Both types of economies              (d) None of the above                      (1 mark)

**Answer:**

**(a)** A **capitalistic economy** has no central planning authority to decide what, how and for whom to produce. This economy uses the impersonal forces of the market demand and supply or price mechanism to solve its central problems.

[46] Economics which is concerned with welfare propositions is called

- (a) Socialistic economics                      (b) Capitalistic economics  
(c) Positive economics                      (d) Normative economics                      (1 mark)

**Answer:**

**(d)** Normative aspect is concerned with welfare propositions. It involves value judgements. It is prescriptive in nature and describes 'what should be the things'. **E.g.** what should be the level of national income, what should be the wage rate.

Thus **Normative economics** is the correct option.

[47] In which among the following systems the 'right to property' exists

- (a) Mixed economy  
(b) Capitalist economy  
(c) Socialist economy  
(d) Traditional economy                      (1 mark)

**Answer:**

**(b)** Capitalism is an economic system in which all the means of production are owned and controlled by private individuals for profit. The right of private property means that productive factors such as land, factories, machinery, mines etc are under private ownership. The owners of these factors are free to use them in the manner they like.

Thus **option (B)** is correct.

[48] Positive science only explains

- (a) What is? (b) What ought to be?  
(c) What is right or wrong (d) None of the above (1 mark)

**Answer:**

- (a)** A positive or pure science analyses cause and effect relationship between variables but it does not pass value judgement. It states **what is** and not what ought to be.

Thus, **option (A)** is correct.

[49] Socialist Economy is also known as

- (a) Mixed Economy (b) Planned Economy  
(c) Capitalist Economy (d) None of the above (1 mark)

**Answer:**

- (d)** A mixed economy is a planned economy in which the government has a clear and definite economic plan.

Socialist economy is also known as centrally planned economy because there is central authority to set and accomplish socio-economic goals.

Thus, the correct option is **none of the above**.

**2014 - JUNE**

[50] Who has defined economics as “Science which deals with wealth”?

- (a) Adam Smith (b) Canon  
(c) J.B. Say (d) A.C. Pigou (1 mark)

**Answer:**

- (c)** Many classical economists defined economics in terms of wealth. **JB Say** is one of them. He said Economics is a “Science which deals with wealth.”

[51] Which of the following is not a feature of a capitalist economy?

- (a) Right to private property  
(b) Restrictions on consumers right to choose  
(c) Profit motive  
(d) Freedom of enterprise (1 mark)

**Answer:**

(b) The features of a capitalist economy are:

- (1) The right of private property
- (2) Freedom of enterprise
- (3) Freedom to choice by the consumers
- (4) Profit motive
- (5) Competition
- (6) Inequalities of income

Hence, **restrictions on consumers right to choose** is not a feature of a capitalistic economy.

[52] The term “Mixed Economy” denotes:

- (a) Co-existence of both consumers and producers good's industries in the economy.
- (b) Co-existence of both private and public sectors in the economy.
- (c) Co-existence of both rural and urban sectors in the economy.
- (d) Co-existence of both large and small industries in the economy.

(1 mark)

**Answer:**

(b) The term “Mixed Economy” denotes **the co-existence of both private & public sectors in the economy**. In fact, in a mixed economy, there are three sectors of industries:

- (a) Private sector
- (b) Public sector
- (c) Combined sector

**2014 - DECEMBER**

[53] The most important function of an entrepreneur is to \_\_\_\_\_.

- (a) innovate
- (b) bear the sense of responsibility
- (c) finance
- (d) earn profit

(1 mark)

**Answer:**

(a) An entrepreneur is one of the factors of production. He is the one who co-ordinates with other factors like land, labour, capital, etc.



2015 - DECEMBER

[58] Who is the author of “The Nature and Causes of Wealth of Nations”?

- (a) Karl Marx (b) Adam Smith  
(c) J B Say (d) A C Pigou (1 mark)

**Answer:**

**(b) Science of wealth:**

Although the activity of acquiring and increasing material wealth is as old as civilisation, a disciplined study of the wealth-producing activities commenced about 235 years back (in 1776) when **Adam Smith**, the father of Economics, published “The Nature and Causes of Wealth of Nations”.

[59] Microeconomics does not study

- (a) Consumer behaviour  
(b) Factor pricing  
(c) General price level  
(d) Firms equilibrium. (1 mark)

**Answer:**

**(c)** Microeconomics is the study of particular firms, particular households, individual price, wage income, individual industries and particular commodities.

We mainly study the following:

- (i) Product Pricing  
(ii) Consumer Behaviour  
(iii) Factor Pricing  
(iv) Economic conditions of a section of the people  
(v) Study of firms  
(vi) Location of industry

[60] Find out the correct statement

- (a) Higher the prices, lower the quality demanded of a product is a normative statement  
(b) Micro and macro-economics are interdependent

4.22

■ **Solved Scanner CA Foundation Paper - 4A (New Syllabus)**

- (c) In a capitalist economy, the economic problems are solved by planning commission
- (d) In deductive method logic proceeds from particular to the general  
(1 mark)

**Answer:**

**(b) Micro and Macro Economics are interdependent** on each other because they both play a vital and in most cases they play a complementary role Ex. National income cannot grow unless the production in individual firms and factories rises.

[61] Which of the following illustrate a decrease in unemployment using the PPF?

- (a) A movement down along the PPF
- (b) A rightward shift of the PPF
- (c) A movement from a point on the PPF to a point inside the PPF
- (d) A movement from a point inside the PPF to a point on the PPF  
(1 mark)

**Answer:**

**(d)** A movement of point inside PPF to on the PPF indicates the actual growth in an economy and wherever there is a decrease in unemployment, it shows that an economy is making progress towards growth by optimizing its full resources.

**2016 - JUNE**

[62] Microeconomics is the study of:

- (a) Individual parts of the economy
- (b) The economy as a whole
- (c) Choice making
- (d) Development of the economy  
(1 mark)

**Answer:**

**(a)** The term microeconomics is derived from the Greek word mikros, meaning "small". In microeconomics we study the economic behaviour of an individual, firm or industry. It is thus a study of a particular unit rather than all the units combined.

2016 - DECEMBER

- [63] According to \_\_\_\_\_ “Economics is a science which deals with wealth”.
- (a) Walker (b) Fairchild  
(c) Adam Smith (d) J.B. Say (1 mark)

**Answer:**

**(d)** According to J. B. Say “Economics is a science which deals with wealth”.

- [64] Freedom of choice is the advantage of
- (a) Socialism (b) Capitalism  
(c) Mixed Economy (d) Communism (1 mark)

**Answer:**

**(b)** Freedom of choice is the advantage of capitalism.

- [65] The definition of economics given by Robbins does not deal with one of the following aspects. Indicate that aspect.
- (a) Scarce means (b) Limited ends  
(c) Alternative uses (d) Economics is a science (1 mark)

**Answer:**

**(b)** The definition of economics given by Robbins does not deal with limited ends as in the definition, he deals with unlimited ends.

- [66] An economic system in which all means of production are owned and controlled by private individuals for profit is called:
- (a) Mixed Economy (b) Socialist Economy  
(c) Capitalist Economy (d) Developed Economy (1 mark)

**Answer:**

**(c)** A capitalist economy is an economy system in which all means of production are owned and controlled by private individuals for profit.

2017 - JUNE

[67] In which of the following methods conclusions are drawn on the basis of collection and analysis of facts?

- (a) Deductive method                      (b) Scientific method  
(c) Inductive method                      (d) Experimental method.      (1 mark)

**Answer:**

- (c) Inductive Method:** Under this method, conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. The logic, in this case, proceeds from particular to general. The generalizations are based on observation of individual examples. Thus, **option (c)** is correct.

[68] Which Economic System is described by Schumpeter as 'capitalism in the oxygen tent'?

- (a) Laissez-Faire Economy              (b) Command Economy  
(c) Mixed Economy                      (d) Agrarian Economy.      (1 mark)

**Answer:**

- (c) Mixed economy** is described by Schumpeter as "Capitalism in the oxygen tent". According to him, it is only a trick of the capitalists to cheat the working class by offering them some temporary advantages like social security, upliftment of the depressed classes etc. Thus, option c is correct.

[69] The production Possibility Curve (PPC) is also known as:

- (a) Indifference Curve                      (b) Supply Curve  
(c) Transformation Curve                      (d) Demand Curve.      (1 mark)

**Answer:**

- (c) The production-possibility curve** is also known as the transformation curve. It is a graph that shows the different rates of production of two goods that an individual or group can efficiently produce with limited productive resources.



[70] The Central problem in every economic society is:

- (a) To ensure a minimum level of income for every individual.
- (b) To allocate scarce resources in such a manner that society's unlimited wants are satisfied in the best possible manner.
- (c) To ensure that production occurs in the most efficient manner.
- (d) To provide job to every job seeker. (1 mark)

**Answer:**

(b) Every economic system, be it capitalist, socialist or mixed, has to deal with this central problem of scarcity of resources relative to wants for them. The central economic problem is further divided into four basic economic problems.

These are:

- (i) What to produce
- (ii) How to produce
- (iii) For whom to produce

What provisions (if any) are to be made for economic growth?

**2018 - MAY**

[71] Socialist Economy was propounded by:

- (a) Karl Marx
- (b) Samuelson
- (c) A.C. Pigou
- (d) Adam Smith (1 mark)

**Answer:**

(a) Karl Marx gave the theory of socialist economy.

[72] Concept of Business Economics was given by:

- (a) Joel Dean
- (b) Alfred Marshall
- (c) Adam Smith
- (d) L. Robbins (1 mark)

**Answer:**

(a) Concept of Business economics was given by Joel Dean.

[73] Features of the book wealth of nations:

- (a) It was the first book written on economics
- (b) It was created in 1776
- (c) It was also known as 'wealth of nations'
- (d) All of the above. (1 mark)

**Answer:**

(d) Adam Smith was the father of Economics. He wrote the book 'the Nature and Causes of Wealth of Nations' in 1776. This book was also known as 'Wealth of Nations'. He defined economics in 'An Inquiry into the Nature and Causes of wealth of nations'

[74] In India, Mixed Economy exists due to:

- (a) coexistence of public sector and private sector
- (b) individual forces of demand and supply
- (c) orders by government
- (d) None of these. (1 mark)

**Answer:**

(a) There are three types of economy. These are:

- (a) Capitalist economy (private enterprises)
- (b) Socialist economy (governed by government)
- (c) Mixed economy (public and private enterprises)

Mixed economy means a co-relation or co-existence of public and private sector.

[75] Which economic system is described by Schumpeter as capitalism in the oxygen tent?

- (a) Laissez-faire Economy
- (b) Command Economy
- (c) Mixed Economy
- (d) Agrarian Economy (1 mark)

**Answer:**

(c) Mixed Economy is described by Schumpeter as 'capitalism in oxygen tent'. According to him it is only a trick of capitalism to cheat the working class by offering them some temporary advantages like social security, upliftment of depressed classes etc.

[76] Capitalistic Economy uses \_\_\_\_\_ as principal means of allocating resources:

- (a) demand
- (b) supply
- (c) price
- (d) all of the above. (1 mark)

**Answer:**

(c) Price is principal means of allocating resources in a capitalist economy while it is not so in a socialist economy. Price Mechanism is a characteristic is capitalist economy.

[77] Under inductive method logic proceeds from:

- (a) General to particular
- (b) Positive to narrative
- (c) Normative to positive
- (d) Particular to general (1 mark)

**Answer:**

(d) Inductive Method is based on facts and in this method logic proceeds from particular to general. While deductive method is based on assumptions and in this, logic proceeds from general to particular.

**2018 - NOVEMBER**

[78] Human wants are \_\_\_\_\_ in response to satisfy their wants?

- (a) Unlimited
- (b) Limited
- (c) Scarce
- (d) Multiple (1 mark)

**Answer:**

(a) 'Human beings have unlimited wants and the means to satisfy these unlimited wants are relatively scarce' form the subject matter of Economics.

[79] Price Mechanism is the main feature of which economy?

- (a) Capitalistic Economy
- (b) Mixed Economy
- (c) Socialist Economy
- (d) All of the above (1 mark)

**Answer:**

(a) Capitalism is self- regulating and works automatically through the price mechanism.

[80] Business Economics is also known as?

- (a) Applied Economics
- (b) Managerial Economics
- (c) Micro Economics
- (d) All of the above (1 mark)

**Answer:**

- (b)** Business economics, also referred to as managerial economics, generally refers to the integration of economic theory with business practice.

[81] A business economy involves the theory of Business economics with \_\_\_\_\_.

- (a) Normative Economics
- (b) Business practices
- (c) Micro Economics
- (d) Macro Economics (1 mark)

**Answer:**

- (b)** Business economy Involves theory of business with business practices. (application of theory)

[82] Which is not included in Economics?

- (a) Family Structure
- (b) Managerial Economics
- (c) Micro Economics
- (d) Macro Economics (1 mark)

**Answer:**

- (a)** Family structure in no sense effects economics, therefore, it is not included in economics.

[83] Business Economics involves the elements of:

- (a) Micro Environment
- (b) Macro Environment
- (c) Both (a) and (b)
- (d) None of the above (1 mark)

**Answer:**

- (c)** Business economics involves the economy as a whole and therefore, elements of macroeconomics and microeconomics are included in it.

[84] In which economy market and government both play an important role?

- (a) Mixed economy
  - (b) Socialistic economy
  - (c) Capitalistic economy
  - (d) Business economy
- (1 mark)

**Answer:**

- (a)** The mixed economic system depends on market and government for allocation of resources. Infact every economy in the real world makes use of both market and government and therefore is mixed economy in its nature.

[85] Which factor is included in business Economics?

- (a) Business Economics is an art
  - (b) Interdisciplinary in nature
  - (c) Normative in nature
  - (d) All of the above
- (1 mark)

**Answer:**

- (d)** Factors of business economics are
1. It is a science
  2. It is normative in nature
  3. It is Interdisciplinary in nature
  4. It is pragmatic in approach

Therefore answer will be all of the above.

[86] Which out of these are the features of capitalism?

- (i) Profit motive
  - (ii) Human welfare
  - (iii) Work through price mechanism
- (a) (i) and (ii)
  - (b) (ii) and (iii)
  - (c) (i) and (iii)
  - (d) All of these.
- (1 mark)

**Answer:**

- (c)** Features of a capitalist economy

1. Profit motive
2. Work through the price mechanism
3. A high degree of operative efficiency

Therefore, human welfare is not a feature of capitalist economy.

**2019 - MAY**

[87] Business Economics is

- (a) Normative in nature
  - (b) Intradisciplinary in nature
  - (c) Both
  - (d) None
- (1 mark)

**Answer:**

- (a)** The nature of business economics can be explained by the following points:
- (i) Business Economics is a science
  - (ii) It is based on microeconomics and also incorporates the elements of macroeconomics.
  - (iii) It is normative in nature, i.e. it involves value judgements i.e. it, also deals with 'what should be'.
  - (iv) Interdisciplinary in nature i.e. it incorporates tools from other disciplines including Mathematics, Operational Research, Finance, Marketing, etc.

[88] Socialism ensures

- (a) Rapid growth and balanced development
  - (b) Right to work
  - (c) Incentives for efficient economic decisions
  - (d) Both (a) and (b)
- (1 mark)

**Answer :**

- (d)** In a socialist economy, production and distribution of goods are aimed at maximising the welfare of the community as a whole. It ensures rapid and balanced economic development as the central planning authority coordinates all resources in an efficient manner according to predetermined priorities. It also ensures the right to work and a minimum standard of living to all people. However, no importance is given to personal efficiency and productivity. Thus, **option (d)** is correct.

[89] Macroeconomics includes

- (a) Product pricing
- (b) Consumer behavior
- (c) External value of money
- (d) Location of industry

(1 mark)

**Answer :**

- (c) Macroeconomics is the study of the overall phenomena or the economy as a whole, rather than its individual parts. It includes:
- (i) National income and national output
  - (ii) General price level and interest rates
  - (iii) Balance of trade and balance of payment
  - (iv) The overall level of savings and investment
  - (v) The level of employment and rate of economic growth
  - (vi) The external value of currency.

[90] Exploitation and inequality will be more in \_\_\_\_\_

- (a) Socialism
- (b) Capitalism
- (c) Mixed
- (d) All of the above

(1 mark)

**Answer :**

- (b) In a capitalist economy, all means of production are owned and controlled by private individuals for profit. There is vast economic inequality and social injustice which reduces aggregate economic welfare of the society as a whole. In a socialist economy, there is an equitable distribution of wealth and equal opportunities for maintaining economic and social justice. In a mixed economy, there is co-existence of both the public and private sectors which prevents exploitation and inequality. Thus, among the three inequalities and exploitations are the characteristics of capitalism.

[91] **Shyam:** This year due to heavy rainfall my onion crop was damaged

**Krishna :** Climates affect crop yields. Some years are bad, others are good

**Hari :** Don't worry - Price increase will compensate for the fall in quantity supplied

4.32

■ **Solved Scanner CA Foundation Paper - 4A (New Syllabus)**

**Radhe:** The Government ought to guarantee that our income will not fall. In this conversation, the normative statement is made by

- (a) Shyam
- (b) Krishna
- (c) Hari
- (d) Radhe

(1 mark)

**Answer :**

**(d)** A normative statement is one which involves value judgements and suggests what ought to be or what should be a particular course of action under given circumstances. Statements made by Shyam, Krishna and Hari are positive as they merely show cause and effect relationships and do not involve value judgement. However, Radhe's statement shows a particular course of action should be taken by stating that the government ought to guarantee that income will not fall.

[92] Which of the following is correct?

- (a) 49% FDI is allowed in defence production
- (b) 49% FDI is allowed in private sector banking
- (c) 74% FDI is now allowed in multibrand retails
- (d) 100% FDI is allowed in insurance

(1 mark)

**Answer :**

**(a)** In 2016, the government relaxed FDI norms in several sectors including defence. As per the policy, foreign investment upto 49% has been permitted in defence sector through automatic route and 100% via government nod.

[93] A capitalist economy consists of

- (a) Central planning authority
- (b) A mechanism to decide as to what, how and for whom to produce
- (c) Both (a) and (b)
- (d) None of the above

(1 mark)

**Answer :**

**(b)** A capitalist economy does not have a central planning authority to decide what, how and for whom to produce. It uses the impersonal forces of market demand and supply or the price mechanism to solve its central problems.

Thus, **option (b)** is correct.



[94] As per the World Bank's International Debt Statistics 2017, India continues to be amongst the \_\_\_\_\_ countries.

- (a) more debt
- (b) less debt
- (c) more vulnerable
- (d) less vulnerable

(1 mark)

**Answer :**

**(d)** As per country comparison based on "International Debt Statistics 2017" of the World Bank, India continues to be among the less vulnerable countries comparing well with other indebted developing countries.

[95] Applied economics includes

- (a) Regression analysis and mathematical linear programming
- (b) Capital budgeting
- (c) Both (a) and (b)
- (d) None

(1 mark)

**Answer:**

**(c)** Business Economics has a close connection with Economic theory, Operation Research, Statistics, Mathematics, and the theory of Decision Making. It is essentially a component of applied economics as it includes the application of selected quantitative techniques such as linear programming, regression analysis, capital budgeting, cost analysis and breakeven analysis.

[96] Economic goods are considered as scarce resources because \_\_\_\_\_

- (a) Inadequate quantity to satisfy the needs of the society
- (b) Not possible to increase the quantity
- (c) Limited hands to make goods
- (d) Primary importance in satisfying social requirements

(1 mark)

**Answer:**

**(a)** An economy exists because of two facts i.e. human wants are unlimited and the resources are scarce, i.e. there is an inadequate quantity to satisfy the needs of the entire society.

[97] Due to recession, employment rate and output \_\_\_\_\_

- (a) Rises ; rises
- (b) Falls ; falls
- (c) Rises ; falls
- (d) Falls ; rises (1 mark)

**Answer:**

- (b) During the contraction or recession phase of the business cycle, there is a fall in levels of investment and employment. The decrease in demand pulls down prices, investors confidence is at it's lowest. Employment rate falls and so is the output.

[98] Freedom of choice is the advantage of \_\_\_\_\_.

- (a) Socialism
- (b) Capitalist
- (c) Mixed economy
- (d) None of the above (1 mark)

**Answer:**

- (b) In a Capitalist economy, consumers are benefitted due to competitive forces, a variety of good quality products, and affordable prices. This, not only ensures freedom of choice but also the maximum satisfaction to the consumers.

[99] \_\_\_\_\_ refers to the work area where surplus manpower is employed out of which some individuals have zero or almost zero marginal productivity, such that if they are removed the total level of output remains unchanged.

- (a) Voluntary
- (b) Disguised
- (c) Structural
- (d) Technological (1 mark)

**Answer:**

- (b) **Disguised unemployment:** A kind of unemployment where more people are engaged in a work than required. Disguised refers to the work area where surplus manpower is employed out of which some individuals have zero or almost zero marginal productivity, such that if they are removed the total level of output remains unchanged.

[100] Socialist economy is \_\_\_\_\_

- (a) Self- regulation
- (b) Profit Oriented
- (c) Command economy
- (d) Allocation of resources as per market requirements (1 mark)

**Answer:**

- (c) A socialist economy is also called as “Command Economy” or “Centrally Planned Economy”. This economy will not provide incentives to hard work in the form of profit. Here, resources are allocated according to the commands of the central planning authority rather than market requirements.

**2019 - November**

[101] A study of have increase in the corporate tax rate will affect national unemployment rate is

- (a) Marcoeconomics
- (b) Descriptive economics
- (c) Microeconomics
- (d) Normative economics

**Answer:**

- (a) Macroeconomic is the study of the overall economic phenomena or the economy as a whole, rather than its individual parts. Therefore, a study of have increase in the corporate tax rate will affect national unemployment rate is of Macro environment.

[102] A capitalist economy uses \_\_\_\_\_ as a principal means of allocating resources.

- (a) Demand
- (b) Supply
- (c) Efficiency
- (d) Price

**Answer:**

- (d) A capitalistic economy uses price as a principal means of allocating resources. It is the economy system in which all the resources are owned and controlled by private individuals for profit.

[103] In a market economy all assets are held by:

- (a) Investors
- (b) Privately
- (c) Government
- (d) Jointly by government

**Answer:**

**(b)** In market all assets are held by private owners as they fix their own prices and sell the goods at their own fixed price. So all the assets are held by private owners in the market.

[104] The branch of economic theory that deals with problem of allocating resources.

- (a) Microeconomics
- (b) Marcoeconomics
- (c) Eonometrics
- (d) None

**Answer:**

**(a)** The branch of economic theory that deals with problem of allocation of resources is MICRO ECONOMICS.

As microeconomics involves behaviour of different individuals and organisation within an economic system.

- (i) Product pricing
- (ii) Consumer behaviour
- (iii) Factor pricing
- (iv) The economic conditions of section of people
- (v) Behaviour of firms
- (vi) Location of industry.

[105] Larger production of \_\_\_\_\_ goods would lead to higher production in future.

- (a) consumer goods
- (b) capital goods
- (c) agricultural goods
- (d) public goods

**Answer:**

- (b) Larger production of capital goods would lead to higher production in future. Since the resources are limited, every society has to decide which goods and services should be produced and how many units of each goods should be produced. Therefore, company should produce more of capital goods like machines, equipments, dam etc. as these goods makes the economy strong for the higher production in future.

[106] Which of the following is not within the scope of business economics?

- (a) Capital budgeting
- (b) Risk analysis
- (c) Business cycle
- (d) Accounting Standards

**Answer:**

- (d) Business economics may be defined as the use of economic analysis to make business decision involving the best use of an organisations scarce resources. It involves linear programming, regression analysis, capital budgeting, break even analysis and cost analysis.

∴ Accounting Standards is not within the scope of business economics.

[107] Which is the first book of Economics named as \_\_\_\_\_

- (a) The Wealth of Nations
- (b) Economics
- (c) Nations of Wealth
- (d) Political Economy

**Answer:**

- (a) The term Economics owes its origin to the Greek word 'Oikonomia' which means household'. Till 19<sup>th</sup> century, economics was known as 'Political Economy'. The book named 'An inquiry into the Nature and Causes of the Wealth of Nations' (1776) usually abbreviated as 'The Wealth of Nations' by Adam Smith is considered as the first modern work of Economics.

[108] Which type of scarcity is referred to in economics

- (a) Relative scarcity
- (b) Absolute scarcity
- (c) Both (a) and (b)
- (d) None

**Answer:**

- (a)** The scarcity in economics referred as relative scarcity. As the resources are limited and these resources have alternative uses and wants of people are unlimited. Therefore, all wants cannot be satisfied.

As financial resources can be used for many purposes. If the resources were unlimited, people would be able to satisfy all their wants and there would be no economic problem. Alternatively if a resource has only single use, then all economic problem would not arise.

[109] Consumer sovereignty is which of the following characteristics?

- (a) Capitalist economy
- (b) Mixed economy
- (c) Socialist economy
- (d) Democracy

**Answer:**

- (a)** 'Consumer Sovereignty' is the characteristics of capitalist economy which states that consumer is the king under capitalism. Consumer sovereignty means that buyers ultimately determine which goods and services will be produced and in what quantities. Consumer have unbridled freedom to choose the goods and services which they would consume. In other words based on the purchases they make, consumers decide how the economy's limited resources are allocated.