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OPSC PGT

**Previous Year Paper
Economics Paper-I
29 Sept, 2024**



1. The Social Welfare Function represents:
 - (A) Individual welfare as a function of income
 - (B) Society's welfare as a function of individual utilities
 - (C) The government's welfare policies
 - (D) The welfare of the international community
2. The Pure Theory of International Trade primarily deals with:
 - (A) Exchange rates
 - (B) Trade policies
 - (C) Trade patterns and their outcomes
 - (D) International investments
3. Kaldor's model of trade cycles suggests that cycles are driven by:
 - ☒ (A) The interaction between investment and income distribution
 - (B) Consumer behavior
 - (C) Government regulation
 - (D) International factors
4. The Coasian bargaining problem deals with:
 - (A) The difficulty in reaching efficient outcomes when transaction costs are high
 - (B) Bargaining between labor unions and employers
 - (C) International trade negotiations
 - (D) Price setting in monopolistic markets
5. Dualism in the context of economic development refers to:
 - (A) The division between the rich and the poor
 - (B) The coexistence of advanced and backward sectors within an economy
 - ☒ (C) The use of both traditional and modern techniques in production
 - (D) The presence of both public and private sectors
6. The theory of rent was popularized by:
 - ☒ (A) David Ricardo
 - (B) John Bates Clark
 - (C) Alfred Marshall
 - (D) Adam Smith
7. The Heckscher-Ohlin model is a theory of international trade that explains trade patterns based on:
 - (A) Relative prices
 - ☒ (B) Factor endowments
 - (C) Technology differences
 - (D) Consumer preferences
8. Monetary policy is considered more effective than fiscal policy in controlling business cycles when:
 - (A) The economy is closed
 - (B) The economy is open
 - (C) There is high government debt
 - (D) There is full employment

9. Common property resources are characterized by:

- (A) Individual ownership and control
- (B) Private ownership and public access
- (C) Government ownership and public access
- ☒ (D) Non-excludability and rivalry in consumption

10. Dependency theory argues that:

- (A) Developing countries are self-sufficient
- ☒ (B) Developing countries are in a state of perpetual dependence on developed countries
- (C) Development can be achieved independently of global economic systems
- (D) Trade is the most important factor in development

11. Profit maximization hypothesis is often contrasted with:

- (A) Revenue maximization hypothesis
- (B) Sales maximization hypothesis
- (C) Utility maximization hypothesis
- ☒ (D) Cost minimization hypothesis

12. Trade under imperfect competition often leads to:

- (A) Decreased market efficiency
- (B) Increased market efficiency
- (C) Homogeneous products
- ☒ (D) Differentiated products

13. Fiscal policy is considered more effective than monetary policy in controlling business cycles when:

- (A) Interest rates are at zero lower bound
- (B) There is a liquidity trap
- (C) Both A and B
- (D) The money supply is fixed

14. The concept of sustainable development was popularized by:

- ☒ (A) The Brundtland Commission
- (B) The Kyoto Protocol
- (C) The Paris Agreement
- (D) The Earth Summit

15. The Lewis model of development focuses on the transfer of labor from:

- ☒ (A) Agriculture to industry
- (B) Rural to urban areas
- (C) Domestic to international markets
- (D) Informal to formal sectors

16. Full cost pricing is a strategy where prices are set based on:

- (A) Only variable costs
- (B) Only fixed costs
- (C) Total cost plus a markup
- (D) Marginal cost only

17. Dynamic multipliers in macroeconomics are used to measure:

- (A) The immediate effect of a change in fiscal policy
- ✓ (B) The long-term effect of a change in fiscal policy
- (C) The effect of a change in monetary policy
- (D) The effect of a change in international trade

18. Optimal allocation of resources between public and private sectors aims to:

- (A) Maximize government revenue
- (B) Minimize government intervention
- ✓ (C) Achieve the most efficient use of resources
- (D) Promote private sector growth

19. The Hicksian version of the trade cycle theory incorporates:

- (A) The role of technological shocks
- (B) The role of monetary factors
- (C) The role of psychological factors
- (D) The role of government intervention

20. Theories of wage determination include all except:

- (A) Bargaining theory
- (B) Subsistence theory
- (C) Marginal productivity theory
- ✓ (D) Consumer surplus theory

21. What does the Indifference Curve Approach suggest about consumer preferences?

- (A) Consumers prefer more goods to fewer goods.
- (B) Consumers have ranked preferences that can be illustrated graphically.
- (C) Consumers are indifferent to the choices they make.
- (D) Consumers' preferences can be measured in cardinal units.

22. The Quantity Theory of Money is often represented by the equation $MV = PT$. What does (M) stand for in this equation?

- (A) Market value
- ✓ (B) Money supply
- (C) Marginal value
- (D) Monetary velocity

23. National income accounting is a system that:

- (A) Measures a country's economic activity
- ☒ (B) Accounts for a nation's wealth
- (C) Tracks the income of individuals
- (D) Monitors government spending

24. Public goods are characterized by:

- (A) Excludability and rivalry
- (B) Excludability and non-rivalry
- (C) Non-excludability and rivalry
- ☒ (D) Non-excludability and non-rivalry

25. Market failure can occur due to:

- (A) Perfect competition
- (B) Absence of government
- (C) Complete information
- ☒ (D) Externalities

26. What does the Revealed Preference Approach focus on?

- (A) Consumer's stated preferences
- ☒ (B) Consumer's actual choice behaviour
- (C) Producer's preferences
- (D) Government's preferences

27. High-powered Money is also known as:

- (A) Broad money
- (B) Narrow money
- ☒ (C) Central bank money
- (D) Commercial bank money

28. Disequilibrium in the balance of payments can be adjusted by:

- (A) Devaluation of currency
- (B) Increasing exports
- ☒ (C) Both A and B
- (D) None of the above

29. Merit goods are goods that:

- (A) Have no external benefits
- (B) Are provided by the private sector
- ☒ (C) The government believes should be consumed more
- (D) Are always public goods

30. The Optimal level of pollution is achieved when:

- (A) Pollution is completely eliminated
- ☒ (B) The marginal cost of pollution abatement equals the marginal benefit
- (C) Economic activities have no environmental impact
- (D) Pollution permits are freely available

31. Which of the following is a characteristic of the Laws of Returns to Scale?
- (A) Output changes in the same proportion as inputs.
 - (B) Output changes in a greater proportion than inputs.
 - (C) Output changes in a lesser proportion than inputs.
 - ☒ (D) All of the above.
32. The Money Multiplier is defined as the ratio of:
- ☒ (A) Total money supply to high-powered money
 - (B) High-powered money to total money supply
 - (C) Demand deposits to currency in circulation
 - (D) Currency in circulation to demand deposits
33. Classical microeconomics assumes that prices will adjust to clear markets, which is known as:
- (A) Market equilibrium
 - (B) Price elasticity
 - ☒ (C) Say's Law
 - (D) The invisible hand
34. Downs' Economic Theory of Democracy suggests that politicians:
- (A) Ignore public opinion
 - (B) Seek to maximize votes
 - (C) Focus solely on policy outcomes
 - (D) Are not influenced by interest groups
35. Coasian bargaining refers to a situation where:
- (A) Externalities are resolved through government intervention
 - (B) Externalities are resolved through private negotiation
 - (C) The market fails to address externalities
 - (D) There is no possibility of negotiation
36. Duality in production refers to the relationship between:
- ☒ (A) Production functions and cost functions
 - (B) Input prices and output prices
 - (C) Short-run and long-run costs
 - (D) None of the above
37. According to Keynesian theory, the demand for money is primarily determined by:
- ☒ (A) The interest rate
 - (B) The price level
 - (C) Income level
 - (D) The exchange rate
38. Flexible rates of exchange are characterized by:
- (A) Government intervention
 - ☒ (B) Market forces determining exchange rates
 - (C) Fixed currency values
 - (D) Bilateral agreements

39. The optimum provision of public goods is determined by:

- (A) The Lindahl equilibrium
- (B) The Nash equilibrium
- ☒ (C) The Pareto efficiency
- (D) The Kaldor-Hicks efficiency

40. A Pigovian tax is designed to:

- (A) Encourage production and consumption
- (B) Generate revenue for the government without altering behavior
- (C) Internalize the external costs of negative externalities
- (D) Subsidize industries that produce positive externalities

41. A Discriminating Monopoly is characterized by:

- (A) A single seller.
- ☒ (B) Different prices for different consumers.
- (C) A homogeneous product.
- (D) No barriers to entry.

42. Demand-pull inflation occurs when:

- (A) There is an increase in production costs
- (B) The government prints more money
- ☒ (C) Aggregate demand exceeds aggregate supply
- (D) There is a wage-price spiral

43. The Accelerator Theory of investment suggests that investment spending is most sensitive to:

- ☒ (A) Changes in interest rates
- (B) Changes in consumer demand
- (C) Changes in government policy
- (D) Changes in technology

44. Voluntary exchange models in public economics assume that:

- (A) Individuals act out of self-interest
- (B) Individuals are coerced into exchanges
- (C) The government dictates all exchanges
- (D) Markets are always in equilibrium

45. The Environmental Kuznets Curve suggests that environmental degradation:

- (A) Increases linearly with economic growth
- (B) Decreases with increased environmental awareness
- ☒ (C) Follows an inverted U-shape relative to income levels
- (D) Is not related to economic development

46. Under Perfect Competition, value determination is based on:

- ☒ (A) The intersection of demand and supply curves
- (B) Government regulations
- (C) Monopolist's pricing strategies
- (D) Bargaining between buyers and sellers

47. The Non-Trade-off Phillips curve suggests that:

- (A) Inflation and unemployment have a stable, inverse relationship
- ☒ (B) There is no long-term trade-off between inflation and unemployment
- (C) Inflation always leads to lower unemployment
- (D) Unemployment can be reduced without causing inflation

48. Marginal efficiency of investment refers to:

- ☒ (A) The rate of return on the last unit of capital invested
- (B) The total return on all investments
- (C) The cost of borrowing
- (D) The savings rate

49. The Pigou-Dalton principle is concerned with:

- (A) Tax incidence
- (B) Public debt management
- ☒ (C) Income redistribution
- (D) Fiscal policy

50. Marketable pollution permits allow firms to:

- (A) Pollute without any restrictions
- ☒ (B) Trade the right to pollute, creating an incentive to reduce emissions
- (C) Pay for pollution rather than reducing emissions
- (D) Ignore environmental regulations

51. Monopolistic Competition is marked by:

- (A) Many sellers.
- (B) Product differentiation.
- (C) Free entry and exit.
- ☒ (D) All of the above.

52. The term structure of interest rates is the relationship between:

- (A) Interest rates and default risk
- ☒ (B) Interest rates of bonds with different maturities
- (C) Interest rates and inflation rates
- (D) Short-term and long-term loan rates

53. A static multiplier in macroeconomics indicates:

- ☒ (A) A constant change in output due to a change in spending
- (B) A variable change in output due to a change in spending
- (C) No change in output despite changes in spending
- (D) A decrease in output due to an increase in spending

54. Samuelson's contribution to public economics is the concept of:

- (A) Public goods
- (B) The multiplier effect
- (C) The accelerator principle
- (D) The consumption function

55. The Global environmental externalities include issues such as:

- (A) Local air pollution
- (B) Urban noise pollution
- (C) Climate change
- (D) Littering in public spaces

56. Non-collusive oligopoly is a market structure where:

- (A) Firms cooperate to set prices.
- (B) There is only one seller.
- ☒ (C) Firms independently set prices.
- (D) There are many sellers with identical products.

57. The main function of a central bank does not include:

- (A) Issuing currency
- ☒ (B) Setting fiscal policies
- (C) Managing monetary policy
- (D) Serving as a banker to the government

58. A liquidity trap occurs when:

- (A) Interest rates are high and savings are low
- ☒ (B) Interest rates are low and demand for money is inelastic
- (C) The money supply is too high
- (D) Inflation is out of control

59. Musgrave identified three main branches of public finance, which are:

- ☒ (A) Allocation, distribution, and stabilization
- (B) Taxation, borrowing, and expenditure
- (C) Production, consumption, and investment
- (D) Microeconomics, macroeconomics, and international economics

60. Climatic change policies often include measures like:

- (A) Carbon taxes
- (B) Subsidies for fossil fuels
- ☒ (C) Reduction in public transportation
- (D) Increased use of non-renewable resources

61. The Profit Maximization Hypothesis suggests that firms aim to:

- ☒ (A) Maximize sales.
- (B) Maximize market share.
- (C) Maximize profits.
- (D) Maximize consumer satisfaction.

62. An optimum tariff is one that:

- ☒ (A) Maximizes a country's welfare
- (B) Is set at a flat rate for all imports
- (C) Is the lowest possible to allow free trade
- (D) Is reciprocated by trading partners

63. The IS-LM model represents the interaction between:

- (A) Investment-Savings and Labor-Market
- ☒ (B) Investment-Savings and Liquidity-Money
- (C) International-Trade and Labor-Market
- (D) International-Trade and Liquidity-Money

64. Arrow's impossibility theorem states that:

- (A) No voting system can convert individual preferences into a communitywide ranking without conflicts
- (B) Public goods cannot be efficiently provided by the market
- (C) Taxes always lead to deadweight loss
- (D) Public debt is unsustainable

65. The Solow model introduces the concept of steady-state growth and focuses on:

- (A) Capital accumulation
- (B) Labor force growth
- (C) Technological progress
- ☒ (D) All of the above

66. In a cartel, firms aim to:

- (A) Maximize individual profits
- ☒ (B) Maximize joint profits
- (C) Minimize costs
- (D) Increase competition

67. The Balance of Payments is a record of:

- (A) A country's fiscal transactions
- (B) A country's domestic economic transactions
- (C) A country's trade of goods and services only
- (D) A country's monetary transactions with the rest of the world

68. Patinkin's real balance effect explains adjustments in the economy due to changes in:

- ☒ (A) The price level and its effect on real cash balances
- (B) Interest rates
- (C) Government spending
- (D) Technology

69. The pure theory of public expenditure focuses on:

- (A) The amount of government spending
- (B) The efficiency of government spending
- (C) The sources of government revenue
- (D) The impact of government spending on inflation

70. Endogenous growth models explain long-term economic growth by:

- (A) External factors like trade policies
- ☒ (B) Internal factors like human capital and innovation
- (C) Government intervention
- (D) Natural resource availability

71. Bain's Limit Pricing Theory is associated with:
- (A) Perfect Competition
 - (B) Monopoly
 - (C) Oligopoly
 - (D) Monopolistic Competition
72. The Baumol's approach to the demand for money emphasizes:
- (A) The role of interest rates
 - ☒ (B) The trade-off between transaction costs and opportunity costs
 - (C) The precautionary motive
 - (D) The speculative motive
73. The Keynes effect and the Pigou effect are mechanisms that describe how:
- (A) The economy self-corrects in the long run
 - ☒ (B) Fiscal policy affects the economy
 - (C) Monetary policy affects the economy
 - (D) Trade policies affect the economy
74. Social cost-benefit analysis in public investment decisions is used to:
- (A) Calculate the financial return on investment
 - (B) Estimate the tax revenue from public investments
 - (C) Determine the profitability for private investors
 - (D) Assess the social and economic impact of public projects
75. The theory of big push asserts that economic development requires:
- (A) Small, incremental investments
 - ☒ (B) Large-scale investment to overcome market failures
 - (C) Privatization of state-owned enterprises
 - (D) Reduction in government spending
76. Marginal Productivity Theory explains the distribution of income among:
- (A) Consumers
 - (B) Producers
 - ☒ (C) Factors of production
 - (D) Governments
77. Tobin's approach to the demand for money is associated with:
- ☒ (A) Risk aversion and portfolio selection
 - (B) Liquidity preference
 - (C) Transaction motives
 - (D) The quantity theory of money
78. Theories of trade cycles suggest that business cycles:
- (A) Are unpredictable and random
 - (B) Can be controlled entirely by government policy
 - ☒ (C) Are natural and inevitable in a market economy
 - (D) Do not exist

79. The ability to pay approach to taxation suggests that taxes should be based on:

- (A) The benefit received from public services
- ☒ (B) The taxpayer's income level
- (C) The taxpayer's consumption level
- (D) The taxpayer's wealth

80. Balanced growth theory suggests that:

- ☒ (A) Investment should be spread evenly across all sectors
- (B) Only the most productive sectors should receive investment
- (C) Growth is not necessary for development
- (D) Unbalanced trade is beneficial

81. Euler's theorem is particularly useful in understanding:

- (A) Cost curves
- (B) Production functions
- ☒ (C) Distribution of income
- (D) Consumer behavior

82. The Structuralist approach to inflation focuses on:

- ☒ (A) Monetary factors
- (B) Supply-side factors
- (C) Demand-side factors
- (D) The velocity of money

83. Hawtrey's approach to trade cycles focuses on:

- (A) The role of technology
- ☒ (B) The role of banks and credit
- (C) The role of government spending
- (D) The role of international trade

84. The theory of optimal taxation argues that taxes should:

- (A) Minimize the excess burden
- (B) Be as high as possible
- (C) Only be levied on the wealthy
- ☒ (D) Be the same for everyone

85. The Ranis-Fei model is a development model that:

- (A) Focuses on industrialization as the key to growth
- (B) Emphasizes the importance of agriculture in development
- ☒ (C) Describes a dualistic economy with surplus labor
- (D) Advocates for free-market policies

86. Pareto welfare optimality is achieved when:

- (A) One individual's welfare can improve without worsening another's
- (B) All individuals have equal welfare
- (C) The government intervenes in the market
- ✓ (D) There is perfect competition

87. Rational expectations hypothesis argues that:

- (A) People make errors in predicting inflation
- (B) People use all available information to predict inflation
- (C) Inflation expectations are always irrational
- (D) Inflation cannot be predicted

88. Hayek's theory of trade cycles emphasizes:

- ✓ (A) Over-investment due to artificially low interest rates
- (B) Under-consumption
- (C) The impact of fiscal policy
- (D) The impact of external shocks

89. The excess burden of taxes refers to:

- (A) The total amount of taxes collected
- (B) The cost of administering taxes
- ✓ (C) The economic distortion caused by taxation
- (D) The additional charge on overdue taxes

90. Sustainable development is defined as development that:

- (A) Prioritizes economic growth over environmental concerns
- ✓ (B) Meets the needs of the present without compromising the ability of future generations
- (C) Is based solely on renewable energy sources
- (D) Ignores social equity

91. The General Equilibrium ($2 \times 2 \times 2$) model involves:

- (A) Two consumers and two producers
- ✓ (B) Two goods and two factors of production
- (C) Two markets and two prices
- (D) Two countries and two currencies

92. Changing theories of commercial banking have emphasized:

- (A) The role of banks in creating money
- (B) The declining importance of banks
- (C) The role of banks in fiscal policy
- (D) The role of banks in international trade

93. The Samuelson-Hicks model of trade cycles combines:

- ✓ (A) Keynesian and Classical elements
- (B) Monetarist and Supply-side elements
- (C) Austrian and Marxist elements
- (D) Behavioral and Rational expectations elements

94. Tax neutrality means that a tax system:
- (A) Favors certain industries
 - ☒ (B) Has no impact on economic decisions
 - (C) Is progressive
 - (D) Is regressive
95. Democratic decentralization refers to:
- (A) The distribution of fiscal responsibilities among different levels of government
 - (B) The centralization of political power
 - (C) The privatization of state-owned assets
 - (D) The reduction of government intervention in the economy
96. New welfare economics focuses on:
- (A) Income distribution
 - (B) Market failures
 - (C) Compensation criteria
 - (D) All of the above
97. Non-banking financial intermediaries include all except:
- (A) Insurance companies
 - (B) Pension funds
 - (C) Credit unions
 - ☒ (D) Commercial banks
98. The Mundell-Fleming model is used to analyze:
- (A) Closed economy fiscal policy
 - (B) Closed economy monetary policy
 - ☒ (C) Open economy fiscal policy
 - (D) Open economy monetary policy
99. Direct taxes are:
- (A) Taxes on goods and services
 - ☒ (B) Taxes on income and wealth
 - (C) Taxes on transactions
 - (D) Taxes on imports and exports
100. Intermediate technology refers to technology that is:
- (A) Highly advanced and capital-intensive
 - (B) Focused on information and communication
 - (C) Outdated and inefficient
 - (D) Suitable to the conditions of developing countries