Q1. Arrange the following steps in the correct sequence when RBI sells government bonds in the open market:

(A) The money supply in the economy decreases.

(B) Banks have fewer reserves available for lending.

(C) Private individuals or institutions buy the bond from RBI.

(D) The payment made to RBI reduces reserves in the banking system.

Choose the correct answer from the options given below:

(a) (C), (D), (B), (A)

(b) (D), (C), (A), (B)

(c) (C), (B), (D), (A)

(d) (A), (C), (D), (B)

Q2. Which of the following would be classified as a revenue expenditure of the government?

(a) Investment in the construction of a new highway.

(b) Purchase of land for building a school.

(c) Salaries paid to government employees.

(d) Loans granted by the government to public sector undertakings.

Q3. A bank receives reserves of ₹100. If the CRR is 20%, what is the maximum total deposit that can be created in the system?

(a) ₹400

(b) ₹100

(c) ₹500

(d) ₹200

Q4. What happens if input prices increase?

(a) The supply curve shifts to the right

(b) The supply curve shifts to the left

(c) The demand curve shifts to the right

(d) The equilibrium price falls

Q5. A consumer experiences the following total utility from consuming a certain good:

Quantity	1	2	3	4	5
Total Utility	25	45	60	70	75

If the price per unit is ₹4, at what quantity does the consumer stop purchasing under the equilibrium condition where MUm = 5?

(a) 2 units
(b) 3 units
(c) 4 units
(d) 5 units

Directions (6-10): Read the given passage and answer following question:
The demand for bananas is not very responsive to a change in price of bananas. When the percentage change in quantity demanded is less than the percentage change in market price, e_D=0.5 is estimated to be less than one and the demand for the good is said to be inelastic at that price. Demand for essential goods is often found to be inelastic.
When the percentage change in quantity demanded is more than the percentage change in market price, the demand is said to be highly responsive to changes in market price and the estimated e_D>1.
The demand for the good is said to be elastic at that price. Demand for luxury goods is seen to be highly responsive to changes in their market prices and e_D>1.
When the percentage change in quantity demanded equals the percentage change in its market price, e_D=1 is estimated to be equal to one and the demand for the good is said to be Unitary-elastic at that price. Note that the demand for certain goods may be elastic, unitary elastic, and inelastic at different prices. In fact, in the next section, elasticity along a linear demand curve is estimated at different prices and shown to vary at each point on a downward-sloping demand curve.

Q6. When is the demand for a good said to be inelastic?
(a) When the percentage change in quantity demanded is greater than the percentage change in market price
(b) When the percentage change in quantity demanded is equal to the percentage change in market price
(c) When the percentage change in quantity demanded is less than the percentage change in market price
(d) When the good is a luxury item

Q7. The demand for luxury goods is generally:
(a) Inelastic
(b) Unitary-elastic
(c) Elastic
(d) Perfectly elastic

Q8. If the price elasticity of demand (e_D) is estimated to be 0.5, the demand for the good is:
(a) Elastic
(b) Inelastic
(c) Unitary-elastic
(d) Perfectly elastic

Q9. Which of the following goods are likely to have inelastic demand?
(a) Luxury goods
(b) Essential goods
(c) Durable goods
(d) Non-essential goods

Q10. What does it indicate if the elasticity of demand (e_D) is equal to one?
(a) Perfectly inelastic demand
(b) Unitary-elastic demand

(c) Perfectly elastic demand
(d) Inelastic demand

Solutions

S1. Ans.(a)
Sol.
(C) First, RBI sells a government bond to private individuals or institutions.
(D) The buyers pay for the bond, reducing the reserves in the banking system.
(B) Banks now have fewer reserves available for lending.
(A) This results in a decrease in the money supply in the economy.
S2. Ans. (c)
Sol. Revenue expenditure is expenditure incurred for the normal functioning of the government departments and various services. It is recurring in nature and does not result in the creation of any physical or financial asset. Salaries paid to government employees are a regular operational expense. The other options represent capital expenditure as they either create an asset (highway, land) or reduce a liability/create a financial asset (loans).
S3. Ans. (c)
Sol. With a CRR of 20%, money multiplier = 5. So, ₹100 × 5 = ₹500 worth of deposits can be created.
S4. Ans. (b)
Sol. An increase in input prices raises production costs, shifting the supply curve to the left (decreasing supply).
S5. Ans. (c)
Sol.
First, we calculate marginal utility (MU):

Quantity	1	2	3	4	5
Total Utility	25	45	60	70	75
Marginal Utility (MU)	25	20	15	10	5

Now, MUm = 5:
P = ₹4
MU/P = MUm = 20/4 = 5
After 2 unit where MU is 20 utils and price is ₹5 consumer stop purchasing under the equilibrium condition.

S6. Ans. (c)
Sol. The demand for a good is inelastic when the percentage change in quantity demanded is less than the percentage change in market price.

S7. Ans. (c)
Sol. Luxury goods are highly responsive to changes in market prices and are generally elastic.

S8. Ans. (b)
Sol. An elasticity of 0.5 indicates that the good is inelastic because the change in quantity demanded is less than the change in price.

S9. Ans. (b)

Sol. Essential goods typically have inelastic demand because consumers need them regardless of price changes.

S10. Ans. (b)
Sol. If the elasticity of demand (e_D) is equal to one, it indicates that the demand is unitary-elastic, meaning the percentage change in quantity demanded equals the percentage change in price.