

Mock Test Paper - Series I: April 2024

Date of Paper: 2nd May, 2024

Time of Paper: 2 P.M. to 4 P.M.

FOUNDATION COURSE
PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

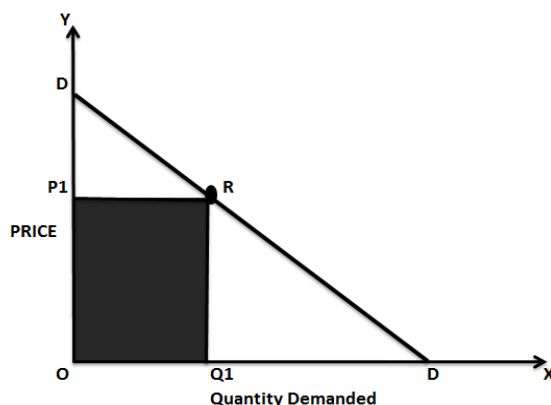
Marks: 100

1. What was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003?
 - (a) Achieve Fiscal Surplus
 - (b) Stop Money Laundering
 - (c) Eliminate Fiscal Deficit
 - (d) Eliminate Revenue deficit
2. Contractionary fiscal policy can involve:
 - (a) Increasing consumption and investment and taxes.
 - (b) Decreasing government spending and increasing taxes.
 - (c) Increasing government spending and increasing taxes.
 - (d) None of the above.
3. 'Who gave 'The Theory of Public Finance (1959)?
 - (a) Adam Smith
 - (b) Richard Musgrave
 - (c) A.C. Pigou
 - (d) Alfred Marshall
4. The stabilization function is concerned with the performance of the aggregate economy in the term of-
 - (a) Overall output & income
 - (b) General price level
 - (c) Balance of international payments
 - (d) All of these
5. Which of the following is an example of market failure?
 - (a) Externalities
 - (b) Low prices
 - (c) Excess supply
 - (d) Excludable and rival goods

6. Which of the following is NOT a conclusion about market allocations of commodities causing pollution externalities?
- (a) The prices of products responsible for pollution are too high.
 - (b) The output of the commodity is too large.
 - (c) Recycling and reuse of the polluting substances are discouraged since release into the environment is so inefficiently cheap.
 - (d) Too much pollution is produced.
7. Which of the following is true of an imperfect market structure?
- (a) Participants in the market have little or no control over outcome in the market.
 - (b) Consumer surplus is maximized.
 - (c) The maximization of producer surplus may lead to a loss of net benefit for society.
 - (d) Imperfect market structures include monopolies but not cartels.
8. Which of the following is not an example of a policy designed to encourage competition?
- (a) Deregulation
 - (b) Trade liberalisation
 - (c) Reducing income tax
 - (d) Anti-monopoly regulations
9. Who defined Business economics in terms of the use of economic analysis in the formulation of business policies?
- (a) Adam Smith
 - (b) Robbins
 - (c) Joel Dean
 - (d) Alfred Marshall
10. Marshallian theory of consumer's behaviour is based on:
- (a) Hypothesis of additive utilities.
 - (b) Hypothesis of independent utilities.
 - (c) Both (A) and (B)
 - (d) Weak ordering
11. Successful business firms spend considerable time, energy, and efforts in analyzing the _____ for their products.
- (A) Supply
 - (b) Price
 - (c) Demand

- (d) None of these
12. By way of an optimal choice, a consumer tends to:
- (a) save money
 - (b) purchase large quantity
 - (c) maximize satisfaction
 - (d) maximize satisfaction subject to constraints like tastes and preferences.
13. The economist's concept of demand is _____ as desire or need or choice or preference or order.
- (a) the same thing
 - (b) not the same thing
 - (c) (a) or (b)
 - (d) None of these
14. The demand for labour in response to the wage rate is _____ whereas the demand for same labour in response to the price of electronic goods where labour enters as an input is _____.
- (a) Derived Demand, Direct Demand
 - (b) Direct Demand, Derived Demand
 - (c) Individual Demand, Market Demand
 - (d) Company Demand, Industry Demand
15. **Assertion (A):** In the short run, a producer operates in only II stage of Law of Diminishing Returns Where average product of variable factor is declining.
- Reason (R):** In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.
- (a) (A) is true and (R) is false
 - (b) Both (A) and (R) are true & (R) is the correct explanation of (A)
 - (c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
 - (d) (A) is false and (R) is true
16. Which of the following groups of goods have inelastic demand?
- (a) Salt, Smart Phone and Branded Lipstick
 - (b) School Uniform, Branded Goggles and Smart Phone
 - (c) Salt, School Uniform and Medicine
 - (d) Medicine, Branded Sports Shoes, and Diamond ring
17. If the price of a commodity raised by 12% and E_d is (-) 0.63, the expenditure made on the commodity by a consumer will ____
- (a) Decrease
 - (b) Increase

- (c) Remain same
 - (d) Can't Say
18. A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has ____.
- (a) more of one of the goods
 - (b) less of at least one of the goods
 - (c) more of at least one of the goods and less of the other good.
 - (d) more of at least one of the goods and no less of the other good.
19. During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy _____ vegetables than/as her usual demand showing the demand of vegetables is ____.
- (a) more, inelastic demand
 - (b) less, elastic demand
 - (c) same, inelastic demand
 - (d) same, elastic demand
20. In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion OP_1RQ_1 is ____.



- (a) Total Revenue (TR)
 - (b) Marginal Revenue (MR)
 - (c) Total Cost (TC)
 - (d) None of these
21. Marginal revenue of a firm is constant throughout under:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Oligopoly
 - (d) All the above

22. Monopolistic competition constitutes:
- (a) Single firm producing close substitutes
 - (b) Many firms producing close substitutes
 - (c) Many firms producing differentiated substitutes
 - (d) Few firms producing differentiated substitutes
23. 'Interdependence Between Firms' is a feature of which type of market form:
- (a) Oligopoly
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) Perfect Competition
24. Which of the following is a limitation of using GDP as a measure of economic well-being?
- (a) It includes only monetary transactions.
 - (b) It does not account for income distribution.
 - (c) It considers both market and non-market activities.
 - (d) It is not affected by inflation.
25. If a country's Gross Domestic Product (GDP) is greater than its Gross National Product (GNP), it implies that the country:
- (a) Is a net exporter.
 - (b) Is a net importer.
 - (c) Has a trade surplus
 - (d) Has a trade deficit
26. If the central bank conducts an open market purchase of government securities, what is the likely impact on the money supply?
- (a) Increase
 - (b) Decrease
 - (c) No change
 - (d) Variable, depending on other factors.
27. Which of the following is included in M2, a broader measure of money supply compared to M1?
- (a) Currency in circulation
 - (b) Savings deposits
 - (c) Demand deposits
 - (d) Travellers' checks

28. What is the purpose of a voluntary export restraint (VER)?
- (a) To limit the quantity of exports.
 - (b) To encourage foreign producers to export more
 - (c) To reduce the cost of imports.
 - (d) To comply with international trade agreements.
29. Which of the following is an example of an automatic stabilizer in the budget?
- (a) Discretionary spending
 - (b) Progressive taxation
 - (c) Infrastructure investment
 - (d) Unemployment benefits
30. Which of the following policy measures is typically used by central banks to manage the business cycle?
- (a) Fiscal policy.
 - (b) Monetary policy.
 - (c) Trade policy.
 - (d) Industrial policy.
31. Concept of Business Economics was given by:
- (a) Joel Dean
 - (b) Alfred Marshall
 - (c) Adam Smith
 - (d) L. Robbins
32. The choice between labour- and Capital-intensive techniques is related with:
- (a) What to Produce?
 - (b) How to Produce?
 - (c) For whom to Produce
 - (d) All of the above.
33. Which of the following is considered as a disadvantage of allocating resources using the market system?
- (a) Income will tend to be unevenly distributed.
 - (b) People do not get goods of their choice.
 - (c) Men of Initiative and enterprise are not rewarded.
 - (d) Profits will tend to be low.
34. Which of the following are the features of a mixed economy?
- (a) Planned economy
 - (b) Dual system of pricing exists

- (c) Balance regional development
 - (d) All of the above
35. Which of the following is NOT a central issue in macroeconomics?
- (a) How should the central bank of a country fight inflation?
 - (b) What is responsible for high and persistent unemployment?
 - (c) How do tax changes influence consumers' buying choices?
 - (d) What factors determine economic growth?
36. Which of the following is a FALSE statement?
- (a) The very long run focuses on the growth of productive capacity
 - (b) In the very long run, the productive capacity is assumed to be given
 - (c) In the very short run, shifts in aggregate demand determine how much output is produced
 - (d) Fluctuations in the rates of inflation and unemployment are important long-run issues
37. In the very long-run AD-AS model, if the AD-curve shifts to the left, then:
- (a) prices and output will both decrease
 - (b) prices and output will both increase
 - (c) prices will decrease but output will remain the same
 - (d) output will decrease but prices will remain the same
38. The concept of diminishing marginal returns implies that:
- (a) output cannot decrease as long as labour is substituted for capital
 - (b) output decreases if either labour or capital is decreased
 - (c) output increases but at a decreasing rate as the amount of labour is increased and the amount of capital remains fixed
 - (d) if the capital stock is kept constant, output cannot increase even if more labour is available
39. Countries with higher saving rates may have higher equilibrium growth rates since:
- (a) people who save more also are more industrious
 - (b) higher income allows for more savings
 - (c) a higher saving rate allows for more investment in human capital which ultimately enhances economic growth
 - (d) having more capital equipment is more important than having better capital equipment

40. Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?
- (a) consumption and government purchases went up since you bought a used car and government bonds
 - (b) consumption and investment went up since you bought a used car and government bonds
 - (c) investment and government purchases went up since you built a new house and bought government bonds
 - (d) investment went up since you built a new house
41. A central bank that wants to stabilize the economy in the short run should try to:
- (a) establish a clear inflation target and stick to it no matter what
 - (b) affect aggregate supply through open market operations
 - (c) affect aggregate demand through open market operations
 - (d) concentrate only on long-run goals
42. Inflation occurs whenever:
- (a) aggregate demand rises.
 - (b) the price of any given commodity rises.
 - (c) the average price of most goods and services rises.
 - (d) the tax rate is lower than the government spending rate.
43. The quantity of dollars supplied will decrease if:
- (a) imports into the United States increase.
 - (b) the expected future exchange rate falls.
 - (c) the interest rate in the United States falls.
 - (d) fewer U.S. residents travel abroad.
44. Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
 - (b) Exports
 - (c) Imports & exports
 - (d) None of the above
45. The expenditure multiplier is used to calculate the change in:
- (A) spending caused by a change in income
 - (b) equilibrium income caused by a change in autonomous spending
 - (c) intended spending caused by a change in consumption
 - (d) disposable income caused by a change in saving

46. Theory of Mercantilism propagates:
- (a) Encourage exports and imports
 - (b) Encourage exports and discourage imports
 - (c) Discourage exports and imports
 - (d) Discourage exports and encourage imports
47. What is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach?
- (a) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$
 - (b) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$
 - (c) $GDP = \text{Consumption} + \text{Investment}$
 - (d) $GDP = \text{Consumption} + \text{Net Exports}$
48. Which component of National Income represents the income earned by individuals and businesses before taxes and other deductions?
- (a) Personal Income
 - (b) Disposable Income
 - (c) Gross National Product (GNP)
 - (d) Gross Domestic Product (GDP)
49. In modern fiat money systems, the value of money is primarily based on:
- (a) Gold reserves
 - (b) Government authority and public trust
 - (c) Exchange rates
 - (d) Digital transactions
50. Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?
- (a) National debt
 - (b) Budget surplus
 - (c) Fiscal deficit
 - (d) Revenue deficit
51. Which of the following is an example of an automatic stabilizer in the budget?
- (a) Discretionary spending
 - (b) Progressive taxation
 - (c) Infrastructure investment
 - (d) Unemployment benefits

52. Which of the following is more sensitive to short-term changes in economic conditions?
- (a) FDI
 - (b) FPI
 - (c) Both FDI and FPI
 - (d) Neither FDI nor FPI
53. Which type of investment is more influenced by government regulations and policies?
- (a) FDI
 - (b) FPI
 - (c) Both FDI and FPI equally
 - (d) Neither FDI nor FPI
54. The concept of the "multiplier effect" in Keynesian economics refers to:
- (a) The impact of interest rates on investment
 - (b) The magnification of an initial change in spending throughout the economy
 - (c) The impact of taxes on consumer spending
 - (d) The role of exports in economic growth
55. What is the "liquidity trap" in Keynesian theory?
- (a) A situation where interest rates are very high.
 - (b) A situation where interest rates are very low, and savings are hoarded.
 - (c) A situation of hyperinflation
 - (d) A situation of excessive government spending
56. Which international organization is responsible for facilitating trade negotiations and resolving trade disputes among member countries?
- (a) World Health Organization (WHO)
 - (b) International Monetary Fund (IMF)
 - (c) World Trade Organization (WTO)
 - (d) United Nations Educational, Scientific and Cultural Organization (UNESCO)
57. The law of consumer surplus is based on:
- (a) indifferent curve analysis
 - (b) revealed preference theory
 - (c) law of substitution
 - (d) the law of diminishing marginal utility

58. The industrial sector depends on the agricultural sector because:
- (a) the agricultural sector provides food and other products for the consumption purposes of industrial sector
 - (b) the agricultural sector provides raw materials for the development of agro-based industries of the economy
 - (c) the agricultural sector provides market for the industrial products
 - (d) all of the above
59. If the price of apples rises from ₹ 30 per kg to ₹ 40 per kg and the supply increases from 240 kg to ₹ 300 kg. Elasticity of supply is:
- (a) .77
 - (b) .67
 - (c) (–) .67
 - (d) (–) .77
60. The producer is in equilibrium at a point where the cost line is:
- (a) above the isoquant
 - (b) below the isoquant
 - (c) cutting the isoquant
 - (d) tangent to isoquant
61. A monopolist is able to maximize his profits when:
- (a) his output is maximum
 - (b) he charges a high price
 - (c) his average cost is minimum
 - (d) his marginal cost is equal to marginal revenue
62. Agricultural goods markets depict characteristics close to:
- (a) Perfect competition
 - (b) Oligopoly
 - (c) Monopoly
 - (d) Monopolistic competition
63. Which of the following is a function of an entrepreneur?
- (a) Initiating a business enterprise
 - (b) Risk bearing
 - (c) Innovating
 - (d) All of the above

64. Which of the following statements is true of the relationship among the average cost functions?
- (a) $ATC = AFC = AVC$
 - (b) $AVC = AFC + ATC$
 - (c) $AFC = ATC + AVC$
 - (d) $AFC = ATC - AVC$
65. For a Price taking firm:
- (a) Marginal revenue is less than Price
 - (b) Marginal revenue is equal to Price
 - (c) The relationship between behavior marginal revenue and Price is indeterminate
 - (d) Marginal revenue is greater than price
66. Coincident indicator is not indicated as:
- (a) Inflation
 - (b) Industrial Production
 - (c) Retail Sales
 - (d) New order for Plant and equipment
67. Indifference Curve analysis is superior to utility analysis:
- (a) It dispenses with the assumption of measurability
 - (b) It segregates income effect and substitution effect
 - (c) It does not assume constancy of marginal utility of money
 - (d) All of the above
68. Perfectly Competitive firm and industry are both in long run equilibrium when:
- (a) $P = MR = SMC = LMC$
 - (b) $P = MR =$ Lowest point on the LAC
 - (c) $P = MR = SAC = LAC$
 - (d) All of the above
69. Economy's historical performance was reflected by:
- (a) Lagging indicating
 - (b) Leading indicating
 - (c) Either (a) or (b)
 - (d) None of these
70. Opportunity cost is ____.
- (a) A cost that cannot be avoided.

- (b) The cost incurred in the past before we make a decision about what to do in the future.
 - (c) That which we forgo or give up when we make a choice or a decision.
 - (d) The additional benefit of buying an additional unit of a product.
71. Given $TC = 2000 + 15Q - 6Q^2 + Q^3$. How much is TFC at $Q = 2000$?
- (a) 2000
 - (b) 975
 - (c) 30,000
 - (d) Can't be determined
72. Different business cycles _____ in duration and intensity.
- (a) differ
 - (b) similar
 - (c) consistent
 - (d) Can't say
73. Price discrimination will be profitable only if the elasticity of demand in different markets in which the total market has been divided is:
- (a) uniform
 - (b) different
 - (c) less
 - (d) zero
74. Price discrimination will be profitable only if the elasticity of demand in different markets in which the total market has been divided is:
- (a) uniform
 - (b) different
 - (c) less
 - (d) zero
75. _____ expressed the view the "Economics is neutral between end".
- (a) Robbins
 - (b) Marshall
 - (c) Pigou
 - (d) Adam Smith
76. Price Rigidity explained by Sweezy's model is related to which market form:
- (a) Monopoly
 - (b) Oligopoly
 - (c) Monopolistic competition

- (d) Perfect Competition
- 77. Which of the following is not a determinant of the firm's cost function?
 - (a) Taxes
 - (b) The Production Function
 - (c) The Price of the firm's output
 - (d) Subsidies
- 78. Demand for complementary goods are:
 - (a) Derived Demand
 - (b) Autonomous demand
 - (c) Aggregate Demand
 - (d) None of these
- 79. Consumers get maximum variety of goods under:
 - (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) None of these
- 80. What is the primary goal of countercyclical fiscal policy in budgeting?
 - (a) Maximizing government revenue.
 - (b) Stabilizing the economy during economic downturns.
 - (c) Minimizing government intervention.
 - (d) Reducing public debt.
- 81. According to Keynes, what can cause involuntary unemployment in an economy?
 - (a) High interest rates
 - (b) Insufficient aggregate demand
 - (c) Government intervention
 - (d) Excessive savings
- 82. The concept of "animal spirits" in Keynesian theory refers to:
 - (a) The unpredictable behavior of financial markets
 - (b) Psychological factors influencing economic decisions
 - (c) Government regulations affecting business confidence
 - (d) The impact of interest rates on investment
- 83. Which trade policy tool is designed to directly support domestic producers by reducing the cost of exporting goods?
 - (a) Export subsidy

- (b) Import quota
 - (c) Voluntary export restraint
 - (d) Export tariff
84. 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
85. Which of the following is a common solution to the problem of common resources being overused?
- (a) Government regulation
 - (b) Privatization
 - (c) Subsidies
 - (d) Free-market competition
86. If the reserve requirement is 20%, what is the potential maximum expansion of the money supply when a new deposit of \$1,000 is made?
- (a) \$5,000
 - (b) \$2,000
 - (c) \$1,000
 - (d) \$500
87. Which of the following is a factor income?
- (a) Profits
 - (b) Transfer payments
 - (c) Subsidies
 - (d) Indirect taxes
88. Which of the following matters is/are fundamentally connected to economic analysis?
- (a) Economic prosperity
 - (b) Higher standard of living
 - (c) Changes in price of a commodity
 - (d) All of the above
89. Management of the firm _____ control over macro-economic factors.
- (a) has
 - (b) has no

- (c) has partial
 - (d) None of these
90. After reaching the saturation point, consumption of additional units of the commodity cause:
- (a) Total utility to fall and marginal utility to increase.
 - (b) Total and marginal utility both to increase.
 - (c) Total utility to fall and marginal utility to become negative.
 - (d) Marginal utility to fall and total utility to become negative.
91. Which of the following statements is correct?
- (a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero.
 - (b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite.
 - (c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity.
 - (d) None of these
92. Computers and computer software are_____.
- (a) Substitute goods
 - (b) Complementary goods
 - (c) Independent goods
 - (d) Normal goods
93. Which of the following statement(s) is/are true about the slope of budget line?
- (a) The slope of budget line is determined by the relative prices of two goods.
 - (b) The slope of budget line is equal to price ratio of two goods.
 - (c) The slope of budget line measures the rate at which the consumer can trade one good for the other.
 - (d) All of the above
94. Traditional approach of law of demand was propounded by_____.
- (a) Giffen
 - (b) Paul A Samuelson
 - (c) Alfred Marshall
 - (d) Pique
95. Under the law of variable proportion, stage I is known as the stage of increasing returns because:
- (a) Marginal product of the variable factor increases throughout this stage
 - (b) Average product of the variable factor increases throughout this stage

- (c) Marginal product increases at increasing rate throughout this stage
 - (d) Total increases at increasing rate throughout this stage
96. Production function: $Q = 4L^{1/2}K^{2/3}$ exhibits:
- (a) increasing returns to scale
 - (b) decreasing returns to scale
 - (c) constant returns to scale
 - (d) increasing returns to a factor
97. A mathematical relationship showing the maximum output that can be produced by each and every combination of inputs is called ____.
- (a) Production equation
 - (b) Production function
 - (c) Production schedule
 - (d) Production identity
98. In economics, generally the classification of the markets is made on the basis of:
- (a) Time
 - (b) Geographic area
 - (c) Volume of business
 - (d) All of these
99. Decrease in input demand ____.
- (a) Doesn't affect inputs prices
 - (b) Pushes inputs prices up
 - (c) Pulls inputs prices down
 - (d) Either (B) or (C)
100. Freedom of choice is the advantage of ____.
- (a) Socialism
 - (b) Capitalism
 - (c) Communism
 - (d) None of the above