

Mock Test Paper - Series I: December, 2025

Date of Paper: 22nd, December, 2025

Time of Paper: 2.00 P.M. to 4.00 P.M.

FOUNDATION COURSE

PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

Marks: 100

1. What is the similarity between the Subprime Crisis and Greece Crisis?
 - (a) High Financial Leverage
 - (b) Low-Interest Rate
 - (c) Credit Expansion
 - (d) All of the above
2. In explaining the level of unemployment, Keynes emphasized, -
 - (a) Changes in technology.
 - (b) Aggregate demand.
 - (c) Inflationary expectations.
 - (d) Lending by financial institutions.
3. An increase in marginal propensity to consume will:
 - (a) Lead to the consumption function becoming steeper.
 - (b) Shift the consumption function upwards.
 - (c) Shift the consumption function downwards.
 - (d) Shift the savings function upwards.
4. Which is the main objective of a tax?
 - (a) Increase in Consumption
 - (b) Increase in Production
 - (c) Raising Public Revenue
 - (d) Reduction in Capital Formation
5. The value of which work is added in the calculation of GDP?
 - (a) Housewife's works
 - (b) A teacher teaching his own child

- (c) The value of resale of old shares
 - (d) Construction of a new house by an artisan
6. The objective of the fiscal policy of the government should be:
- (a) To increase production
 - (b) To reduce inequality of income and wealth
 - (c) To maintain economic growth
 - (d) All of the above
7. Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
 - (b) Exports
 - (c) Imports & exports
 - (d) None of the above
8. 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
9. 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.
10. EVA digital assistance Robot of HDFC Bank is:
- (a) An intermediate good
 - (b) A consumer good
 - (c) A capital good
 - (d) None of these
11. Gross investment refers to:
- (a) private investment minus public investment.

- (b) net investment plus replacement investment.
 - (c) net investment after it has been "inflated" for changes in the price level.
 - (d) net investment plus net exports
12. Which one of the following is NOT a function of Finance Commission in India?
- (a) Devolution of Income Tax
 - (b) Devolution of Excise Duty
 - (c) Award of grants-in-aid
 - (d) Devolution of Trade Tax
13. Who is the chairman of the 16th Central Finance commission, Government of India?
- (a) Mr. N.K. Singh
 - (b) Mr. Y.V. Reddy
 - (c) Mr. M. Govinda Rao
 - (d) Dr. Arvind Panagariya
14. Differentiated Products is a characteristic of:
- (a) Monopolistic Competition only
 - (b) Oligopoly only
 - (c) Both Monopolistic Competition and Oligopoly
 - (d) Monopoly
15. Under which market form, the demand curve is steeper as compared to monopolistic competition?
- (a) Monopoly
 - (b) Oligopoly
 - (c) Perfect Competition
 - (d) None of these
16. Which of the following cost curves is rectangular hyperbola?
- (a) Average cost curve
 - (b) Marginal cost curve
 - (c) Average variable cost curve
 - (d) Average fixed cost curve

17. _____ cost refers to actual payment made by the entrepreneur to the providers of factor services.
- (a) Explicit
 - (b) Implicit
 - (c) Variable
 - (d) Fixed
18. AVC can fall even when MC is rising, provided:
- (a) $MC < AVC$
 - (b) $MC > AVC$
 - (c) $MC = AVC$
 - (d) None of these
19. Which of the following is not an essential condition of 'Pure Competition'?
- (a) Large number of Buyers and Sellers
 - (b) Homogeneous Product
 - (c) Freedom of entry
 - (d) Absence of Transport Cost
20. Broad money refers to:
- (a) M_1
 - (b) M_2
 - (c) M_3
 - (d) M_4
21. 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
22. Markets fail because:
- (a) Externalities are not accounted for in pricing and quantity decisions of firms

- (b) Most often the prerequisite of competition is unlikely to be present in an economy
 - (c) Prices fail to reflect the true costs and benefits to the society
 - (d) All the above
23. Business cycle emerge in ____.
- (a) Socialist economy
 - (b) Free market economy
 - (c) Mixed economic system
 - (d) None of the above
24. The Reverse repo rate is:
- (a) RBI borrows from the government
 - (b) Commercial banks lend money to RBI
 - (c) Commercial banks rediscount the bills of exchange with RBI
 - (d) RBI lends money to commercial banks
25. Which of the following does not enter into the calculation of national income?
- (a) Exchange of previously produced goods
 - (b) Exchange of second-hand goods
 - (c) Exchange of stocks and bonds
 - (d) All the above
26. Which of the following is an implication of the imposition of price ceiling below the equilibrium price?
- (a) Shortages in the market
 - (b) Problem of allocation of limited supplies among large number of consumers.
 - (c) Black marketing
 - (d) All of the above
27. Which market sells both homogeneous as well as differentiated goods?
- (a) Oligopoly
 - (b) Perfect competition
 - (c) Monopoly
 - (d) None of these

28. Government of India recently launched '**Make in India**' programme. What will be its impact on Aggregate Demand of India?
- (a) Likely to increase
 - (b) Likely to fall
 - (c) No impact
 - (d) None of these
29. Which one of the following is the best example of agreement between oligopolists?
- (a) GATT
 - (b) OPEC
 - (c) WTO
 - (d) UNIDO
30. TRIPs stand for:
- (a) Trade Related Intellectual Property Rights
 - (b) Transaction Related Intellectual Property Rights
 - (c) Trade Related Intelligence Property Rights
 - (d) Trade Related International Rights
31. The 'substitution effect' takes place due to change in:
- (a) Income of the consumer
 - (b) Prices of the commodity
 - (c) Relative prices of the commodities
 - (d) All of the above
32. 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
33. 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.
34. 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
35. 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
36. 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
37. 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

38. 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
39. 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.
40. 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
41. Money cost is considered by:
- (a) Modern theory of trade
 - (b) Comparative cost advantage
 - (c) New Trade theory
 - (d) Factor equalization theorem
42. More expansion of foreign direct investment can boost _____ .
- (a) Money circulation
 - (b) Demand
 - (c) employment
 - (d) unemployment

43. Which of the following is NOT a criterion for determining distribution of Central taxes among states for 2021-26 period:
- (a) Demographic Performance
 - (b) Forest and Ecology
 - (c) Infrastructure Performance
 - (d) None of these
44. Which of the followings is not an element of good public expenditure management?
- (a) Elasticity
 - (b) Economy
 - (c) Productivity
 - (d) Deficit
45. Computers and Computer software are_____
- (a) Substitute goods
 - (b) Complementary goods
 - (c) Independent goods
 - (d) Normal goods
46. If the amounts of two commodities purchased both increase or decrease when the price of one change, the cross elasticity of demand between them is:
- (a) Negative
 - (b) Positive
 - (c) Zero
 - (d) 1
47. Which aspect of taxation involves normative economics?
- (a) The incidence of (i.e., who actually pays for) the tax
 - (b) The effect of the tax on incentives to work
 - (c) The "fairness" of the tax
 - (d) All of the above
48. According to British economist J. M. Keynes _____ was the main cause of massive decline in income and employment during Great Depression of 1930.
- (a) Lower aggregate expenditure in the economy

- (b) Banking crises and low money supply.
 - (c) Overdebttness
 - (d) Lower profits & pessimism
49. When real income rather than money income is kept constant in drawing a consumer's demand curve for a commodity, the demand curve is negatively sloped:
- (a) Always
 - (b) Never
 - (c) Sometimes
 - (d) often.
50. Which one of the following is not an Internal economies of scale?
- (a) Technical economies
 - (b) Financial economies
 - (c) Economies due to localization of industries
 - (d) Marketing economies
51. 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
52. 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
53. Peak is the _____ stage of expansion.
- (a) Later
 - (b) Earlier
 - (c) Either (A) or (B)\

- (d) None of the above
54. Repercussions of business cycles get _____ felt on nearly all economic variables.
- (a) alternatively
 - (b) simultaneously
 - (c) one by one
 - (d) All of the above
55. In order to influence spending on the goods and services in the short run, _____ is directed at directly influencing interest rate.
- (a) fiscal policy
 - (b) budgetary policy
 - (c) monetary policy
 - (d) economic policy
56. Consider the following statements and select the correct answer from the given options.
- Assertion (A):** In the short run under perfect competition, given the market demand and market supply the industry is in equilibrium at that price which clears the market.
- Reason (R):** In the long run all the firms in the industry earns profit.
- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 - (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 - (c) (A) is true but (R) is false
 - (d) (A) is false but (R) is true
57. Which of the following is correct regarding long run cost?
1. It is least cost of producing each level of output
 2. LAC curve is envelope of SAC curves.
 3. LAC is U-shaped
- (a) 1 & 2 only
 - (b) 2 & 3 only
 - (c) 1 & 3 only
 - (d) 1, 2 & 3

58. The elasticity of supply at any point on a given supply curve passing through the origin point making angle of 35 degree with X-axis is _____
- (a) Greater than one
 - (b) Less than one
 - (c) Equal to one
 - (d) Any of the above
59. Management of the firm _____ control over macro-economic factors.
- (a) has
 - (b) has no
 - (c) has partial
 - (d) None of these
60. Which of the following is a lagging economic indicator?
- (a) Consumer confidence index
 - (b) Stock market performance
 - (c) Unemployment rate
 - (d) New housing starts
61. Which of the following is implication of fiscal deficit?
- (a) Crowding- out
 - (b) Inflationary spiral
 - (c) Erosion of government credibility
 - (d) All of these
62. India's foreign exchange reserves has jumped high. The reason may be:
- (a) Inflow foreign exchange
 - (b) Outflow of foreign exchange
 - (c) Autonomous payments over Autonomous Receipts
 - (d) All the above
63. Which of the following is the primary objective of economic planning in India?
- (a) Abolition of poverty
 - (b) Removing unemployment

- (c) Growth with social justice
 - (d) Reducing inequality of income
64. The programme of economic reforms in India was started on
- (a) 26th July 1990
 - (b) 23rd July 1992
 - (c) 21st July 1991
 - (d) 24th July 1991
65. Impure Public goods are:
- (a) Private goods
 - (b) Public goods
 - (c) A Package of Public and Private goods
 - (d) Harmful goods for the society
66. REER (Real Effective Exchange Rate) is:
- (a) Weighted average of forward exchange rates
 - (b) Nominal rate adjusted for interest
 - (c) Nominal effective exchange rate adjusted for inflation
 - (d) None of these
67. Brownfield investment refers to:
- (a) Building new infrastructure
 - (b) Investing in agriculture
 - (c) Buying or leasing existing setups
 - (d) None of these
68. FDI in India is encouraged through all EXCEPT:
- (a) Tax holidays
 - (b) Ease of doing business
 - (c) Protectionists import bans
 - (d) SEZs
69. Which initiative focuses on sustainable lifestyle choices?
- (a) NDAP

- (b) Shoonya
 - (c) LiFE
 - (d) Make in India
70. Which policy ended the License Raj?
- (a) Industrial Policy Resolution 1956
 - (b) New Industrial Policy 1991
 - (c) GST Act 2017
 - (d) PLI Scheme 2020
71. Which organisation launched India Policy Insights (IPI)?
- (a) SEBI
 - (b) RBI
 - (c) NITI Aayog
 - (d) None of these
72. Which of these is NOT a public sector monopoly anymore?
- (a) Atomic energy
 - (b) Railways
 - (c) Telecom
 - (d) Arms & ammunition
73. Non-tariff measures that affect product quality and standards are called:
- (a) Quotas
 - (b) Technical barriers to trade (TBT)
 - (c) Tariff quotas
 - (d) None of these
74. GDP deflator is used to measure:
- (a) Fiscal deficit
 - (b) Inflation
 - (c) Trade balance
 - (d) Saving rate

75. The income received but not earned is part of:
- (a) National Income
 - (b) Personal Income
 - (c) Factor Income
 - (d) Disposable Income
76. Mixed income of self-employed includes:
- (a) Rent and Interest only
 - (b) Wages only
 - (c) Capital and Labour income that cannot be separated
 - (d) Only profit
77. Moral hazard refers to:
- (a) Risk-taking due to insurance cover
 - (b) Uninformed pricing
 - (c) Externalities
 - (d) High subsidies
78. Which exchange rate regime is adopted by highest no of IMF members
- (a) Hard Peg
 - (b) Floating
 - (c) Free Floating
 - (d) Soft Peg
79. The 'U' shape of the short-run average cost curve is due to:
- (a) Fixed inputs
 - (b) Increasing and then diminishing returns
 - (c) Constant returns to scale
 - (d) None of these
80. Which of the following costs is not considered while calculating accounting cost?
- (a) Rent paid
 - (b) Salary paid
 - (c) Interest on borrowed funds

- (d) Normal profit
81. A trough in the business cycle indicates:
- (a) The highest level of economic activity
 - (b) A period of zero unemployment
 - (c) The lowest point of economic decline
 - (d) None of these
82. In the four-sector model, which of the following is not a leakage from the circular flow?
- (a) Saving
 - (b) Investment
 - (c) Imports
 - (d) None of these
83. When income increases and APC decreases, it indicates that:
- (a) Autonomous consumption is increasing
 - (b) Marginal propensity to consume is increasing
 - (c) Consumption is growing slower than income
 - (d) Savings are falling
84. The formula for the investment multiplier (k) is:
- (a) $1 / \text{MPC}$
 - (b) $1 / \text{APS}$
 - (c) $1 / (1 - \text{MPC})$
 - (d) $1 / (1 + \text{MPC})$
85. Subsidy on goods with positive externalities leads to:
- (a) Higher cost
 - (b) Higher price
 - (c) Lower price
 - (d) Inefficiency
86. What is a liquidity trap?
- (a) Money becomes illiquid due to inflation
 - (b) Money supply becomes ineffective at zero interest rate

- (c) Interest rate becomes infinite
 - (d) Bonds have negative yield
87. Which one is not true about merit goods?
- (a) Under-consumed
 - (b) Government promotes them
 - (c) Have negative externalities
 - (d) None of these
88. Which theory introduced the idea of interest rate influencing money demand?
- (a) Fisher's theory
 - (b) Cambridge approach
 - (c) Keynesian theory
 - (d) None of these
89. Speculative demand becomes perfectly elastic when:
- (a) Inflation is zero
 - (b) Interest rate is zero
 - (c) Bond prices fall
 - (d) None of these
90. Which tool is used to absorb liquidity by RBI?
- (a) Reverse Repo Rate
 - (b) Repo Rate
 - (c) Bank Rate
 - (d) CRR
91. The Monetary Policy Committee sets:
- (a) SLR
 - (b) CRR
 - (C) Repo rate
 - (D) Bank rate
92. CPI inflation target under current framework is:
- (a) $5\% \pm 2\%$

- (b) $4\% \pm 2\%$
 - (c) $3\% \pm 1\%$
 - (d) None of these
93. A dealer sells only two brands of Motorcycle- Royal and Hero. It was observed that when the price of royal rises by 10% the demand for Hero increases by 15%. What is the cross elasticity of Hero against the Price of Royal?
- (a) + 1.5
 - (b) -1.5
 - (c) 2.5
 - (d) None of these
94. Which of the following Statements is correct concerning the relationship among the firm's Cost Function:
- (a) $TC = TVC - TFC$
 - (b) $TFC = TC - TVC$
 - (c) $TC = TFC - TVC$
 - (d) $TVC = TFC - TC$
95. When violation of law of demand occurs:
- (a) Substitution effect is negative
 - (b) Income effect is negative
 - (c) Negative income effect is less than substitution effect
 - (d) Negative income effect is greater than substitution effect
96. 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
97. The market demand curve for a perfectly competitive industry is: $Q_d = 12 - 2P$ and the market supply curve is: $Q_s = 3 + P$. The market will be in equilibrium if
- (a) $P = 6$ and $Q = 9$
 - (b) $P = 5$ and $Q = 2$

- (c) $P = 4$ and $Q = 4$
 - (d) $P = 3$ and $Q = 6$
98. In economics, we are concerned with:
- (A) Value in use only
 - (B) Exchange value only
 - (C) Both value in use and exchange value
 - (D) None of the above
99. Which is the leading Country in respect of inflow of FDI to India?
- (a) Singapore
 - (b) Mauritius
 - (c) Japan
 - (d) None of these
100. The elasticity of supply at any point on a given supply curve passing through the origin point making angle of 35 degree with X-axis is _____.
- (a) Greater than one
 - (b) Less than one
 - (c) Equal to one
 - (d) Any of the above

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FOUNDATION COURSE

PAPER 4: BUSINESS ECONOMICS

ANSWERS

1.	(d)	2.	(b)	3.	(a)	4.	(c)	5.	(d)
6.	(d)	7.	(c)	8.	(b)	9.	(d)	10.	(c)
11.	(b)	12.	(d)	13.	(d)	14.	(c)	15.	(a)
16.	(d)	17.	(a)	18.	(a)	19.	(d)	20.	(c)
21.	(b)	22.	(d)	23.	(b)	24.	(d)	25.	(d)
26.	(d)	27.	(a)	28.	(a)	29.	(b)	30.	(a)
31.	(c)	32.	(c)	33.	(d)	34.	(b)	35.	(b)
36.	(b)	37.	(c)	38.	(b)	39.	(d)	40.	(c)
41.	(a)	42.	(c)	43.	(c)	44.	(d)	45.	(b)
46.	(a)	47.	(c)	48.	(a)	49.	(a)	50.	(c)
51.	(b)	52.	(d)	53.	(a)	54.	(b)	55.	(c)
56.	(c)	57.	(d)	58.	(c)	59.	(b)	60.	(c)
61.	(c)	62.	(a)	63.	(c)	64.	(d)	65.	(c)
66.	(c)	67.	(c)	68.	(c)	69.	(c)	70.	(b)
71.	(c)	72.	(c)	73.	(b)	74.	(b)	75.	(b)
76.	(c)	77.	(a)	78.	(d)	79.	(b)	80.	(d)
81.	(c)	82.	(b)	83.	(c)	84.	(c)	85.	(c)
86.	(b)	87.	(c)	88.	(c)	89.	(b)	90.	(a)
91.	(c)	92.	(b)	93.	(a)	94.	(b)	95.	(d)
96.	(a)	97.	(d)	98.	(b)	99.	(a)	100.	(c)