Mock Test Paper - Series II: December, 2025

Date of Paper: 5th January, 2026

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

FOUNDATION COURSE

PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours **Marks: 100**

1. The Book “The Wealth of Nations “is written by:
   (a) Adam Smith
   (b) Arthur Pigou
   (c) Robinson
   (d) Ragnar Nurske
2. The Nature of Business Economics:
   (a) Business Economics is a Science
   (b) Incorporate elements of Macro Analysis
   (c) Interdisciplinary in Nature
   (d) All the above
3. Rational Decision making requires that:
   (a) One’s Choice be arrived at logically and without error.
   (b) One’s Choice be consistent with one’s goal.
   (c) One’s Choice never vary.
   (d) The consumer Plan’s to attain the highest possible level of satisfaction.
4. What are the Internal causes of Business Cycle _____?
   (a) Fluctuations in effective demand.
   (b) Macroeconomic Policies
   (c) Money Supply
   (d) All the above

5. Hawtrey trade cycle is a ______.
   (a) Monetary Phenomenon
   (b) Unplanned Phenomenon
   (c) Fiscal Phenomenon
   (d) All the above
6. A Relative Price is:
   (a) Price expressed in terms of money
   (b) The ratio of one money price to another
   (c) Equal to money price.
   (d) None of these.
7. In case of Substitute Product:
   (a) The Demand Curve Slope upwards
   (b) The Demand Curve Slope downwards
   (c) The Demand Curve is Perfectly Elastic
   (d) None of these.
8. A rise in price will ________.
   (a) Increase in Consumer Surplus
   (b) Decrease in Consumer Surplus
   (c) No Change in Consumer Surplus
   (d) None of these
9. Law of Production does not include ________.
   (a) least Cost Combination of factors
   (b) Law of variable proportion
   (c) Law of diminishing returns to a factor
   (d) Return to scale
10. 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

11. In the Cobb Douglas function the change in Output due to increase in one additional unit of an input is called?

    (a) Elasticity

    (b) Return to scale

    (c) Total Product

    (d) Marginal Revenue

12. The condition for Pure Competition to be fulfilled are _______.

    (a) large numbers of buyers and sellers

    (b) Products are homogeneous

    (c) Firms are free from entry and exit from the market

    (d) All the above

13. The opportunity cost of a good is:

    (a) The loss of interest in using savings

    (b) The time lost in finding it

    (c) The quality of other goods sacrificed to get another unit of that good

    (d) None of these

14. Which is not the Characteristics of Monopolistic Competition:

    (a) Large number of sellers

    (b) Homogeneous Product

    (c) Freedom of entry and exit

    (d) Non Price Discrimination

15. The Concept of Price rigidity in Sweezy's Model is related to which market form:

    (a) Oligopoly market

    (b) Perfect competition market

    (c) Monopoly market

(d) Monopolistic market

16. Which of the following Statement is incorrect?
    (a) There is no difference between a firm and an Industry
    (b) The Monopolist may raise the price and restrict the output
    (c) Heterogeneous product are offered for sale in Perfect Competition
    (d) In Monopolistic competition product differentiation is peculiar.

17. The Relationship between AR, MR and Price Elasticity _______.
    (a) MR = AR X e-1 divided by e
    (b) AR = MR X e-1 divided by e
    (c) AR – MR = e-1 divided by e
    (d) None of these

18. The Price elasticity for Monopolistic Firm is:
    (a) $E > 1$
    (b) $E < 1$
    (c) $E = 1$
    (d) None of these

19. When a small change in price leads to a large change in demand the demand is:
    (a) Inelastic
    (b) Elastic
    (c) Stagnant
    (d) Fixed

20. The relationship between price and quantity supplied in law of supply is:
    (a) Proportionate
    (b) Homogenous
    (c) Inverse
    (d) Positive

21. Certain Benefit an Industry gets when it expands its scale of production is known as:
   (a) Internal Economies
   (b) Diseconomies
   (c) External economies
   (d) Profit
22. The Shape of TR Curve of the Monopolist is:
   (a) U Shaped
   (b) Inverted U Shaped
   (c) Downward sloping
   (d) None of these.
23. The Distinction between Selling Cost and Production cost was made by:
   (a) Chamberlin
   (b) Sweezy
   (c) Mrs. Joan Robinson
   (d) None of these
24. For Luxuries goods the Income Elasticity is:
   (a) $E > 1$
   (b) $E < 1$
   (c) $E = 0$
   (d) None of these
25. Long Run Average Cost (LAC) is:
   (a) U Shaped
   (b) Is also called envelope curve
   (c) Both a and b
   (d) None of These
26. Under Perfect Competition the Supply Curve is derived from:
   (a) MC Curve

(b) AC curve

(c) TC Curve

(d) None of these.

27. The Consumer is in equilibrium when:

(a) The budget line is tangent to the Indifference Curve

(b) Marginal rate of Substitution of one good for another must be equal to the Price ratio of the two goods

(c) Either a or b

(d) None of these

28. When average cost is equal to average revenue of a firm, it gets ________.

(a) Sub normal profit

(b) Normal profit

(c) Abnormal profit

(d) Super profit

29. The producer's demand for a factor of production is governed by the ______of that factor.

(a) Price

(b) Marginal Productivity

(c) Availability

(d) Profitability

30. The Slope of Isoquant is:

(a) Upward to the left

(b) Downward to the right

(c) Downward to the left

(d) Upward to the right

31. When the Output increases from 20 to 30 units and TR increases from ₹ 400 to ₹ 500 then MR is:

(a) 20

(b) 10

(c) 15

(d) None of these

32. Negative Return sets in at the stage when:

(a) MP is negative

(b) MP is diminishing

(c) MP is rising

(d) none of these

33. The Problem what to produce relates to:

(a) The Choice of goods and Services

(b) Distribution of Income

(c) The Choice of Technique

(d) market value of goods and services

34. Average revenue curve is more elastic under monopolistic competition than monopoly due to:

(a) Low degree of governmental control

(b) lack of close Substitute

(c) Availability of close Substitute

(d) None of these

35. The Government offer minimum assured price to the farmers to purchase their output is called:

(a) Market Price

(b) Support Price

(c) Equilibrium Price

(d) Ceiling Price

36. What affects supply elasticity the most?

(a) Consumer demand

(b) Ease of increasing production

(c) Brand value

(d) Import tariffs

37. Economic indicator of contraction and expansionary phase by measuring real GDP is:

(a) Business cycle

(b) Technical indicator

(c) Leading indicator

(d) Lagging indicator

38. The restaurant industry has a market structure that comes closest to:

(a) Monopolistic competition

(b) Oligopoly.

(c) Perfect competition.

(d) Monopoly.

39. If an input is owned and used by a firm, then its ______.

(a) Explicit cost is zero.

(b) Implicit cost is zero.

(c) Opportunity cost is zero.

(d) Economic cost is zero.

40. If the inflation rate starts to increase, a central bank most likely will:

(a) try to stimulate aggregate supply through open market purchases

(b) change short-term interest rates through open market sales

(c) increase short-term interest rates by buying government bonds

(d) send signals to financial markets about upcoming open market purchases

41. In a simple model with no government or foreign sector, the change in unplanned inventory at equilibrium is:

(a) dependent upon the amount of consumption

(b) equal to output minus consumption

(c) zero

(d) always positive

42. Positive economics means:

(a) Does not depend on market interactions,

(b) Only looks at the best parts of the economy.

(c) Examines how the economy works (as opposed to how it should work)

(d) Is very subjective.

43. A nation's gross domestic product (GDP):

(a) Can be found by summing C + I + G + Xn.

(b) Is the dollar value of the total output produced by its citizens, regardless of where they are living.

(c) Can be found by summing C + S + G + Xn.

(d) Is always some amount less than its NDP.

44. GDP data are criticized as being inaccurate measures of economic welfare because:

(a) They do not take into account changes in the amount of leisure.

(b) They do not take into account all changes in product quality.

(c) They do not take into account the adverse effects of economic activity on the environment.

(d) Of all of the above considerations.

45. What is the primary purpose of a government budget?

(a) Maximizing government revenue

(b) Controlling inflation

(c) Allocating resources efficiently

(d) Minimizing government spending

46. The concern regarding changing health consciousness of consumers highlights which limitation of economic theory in real-world decision making?

(a) Static nature of demand analysis

(b) Excessive reliance on normative assumptions

(c) Unrealistic ceteris paribus assumption

(d) Absence of marginal analysis

47. If the firm uses last ten years' data to forecast demand, the major economic risk involved is:

(a) Sampling bias

(b) Structural break in demand pattern

(c) Measurement error

(d) Price elasticity instability

48. In a socialist economy, the central planning authority is responsible for:

(a) Only taxation policies

(b) Only foreign trade

(c) Major economic decisions including what, when, and how much to produce

(d) Maintaining law and order only

49. Conspicuous goods are demanded more because of:

(a) Low price

(b) Necessity

(c) Prestige value

(d) Government subsidy

50. The 'bandwagon effect' in consumer behaviour leads to:

(a) Decrease in demand when others start consuming the product

(b) No change in demand pattern

(c) Increase in demand because others are also consuming the same commodity

(d) Perfectly inelastic demand

51. Which of the following is an assumption of the Law of Diminishing Marginal Utility?

(a) Change in income

(b) Continuous consumption

(c) Change in taste

(d) Availability of substitutes

52. Consumer surplus can be graphically represented as:

(a) The area above the demand curve and below the price line

(b) The triangular area below the demand curve and above the price line

(c) The total area under the demand curve

(d) The rectangular area formed by price and quantity

53. If the cost increase is temporary, supply in the long run is most likely to:

(a) Remain permanently lower

(b) Become perfectly inelastic

(c) Completely disappears

(d) Partially recover due to adjustment

54. Land is considered a unique factor of production because:

(a) Its supply is elastic

(b) It is a produced factor

(c) It has indestructible powers

(d) It earns wages

55. Decreasing returns to scale eventually occur primarily because of:

(a) Exhaustion of natural resources

(b) Increasing difficulties of management, coordination and control

(c) Labor becoming less skilled

(d) Technology becoming outdated

56. The efficient scale of production is the level of output at which:

(a) AFC is minimum

(b) AVC is minimum

(c) ATC is minimum

(d) MC is minimum

57. Normal price is determined in the:

(a) Very short period

(b) Short period

(c) Long period

(d) Market period

58. Which market structure is characterised by extreme product differentiation?

(a) Perfect competition

(b) Monopolistic competition

(c) Oligopoly

(d) Monopoly

59. In simultaneous opposite shifts of demand and supply, equilibrium quantity:

(a) Always increases

(b) Always decreases

(c) Remains constant

(d) Is uncertain

60. Match the Pairs

Column A		Column B	
1.	Market price above equilibrium	(a)	Buyers bid up prices as they compete for limited supply
2.	Market price below equilibrium	(b)	Sellers lower prices to clear unsold inventory
3.	Stable equilibrium	(c)	New equilibrium established at point where new demand equals new supply
4.	Shift in both demand and supply	(d)	Any disturbance is self-correcting and original equilibrium is restored

(a) 1 – B, 2 – A, 3 – D, 4 - C

(b) 1 – A, 2 – B, 3 – D, 4 - C

(c) 1 – A, 2 – B, 3 – C, 4 - D

(d) 1 – D, 2 – A, 3 – C, 4 - B

61. Which event typically marks the start of recovery?

(a) Rising inventories

(b) Increasing pessimism

(c) Renewal of investment

(d) Peak inflation

62. The IT bubble burst illustrates failure of:

(a) Fiscal policy

(b) Demand forecasting

(c) Innovation theory

(d) Growth-over-profits strategy

63. According to the business cycle theory, which statement best explains the relationship between leading indicators and economic forecasting?

(a) Leading indicators move simultaneously with economic activity

(b) Leading indicators provide advance signals of economic turning points before they occur

(c) Leading indicators only reflect past economic performance

(d) Leading indicators are unreliable for economic prediction

64. The trough phase of a business cycle is characterized by:

(a) Peak employment levels

(b) Maximum aggregate economic activity

(c) Lowest point of aggregate economic activity

(d) Rapid economic expansion

65. In a three-sector economy, if C = 80 + 0.70Yd, I = 150, G = 200, T = 100 (lump sum), what is the equilibrium national income?

(a) ₹ 1,200 crores

(b) ₹ 1,333.33 crores

(c) ₹ 1,100 crores

(d) ₹ 1,433.33 crores

66. The Net Divisible Pool (NDP) consists of:
   - (a) Gross tax revenue including cesses
   - (b) Only direct taxes
   - (c) All union taxes excluding cesses and surcharges
   - (d) Only GST revenues

67. Which fiscal function is being overemphasized in this scenario?
   - (a) Allocation
   - (b) Stabilization
   - (c) Redistribution
   - (d) Resource mobilization

68. Which situation best illustrates adverse selection?
   - (a) Insured driver drives rashly
   - (b) Seller hides product defects before sale
   - (c) Consumer overuses subsidised healthcare
   - (d) Government fixes minimum prices

69. Which of the following expenditures is not subject to voting by Parliament?
   - (a) Defence expenditure
   - (b) Interest on public debt
   - (c) Education expenditure
   - (d) Health expenditure

70. Which of the following best represents discretionary fiscal policy?
   - (a) Progressive taxation
   - (b) Unemployment allowance
   - (c) Increase in public spending by budget decision
   - (d) Automatic tax adjustments

71. Automatic stabilisers operate:

(a) Only after government approval

(b) Without deliberate policy changes

(c) Through monetary policy

(d) Through foreign trade policy

72. In Fisher's equation of exchange, if technological innovation reduces transaction frequency without affecting real output, the immediate impact—ceteris paribus—would be on:

(a) Price level only

(b) Velocity of circulation only

(c) Money supply only

(d) Both velocity and price level

73. Which of the following situations best explains why speculative demand for money becomes perfectly elastic in a liquidity trap?

(a) Transaction demand becomes interest elastic

(b) Bond prices become constant

(c) Expected capital losses on bonds dominate interest earnings

(d) Income elasticity of money demand becomes zero

74. Which variable is explicitly absent from the Cambridge money demand function but central to Keynes' speculative demand?

(a) Income

(b) Price level

(c) Interest rate

(d) Velocity of money

75. Which statement correctly explains why high-powered money is called the base of the money supply?

(a) It directly equals broad money

(b) It alone determines velocity of circulation

(c) It supports multiple expansion of bank deposits

(d) It includes only currency in circulation

76. Credit multiplier differs from money multiplier mainly because credit multiplier assumes:

(a) No time deposits

(b) No excess reserves and no currency leakages

(c) Perfect capital mobility

(d) Fixed interest rates

77. If the central bank injects liquidity through open market purchases but banks choose to hold all additional reserves as excess reserves, the money supply will:

(a) Increase multiple times

(b) Increase only by the initial injection

(c) Decrease

(d) Become indeterminate

78. Under the Monetary Policy Framework Agreement, RBI is deemed to have failed if inflation:

(a) Deviates from target even once

(b) Breaches tolerance limits for two consecutive quarters

(c) Exceeds upper or lower tolerance limits for three consecutive quarters

(d) Deviates from WPI targets

79. Which of the following assumptions, if violated, most seriously undermines the practical applicability of Ricardo's theory of comparative advantage?

(a) Two-country, two-commodity framework

(b) Absence of transport costs

(c) Labour immobility between countries

(d) Labour as the sole factor of production

80. Which trade policy instrument results in price distortion without generating government revenue, while simultaneously creating economic rent for private agents?

(a) Import tariff

(b) Countervailing duty

(c) Import quota

(d) Export tax

81. A tariff-rate quota (TRQ) combines:

(a) Export subsidy with import licensing

(b) Import quota with ad valorem tariff

(c) Preferential tariff with MFN tariff

(d) Quantity restriction with differential tariff rates

82. A country experiences a persistent current account deficit along with a surplus in the capital account. This situation necessarily implies:

(a) Deterioration in terms of trade

(b) Net capital inflows financing excess absorption

(c) Depletion of foreign exchange reserves

(d) Overvaluation of domestic currency

83. An increase in the Real Effective Exchange Rate (REER), holding nominal exchange rate constant, necessarily implies that:

(a) Domestic inflation is lower than foreign inflation

(b) Domestic inflation exceeds foreign inflation

(c) Trade balance must improve

(d) Capital inflows will increase

84. Under a managed floating exchange rate regime, central bank intervention is most effective when it primarily influences:

(a) Trade volumes directly

(b) Inflation expectations alone

(c) Market expectations about future exchange rate movements

(d) Long-term capital formation

85. Foreign Portfolio Investment (FPI) is more likely than FDI to trigger a financial crisis in the host country because FPI:

(a) Is associated with technology transfer

(b) Is driven by expectations and speculative capital movements

(c) Enhances domestic productive capacity

(d) Requires managerial control

86. Which situation best illustrates crowding-out caused by FDI in a developing economy?

(a) Foreign firms export their entire output

(b) Foreign firms borrow heavily from domestic capital markets

(c) Foreign firms use imported capital goods

(d) Foreign firms reinvest profits locally

87. Which of the following describes the unique "unconventional experience" of India's post-reform growth trajectory?

(a) Direct shift from service-led to industry-led growth

(b) Complete reliance on agricultural exports for forex

(c) Bypassing the secondary sector in the shift from agriculture to services

(d) Transitioning from a closed economy to a socialist market economy

88. The "Hindu growth rate," referring to the modest 3.5% average annual GDP growth, occurred during which period?

(a) 1947–1964

(b) 1950–1980

(c) 1965–1981

(d) 1981–1991

89. In the context of 1991 reforms, the "Stabilisation Measures" were primarily intended to address which two issues?

(a) Unemployment and poverty

(b) Industrial stagnation and lack of technology

(c) Inflation and adverse balance of payments

(d) Rural-urban migration and literacy rates

90. Which committee's recommendations led to the reduction of reserve requirements (SLR and CRR) in the early 1990s?

(a) Kelkar Committee

(b) Narasimham Committee

(c) Chelliah Committee

(d) Gadgil Committee

91. Which specific NITI Aayog initiative is aimed at reducing India's oil import bill and converting coal reserves into cleaner fuel?

(a) Shoonya

(b) E-Amrit

(c) Methanol Economy

(d) Life

92. The Policy of "Broad banding" introduced in 1985 allowed firms to:

(a) Issue unlimited shares in the capital market

(b) Import raw materials without any tariffs

(c) Change their product mix within existing capacity without fresh licensing

(d) Merge with any public sector unit

93. According to New Trade Theory, a country may export a good even without comparative advantage due to:

(a) Government trade restrictions

(b) Increasing returns to scale and network effects

(c) Factor abundance reversal

(d) Perfect competition in global markets

94. Which of the following situations best demonstrates a market failure due to asymmetric information?

(a) A monopolist exploiting market power by reducing supply

(b) Consumers buying substandard products because they lack information about quality

(c) The government providing public goods like street lighting

(d) A natural monopoly where economies of scale drive market concentration

95. Which of the following factors does NOT directly affect the demand for money?

(a) Interest rates

(b) The level of income or output

(c) The price level in the economy

(d) The government's fiscal deficit

96. Which of the following is NOT a typical tool of monetary policy used by a central bank?

(a) Open market operations

(b) Changing the reserve requirements of commercial banks

(c) Adjusting the tax rates in the economy

(d) Changing the discount rate

97. Which of the following is a primary objective of India's Five-Year Plans?

(a) To regulate and control foreign trade

(b) To promote balanced economic growth across all regions

(c) To discourage the private sector in favor of public enterprises

(d) To ensure foreign aid and capital inflows into the country

98. The current account deficit (CAD) in India refers to the excess of:

(a) Imports over exports

(b) Exports over imports

(c) Total investment over savings

(d) Government expenditure over revenue

99. Which of the following is a major issue associated with the fiscal deficit in India?

(a) Increased foreign exchange reserves

(b) Higher government borrowing leading to inflation

(c) Reduced taxation leading to a decrease in government revenue

(d) Increase in foreign direct investments

100. Which of the following is the correct sequence of stages in the budget-making process?

(a) Presentation, Drafting, Execution, Approval

(b) Drafting, Presentation, Approval, Execution

(c) Execution, Presentation, Approval, Drafting

(d) Presentation, Approval, Execution, Drafting

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PAPER 4: BUSINESS ECONOMICS

ANSWERS

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