

Mock Test Paper - Series II: May, 2025

Date of Paper: 8th May, 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. GDP includes:
 - (a) neither intermediate nor final goods.
 - (b) both intermediate and final goods.
 - (c) intermediate, but not final, goods.
 - (d) final, but not intermediate, goods.
2. If depreciation exceeds gross investment:
 - (a) the economy's stock of capital may be either growing or shrinking.
 - (b) the economy's stock of capital is shrinking.
 - (c) the economy's stock of capital is growing.
 - (d) net investment is zero.
3. By summing the values added at each stage in the production of some good we obtain:
 - (a) the price of that good.
 - (b) the total income generated by that good's production.
 - (c) the total cost (including profits) of that product.
 - (d) all the above.
4. The value of money in Fisher's equation is determined by:
 - (a) Demand for money
 - (b) Supply of money
 - (c) Demand and supply of money
 - (d) None of the above

5. Value of money is
- (a) Directly related to the price level
 - (b) Inversely related to the price level
 - (c) Proportionately related to the price level
 - (d) All the above
6. Bank rate policy is not very effective because-
- (a) It requires a well-developed money market
 - (b) It cannot operate effectively
 - (c) All banks are not under the control of central bank
 - (d) All the above
7. Inflation can be controlled by applying:
- (a) Monetary and fiscal policies
 - (b) Monetary and labour policy
 - (c) Fiscal and Commercial Policies
 - (d) All of the above
8. What is Currency Deposit Ratio (CDR)?
- (a) Ratio of money held by the public in currency to that of money held in bank deposits
 - (b) Ratio of money held by the public in bank deposits to that of money held by public in currency
 - (c) Ratio of money held in demand drafts to that of money held in treasury bonds
 - (d) None of the above
9. Open Market Operation is :
- (a) Buying and selling of government securities
 - (b) Sale of government securities
 - (c) Buying and selling of government cheques
 - (d) All of the above

10. Which of the following is a qualitative or selective method of credit control by the central bank?
- (a) Bank rate or Discount Rate Policy
 - (b) Open market operations
 - (c) Cash Reserve Ratio
 - (d) None of the above
11. The fiscal deficit excluding the interest liabilities for a year is called as ;
- (a) Revenue deficit
 - (b) Capital deficit
 - (c) Budget deficit
 - (d) Primary deficit
12. Pump Priming is related with:
- (a) Monetary policy
 - (b) Income policy
 - (c) Price policy
 - (d) Fiscal policy
13. The modern state is:
- (a) Laissez –faire state
 - (b) Welfare state
 - (c) Aristocratic state
 - (d) Police state
14. Public Debt Management refers to :
- (a) Terms of new bonds
 - (b) Proportion of different components of public debt
 - (c) Maturity
 - (d) All the above
15. Education is an example of :
- (a) Private good

- (b) Public good
 - (c) Merit good
 - (d) Mixed good
16. The World bank normally gives:
- (a) Short term loans
 - (b) Medium term loans
 - (c) Long term loans
 - (d) medium- and long-term loans
17. Balance of trade is a:
- (a) Flow concept
 - (b) Stock concept
 - (c) Both (A) and (B)
 - (d) None of the above
18. Which is not an advantage of International Trade ?
- (a) Export of surplus production
 - (b) Import of defence material
 - (c) Dependence on foreign countries
 - (d) Availability of cheap raw material
19. Which source of revenue is shared between the Centre and the States in India?
- (a) Excise duty
 - (b) Corporation tax
 - (c) Income tax
 - (d) None of these
20. Which of the following is a capital receipt in the government budget?
- (a) Income tax
 - (b) Interest on loans
 - (c) Borrowings

- (d) None of these
- 21. Which policy tool can the government use to correct negative externalities?
 - (a) Subsidies
 - (b) Taxes
 - (c) Tariffs
 - (d) None of these
- 22. Business Economics is:
 - (a) Practical application of economic theory in business decision making.
 - (b) Incorporates tools from multiple decisions
 - (c) Both a & b
 - (d) None of these
- 23. Market demand is the sum total of :
 - (a) All quantities that producers can produce
 - (b) All quantities actually sold in the market
 - (c) All quantities demanded by individual household and consumers
 - (d) None of these
- 24. The demand for Scooter and petrol is an example of demand :
 - (a) Joint
 - (b) Composite
 - (c) Competitive
 - (d) Market
- 25. Goodwill, patent right, etc. are example of:
 - (a) Tangible capital
 - (b) Real capital
 - (c) Intangible capital
 - (d) None of these

26. The basic behavioural principle which apply to all market conditions:
- (a) A firm should product only if its $TR \geq TVC$
 - (b) A firm should produce at a level where its $MC = MR$
 - (c) MC curve cuts the MR curve from below
 - (d) All the above
27. When growth rate becomes negative & the level of National Income & expenditure declines rapidly, we observe:
- (a) Recovery
 - (b) Expansion
 - (c) Trough
 - (d) None of these
28. Which item is excluded from the estimation of national income?
- (a) Rent from property
 - (b) Salary of public servants
 - (c) Illegal income
 - (d) Profits of corporations
29. If the investment increases by ₹ 50 crores and the multiplier is 4, the change in income is:
- (a) ₹ 200 crores
 - (b) ₹ 100 crores
 - (c) ₹ 250 crores
 - (d) ₹ 150 crores
30. Which of the following is included in M1 in India?
- (a) Time deposits
 - (b) Currency with the public and demand deposits
 - (c) Bonds and shares
 - (d) Treasury bills

31. Which of the following is a quantitative instrument of monetary policy?
- (a) Moral suasion
 - (b) Credit rationing
 - (c) Bank Rate
 - (d) None of these
32. If the RBI increases the Cash Reserve Ratio (CRR), it will lead to:
- (a) Increase in money supply
 - (b) Decrease in money supply
 - (c) No effect on money supply
 - (d) Increase in inflation
33. Dumping refers to:
- (a) Reducing tariffs
 - (b) Sale of goods abroad at a lower price, below their cost and price in their home market
 - (c) Buying goods at low prices abroad and selling at higher prices locally
 - (d) Expensive goods selling for low prices
34. Trade between two countries can be useful if cost ratios of goods are:
- (a) Undetermined
 - (b) Decreasing
 - (c) Equal
 - (d) Different
35. Economic Survey is published by:
- (a) Ministry of finance
 - (b) Planning commission
 - (c) Govt. of India
 - (d) Indian statistical institute
36. Which of the following combinations is correct?
- (a) NABARD – Industrial Loan

- (b) IDBI – Short term Loans
 - (c) RBI – Long term Loans
 - (d) RRB – Agricultural Finance
37. Rolling plan is a plan for:
- (a) One year
 - (b) Two year
 - (c) Three year
 - (d) Five year
38. Unemployment in a developing country is generally take place due to
- (a) Switch over from one job to another.
 - (b) Lack of effective demand
 - (c) Seasonal factors.
 - (d) Lack of complementary factors of production.
39. Disguised unemployment is common in :
- (a) Agricultural sector
 - (b) Industrial sector
 - (c) Service sector
 - (d) Non of these
40. Import quota is:
- (a) Tariff
 - (b) Non-Tariff barrier
 - (c) Concession
 - (d) International Obligation.
41. The best indicator of economic development of any country is:
- (a) Its agriculture
 - (b) Its transport
 - (c) Its gross production

- (d) Its per capital income.
42. The regulatory body of mutual funds in India is -----.
- (a) RBI
 - (b) SEBI
 - (c) IRDA
 - (d) Government
43. A market for borrowing and lending funds for a period exceeding 14 days:
- (a) Term money market
 - (b) Call money market
 - (c) Commercial bill market
 - (d) None of these
44. Which of the following are the instruments of money market?
- (a) Call money
 - (b) Certificate of deposits
 - (c) Trade bills
 - (d) All of the above
45. Finance Commission:
- (a) Is a Statutory Body
 - (b) Recommends the distribution of taxes between Union and States
 - (c) Cannot decide on principles related to Grants in Aid given by Union to States
 - (d) All of the above
46. Statutory Liquidity Ratio is:
- (a) Banks have to keep deposits with RBI
 - (b) Certain percentage of deposits are to be kept by the bank in form of liquid assets
 - (c) It is the discount rate of the banks
 - (d) None of the above

47. Which of the following Budget documents is mandated by Fiscal Responsibility and Budget Management Act, 2003?
- (a) Annual Financial Statement (AFS)
 - (b) Demand for Grants
 - (c) Finance Bill
 - (d) Macro-Economic Framework Statement
48. In a free market economy, the allocation of resources is determined by
- (a) Consumer Preferences
 - (b) Voting done by consumers
 - (c) The level of profit
 - (d) None of these
49. The Heckscher-Ohlin model differs from the Ricardian model of Comparative Advantage in that the former:
- (a) has only two countries.
 - (b) has only two products.
 - (c) has two factors of production.
 - (d) None of these
50. According to Musgrave the major functions of public finance are:
- (a) Allocative function
 - (b) Distributive function c
 - (c) Stabilisation function
 - (d) All the above
51. In the case of relatively elastic demand, the money burden of tax is on:
- (a) More on seller
 - (b) More on buyer
 - (c) Entirely on seller
 - (d) Entirely on buyer

52. One negative effect of high public expenditure is:
- (a) Decrease in government control
 - (b) Increase in budget deficits and public debt
 - (c) Increase in private sector growth
 - (d) Reduction in social welfare
53. Law of demand is violated when:
- (a) Income effect is negative
 - (b) Substitution effect is negative
 - (c) Negative income effect is greater than the substitution effect
 - (d) None of these
54. Elasticity is greater than utility for:
- (a) Luxuries
 - (b) Necessaries
 - (c) Complementary good
 - (d) None of these
55. Which of the following is not studied in microeconomics?
- (a) Factor pricing
 - (b) Location of Industry
 - (c) Consumer Behaviour
 - (d) External value of currency
56. The Characteristics of capitalist economics does not include?
- (a) Right to Private property
 - (b) Freedom of economic choice
 - (c) Absence of Consumer choice
 - (d) Completion
57. Which of the following are within the scope of business economies?
- (a) Capital Budgeting

- (b) Risk Analysis
 - (c) Business cycles
 - (d) All of the Above
58. The Substitution effect will be stronger when:
- (a) The goods are closer substitution
 - (b) There is lower cost of switching to the substitute goods
 - (c) There is lower Inconvenience while switching to the substitute good
 - (d) All the above
59. In spite of the fact that the price of the television sets refrigerators, air conditions etc. have been continuously rising their demand does not stand any tendency to fall because they are
- (a) Conspicuous goods
 - (b) Giffen goods
 - (c) Speculative goods
 - (d) Conspicuous necessities.
60. What are the determinants of price elasticity?
- (a) Availability of substitutes
 - (b) Price range
 - (c) Position of a Commodity in the Consumer's budget.
 - (d) All the above
61. The turning point of business cycle is produced by when economic indicators :
- (a) Coincident
 - (b) Lagging indicators
 - (c) leading Indicators
 - (d) All of the above
62. U Shaped average cost curve is based on:
- (a) Law of variable proportions
 - (b) Law of increasing cost

- (c) Law of decreasing cost
 - (d) None of these
63. The reason behind the upward sloping portion of the long run cost curve is:
- (a) economy of scale
 - (b) diseconomy of scale
 - (c) diminishing marginal rate of substitution
 - (d) None of these
64. Short run marginal cost of the firm will be increasing when:
- (a) average cost is decreasing
 - (b) total fixed cost is increasing
 - (c) average fixed cost is decreasing
 - (d) None of these
65. Consumer is sovereign under:
- (a) Free Economy
 - (b) Mixed Economy
 - (c) Controlled Economy
 - (d) Both (a) and (b)
66. Demand curve under Oligopoly is:
- (a) Less Elastic
 - (b) Perfectly Elastic
 - (c) Highly Elastic
 - (d) Indeterminate
67. The substitution effect for a fall in the price of a commodity (*ceteris paribus*) is given by:
- (a) a movement up a given indifference curve,
 - (b) a movement from a higher to a lower indifference curve,
 - (c) a movement down a given indifference curve, or
 - (d) any of the above.

68. Who gave the theory of price discrimination?
- (a) Marshall
 - (b) Pigou
 - (c) Cournot
 - (d) Simon
69. At the shut-down point:
- (a) $P = AVC$
 - (b) $TR = TVC$
 - (c) the total losses of the firm equal TFC
 - (d) all of the above.
70. Total utility is maximum when:
- (a) marginal utility is zero
 - (b) marginal utility is at its highest point
 - (c) marginal utility is equal to average utility
 - (d) average utility is maximum
71. The consumer is in equilibrium at a point where the budget line :
- (a) is above an indifference curve
 - (b) is below an indifference curve
 - (c) is tangent to an indifference curve
 - (d) cuts an indifference curve
72. An indifference curve slopes down towards right since more of one commodity and less of another result in:
- (a) same satisfaction
 - (b) greater satisfaction
 - (c) maximum satisfaction
 - (d) decreasing expenditure

73. The consumer is in equilibrium when the following condition is satisfied:
- (a) $\frac{MU_X}{MU_Y} > \frac{P_X}{P_Y}$
 - (b) $\frac{MU_X}{MU_Y} < \frac{P_X}{P_Y}$
 - (c) $\frac{MU_X}{MU_Y} = \frac{P_X}{P_Y}$
 - (d) None of the above
74. In the case of a Giffen good, the demand curve will be:
- (a) horizontal
 - (b) downward-sloping to the right
 - (c) upward-sloping to the right
 - (d) vertical
75. 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
76. Which is the first order condition for the profit of a firm to be maximum?
- (a) $AC = MR$
 - (b) $MC = MR$
 - (c) $MR = AR$
 - (d) $AC = AR$
77. In which form of the market structure is the degree of control over the price of its products by a firm very large?
- (a) monopoly
 - (b) imperfect competition
 - (c) oligopoly

- (d) perfect competition
78. Under which of the following forms of market structure does a firm have no control over the price of its product?
- (a) monopoly
 - (b) monopolistic competition
 - (c) oligopoly
 - (d) perfect competition
79. The net value-added method of measuring national income is also known as:
- (a) net output method
 - (b) production method
 - (c) industry of origin method
 - (d) all of the above.
80. Which of the following is incorrect?
- (a) $\text{GDP at market price} = \text{GDP at factor cost} + \text{net indirect taxes}$
 - (b) $\text{NNP at factor cost} = \text{NNP at market price} - \text{indirect taxes}$
 - (c) $\text{GNP at market price} = \text{GDP at market price} + \text{net factor income from abroad}$
 - (d) None of the above
81. Nearly _____ percent of working population is engaged in the service sector:
- (a) 23 per cent
 - (b) 45 per cent
 - (c) 80 per cent
 - (d) 50 per cent
82. 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
83. The Indian industry faced the process of retrogression and deceleration because of:
- (a) unsatisfactory performance of agriculture
 - (b) slackening of real investment in public sector
 - (c) narrow market for industrial goods, especially in rural areas
 - (d) all of the above.
84. Which of the following statements is incorrect?
- (a) About 80 per cent of agricultural area has irrigation facilities
 - (b) About two third area is rain-fed in India
 - (c) Productivity per worker in agriculture is much lower than that in industry
 - (d) Cropping pattern is quite skewed in India.
85. We can say Indian agriculture has become modern since:
- (a) there has been an increase in the use of high yielding varieties of seeds, fertilizers pesticides etc.
 - (b) there has been noticeable positive change in the attitude of farmers towards new techniques of production
 - (c) farmers are increasingly resorting to intensive cultivation, multiple cropping, scientific water management
 - (d) all of the above.
86. Generally, an economy is considered underdeveloped if:
- (a) the standard of living of people is low and productivity is also considerably low.
 - (b) agriculture is the main occupation of the people and productivity in agriculture is quite low
 - (c) the production techniques are backward
 - (d) all of the above
87. _____ is the apex bank for agriculture credit in India.
- (a) RBI
 - (b) SIDBI
 - (c) NABARD

- (d) ICICI
88. The major cause of unemployment in India is :
- (a) underdevelopment
 - (b) defective manpower planning
 - (c) rapid population growth
 - (d) all of the above
89. The largest share of foreign aid in India has been used in the programme of :
- (a) agriculture development
 - (b) industrial development
 - (c) education
 - (d) health
90. Before financial reforms, the banking system was characterised by all of the following except:
- (a) administered interest rate structure
 - (b) quantitative restrictions on credit flow
 - (c) high revenue requirements
 - (d) keeping very less lendable resources for the priority sector
91. The demand curve facing an industrial firm under monopoly is a/an _____
- (a) horizontal straight line
 - (b) indeterminate
 - (c) downward sloping
 - (d) upward sloping
92. The degree of monopoly power is measured in terms of difference between:
- (a) Marginal cost and the price
 - (b) Average cost and average revenue
 - (c) Marginal cost and average cost
 - (d) Marginal revenue and average cost

93. A monopoly producer usually earns _____ even in the long run.
- (a) super normal profits
 - (b) only normal profits
 - (c) losses
 - (d) none of the above
94. Price discrimination is not possible:
- (a) under monopoly situation
 - (b) under any market form
 - (c) under monopolistic competition
 - (d) under perfect competition
95. Discriminating monopoly is possible if two markets have:
- (a) rising cost curves
 - (b) rising and declining cost curves
 - (c) different elasticities of demand
 - (d) equal elasticities of demand
96. Consumer's surplus left with the consumer under price discrimination is:
- (a) maximum
 - (b) minimum
 - (c) zero
 - (d) not predictable
97. A firm under monopolistic competition advertises:
- (a) as it has no control over the price of its product
 - (b) to lower its cost of production
 - (c) to increase its sales and profit
 - (d) because it cannot raise price
98. In short run, a firm in monopolistic competition:
- (a) always earns profits

- (b) incurs losses
 - (c) earns normal profit only
 - (d) may earn normal profit, super normal profit or incur losses
99. In long run, all firms in monopolistic competition:
- (a) earn super normal profits
 - (b) earn normal profits
 - (c) incur losses
 - (d) may earn super normal profit, normal profit or in incur losses
100. In terms of Ease of Doing Business in 2020 India ranks:
- (a) 63
 - (b) 75
 - (c) 45
 - (d) None of these

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ANSWERS

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