

Mock Test Paper - Series I: April 2026

Date of Paper: 20th April 2026

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

FOUNDATION COURSE

PAPER – 4: BUSINESS ECONOMICS

1. The role of price mechanism is weakest in which economy?
 - (A) Capitalist
 - (B) Mixed
 - (C) Socialist
 - (D) Free market
2. In capitalism, the decision on how to produce is based on:
 - (A) Social welfare
 - (B) Profit Maximisation
 - (C) Cost minimisation and profit maximisation
 - (D) Equal distribution goals
3. Market structure and pricing analysis is part of:
 - (A) External issues
 - (B) Internal scope
 - (C) Economic policy formulation
 - (D) National income accounting
4. Business Economics assists in decisions under risk and uncertainty by using:
 - (A) Pure theory only
 - (B) Analytical and quantitative tools like break-even analysis
 - (C) Random guessing
 - (D) Only macroeconomic policy
5. Consumer sovereignty in a socialist economy is generally:
 - (A) Greater than in capitalism

- (B) Operative only in private markets
 - (C) Largely limited by central planning
 - (D) Ensured through democratic choices
6. Why is Business Economics considered normative in nature?
- (A) It prescribes what ought to be done in business decisions
 - (B) It analyses historical trends exclusively
 - (C) It avoids value judgments
 - (D) It describes only what is
7. Which of the following elements is *not* essential to economic demand?
- (A) Willingness to buy
 - (B) Ability to pay
 - (C) Desire to buy
 - (D) Unlimited wants
8. An increase in demand due to a fall in price is called:
- (A) Expansion of demand
 - (B) Change in demand
 - (C) Shift of demand curve
 - (D) Cross elasticity
9. For inferior goods, income elasticity of demand is generally:
- (A) Positive
 - (B) Negative
 - (C) Zero
 - (D) Infinite
10. If the cross elasticity of demand between goods X and Y is positive, what does this imply?
- (A) X and Y are complements
 - (B) X and Y are substitutes
 - (C) There is no relationship
 - (D) They are luxury goods

11. Advertisement elasticity of demand measures:
- (A) Change in supply due to advertising
 - (B) Responsiveness of demand to advertisement expenditure
 - (C) Price elasticity
 - (D) Income elasticity
12. Which assumption is *not* necessary for the Law of Diminishing MU?
- (A) Homogeneous units of the commodity
 - (B) Constant marginal utility of money
 - (C) Consumer income changes frequently
 - (D) Consumer tastes remain constant
13. Who originally introduced the concept of consumer surplus?
- (A) Adam Smith
 - (B) Alfred Marshall
 - (C) J.M. Keynes
 - (D) Paul Samuelson
14. Which elasticity concept helps governments decide how the tax burden will be shared?
- (A) Cross elasticity
 - (B) Price elasticity
 - (C) Income elasticity
 - (D) Advertisement elasticity
15. The term "effective demand" means:
- (A) Desire to buy with no money
 - (B) Demand without willingness
 - (C) Desire backed by purchasing power and willingness
 - (D) Only planned purchases
16. A rightward shift of the supply curve accompanied by a leftward shift of the demand curve will definitely:
- (A) Increase equilibrium price
 - (B) Decrease equilibrium price

- (C) Increase equilibrium quantity
 - (D) Indeterminate change in quantity
17. Which of the following is the most comprehensive measure of a nation's income?
- (A) GDP
 - (B) GNP
 - (C) NNP at Factor Cost
 - (D) Personal Income
18. India mainly uses which approach for national income estimation?
- (A) Income method only
 - (B) Product method only
 - (C) Combination of product and income methods
 - (D) Expenditure method only
19. Real GDP is preferred over Nominal GDP for welfare comparison because it:
- (A) Includes transfer payments
 - (B) Is measured at current prices
 - (C) Accounts for price level changes
 - (D) Excludes net exports
20. The Keynesian theory of national income was developed primarily to explain:
- (A) Long-run full employment equilibrium
 - (B) Persistent unemployment and demand-deficient recessions
 - (C) Supply side shocks
 - (D) Classical price flexibility
21. When autonomous consumption rises, the Keynesian consumption function shifts:
- (A) Downward
 - (B) Upward
 - (C) Leftward
 - (D) No change
22. The introduction of government spending in the three-sector model causes:
- (A) Equilibrium income to fall

- (B) No change in equilibrium
 - (C) Multiplier effect with additional income impact
 - (D) Only reduces taxes
23. Balanced budget multiplier equals:
- (A) Zero
 - (B) One
 - (C) Greater than one
 - (D) Negative
24. Which of the following is a leakage in the Keynesian circular flow?
- (A) Government spending
 - (B) Exports
 - (C) Savings
 - (D) Investment
25. A large underground economy will:
- (A) Overstate national income
 - (B) Understate official national income
 - (C) Not affect GDP
 - (D) Increase government revenues
26. Which of the following fiscal functions primarily deals with correcting inefficiencies caused by market failure?
- (A) Stabilization function
 - (B) Allocation function
 - (C) Redistribution function
 - (D) Debt management
27. Externalities are best described as:
- (A) Effects of economic activity on third parties
 - (B) Internal costs of production
 - (C) Government expenditures
 - (D) Market equilibrium conditions

28. Public debt management focuses on:
- (A) Short-term loans only
 - (B) Efficiency and cost minimization
 - (C) Increasing tax rates
 - (D) Reducing public goods
29. A government mandate requiring accurate product labelling primarily corrects which type of failure?
- (A) Public goods failure
 - (B) Demerit goods only
 - (C) Information failure
 - (D) Market power failure
30. Automatic stabilizers include:
- (A) Progressive taxes
 - (B) Tariffs
 - (C) Export subsidies
 - (D) Exchange controls
31. Which of the following are the stages of budget making?
- (A) Drafting, Implementation, Monitoring
 - (B) Preparation, Enactment, Execution
 - (C) Forecasting, Revenue Mobilization, Audit
 - (D) Planning, Spending, Reporting
32. Which of the following is a non-tax source of government revenue?
- (A) Income tax
 - (B) GST
 - (C) Customs duty
 - (D) Dividend receipts
33. Public goods are underprovided by markets because they are:
- (A) Rivalrous and excludable
 - (B) Rivalrous and non-excludable

- (C) Non-rivalrous and excludable
 - (D) Non-rivalrous and non-excludable
34. According to the Classical Quantity Theory, demand for money primarily depends on:
- (A) Interest rate
 - (B) Price level and transactions
 - (C) Wealth distribution
 - (D) Speculative motives
35. Which model of money demand minimises the cost of converting non-money assets into money?
- (A) Cambridge approach
 - (B) Baumol-Tobin model
 - (C) Quantity theory
 - (D) Liquidity preference theory
36. Which component forms high-powered money?
- (A) Currency with public
 - (B) Bank reserves with central bank
 - (C) Currency with banks
 - (D) All of the above
37. Which factor reduces the size of the money multiplier?
- (A) Lower reserve ratio
 - (B) Increase in currency holdings by public
 - (C) Higher bank lending
 - (D) Lower interest rates
38. All else equal, if people hold a greater proportion of cash instead of bank deposits, the:
- (A) Money supply increases
 - (B) Money multiplier increases
 - (C) Money supply decreases
 - (D) Money supply remains unchanged

39. An open market sale of government securities by the central bank will:
- (A) Increase money supply
 - (B) Decrease money supply
 - (C) Leave money supply unchanged
 - (D) Increase fiscal deficit
40. Quantitative easing (QE) as a monetary policy tool aims to:
- (A) Reduce credit availability
 - (B) Increase money supply by buying financial assets
 - (C) Increase reserve requirements
 - (D) Raise policy rates
41. Which policy tool directly affects bank lending capacity?
- (A) CRR
 - (B) Repo rate
 - (C) SLR
 - (D) All of the above
42. Which objective of monetary policy focuses on employment and growth?
- (A) Stabilization objective
 - (B) Exchange rate objective
 - (C) Inflation objective
 - (D) Fiscal objective
43. The major economic crisis that triggered reforms in 1991 was:
- (A) Banking crisis
 - (B) Balance of Payments crisis
 - (C) Agricultural crisis
 - (D) Fiscal surplus
44. The main role of NITI Aayog is:
- (A) Allocating Five-Year Plan funds
 - (B) Acting as a policy think tank
 - (C) Controlling RBI monetary policy

- (D) Setting tax rates
45. One structural challenge still facing India's economy is:
- (A) Low population
 - (B) High inequality
 - (C) Excessive inflation above 15%
 - (D) Zero external trade
46. Despite rapid GDP growth, India's per capita GDP remains:
- (A) Highest globally
 - (B) Low compared with other emerging economies
 - (C) Equal to US
 - (D) Higher than China
47. Which reform measure aimed to reduce inefficiency in public sector enterprises?
- (A) Nationalization
 - (B) Disinvestment
 - (C) Licensing
 - (D) Import quotas
48. The term "Hindu rate of growth" refers to:
- (A) High economic growth in 1950s
 - (B) Sustained growth above 8%
 - (C) Low growth before 1991 reforms
 - (D) Rapid service sector expansion
49. India's economic growth in recent decades has been driven significantly by:
- (A) IT and service sector expansion
 - (B) Decline in exports
 - (C) Reduction in technology use
 - (D) Isolation from global trade
50. One recent structural reform that impacts GDP measurement is revision of:
- (A) Tax base only
 - (B) GDP base year

- (C) Tariff base
 - (D) Banking reserve ratio
51. Why does a monopolist's marginal revenue (MR) curve always lie below its average revenue (AR) curve?
- (A) Because of rising marginal cost
 - (B) Because a monopolist sells different output at different prices
 - (C) Because fixed cost increases
 - (D) Because of multiple sellers
52. Which market type has infinite price elasticity of demand?
- (A) Monopoly
 - (B) Monopolistic competition
 - (C) Perfect competition
 - (D) Oligopoly
53. Which factor is not an internal cause of business cycles?
- (A) Fluctuations in effective demand
 - (B) Variations in government spending
 - (C) Technology shock
 - (D) Changes in money supply
54. Which type of industry tends to have more volatile output during cyclical fluctuations?
- (A) Durable goods industries
 - (B) Non-durable goods industries
 - (C) Services sector
 - (D) Public administration
55. Which internal factor of the business cycle reflects fluctuations in consumer spending, business investment, and government policy?
- (A) External shocks
 - (B) Endogenous causes
 - (C) Technological constraints
 - (D) Trade treaties

56. Monetary and fiscal policy changes can cause business cycles by:

- (A) Eliminating investment risk
- (B) Altering aggregate demand
- (C) Fixing exchange rates
- (D) Standardising prices

57. Calculate National Income:

Particulars	₹ Crores
Consumption	1000
Investment	500
Government Purchases	200
Exports	200
Imports	400

- (A) 1500
- (B) 1800
- (C) 2000
- (D) None of these

58. A rational person does not act unless____

- (A) The action is ethical.
- (B) The action produces marginal cost that exceeds marginal revenue.
- (C) The action produces marginal benefits that exceed marginal costs.
- (D) The action makes money for the person.

59. The substitution effect works to encourage a consumer to purchase more of a product when the price of that product is falling because-

- (A) The consumer's real income has increased.
- (B) The consumer's real income has decreased.
- (C) The product is now relatively less expensive than before.
- (D) Other products are now less expensive than before.

60. 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
61. A firm realizes internal and external economies of scale_____.
- (A) Simultaneously
 - (B) Alternatively
 - (C) One by one
 - (D) None of these
62. 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
63. Different business cycles _____ in duration and intensity.
- (A) differ
 - (B) similar
 - (C) consistent
 - (D) Can't say
64. 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
65. Coincident economic indicators are also called _____.
- (A) Concurrent indicators
 - (B) Compound indicators
 - (C) Coexist indicators
 - (D) Random indicators

66. In an economy dominated by private enterprises, demand for electric vehicles (EVs) rises sharply due to rising fuel prices. Battery prices increase, labour wages remain constant, and profits in the EV sector exceed those in traditional automobile manufacturing.

On the basis of above case, answer the following questions (66 to 68)

The shift of producers from conventional vehicles to EVs primarily indicates that:

- (A) Government planning has redirected resources
 - (B) Consumer sovereignty has weakened
 - (C) Price mechanism has altered relative profitability
 - (D) Production is guided by social welfare objectives
67. If labour continues to be used intensively despite high battery prices, the most logical explanation is:
- (A) Labour is relatively cheaper than capital
 - (B) Capital is freely available
 - (C) The economy is socialist
 - (D) Producers ignore cost minimization
68. The decision regarding “what to produce” is mainly influenced by:
- (A) Income equality
 - (B) Administered prices
 - (C) Market demand and profit signals
 - (D) Central planning authority
69. Which of the following is the strategy to promote globalization of the Indian Economy?
- (A) Partially convertibility
 - (B) Reduction in tariff
 - (C) Increase in equity limit of foreign Investment
 - (D) All the above
70. A contractionary monetary policy is least effective in influencing output when:
- (A) Interest elasticity of investment is high
 - (B) The economy operates under a liquidity trap
 - (C) Exchange rates are flexible
 - (D) Asset prices respond strongly to interest rates

71. 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
72. Which of the following transactions will improve the capital account balance but worsen the Net International Investment Position (NIIP)?
- (A) Increase in exports of software services
 - (B) Foreign Direct Investment inflow
 - (C) Repayment of external commercial borrowing
 - (D) Rise in remittances from abroad
73. Which of the following limits the effectiveness of fiscal policy?
- (A) Flexible prices
 - (B) Time lag in implementation
 - (C) High tax compliance
 - (D) Balanced budget
- CASE: In an economy, aggregate demand is lower than aggregate supply at the current level of income for Question No. 74 and 75.
74. This situation will lead to:
- (A) Rise in output
 - (B) Increase in employment
 - (C) Fall in national income
 - (D) Full employment
75. The adjustment process will continue until:
- (A) MPC becomes zero
 - (B) Prices rise
 - (C) AD equals AS
 - (D) Investment becomes zero

76. 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
77. If governments make it compulsory to avail insurance protection, it is because:
- (A) Insurance companies need to be running profitably
 - (B) Insurance will generate moral hazard and adverse selection
 - (C) Insurance is a merit good and government want people to consume it
 - (D) None of the above
78. Suppose that at a price of ₹ 300 per month, there are 30,000 subscribers to cable television in Small Town. If Small Town Cablevision raises its price to ₹ 400 per month, the number of subscribers will fall to 20,000. Using the arc elasticity (midpoint) method for calculating the elasticity, what is the price elasticity of demand for cable TV in Small Town?
- (A) 1.4
 - (B) 0.66
 - (C) 0.75
 - (D) 2.0
79. Which of the following statement is false?
- (A) Majority of countries follow flexible exchange rate
 - (B) The term devaluation applies to fixed exchange rate
 - (C) RBI wants Indian companies to hedge their currency
 - (D) Dirty float is generally followed by countries with fixed exchange regime
80. Which of the following is considered a characteristic of Foreign Direct Investment (FDI)?
- (A) Short-term investment
 - (B) Indirect investment in financial assets
 - (C) Control and management involvement
 - (D) Minimal risk exposure

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 behaviour of financial markets
 - (B) Psychological factors influencing economic decisions
 - (C) Government regulations affecting business confidence
 - (D) The impact of interest rates on investment
83. 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) None of these
84. When the market quantity of a good is greater than the socially optimal quantity, it is a case of:
- (A) Positive externality
 - (B) Negative externality
 - (C) Public goods
 - (D) None of these
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) None of these
86. 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
87. 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.
88. Which of the following will not be a consequence of an import tariff?
- (A) An increase in the price of the product in the domestic market
 - (B) Reduced competitive pressure by foreign firms on the domestic producers
 - (C) Increased level of supply in the domestic market
 - (D) None of the above is correct.
89. Implicit cost is equal to:
- (A) business profit minus economic profit.
 - (B) business profit plus economic profit.
 - (C) economic profit minus business profit
 - (D) economic profit minus explicit cost.
90. Which of the following marks the beginning of a contraction in the business cycle:
- (A) Peak
 - (B) Expansion
 - (C) Recession
 - (D) Trough
91. ONGC Videsh Limited has been incorporated by its parent entity ONGC for oil and gas acreages, involving exploration, development and production of oil and gas outside India. Which type of foreign investment is it?
- (A) Joint Venture
 - (B) Brownfield Investment
 - (C) Greenfield Investment

- (D) Licensing
92. If real exchange rate is high, it might lead to:
- (A) Current account deficit
 - (B) fiscal deficit
 - (C) current account surplus
 - (D) Increase in foreign exchange reserves.
93. The parameters of economic reforms undertaken in an economy are:
- (A) macroeconomic stabilisation
 - (B) macroeconomic structural adjustments
 - (C) both (a) and (b)
 - (D) none of these
94. The Price in Collusive Oligopoly is decided by:
- (A) The Firm
 - (B) Price leader
 - (C) The industry
 - (D) None of these
95. In the Cobb Douglas functions 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
96. Demonstration effect, a term coined by _____
- (A) Adam Smith
 - (B) James Duesenberry
 - (C) Alfred Marshall
 - (D) None of these
97. What is a Global Depository Receipt?
- (A) It is a receipt issued by multinational banks on deposit of money.

- (B) It is a receipt issued by stock exchange to bank clearing mechanism.
 - (C) It is a receipt issued by an overseas bank in lieu of shares of a domestic company.
 - (D) It is a receipt issued by stock exchange on investment by foreign portfolio investor.
98. E - NAM is _____
- (A) a pan-India electronic trading portal which networks the existing APMC mandis
 - (B) with the objective of creating a unified national market for agricultural commodities
 - (C) Both (A) & (B)
 - (D) None of these
99. Macro-Prudential Policy Measures can help to overcome:
- (A) Systemic Risk
 - (B) Credit Risk
 - (C) Inflation risk
 - (D) None of these
100. Which of the following short-run cost curves declines continuously?
- (A) Average total cost
 - (B) Marginal cost
 - (C) Average fixed cost
 - (D) Average variable cost

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PAPER 4: BUSINESS ECONOMICS

ANSWERS

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