Mock Test Paper - Series I: August, 2025

Date of Paper: 14th August, 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. Bank Rate is the rate:
   (a) At which RBI lends to the commercial banks
   (b) At which RBI rediscounts the bills of the commercial banks
   (c) Both (a) and (b)
   (d) Neither (a) nor (b)

2. Which of the following is NOT an instrument of monetary policy?
   (a) Cash Reserve Ratio
   (b) Statutory Liquidity Ratio
   (c) Public Expenditure Management
   (d) Repo Rate

3. Reverse Repo Rate is:
   (a) Rate at which RBI borrows from commercial banks
   (b) Rate at which RBI lends to the commercial banks
   (c) Both (a) and (b)
   (d) Neither (a) nor (b)

4. Fiscal deficit can be remedied by:
   (a) Borrowing money
   (b) Printing Currency
   (c) Both (a) and (b)
   (d) Neither (a) nor (b)

5. 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

6. Non-Plan Grants are determined by:

   (a) Planning Commission

   (b) Finance Commission

   (c) Central Government

   (d) State Government

7. Public Debt Management refers to:

   (a) Terms of new bonds

   (b) Proportion of different components of public debt

   (c) Maturity

   (d) All the above

8. Public Expenditure increases:

   (a) Interest rate

   (b) Employment

   (c) Exports

   (d) Imports

9. 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

10. Who issues a treasury bill?

   (a) Any nationalised bank

   (b) Any private sector bank

   (c) Reserve Bank of India

   (d) All of the above

11. It is a method by which banks borrow from each other to be able to maintain the cash reserve ratio.

    (a) Commercial bill

    (b) Commercial papers

    (c) Call money

    (d) None of the above

12. The Dumping word refers to:

    (a) Tariffs should be cut to make more money.

    (b) A lower-priced sale of goods abroad is below the cost and price of their home market.

    (c) Buying goods at low prices in another country and selling them at a higher price here.

    (d) Expensive goods are being sold at low prices.

13. The margin for a currency long term must be retained with the repository by:

    (a) The buyer

    (b) The seller

    (c) Both the buyer and the seller

    (d) None

14. Money cost is considered by:

    (a) Modern theory of trade

    (b) Comparative cost advantage

    (c) New Trade theory

    (d) Factor equalization theorem

15. Factor abundance is considered to be part of international trade:

    (a) Heckscher Ohlin theory of international trade

    (b) Comparative cost advantage theory

    (c) New Trade theory

    (d) Factor Equalization theorem

16. The most controversial topic in the Doha Agenda?

    (a) Agriculture

(b) Industry

(c) Service

(d) None of these

17. Hedging is indicated by:

(a) Transaction in odd amounts

(b) Presentation in documentary support

(c) Frequency of such transactions

(d) None of these

18. In the long run____ affect the exchange rate:

(a) Transaction in odd amount

(b) Presentation of documentary support

(c) Frequency of such transaction

(d) None of these

19. India's foreign exchange rate system is:

(a) Free Float

(b) Managed Float

(c) Fixed

(d) Fixed target of bank

20. Which of the following measures of money supply is known as Broad Money?

(a) M_1

(b) M_2

(c) M_3

(d) M_4

21. Which one is not true regarding the Market Stabilization Scheme (MSS)?

(a) It absorbs surplus liquidity of enduring nature arising out of large capital flows

(b) It absorbs surplus liquidity through sale of short, dated government securities and treasury bills

(c) Mobilised surplus liquidity is held in the MSS accounts with the RBI

(d) MSS account liquidity can be used for normal government expenditure of capital nature

22. Business Economics is:

(a) A normative science

(b) Interdisciplinary

(c) Pragmatic

(d) All the above

23. In the free market economy the allocation of resources is determined by ______

(a) voting done by consumers

(b) A Central Planning Authority

(c) Consumer Preferences

(d) The level of profits of firms

24. Unlimited ends and limited means together present the problem of _______

(a) Scarcity of Resources

(b) Distribution

(c) Choice

(d) None of these

25. When two goods are complementary to each other the cross elasticity between them is:

(a) Negative

(b) Positive

(c) Constant

(d) None of these

26. The Indifference curve analysis is superior to utility analysis:

(a) It dispenses with the assumption of measurability of Utility

(b) It studies more than one commodity at a time

(c) It segregate income effect from substitution effect

(d) All the above

27. Comfort lie between:

(a) Inferior goods and necessities

(b) Luxuries and Inferior good

(c) necessities and Luxuries

(d) None of the above

28. How would that budget line be affected if the price of both goods fell?

    (a) The budget line could not shift

    (b) The new budget line must be parallel to the old budget line

    (c) The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion

    (d) None of these

29. Exception to the law of demand includes ___________

    (a) Giffen goods

    (b) Speculative goods

    (c) Conspicuous necessities

    (d) All the above

30. What are the Characteristics of labour?

    (a) Labour is perishable

    (b) Labour is an active

    (c) Labour is mobile

    (d) All the above

31. A consumer buys 80 units of a good at a price of ₹ 4 per unit. Suppose the price elasticity of demand is -4. At what prices will he buys 60 units.

    (a) 4.2 per unit

    (b) 3.8 per unit

    (c) 4 per unit

    (d) None of these

32. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:

    (a) Zero

    (b) Infinity

    (c) Equal to One

(d) None of these

33. In the third of three stages of Production:

    (a) The marginal Product curve had a positive slope

    (b) The marginal product curve lies completely below the average product curve

    (c) The Total Product Increases

    (d) None of these

34. Time element was conceived by:

    (a) Adam Smith

    (b) Alfred Marshall

    (c) Pigou

    (d) None of these

35. The Firm and the Industry are one and the same in:

    (a) Perfect Competition

    (b) Monopolistic Competition’

    (c) Monopoly

    (d) Oligopoly

36. A rational person does not act unless:

    (a) The action is ethical

    (b) The action produces marginal costs that exceed marginal benefit

    (c) The action makes money for the person

    (d) The marginal benefits that exceed marginal cost

37. The Structure of the Cold drink Industry in India is best described as:

    (a) Perfectly Competitive

    (b) Monopolistic

    (c) Oligopolistic

    (d) Monopolistically Competitive

38. In the long run equilibrium, the pure monopolist can make pure profits because of:

    (a) Blocked entry

    (b) The high price he charges

(c) The Low LAC Costs

(d) Advertising

39. Full capacity is utilized only when there is:

(a) Monopoly

(b) Perfect Competition

(c) Price discrimination

(d) Oligopoly

40. The Kinked demand hypothesis is designed to explain in the context of oligopoly:

(a) Price and output determination

(b) Price rigidity

(c) Collusion among rivals

(d) None of these

41. Which of the following is not a variable in the Index of leading indicators:

(a) New consumer good orders

(b) Prime rate

(c) New building permits

(d) None of these

42. The main thrust of New Industrial Policy is to invite greater participation of:

(a) Public sector

(b) Private sector

(c) Stock Holders

(d) Bank

43. Pump Priming should be resorted to at the time of:

(a) Inflation

(b) Deflation

(c) Reflation

(d) Stagflation

44. The expansion of the government debt could result in:

(a) A decline in savings

(b) An increase in interest

(c) A decline in Investment

(d) All the above

45. Psychological law of consumption is given by:

(a) Milton Friedman

(b) Pigou

(c) Tobin

(d) Keynes

46. One of the most important factors in trade reforms is to:

(a) Increase export duties

(b) Reduce import duties

(c) Keep export duties constant

(d) Keep import duties constant

47. Fiscal Policy relates to government decision in respect of:

(i) Taxation

(ii) Government spending

(iii) Government borrowing

(iv) Public debt

Codes

(a) iii and iv are correct

(b) ii, iii, iv

(c) i and ii are correct

(d) All the above are correct

48. An agreement between two countries to maintain a free trade area, a common external tariff free mobility of capital and labour and degree of unification in government policies and monetary policy is called:

(a) Common market

(b) Free Trade Area

(c) Economic Union

(d) Custom Union

49. Margin requirement specified under instrument of monetary policy:

 (a) Variable reserve requirement

 (b) Statutory liquidity requirement

 (c) Selective credit control

 (d) Open market operation

50. High growth of which Industry provide a positive signal for Industrial Growth in Future?

 (a) Capital good industries

 (b) Basic good industries

 (c) Durable consumer good industries

 (d) Intermediate good Industries

51. Even as fixed average cost continues to fall the average variable cost begins to rise because:

 (a) return to factor start diminishing

 (b) return to factor start rising

 (c) input price start rising

 (d) producer budget starts shrinking

52. Adverse Selection arises because of:

 (a) Lack of information

 (b) Wrong Information

 (c) Asymmetrical Information

 (d) Uncertainty of future

53. Which of the following is not used to measure inflation?

 (a) Wholesale Price Index Number

 (b) Consumer Price Index number

 (c) Purchasing Power Parity Prices

 (d) GDP deflator

54. Public goods are characterized by:

 (1) Collective Consumption

(2) Divisibility

(3) Non-Exclusion

(4) Rival Consumption

Select the correct answer from the code given below:

(a) 1 & 2 are correct

(b) 1 & 3 are correct

(c) 1 &4 are correct

(d) 2 & 4 are correct

55. Giffen Paradox occurs when income effect is:

(a) Greater than the substitution effect

(b) Equal to the substitution effect

(c) Less than substitution effect

(d) Negative and is greater than substitution effect

56. In case of deficit budget when the deficit are covered through taxes that budget is called:

(a) Unbalanced budget

(b) Surplus budget

(c) Balanced budget

(d) None of these

57. Which of the following is credited with Introduction of LPG Model of economic development in India?

(a) Dr. C Rangarajan

(b) Dr. Montek Singh Ahluwalia

(c) Dr. Manmohan Singh

(d) None of these

58. In which of the following market situations/forms, firms are able to maximise profits?

(a) Price Leadership

(b) Cartel

(c) At the Kink Point

(d) Monopolistic Competition

59. The slope of aggregate demand becomes flatter?

(a) The more sensitive investment spending is to the rate of interest

(b) The more sensitive the demand for money is to the rate of interest

(c) The larger the nominal money supply

(d) None of these

60. When exchange rate is flexible a decrease in country B's taxes:

(a) Has no effect upon output in country B

(b) Causes output in country B to increase

(c) Results in an increase in country B's export

(d) None of these

61. Crowding Out occurs when _________

(a) A decrease in the money supply raises the rate of interest which crowds out interest sensitive private sector spending

(b) An increase in taxes for the private sector reduces private sector disposable income and spending

(c) A reduction in income taxes results in a higher interest rate which crowds out interest sensitive private sector spending

(d) None of these

62. A change in autonomous spending is represented by:

(a) A movement along (C+I+G) spending line

(b) A shift of a (C+I+G) spending line

(c) A change in the behavioural coefficient

(d) None of these

63. In mixed economy the feature include existence of:

(a) Private Sector

(b) Public Sector

(c) Combined Sector

(d) All of these

64. Which of the following is demerit of capitalism:

(a) There is precedence of property rights over human right

(b) It functions in a domestic framework

(c) High degree of operative efficiency

(d) None of these

65. Which of the following is included in study of Micro Economics:

(a) Product Pricing

(b) Factor Pricing

(c) Both (a) and (b)

(d) None of these

66. Scarcity definition is economics is given by:

(a) Lipsey

(b) Adam Smith

(c) J B Say

(d) Robinson

67. Snob effect is explained as:

(a) It is a function of consumption of others

(b) It is a function of price

(c) Both (a) and (b)

(d) None of these

68. Which of the following are the determinant of price elasticity of demand:

(a) Availability of substitutes

(b) Time period

(c) Tied demand

(d) All of these

69. If the cross elasticity is only- slightly below zero which of the following is correct?

(a) They are weak complements

(b) Negative and very high they are strong complements

(c) Both (a) and (b)

(d) None of these

70. Indifference Curve Analysis was proposed by _________

(a) J. R Hicks and R.G.D Allen

(b) Alfred Marshall

(c) Jeremy Bentham

(d) None of these

71. The rate at which the consumer is prepared to exchange-good x and y is:

(a) Marginal rate of Substitution

(b) Elasticity of Substitution

(c) Diminishing Marginal Utility

(d) None of these

72. Contraction of demand is the result of:

(a) Decrease in the number of consumers

(b) Increase in the price of the good concerned

(c) Price of related products

(d) None of these

73. Economic indicator required to predict the turning point of business cycle is:

(a) Leading Indicator

(b) Lagging Indicator

(c) Coincident Indicator

(d) All the above

74. Empirical evidence of liquidity trap is found during:

(a) COVID – 19

(b) Great Recession

(c) Global Financial Crisis

(d) None of the above

75. New Trade Theory was developed in:

(a) 1919

(b) 1970

(c) 2008

(d) 1991

76. Which one is included in National Income?

    (a) Transfer Earnings

    (b) Sale proceeds of Shares and Bonds

    (c) Black Money

    (d) None of the Above

77. The major reasons for market failure is:

    (a) Market Power

    (b) Externalities

    (c) Incomplete Information

    (d) All the above

78. Which of the following instrument is not FDI Compliant Instrument:

    (a) Equity Shares

    (b) Compulsorily Convertible Debentures

    (c) Redeemable Preference Share

    (d) None of the above

79. An expansionary fiscal policy is used for:

    (a) Reduction in Inflation

    (b) Increase in Exports.

    (c) Appreciation of Currency

    (d) Close recessionary gap

80. What is GDP Deflector?

    (a) It is GDP of Base Year

    (b) It is ratio of nominal GDP in a given year to real GDP of that year

    (c) It is GDP at current price

    (d) It is GDP of current year at base year price

81. An increase in the price of a commodity when demand is inelastic causes the total expenditures of consumers of the commodity to:

    (a) Increase,

(b) Decrease,

(c) Remain unchanged,

(d) any of the above.

82. At the point of producer equilibrium:

(a) The isoquant is tangent to the isocost,

(b) The MRTSLK equals PL/PK,

(c) MPL/PL / MPK/PK,

(d) All of the above.

83. Price varies by attributes such as location or by customer segment is _______degree of price discrimination:

(a) First

(b) Second

(c) Third

(d) None of these

84. The Idea of ________in economics is that we have unlimited wants but limited resources:

(a) Opportunity Costs.

(b) Scarcity

(c) Marginal Analysis

(d) Specialization

85. Which of the following is a key assumption of the monopoly model?

(a) Barriers to entry

(b) A product with several substitutes

(c) Price-taking behavior

(d) Many identical producers

86. What is the full form of LIFE?

(a) Lifestyle for Economy

(b) Life for Everyone

(c) Lifestyle for Environment

(d) Living in Financial Equality

87. Which program was launched to promote organic farming?

(a) MIDH

(b) PMFBY

(c) PKVY

(d) None of these

88. Which of the following is a non-tariff barrier?

(a) Ad valorem duty

(b) Quotas

(c) Countervailing duty

(d) None of these

89. Most-Favoured Nation (MFN) principle under WTO means:

(a) Preferential tariffs for allies

(b) Equal treatment to all members

(c) Protection to domestic producers

(d) All of these

90. Which agreement replaced GATT and created WTO?

(a) Doha Round

(b) Tokyo Round

(c) Uruguay Round

(d) Marrakesh Protocol

91. 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) All the above

92. According to Friedman, the key determinant of money demand is:

(a) Current Income

(b) Future expectations only

(c) Permanent Income

(d) Government Spending

93. According to Baumol, cash balances are kept to:
    (a) Invest in stock
    (b) Earn capital gains
    (c) Minimize total transaction cost
    (d) Hedge inflation

94. When demand increases and supply remains constant, what happens to equilibrium price?
    (a) Falls
    (b) Rises
    (c) Remains same
    (d) Cannot say

95. 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

96. The LAC curve is also known as:
    (a) Shut down curve
    (b) Expansion path
    (c) Planning curve
    (d) None of these

97. Fiscal federalism refers to:
    (a) Sharing of political power
    (b) Sharing of fiscal functions and resources
    (c) Decentralization of planning
    (d) None of these

98. The percentage of Central tax share for 2021–26 is:

(a) 38%

(b) 41%

(c) 46%

(d) Not decided

99. Liquidity Adjustment Facility (LAF) includes:

(a) Only Repo

(b) Repo and Reverse Repo

(c) Only Reverse Repo

(d) None of these

100. The Monetary Policy Committee Sets:

(a) SLR

(b) CRR

(c) Repo rate

(d) Bank rate

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ANSWERS

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