

Mock Test Paper - Series II: August, 2025

Date of Paper: 29th 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. Which of the following mechanisms are used for Allocation of Resources in Public Financial Management:
 - (a) Market Mechanism
 - (b) Public Sector Units
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (B)
2. Which of the following is/are a function of the government?
 - (a) Allocation of Resources
 - (b) Distribution of Income and Wealth
 - (c) Economic Stabilization
 - (d) All of Above
3. Which of the following is NOT an element of effective Government Budgeting?
 - (a) Aggregate Fiscal Discipline
 - (b) Maximization of Revenue
 - (c) Allocative Efficiency
 - (d) Operational Efficiency
4. Allocative efficiency can be improved by:
 - (a) Strategic Planning and Medium-Term Fiscal Framework
 - (b) Program Budgeting and Program Evaluation
 - (c) Both (a) and (b)

- (d) Neither (a) nor (b)
- 5. Information asymmetry with respect to factors that degrade the operational efficiency is defined as:
 - (a) Service providers know more about outputs and costs than those who allocate resources
 - (b) Spenders have incentives to use all the resources provided to them
 - (c) Government lacks independent information on performance
 - (d) Detailed ex-ante controls are costly and drive out initiative and variation
- 6. Which of the following statements is true about Open Market Operations?
 - (a) Central Bank controls the flow of credit through the sale and purchase of securities in open market
 - (b) It increases money supply with commercial banks and public
 - (c) It will expand credit in the economy
 - (d) All of the above
- 7. 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
- 8. The difference between revenue deficit and grants for creation of capital assets is called:
 - (a) Fiscal deficit
 - (b) Budget deficit
 - (c) Effective revenue deficit
 - (d) Primary deficit
- 9. The Book "The Wealth of Nations" is written by:
 - (a) Adam Smith
 - (b) Arthur Pigou

- (c) Robinson
 - (d) Ragnar Nurske
10. 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
11. Which of these country is a purely socialist economy?
- (a) USSR
 - (b) China
 - (c) Vietnam
 - (d) None of these
12. 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.
13. The Substitution effect will be stronger when:
- (a) The goods are closer substitute
 - (b) There is lower cost of switching to the substitute good.
 - (c) There is lower inconvenience while switching to the Substitute good.
 - (d) All the above
14. What are the Internal Causes of Business Cycle _____?
- (a) Fluctuations in effective demand.
 - (b) Macroeconomic Policies
 - (c) Money Supply

- (d) All the above
15. According to Hawtrey trade cycle is a _____
- (a) Monetary Phenomenon
 - (b) Unplanned Phenomenon
 - (c) Fiscal Phenomenon
 - (d) All the above
16. Which of the following describe a typical Business Cycle?
- (a) Economic Expansions are followed by Contraction's.
 - (b) Inflation is followed by rising Income and Unemployment.
 - (c) Economic Expansion are followed by economic growth and development.
 - (d) Stagflation is followed by Inflationary growth.
17. 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.
18. 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.
19. 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
20. When $e = 0$, elasticity of demand is :
- (a) Perfectly elastic
 - (b) Unitary
 - (c) Inelastic
 - (d) Perfectly inelastic demand
21. 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
22. Marginal Product is the slope of –
- (a) Marginal product Curve
 - (b) Average Product Curve
 - (c) Total Product Curve
 - (d) Implicit Product Curve
23. 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) None of these
24. 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

25. Income elasticities _____ in the short run and long run
- (a) differ
 - (b) Same
 - (c) Can't say
 - (d) Both (a) and (b)
26. Accounting costs are :
- (a) Implicit cost
 - (b) Explicit Costs
 - (c) Economics Costs
 - (d) None of these
27. Telecom Industry is an example of :
- (a) Monopoly
 - (b) Perfect Competition
 - (c) Oligopoly
 - (d) Monopolistic competition
28. On the basis of nature of transaction the market is classified into :
- (a) Regulated and Unregulated market
 - (b) Wholesale and Retail market
 - (c) Spot and future Market
 - (d) None of these
29. Total Revenue is maximised when total revenue is _____
- (a) 1
 - (b) 0
 - (c) High
 - (d) None of these

30. Third degree Price discrimination can be explained through example of :
- (a) Dumping
 - (b) Charging different Prices for domestic and commerce use
 - (c) Lower Price in ratioing for senior citizen
 - (d) All of the above.
31. Related goods are of _____ types.
- (a) two
 - (b) three
 - (c) Four
 - (d) Five
32. 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
33. Traditional approach of law of demand was propounded by _____
- (a) Giffen
 - (b) Paul A Samuelson
 - (c) Alfred Marshall
 - (d) Pique
34. Which initiative aims to improve agricultural market infrastructure?
- (a) PM Kisan
 - (b) E-NAM
 - (c) NDAP
 - (d) Shoonya

35. Which year marked the beginning of the Green Revolution?
- (a) 1947
 - (b) 1956
 - (c) 1965
 - (d) 1991
36. What was the average GDP growth rate between 1950–80 (Hindu growth rate)?
- (a) 2%
 - (b) 3.5%
 - (c) 5%
 - (d) 7%
37. Which state was NOT a major beneficiary of the Green Revolution?
- (a) Punjab
 - (b) Haryana
 - (c) Bihar
 - (d) Western UP
38. Which sector contributed the most to India's GDP in 2022 ?
- (a) Agriculture
 - (b) Industry
 - (c) Services
 - (d) Mining
39. Which initiative is aimed at reducing India's oil import bill through alternative fuel?
- (a) NDAP
 - (b) Methanol Economy Programme
 - (c) Shoonya
 - (d) E-Amrit

40. FDI is distinguished from FPI mainly because:
- (a) FDI is short-term
 - (b) FDI is only financial
 - (c) FDI involves ownership & control
 - (d) FDI is speculative
41. Brownfield investment refers to:
- (a) Building new infrastructure
 - (b) Investing in agriculture
 - (c) Buying or leasing existing setups
 - (d) foreign loans for farms
42. Which of the following best defines the real exchange rate?
- (a) The market rate for converting one currency into another
 - (b) The rate at which a country trades goods/service for another
 - (c) Rate fixed by central bank
 - (d) The average of spot and forward rates
43. Which of the following effects real exchange rate directly?
- (a) Spot rate only
 - (b) Domestic interest rate
 - (c) Domestic and foreign price levels
 - (d) Central bank reserves
44. Which of the following is a disadvantage of a floating exchange rate system?
- (a) Requires large forex reserves
 - (b) Creates rigid monetary policy
 - (c) Currency fluctuations create trade uncertainty
 - (d) Fixed import/export prices

45. Absolute advantage theory assumes:
- (a) Equal opportunity cost
 - (b) Fixed exchange rates
 - (c) Mobility of labour across countries
 - (d) Labour as the only input
46. Which of the following is a non-tariff barrier?
- (a) Ad valorem duty
 - (b) Quotas
 - (c) Countervailing duty
 - (d) Export tax
47. Tariff Rate Quotas (TRQ) refer to:
- (a) Export quotas only
 - (b) Prohibited tariffs
 - (c) Low tariff for a quota and high tariff beyond
 - (d) Elimination of tariff and quota
48. Which WTO agreement allows review of member trade policies?
- (a) TBT Agreement
 - (b) SPS Agreement
 - (c) Trade Policy Review Mechanism
 - (d) Agreement on Agriculture
49. Escalated tariffs refer to:
- (a) Uniform tariff structure
 - (b) Higher tariffs on final goods than raw materials
 - (c) Preferential tariffs
 - (d) Free trade policies

50. Which of the following protects against underpriced foreign goods?
- (a) TRIMs
 - (b) Safeguards
 - (c) Anti-dumping duty
 - (d) Import subsidy
51. New Trade Theory emphasizes:
- (a) No gains from trade
 - (b) Constant returns to scale
 - (c) Economies of scale and product variety
 - (d) No role for governments
52. The money multiplier is:
- (a) $(1 + c) / (r + e + c)$
 - (b) $(1 - c) / (r + e + c)$
 - (c) $(1 + r) / (c + e + r)$
 - (d) None of the above
53. Money Supply (M) is equal to:
- (a) $M1 + M2$
 - (b) $CRR \times SLR$
 - (c) Money Multiplier $\times$ Base Money
 - (d) $GDP \div \text{Inflation}$
54. MSF is always:
- (a) 0.5% above repo
 - (b) 2% above bank rate
 - (c) 1% above repo rate
 - (d) 1% below reverse repo

55. Which is a consequence of high money multiplier?
- (a) High inflation risk
 - (b) Tight liquidity
 - (c) Increase in SLR
 - (d) Decline in GDP
56. 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
57. Which theory introduced the idea of interest rate influencing money demand?
- (a) Fisher's theory
 - (b) Cambridge approach
 - (c) Keynesian theory
 - (d) Inventory theory
58. Which economist applied capital asset demand theory to money?
- (a) Keynes
 - (b) Tobin
 - (c) Baumol
 - (d) Milton Friedman
59. The function of money that allows individuals to save purchasing power for the future is called:
- (a) Medium of exchange
 - (b) Unit of account
 - (c) Store of value
 - (d) Standard of deferred payment

60. Which statement about the Finance Bill is correct?
- (a) It authorizes public borrowing
 - (b) It includes details of tax proposals
 - (c) It gives expenditure estimates
 - (d) It is introduced in Rajya Sabha
61. Guillotine in budgetary procedure refers to:
- (a) Cancelling debt
 - (b) Reducing tax rates
 - (c) Voting on all pending demands at once
 - (d) Cutting grants to states
62. Which department manages internal public debt in India?
- (a) NITI Aayog
 - (b) Finance Commission
 - (c) RBI
 - (d) Economic Survey Cell
63. Which of the following reduces income inequality?
- (a) Flat tax system
 - (b) Public expenditure on luxury goods
 - (c) Progressive taxation and targeted subsidies
 - (d) Tax holidays for MNCs
64. Outcome budgeting primarily links:
- (a) Fiscal deficit with borrowing
 - (b) Policy and implementation
 - (c) Budget allocations with performance outcomes
 - (d) Revenue and capital expenditures

65. Keynes advocated increased government spending to tackle:
- (a) Hyperinflation
 - (b) Balance of payments deficit
 - (c) Recession and unemployment
 - (d) Asset bubbles
66. Subsidy on goods with positive externalities leads to:
- (a) Higher cost
 - (b) Higher price
 - (c) Lower price
 - (d) Inefficiency
67. In the consumption function $C = a + bY_c = a + bY_c = a + bY$, the term 'a' represents:
- (a) Marginal Consumption
 - (b) Marginal Income
 - (c) Autonomous Consumption
 - (d) Autonomous Investment
68. What typically happens during the contraction phase?
- (a) Employment increases
 - (b) Prices rise sharply
 - (c) Investment and demand decline
 - (d) GDP grows rapidly
69. Which sector is most vulnerable to business cycles?
- (a) Agriculture
 - (b) Capital goods and durable goods
 - (c) Banking
 - (d) Education

70. Which of the following does not lead to a shift in demand?
- (a) Change in income
 - (b) Change in population
 - (c) Change in price of the good
 - (d) Change in taste
71. Which market has infinite price elasticity of demand?
- (a) Monopoly
 - (b) Monopolistic
 - (c) Oligopoly
 - (d) Perfect competition
72. What is the marginal revenue when price elasticity of demand is 1?
- (a) Equal to price
 - (b) Equal to zero
 - (c) Equal to AR
 - (d) Maximum
73. AR and MR curves coincide in:
- (a) Monopoly
 - (b) Monopolistic competition
 - (c) Perfect competition
 - (d) Oligopoly
74. Which of the following leads to Internal economies of scale?
- (a) Technological progress in the industry
 - (b) Development of skilled labour in a region
 - (c) Bulk purchase of raw materials
 - (d) Government tax incentives

75. Which is an example of a sunk cost?
- (a) Cost of raw material
 - (b) Cost of hiring temporary workers
 - (c) Advertising expenditure already incurred
 - (d) Salaries to be paid
76. Identify the items which is not a factor payment:
- (a) free uniform to defence personnel.
 - (b) salaries to the members of Parliament.
 - (c) imputed rent of an owner-occupied building.
 - (d) scholarships given to the scheduled caste students.
77. Demand for final consumption arises in
- (a) household sector only.
 - (b) government sector only.
 - (c) both household and government sector.
 - (d) neither household nor government sector.
78. The effect of increase CRR will be reduced or nullified if:
- (a) Bank rate is reduced.
 - (b) Securities are sold in the open market.
 - (c) SLR is increased.
 - (d) People do not borrow from non-banking institutions.
79. Broad money refers to:
- (a) M_1
 - (b) M_2
 - (c) M_3
 - (d) M_4

80. Which of the following is a lagging economic indicator?
- (a) Consumer confidence index
 - (b) Stock market performance
 - (c) Unemployment rate
 - (d) New housing starts
81. Price Elasticity of Demand of a good is $(-)$ 3. It shows that:
- (a) When price falls by 1%, demand rises by 3%
 - (b) When price rises by 1%, demand falls by 3%
 - (c) Either (a) or (b)
 - (d) Neither (a) nor (b)
82. The demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
- (a) Proportionately large fall in quantity demanded
 - (b) No change in quantity demanded
 - (c) Proportionately small fall in quantity demanded
 - (d) Infinite change in quantity demanded
83. Which of the following is not a reason for operation of increasing returns to a factor?
- (a) Better utilisation of fixed factor
 - (b) Limitation of fixed factor
 - (c) Increase in efficiency of variable factor
 - (d) Indivisibility of fixed factor
84. At the Point of Inflexion:
- (a) Total Product is maximum
 - (b) Average Product is maximum
 - (c) Marginal Product is maximum
 - (d) Marginal Product is zero
85. Cost function is a _____ concept:
- (a) Economical

- (b) Functional
 - (c) Financial
 - (d) Technical
86. According to Hawtrey trade cycle is a ____
- (a) Monetary phenomenon
 - (b) Unplanned phenomenon
 - (c) Fiscal phenomenon
 - (d) All the above
87. Minimum assured prices to the farmers to purchase their output by the government is called:
- (a) Market Price
 - (b) Equilibrium Price
 - (c) Support Price
 - (d) Ceiling Price
88. The income elasticity For Luxuries goods is:
- (a) $E > 1$
 - (b) $E < 1$
 - (c) $E = 0$
 - (d) None of these
89. Unique supply curve is monopoly is not due to _____
- (a) $P > MC$
 - (b) $P < MC$
 - (c) $P = MC$
 - (d) None of these
90. Which of the following involve a trade-off?
- (a) Taking a nap
 - (b) Going to University
 - (c) Watching a football game on Saturday afternoon

- (d) All of these
91. The Pure monopolist in the long run can make pure profit due to:
- (a) High Selling Price
 - (b) Advertising
 - (c) Low LAC Cost
 - (d) Blocked entry
92. If the quantity demanded of mutton increases by 5 % when the price of chicken increases by 20%, the cross elasticity of demand between mutton and chicken is:
- (a) -0.25
 - (b) 0.25
 - (c) -4
 - (d) 4
93. The Supply function is given as $Q = -100 + 10P$. Find the elasticity using point method when price is Rs 15
- (a) 4
 - (b) 3
 - (c) -5
 - (d) None of these
94. The cobweb theory was propounded by ____
- (a) Hawtrey
 - (b) Adam smith
 - (c) Nicolas Kaldor
 - (d) None of these
95. Find normal GDP if real GDP = 450 and price index= 120
- (a) 540
 - (b) 640
 - (c) 500
 - (d) None of these

96. Suppose the Consumption of an economy is given by $C = 20 + 0.6Y$ and Investment $I = 10 + 0.2Y$. What will be the equilibrium level of National Income.
- (a) 150
 - (b) 200
 - (c) 350
 - (d) None of these
97. If commercial banks reduce their holdings of excess reserves:
- (a) The money supply falls
 - (b) The money supply increases
 - (c) The monetary base falls
 - (d) None of these
98. Non – tariff barriers (NTBs) include all the following except:
- (a) import quotas
 - (b) technical standards of products
 - (c) tariff
 - (d) None of these
99. Pure Oligopoly is based on the ____ products.
- (a) Differentiated
 - (b) Homogeneous
 - (c) unrelated
 - (d) None of these
100. Under equation $C = a + bY$, $b = 0.8$, what is the value of 2 sector expenditure multiplier:
- (a) 4
 - (b) 5
 - (c) 2
 - (d) None of these.

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ANSWERS

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