



PAPER – 4: BUSINESS ECONOMICS



QUESTIONS

1. A key objective of Business Economics is to help managers:
 - (A) Eliminate competition
 - (B) Apply economic theory and analysis to real business problems
 - (C) Only measure profits
 - (D) Focus purely on macro-objectives
2. Business Economics is described as normative because it:
 - (A) Only describes what is
 - (B) Rejects economic theory
 - (C) Avoids value judgments
 - (D) Suggests what ought to be done
3. If two goods X and Y have a positive cross elasticity, these goods are:
 - (A) Unrelated
 - (B) Substitutes
 - (C) Complements
 - (D) Inferior goods
4. A key limitation of the Law of Diminishing MU is that it assumes utility is:
 - (A) Cardinally measurable
 - (B) Ordinal

- (C) Constant
 - (D) Total
5. The consumer surplus concept supports pricing strategy because:
- (A) It measures producer costs only
 - (B) It identifies hidden value consumers derive compared to what they pay
 - (C) It shows price increases raise surplus
 - (D) It ignores demand curves
6. For a discriminating monopolist, price discrimination depends mainly on:
- (A) Cost of production
 - (B) Size of market
 - (C) Elasticity of demand
 - (D) Government regulation
7. If technological advancement occurs, supply curve will:
- (A) Shift leftward
 - (B) Shift rightward
 - (C) Stay same
 - (D) Become vertical
8. Price determination differs across markets mainly due to:
- (A) Equal market power
 - (B) Varying competition and barriers
 - (C) Fixed output only
 - (D) Government controls always
9. Which phase of the business cycle is characterized by rising GDP, increasing employment, and expanding investments?
- (A) Peak

- (B) Contraction
 - (C) Expansion
 - (D) Trough
10. Which of the following is an external cause of business cycles fluctuations?
- (A) Monetary policy changes
 - (B) Changes in money supply
 - (C) Natural disasters
 - (D) Effective demand shifts
11. In the four-sector Keynesian model, the equilibrium income condition is:
- (A) $Y = C + I$
 - (B) $Y = C + I + G$
 - (C) $Y = C + I + G + (X - M)$
 - (D) $Y = C + S + T$
12. Maximum price ceilings imposed on essential commodities aim to:
- (A) Protect producers
 - (B) Increase exports
 - (C) Protect consumers
 - (D) Increase profits
13. Money demand is said to be 'derived' because:
- (A) It is decided by the government
 - (B) People hold money because it earns interest
 - (C) People demand money to facilitate expenditure
 - (D) Money supply controls demand

14. Monetary policy primarily aims to regulate:
 - (A) Tax rates
 - (B) Money supply and credit conditions
 - (C) Government expenditure
 - (D) Export levels
15. Which policy action is most likely to reduce inflation?
 - (A) Expansionary monetary policy
 - (B) Contractionary monetary policy
 - (C) Lower reserve ratio
 - (D) Higher government spending
16. The Heckscher-Ohlin model predicts that a country will export goods that:
 - (A) Use its scarce factors intensely
 - (B) Use its abundant factors intensely
 - (C) It cannot produce efficiently
 - (D) Are cheap in the world market
17. A specific tariff is different from an ad valorem tariff because it is:
 - (A) A percentage of trade value
 - (B) A fixed amount per unit of imported goods
 - (C) Applied only to exports
 - (D) Used only under GATT
18. Non-tariff measures (NTMs) include all *except*:
 - (A) Import quotas
 - (B) Export subsidies
 - (C) Sanitary and phytosanitary (SPS) measures
 - (D) Floating exchange rates

19. Foreign Direct Investment (FDI) is best distinguished from Foreign Portfolio Investment (FPI) by its:
- (A) Ownership of foreign currency
 - (B) Intent to gain management control in foreign enterprises
 - (C) Duration of investment only
 - (D) Government backing
20. Real exchange rate increases if:
- (A) Domestic prices rise faster than foreign prices
 - (B) Foreign prices rise relative to domestic prices
 - (C) Nominal exchange rate is fixed
 - (D) Trade barriers increase only
21. An important principle of GATT and WTO is the Most-Favoured-Nation (MFN) treatment, which means:
- (A) Preferential tariffs for select partners only
 - (B) Equal trade advantages given to all members
 - (C) National treatment for domestic goods only
 - (D) Exclusive bilateral treaties outside WTO
22. One of the early steps in 1991 reforms was:
- (A) Rupee devaluation
 - (B) Nationalisation of banks
 - (C) Abolition of tax reforms
 - (D) Trade protection
23. Post-reform export growth led to:
- (A) Decline in forex reserves
 - (B) Increase in foreign exchange reserves

- (C) Reduced trade volume
- (D) Collapse in services exports
24. Reforms in the capital market after 1991 strengthened through:
- (A) RBI takeover of markets
- (B) Establishment of SEBI autonomy
- (C) Complete ban on foreign investment
- (D) Closing stock exchanges
25. Structural reforms differ from stabilization policies because they:
- (A) Address long-term efficiency issues
- (B) Focus only on inflation
- (C) Control exchange rates
- (D) Increase tariffs


SUGGESTED ANSWERS

1.	(B)	2.	(D)	3.	(B)	4.	(A)	5.	(B)
6.	(C)	7.	(B)	8.	(B)	9.	(C)	10.	(C)
11.	(C)	12.	(C)	13.	(C)	14.	(B)	15.	(B)
16.	(B)	17.	(B)	18.	(D)	19.	(B)	20.	(B)
21.	(B)	22.	(A)	23.	(B)	24.	(B)	25.	(A)