

Mock Test Paper - Series I: April 2025

Date of Paper: 25th April 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 statements is correct regarding business cycles?
 - (a) Business cycles always affect all sectors uniformly.
 - (b) Business cycles may affect all sectors uniformly.
 - (c) Business cycles do not affect all sectors uniformly.
 - (d) None of these
2. Business cycle emerge in _____.
 - (a) Socialist economy
 - (b) Free market economy
 - (c) Mixed economic system
 - (d) None of the above
3. If the price elasticity of demand of a product is (-) 3, what should be the price of the product for its MR to be ₹20?
 - (a) ₹ 10/unit
 - (b) ₹ 20/unit
 - (c) ₹ 30/unit
 - (d) ₹ 40/unit
4. While drawing budget line of a consumer consuming Nachos chips and Pepsi, if the quantity of Nachos taken on Y-axis and quantity of Pepsi on X-axis. The slope of budget line will be-
 - (a) PP/ PN
 - (b) PN /PP
 - (c) M/ PN

- (d) M / P_P [Where, P_P – Price of Pepsi, P_N - Price of Nachos & M – Money income of consumer]
5. Theory of Mercantilism propagates
- (a) Encourage exports and imports
 - (b) Encourage exports and discourage imports
 - (c) Discourage exports and imports
 - (d) Discourage exports and encourage imports
6. EVA digital assistance Robot of HDFC Bank is:
- (a) An intermediate good
 - (b) A consumer good
 - (c) A capital good
 - (d) None of these
7. Which of the following statement is incorrect, -
In the simple Keynesian model, -
- (a) $MPC + MPS = 1$
 - (b) $APC + APS = 1$
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b).
8. National income accountants can avoid multiple counting by:
- (a) including transfers in their calculations.
 - (b) counting both intermediate and final goods.
 - (c) only counting final goods.
 - (d) only counting intermediate goods.
9. Gross investment refers to:
- (a) private investment minus public investment.
 - (b) net investment plus replacement investment.
 - (c) net investment after it has been "inflated" for changes in the price level.
 - (d) net investment plus net exports.

10. The largest component of national income is:
 - (a) compensation of employees.
 - (b) rents.
 - (c) interest.
 - (d) corporate profits.
11. Transfer payments are:
 - (a) excluded when calculating GDP because they only reflect inflation.
 - (b) excluded when calculating GDP because they do not reflect current production.
 - (c) included when calculating GDP because they are a category of investment spending.
 - (d) included when calculating GDP because they increase the spending of recipients.
12. Price Floor is the price fixed by the government, which is:
 - (a) Equal to Equilibrium Price
 - (b) Below the Equilibrium Price
 - (c) Above the Equilibrium Price
 - (d) None of these
13. When actual price of a commodity is less than equilibrium price, its price:
 - (a) starts rising
 - (b) starts falling
 - (c) starts fluctuating
 - (d) remains constant
14. The cost which is never zero even when production is stopped is known as:
 - (a) Supplementary Cost
 - (b) Prime Cost
 - (c) Explicit cost
 - (d) Implicit cost
15. 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
16. The Indian Government imposed heavy taxes on commodity to reduce its consumption by the public. Such heavy taxes will decrease the demand of the commodity only when:
- (a) $ed = 0$
 - (b) $ed > 1$
 - (c) $Ed < 1$
 - (d) $ed = 1$
17. What does the term "cascading effect" in taxation refer to?
- (a) Tax on tax, leading to increased costs
 - (b) Double taxation of the same income
 - (c) A uniform tax rate across all commodities
 - (d) A system where indirect taxes are completely avoided
18. Which characteristic of money refers to its ability to hold value over time?
- (a) Divisibility
 - (b) Durability
 - (c) Portability
 - (d) Store of value
19. What is the purpose of a capital budget?
- (a) Funding day-to-day government operations
 - (b) Financing long-term investments and projects
 - (c) Managing short-term financial needs
 - (d) Controlling inflation
20. According to Keynes, what is the role of the government in maintaining full employment?
- (a) Limited role, as the market will self-adjust
 - (b) Active role through fiscal and monetary policies
 - (c) Passive role, focusing on international trade

- (d) No role, as unemployment is a natural part of the business cycle
- 21. Keynesian economics emphasizes the importance of:
 - (a) Market self-regulation
 - (b) Government intervention
 - (c) International trade
 - (d) Laissez-faire policies
- 22. Which of the following factors does NOT directly affect the demand for money?
 - (a) Interest rates
 - (b) The level of income or output
 - (c) The price level in the economy
 - (d) The government's fiscal deficit
- 23. In an economy, a change in the reserve ratio will directly affect the:
 - (a) Level of interest rates in the market
 - (b) Supply of money in circulation
 - (c) Demand for money at different income levels
 - (d) Government's budgetary balance
- 24. Which of the following budget types specifically aims to reduce the deficit by either increasing taxes or reducing government spending?
 - (a) Balanced budget
 - (b) Expansionary budget
 - (c) Contractionary budget
 - (d) Surplus budget
- 25. Which of the following is the most important source of India's foreign exchange earnings?
 - (a) Industrial exports
 - (b) Remittances from Indians working abroad
 - (c) Tourism
 - (d) Services exports, especially IT and software

26. The Green Revolution in India focused primarily on increasing the production of:
- (a) Oilseeds
 - (b) Food grains, especially wheat and rice
 - (c) Fruits and vegetables
 - (d) Cash crops like cotton and sugarcane
27. Which of the following is a primary objective of India's Five-Year Plans?
- (a) To regulate and control foreign trade
 - (b) To promote balanced economic growth across all regions
 - (c) To discourage the private sector in favor of public enterprises
 - (d) To ensure foreign aid and capital inflows into the country
28. In international trade negotiations, which of the following is the most common objective for countries involved in multilateral trade talks?
- (a) To increase tariffs and protect domestic industries
 - (b) To reduce trade barriers and promote free trade
 - (c) To restrict foreign competition through quotas
 - (d) To enhance domestic subsidies for agricultural sectors
29. Which of the following is NOT a key assumption of Ricardo's theory of comparative advantage?
- (a) Two countries, each specializing in the good it can produce most efficiently, will both gain from trade.
 - (b) Resources are immobile between countries but mobile within a country.
 - (c) Trade occurs only due to differences in technology between countries.
 - (d) Both countries in trade can benefit even if one country is less efficient in producing both goods.
30. According to the Quantity Theory of Money, if the money supply increases while the velocity of money and output remain constant, the general price level will:
- (a) Decrease
 - (b) Increase proportionately
 - (c) Stay the same

- (d) Increase, but unpredictably
31. Which of the following situations best demonstrates a market failure due to asymmetric information?
- (a) A monopolist exploiting market power by reducing supply
 - (b) Consumers buying substandard products because they lack information about quality
 - (c) The government providing public goods like street lighting
 - (d) A natural monopoly where economies of scale drive market concentration
32. When a market fails to allocate resources efficiently, leading to overproduction or underproduction of goods, it is called:
- (a) Monopoly
 - (b) Externalities
 - (c) Public Goods
 - (d) Market Equilibrium
33. When $e > 1$ the MR is
- (a) One
 - (b) Negative
 - (c) Positive
 - (d) Zero
34. Price discrimination will be profitable only if the elasticity of demand in different sub market is :
- (a) different
 - (b) uniform
 - (c) zero
 - (d) less
35. When the Output of the firm increases in the Short run, its average fixed cost :
- (a) Decreases
 - (b) Increases
 - (c) First decline and then rise

- (d) remains constant
- 36. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
 - (a) Infinity
 - (b) Zero
 - (c) Greater than zero but less than infinity
 - (d) Equal to one
- 37. Inequality and Exploitation is minimal under:
 - (a) Mixed economy
 - (b) Capitalism
 - (c) Socialism
 - (d) None of these
- 38. Comfort lie between:
 - (a) inferior goods and necessities
 - (b) luxuries and inferior goods
 - (c) necessities and luxury
 - (d) None of these
- 39. Which of the following is not a determinant of the firm's cost function?
 - (a) Taxes
 - (b) The Production Function
 - (c) The Price of the firm's output
 - (d) None of these
- 40. Which of the following is correct about Cartel?
 - (a) There are few firms
 - (b) All of which are similar in size
 - (c) Most Cartels have only a Subset of producers
 - (d) All of the above

41. Secular Period is also known as :
- (a) Short Period
 - (b) Very Long Period
 - (c) long Period
 - (d) Very short Period
42. Price Rigidity explained by Sweezy's model is related to which market form:
- (a) Monopoly
 - (b) Oligopoly
 - (c) Monopolistic competition
 - (d) None of these
43. In business cycle peaks and troughs are collectively known as:
- (a) Turning Points
 - (b) Equilibrium Points'
 - (c) Real business cycle events'
 - (d) None of these
44. Fluctuation in economic activities according to Keynes are due to :
- (a) Innovations
 - (b) changes in money supply
 - (c) Fluctuation in aggregate effective demand
 - (d) Fluctuation in government spending
45. Demand for Electricity is elastic because
- (a) it is very expensive
 - (b) it has alternative uses
 - (c) it has a number of close Substitute.
 - (d) None of these
46. The effectiveness of fiscal policy is limited by:
- a) Time lags in implementation

- (b) Lack of flexibility in government expenditure
 - (c) Political constraints
 - (d) All of the above
47. Internal public debt refers to:
- (a) Loans taken from international financial institutions
 - (b) Government borrowing from domestic sources
 - (c) Borrowing from foreign investors
 - (d) Foreign direct investment (FDI)
48. Redistribution of income by the government is primarily done through:
- (a) Progressive taxation and social welfare programs
 - (b) Privatization of public enterprises
 - (c) Increase in indirect taxes
 - (d) Encouraging monopolistic practices
49. The Finance Commission is responsible for:
- (a) Allocating financial resources between the Union and the States
 - (b) Preparing the Union Budget
 - (c) Controlling the Reserve Bank of India
 - (d) Regulating stock markets
50. Which of the following is NOT a function of NITI Aayog?
- (a) Policy formulation and coordination
 - (b) Allocation of financial resources to states
 - (c) Promoting cooperative federalism
 - (d) Serving as a think tank for the government
51. Under Article 112, the Annual Financial Statement is presented in which house of Parliament first?
- (a) Lok Sabha
 - (b) Rajya Sabha
 - (c) Joint Session of Parliament

- (d) Finance Committee
- 52. Which of the following is a potential benefit of Foreign Direct Investment (FDI) for the host country?
 - (a) Increased inflation due to higher government expenditure
 - (b) Reduction in technological transfer to local industries
 - (c) Creation of employment opportunities and skill development
 - (d) Increased dependence on foreign companies for resources
- 53. According to the Heckscher-Ohlin theory, a country will have a comparative advantage in the production of goods that:
 - (a) Require labour-intensive techniques if the country has a surplus of capital.
 - (b) Utilize abundant factors of production that the country has in large supply.
 - (c) Require advanced technology in which the country is technologically superior.
 - (d) Require high labor costs in a country with low wages.
- 54. Production of milk is included in which sector?
 - (a) Tertiary sector
 - (b) Service sector
 - (c) Primary sector
 - (d) Secondary sector
- 55. Which of the following is the primary objective of bilateral trade agreements?
 - (a) To create trade barriers between the two countries involved
 - (b) To establish free trade between two countries by eliminating tariffs and restrictions
 - (c) To focus on mutual military cooperation between the countries
 - (d) To standardize monetary policies between two countries
- 56. Agricultural goods markets depict characteristics close to:
 - (a) Perfect competition.
 - (b) Oligopoly.
 - (c) Monopoly.
 - (d) Monopolistic competition.

57. Monopsony means _____
- (a) Where there are large firms
 - (b) There is a single buyer
 - (c) Small number of large buyers
 - (d) Single seller and single buyer
58. Which of the following is incurred first?
- (a) Historical Cost
 - (b) Replacement Cost
 - (c) Realized Value
 - (d) None of these
59. The Great Depression occurred during:
- (a) 1919-23
 - (b) 1929-33
 - (c) 1949-53
 - (d) 1901-05
60. The burden of long-term public debt falls on:
- (a) Present generation
 - (b) Past generation
 - (c) Future generation
 - (d) All
61. The strategy of agricultural development in India before green revolution was
- (a) High yielding varieties of seeds and chemical fertilizers to boost productivity
 - (b) Institutional reforms such as land reforms
 - (c) Technological up gradation of agriculture
 - (d) All the above
62. The transaction motive for holding money implies that money is held to:
- (a) Make speculative investments in financial markets

- (b) Provide liquidity for daily transactions and purchases
 - (c) Protect wealth against inflationary risks
 - (d) Save for future investment in assets
63. In the context of trade negotiations, the term “Most-Favoured-Nation (MFN)” status refers to:
- (a) A preferential treatment granted to one country over others in trade agreements.
 - (b) The obligation to trade exclusively with a particular country.
 - (c) A policy that allows countries to impose tariffs on imports from specific nations.
 - (d) A requirement to offer the same trade terms to all trading partners.
64. Which of the following is the most important source of India’s foreign exchange earnings?
- (a) Industrial exports
 - (b) Remittances from Indians working abroad
 - (c) Tourism
 - (d) Services exports, especially IT and software
65. Which of the following statements is correct regarding business cycles?
- (a) Business cycles are contagious and international in character.
 - (b) Business cycles begin in one country and spread to other countries through trade relations.
 - (c) Business cycles have serious consequences on well-being of the societies.
 - (d) All of the above
66. Decrease in input demand _____.
- (a) Doesn’t affect inputs prices
 - (b) Pushes inputs prices up
 - (c) Pulls inputs prices down
 - (d) Either (b) or (c)
67. During business cycles the opposite of a peak is _____.
- (a) an inflation
 - (b) a hyperinflation

- (c) a trend
 - (d) a trough
68. Nicholas Kaldor propounded _____
- (a) Nocholas theory
 - (b) Kaldor Theory
 - (c) Cobweb theory
 - (d) Cobb-Douglas theory
69. Repercussions of business cycles get _____ felt on nearly all economic variables.
- (a) alternatively
 - (b) simultaneously
 - (c) one by one
 - (d) All of the above
70. Different business cycles _____ in duration and intensity.
- (a) differ
 - (b) similar
 - (c) consistent
 - (d) Can't say
71. Peak is the _____ stage of expansion.
- (a) Later
 - (b) Earlier
 - (c) Either (A) or (B)
 - (d) None of the above
72. Which one of the following is not an internal cause of business cycles?
- (a) Money supply
 - (b) Technology shocks
 - (c) Psychological factors
 - (d) Fluctuations in investment

73. Which of the following is a differentiated product?
- (a) A hamburger
 - (b) A shirt
 - (c) An automobile
 - (d) All of the above
74. If the market demand curve for a commodity has a negative slope then the market structure must be:
- (a) Perfect competition
 - (b) Monopoly
 - (c) Imperfect competition
 - (d) The market structure cannot be determined as the information is insufficient
75. The market demand curve for a perfectly competitive industry is: $Q_d = 12 - 2P$ and the market supply curve is: $Q_s = 3 + P$. The market will be in equilibrium if
- (a) $P = 6$ and $Q = 9$
 - (b) $P = 5$ and $Q = 2$
 - (c) $P = 4$ and $Q = 4$
 - (d) $P = 3$ and $Q = 6$
76. The short run supply curve of a perfectly competitive firm is equal to
- (a) That portion of the short run marginal cost curve that is above the average variable cost curve
 - (b) That portion of the short run marginal cost curve that is above the average total cost curve
 - (c) That portion of the short run average total cost curve that is above the average variable cost curve
 - (d) None of the above is correct.
77. Marginal revenue is equal to the price under
- (a) Monopoly market structure
 - (b) Oligopoly form of market
 - (c) Monopolistically competitive market

- (d) Perfect competition
- 78. When demand increases and supply decreases,
 - (a) the equilibrium price and quantity both rise
 - (b) the equilibrium price and quantity both fall
 - (c) the equilibrium price rises but nothing certain can be said about the change in equilibrium quantity.
 - (d) the equilibrium quantity rises but nothing certain can be said about the change in equilibrium price.
- 79. Isoquant in the relevant range are:
 - (a) Convex to the Origin
 - (b) Negatively Sloped
 - (c) Cannot cross
 - (d) All of the Above
- 80. For Giffen good the angle Curve is :
 - (a) Vertical
 - (b) Horizontal
 - (c) Negatively Sloped
 - (d) Positively Sloped
- 81. Demand for a commodity with negative income elasticity indicates that as income falls the amount of the commodity purchased
 - (a) falls
 - (b) rises
 - (c) remain unchanged
 - (d) None of these
- 82. Normative economics can be explained through:
 - (a) Fairness to tax
 - (b) Incidence to tax
 - (c) Effect of tax on incentives to work

- (d) None of these
- 83. Entry of new firm in monopoly is :
 - (a) Possible only in the long run
 - (b) Possible only in the short run
 - (c) Restricted at all times
 - (d) Both (a) and (b)
- 84. The market price cannot be influenced by a seller under :
 - (a) Monopolistic Competition
 - (b) Monopoly
 - (c) Perfect Competition
 - (d) All the above
- 85. There is an inverse relation between price and demand for the products of a firm under:
 - (a) Monopoly only
 - (b) Monopolistic Competition only
 - (c) Both Monopoly and Monopolistic Competition
 - (d) Perfect competition
- 86. Price elasticity of demand under monopoly is _____
 - (a) Infinity
 - (b) Equal to one
 - (c) Less than one
 - (d) None of these
- 87. Business Economics in its approach is
 - (a) Pragmatic
 - (b) Idealistic
 - (c) Normative
 - (d) None of these

88. 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
89. 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
90. 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
91. Which of the following statement is correct concerning the relationship among the firm's cost function:
- (a) $TC = TVC - TFC$
 - (b) $TFC = TC - TVC$
 - (c) $TC = TFC - TVC$
 - (d) $TVC = TFC - TC$
92. The marginal utility from last unit consumed of commodity Y = 50 Units and $MU_m = 10$. The consumer is in equilibrium and consuming commodity y only. Find the Price of Commodity Y—
- (a) 5
 - (b) 10
 - (c) 40
 - (d) None of these

93. The price in collusive oligopoly is decided by:
- (a) firm
 - (b) price leader
 - (c) industry
 - (d) none of these
94. The Government offer minimum assured price to the farmers to purchase their output is called:
- (a) market Price
 - (b) support Price
 - (c) equilibrium Price
 - (d) ceiling Price
95. What are the internal causes of business cycle?
- (a) fluctuations in effective demand.
 - (b) macroeconomic policies
 - (c) money Supply
 - (d) All the above
96. 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
97. 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.
98. Which of these country is a purely socialist economy?
- (a) USSR

- (b) China
 - (c) Vietnam
 - (d) None of these
99. 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
100. The Book "The Wealth of Nations" is written by:
- (a) Adam Smith
 - (b) Arthur Pigou
 - (c) Robinson
 - (d) Ragnar Nurske

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FOUNDATION COURSE

PAPER 4: BUSINESS ECONOMICS

ANSWERS

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