

CODE : CFP 401

MARKS : 100

CA FOUNDATION  
BUSINESS ECONOMICS

SYLLABUS : FULL

TIME ALLOWED : 2 HOURS

1. The marginal product of a firm is :
  - (a) Product of efficient workers of a firm
  - (b) Product of average workers of a firm
  - (c) Additional output by employing an additional unit of a factor
  - (d) All of the above
2. Dumping is related to which market:
  - (a) Perfect Competition
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) None of the above
3. The profit maximizing condition for monopolist in two market, A and B is:
  - (a)  $MR = MC_a = MC_b$
  - (b)  $MC = MR_a = MR_b$
  - (c)  $AR = MR_a = MR_b$
  - (d) None of the above
4. In the case of monopoly:
  - (a) MR curve cannot be defined
  - (b) AR curve cannot be defined
  - (c) The short run supply curve cannot be defined
  - (d) None of the above
5. The demand curve facing an industrial firm under monopoly is
  - (a) horizontal straight line
  - (b) indeterminate
  - (c) downward sloping
  - (d) upward sloping
6. In perfect competition the firm's \_\_\_\_\_ above AVC has the identical shape of the firm's supply curve
  - (a) Marginal revenue curve
  - (b) Marginal cost curve
  - (c) Average cost curve
  - (d) None of the above
7. A non discriminating monopolist will find that marginal revenue \_\_\_\_\_
  - (a) exceeds average revenue or price
  - (b) is identical to price
  - (c) is sometimes greater and sometimes less than price
  - (d) is less than average revenue or price
8. A perfectly competitive firm has control over
  - (a) price
  - (b) production as well as price
  - (c) production, price and consumers
  - (d) none of the above
9. Price discrimination is not possible:
  - (a) under monopoly situation
  - (b) under any market firm
  - (c) under monopolistic competition
  - (d) under perfect competition
10. At the point of inflexion, TP will generally.
  - (a) Show increases trend
  - (b) Show decreasing trend
  - (c) Equal to Zero
  - (d) be negative

11. Which of the following is true in respect of centre and state government finances?  
 (a) The centre can tax agricultural income and mineral rights  
 (b) Finance commission recommends distribution of taxes between the centre and states  
 (c) GST subsumes majority of direct taxes and a few indirect taxes  
 (d) IGST is collected by the state governments
12. In Keynesian Theory the market value of bonds and the market rate of interest are \_\_\_\_\_  
 (a) Positively Related (b) Inversely Related  
 (c) Not Related (d) None of the above
13. Which of the following systems is followed by Reserve Bank of India for issuing currency?  
 (a) Proportionate system (b) Simple deposit system  
 (c) Minimum reserve system (d) Fixed fiduciary issue system
14. In December 1993 in the Uruguay Round, how many countries participated?  
 (a) 151 (b) 164 (c) 123 (d) 139
15. Mixed income of the self-employed means  
 (a) net profits received by self-employed people  
 (b) outside wages received by self-employed people  
 (c) combined factor payments which are not distinguishable,  
 (d) wages due to non-economic activities
16. Which sector was the major contributor to GDP of the country as well as the biggest employer on the eve of independence?  
 (a) Agriculture (b) Industry (c) Services (d) Manufacturing
17. Industrial sector reforms under the New Economic Policy (NEP) comprised which of the following?  
 (a) Abolition of industrial licencing (b) De-reservation of production areas  
 (c) Contraction of public sector (d) All of these
18. The impact of an externality is:  
 (a) positive (b) negative  
 (c) either positive or negative (d) neither positive nor negative
19. Which of the following statements is true?  
 (a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency  
 (b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency  
 (c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.  
 (d) All the above
20. Dirty floating is related to:  
 (a) fixed system of exchange rate (b) flexible system of exchange rate  
 (c) both of these (d) none of these
21. Landholdings at the time of independence were:  
 (a) fragmented (b) large (c) small (d) both (a) and (c)
22. If MPC = MPS, the value of multiplier will be:  
 (a) 0 (b) 1 (c) 2 (d)  $\infty$
23. FIPB stands for \_\_\_\_\_?

- (a) Foreign Investment Processing Board (b) Foreign Investment Promotion Board  
(c) Foreign Institutional Promotion Board (d) Foreign Industrial Payment Board
24. Demand has reference to  
(a) a given period of time (b) a given price  
(c) a given price and particular time (d) none of the above
25. The law of demand is the one which  
(a) can be completely discarded  
(b) has numerous exemptions and therefore not helpful  
(c) cannot be verified and therefore unrealistic  
(d) is of fundamental importance and leads to broad conclusions.
26. Geometric method is also known as :  
(a) Arc Method (b) Point Method  
(c) Inductive Method (d) Deductive Method
27. The falling part of TU curve shows :  
(a) Falling Marginal Utility (b) Zero Marginal Utility  
(c) Negative Marginal Utility (d) Rising Marginal Utility
28. If increase in supply is greater than increase in demand, then the equilibrium price :  
(a) Decrease (b) Increase  
(c) Does not change (d) Cannot be determined
29. Private cost's are \_\_\_\_\_  
(a) Explicit in nature (b) Implicit in nature  
(c) Both a and b (d) Neutral
30. In monopoly the elasticity is \_\_\_\_\_  
(a) Highly Elastic (b) Inelastic  
(c) Unitary Elastic (d) None of the above
31. Supply of industrial products is :  
(a)  $e > 1$  (b)  $e < 1$  (c)  $e = 1$  (d)  $e = 0$
32. Purchasing Power refers to :  
(a) Desire to buy the product (b) Necessity to buy the product  
(c) Ability to buy the product (d) Utility of the product
33. At a price of Rs. 300 per month, there are 30,000 subscribers to Cable TV in a Small Town. If the Cable Company raises its price to Rs. 400 per month, the number of subscribers will fall to 20,000. What is the Price Elasticity of Demand for Cable TV ?  
(a) 1.4 (b) 0.66 (c) 0.75 (d) 2.0
34. Average total cost to firm is Rs. 600 when it produces 10 units of output and Rs. 640 when the output is 11 units. The MC of the 11th unit is:  
(a) 40 (b) 540 (c) 840 (d) 1040
35. Under Total Outlay Method, if as a result of the decrease in price of a product, the total expenditure on the product rises, we say that Price Elasticity of Demand is:  
(a) Equal to unity (b) Greater than unity  
(c) Less than unity (d) Zero
36. The phase of business cycle in which growth rate becomes negative and the level of national income and



- (b) a relative large increase in price, a relatively smaller increase in GDP  
(c) both GDP and price will be increasing in the same proportion  
(d) both GDP and price will be increasing in a smaller proportion
- 48.** Under tariff rate quota
- (a) countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement  
(b) a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate  
(c) lower tariff is charged from goods imported from a country which is given preferential treatment  
(d) none of the above
- 49.** Gross National Product at market prices GNP MP is
- (a) GDP MP + Net Factor Income from Abroad      (b) GDP MP - Net Factor Income from Abroad  
(c) GDP MP - Depreciation      (d) GDP MP + Net Indirect Taxes
- 50.** Dumping refers to:
- (a) Reducing tariffs  
(b) Sale of goods abroad at a lower price, below their cost and price in their home market  
(c) Buying goods at low prices abroad and selling at higher prices locally  
(d) Expensive goods selling for low prices
- 51.** A firm that makes profit in excess of normal profit is earning
- (a) Economic profit      (b) Costing profit  
(c) Normal profit      (d) Super normal profit
- 52.** Which of the approach helps to explain the law of demand?
- (a) Cardinal Approach      (b) Ordinal Approach  
(c) Both (a) and (b)      (d) Neither (a) not (b)
- 53.** The total area under the demand curve of a product measures-
- (a) Marginal utility      (b) Total utility  
(c) Consumer's Surplus      (d) Producers' Surplus
- 54.** Scarcity in Economics is an :
- (a) Absolute Concept      (b) Relative Concept  
(c) Irrelevant Concept      (d) Not a Concept at all.
- 55.** Which of the following influence most the price level in the very short-run period?
- (a) Demand      (b) Supply      (c) Cost      (d) Production
- 56.** Which of the following is an example of economies of scale?
- (a) As the computer industry has expanded, the number of professionally trained computer programmers has also increased, which has caused the salaries of computer programmers to increase.  
(b) To attract firms to locate in its state, the state government reduced the tax rate that businesses must pay on its profits, thus lowering the costs to firms who locate in the state.  
(c) As the demand for calculators increased, the price of calculators actually fell.  
(d) None of these
- 57.** Which is true statement?
- (a) Decreasing returns to scale and diminishing returns to production are two ways of stating the same thing.  
(b) Increasing returns to scale is a short-run concept, and diminishing returns to production is a long-run concept  
(c) Constant returns to scale is a short-run concept, and decreasing returns to scale is a long-run concept

- (d) None of the above is true
58. Charging different prices from different consumers for same product is \_\_\_\_\_  
 (a) first degree price discrimination (b) second degree price discrimination  
 (c) third degree price discrimination (d) all of the above
59. Equilibrium is defined as a situation in which :  
 (a) No government regulations exist  
 (b) Neither buyers nor sellers want to change their behaviour  
 (c) Demand curves are perfectly horizontal  
 (d) Suppliers will supply any amount that buyers wish to buy
60. If firms can neither enter nor leave an industry, the relevant time period is :  
 (a) Short run (b) Intermediate run  
 (c) Long run (d) Immediate run
61. Economic is classified into \_\_\_\_\_.  
 (a) Normative & positive (b) Micro & Macro  
 (c) Internal & External (d) None of the above
62. Which of the following is the central problem of economy.  
 (a) Scarcity of resources (b) Unemployment  
 (c) Poverty (d) Inflation
63. Which of the following refers to the sum total of arrangements for the product and distribution of goods and services in society?  
 (a) Economic System (b) Business System  
 (c) Capitalist Economic System (d) Socialist Economic System
64. Which of the following is one of the merits of socialism  
 (a) importance given to personal efficiency (b) importance given to productivity  
 (c) Incentive for economic decisions (d) Rapid growth and balanced economic development
65. Producer surplus arises when  
 (a) The price of the product is less than the minimum price at which they would be prepared to supply the product.  
 (b) The price of a product is equal to the minimum price at which they would be prepared to supply the product  
 (c) the price of a product is greater than the minimum price at which they would be prepared to supply the product  
 (d) The price of a product is equal to the marginal cost of the product
66. Opportunity cost is \_\_\_\_\_  
 (a) Recorded in the books of accounts (b) Sacrificed alternative  
 (c) Both a & B (d) None of the above
67. For 15 units of output, average cost was Rs. 250 and fixed cost per unit of output was 125, then the average variable cost per unit at 15 units?  
 (a) 25 (b) 50 (c) 125 (d) 250
68. Which of the following statements is false in respect of fixed cost of a firm?  
 (a) As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.  
 (b) TFC continue to exist even when production is stopped in the short run, but they exist in the long run even

when production is not stopped.

- (c) Total Fixed Costs (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with production in the short run.  
 (d) In the short run, a firm's fixed cost cannot be escaped even when production is stopped.

69. The nominal and real GDP respectively of a country in a particular year are Rs. 3000 Crores and Rs. 4700 Crores respectively. Calculate GDP deflator  
 (a) 63.83 (b) 65.29 (c) 62.67 (d) 58.27

70. Calculate the Operating Surplus with the help of following data-

Particulars	Rs. in Crores
Sales	4000
Compensation of employees	800
Intermediate consumption	600
Rent	400
Interest	300
Net indirect tax	500
Consumption of Fixed Capital	200
Mixed Income	400

- (a) 1200 (b) 1500 (c) 1300 (d) 1600

71. 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) 120 (b) 125 (c) 150 (d) 135

72. Suppose in a country investment increases by Rs. 100 Crores and consumption is given by  $C = 10 + 0.6Y$  (where  $C$  = consumption and  $Y$  = income). How much increases will there take place in income?

- (a) 600 (b) 250 (c) 400 (d) 350

73. Suppose the structural model of an economy is given –

$C = 100 + 0.75Y_d$ ;  $I = 200$ ,  $G = T = 100$ ;  $TR = 50$ , find the equilibrium level of income?

- (a) 1250 (b) 1350 (c) 1450 (d) 1550

74. The consumption function is  $C = 40 + 0.8Y_d$ ,  $T = 0.1Y$ ,  $I = 60$  Crores  $G = 40$  Crores,  $X = 58$  and  $M = 0.05Y$ . Find out equilibrium level of income

- (a) 250 (b) 500 (c) 450 (d) 600

75. Non-economic activities are

- (a) those activities whose value is excluded from national income calculation as it will involve double counting  
 (b) those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value  
 (c) those which do not involve production of goods and services as they are meant to provide hobbies and leisure time activities  
 (d) those which result in production for self consumption and therefore not included in national income calculation

76. The Cambridge approach to quantity theory is also known as

- (a) Cash balance approach (b) Fisher's theory of money  
 (c) Classical approach (d) Keynesian Approach

77. The first wave of liberalization starts in India

- (a) In 1951 (b) In 1980's (c) In 1990 (d) In 1966

- 78.** Choose the correct statement
- (a) GNP includes earnings of Indian corporations overseas and Indian residents working overseas; but GDP does not include these
  - (b)  $NNPFC = \text{National Income} = \text{FID (factor income earned in domestic territory)} - \text{NFIA}$ .
  - (c) Capital goods and inventory investment are excluded from computation of GDP
  - (d)  $NDPMP = \text{GDPMP} + \text{Depreciation}$
- 79.** \_\_\_\_\_ is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.
- (a) OMO
  - (b) CRR
  - (c) SLR
  - (d) Repo
- 80.** FAME-India Scheme aims to
- (a) Enhance faster industrialization through private participation
  - (b) to promote manufacturing of electric and hybrid vehicle technology
  - (c) to spread India's fame among its trading partners
  - (d) None of the above
- 81.** Break-even point occurs when:
- (a)  $Y = S$
  - (b)  $S = 0$
  - (c)  $Y = C$
  - (d) both (b) and (c)
- 82.** The production and consumption of demerit goods are
- (a) likely to be more than optimal under free markets.
  - (b) likely to be less than optimal under free markets
  - (c) likely to be subjected to price intervention by government
  - (d) (a) and (c) above
- 83.** Which of the following is an example of transfer payment?
- (a) Old age pensions and family pensions
  - (b) Scholarships given to deserving diligent students.
  - (c) Compensation given for loss of property due to floods
  - (d) All of the above
- 84.** During deflation
- (a) the RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
  - (b) the RBI increases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
  - (c) the RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy
  - (d) the RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy
- 85.** If entire additional income is converted into additional consumption, the value of multiplier will be:
- (a) 2
  - (b) 0
  - (c) 1
  - (d)  $\infty$
- 86.** Identify which of the following statement is correct:
- (a) British colonial rule made India net importer of raw material
  - (b) The real motive behind infrastructure development by Britishers was to serve the people of India
  - (c) India generated large export surplus during the British rule
  - (d) Indian handicraft industry enjoyed world-wide reputation under the British rule
- 87.** The precautionary money balances people want to hold

- (a) as income elastic and not very sensitive to rate of interest
- (b) as income inelastic and very sensitive to rate of interest
- (c) are determined primarily by the level of transactions they expect to make in the future.
- (d) are determined primarily by the current level of transactions

88. Who is the author of the book "The Theory of Public Finance"?

(a) Dalton (b) R A Musgrave (c) A.R. Prest (d) Harvey Rosen

89. Hedging is possible in:

(a) spot market (b) forward market  
 (c) managed floating system (d) none of these

90. M1 is the sum of

(a) currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.  
 (b) currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.  
 (c) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI  
 (d) none of the above

91. GDP Deflator =

(a)  $\frac{\text{Real Income}}{\text{Nominal Income}} \times 100$  (c)  $\frac{\text{Real Income}}{\text{Population}} \times 100$   
 (b)  $\frac{\text{Nominal Income}}{\text{Real Income}} \times 100$  (d) None of these

92. Which industry of India got severely affected under the colonial rule?

(a) Sugar industry (b) Iron & Steel industry  
 (c) Handicraft industry (d) Paper industry

\* **FOR 93 TO 95**

The following hypothetical figures relate to country A

	Rs. Crores
Revenue receipts	20,000
Recovery of loans	1,500
Borrowing	15,000
Other Receipts	5,000
Expenditure on revenue account	24,500
Expenditure on capital account	26,000
Interest payments	2,000

93. The revenue deficit for country A is

(a) 5,000 (b) 24,000 (c) 4,500 (d) None of the above

94. Fiscal deficit of country A is

(a) 14,000 (b) 24,000 (c) 23,500 (d) None of the above

95. Primary deficit of Country A is

(a) 26,000 (b) 26,500 (c) 22,000 (d) 24,500

96. An argument in favour of direct foreign investment is that it tends to

(a) promote rural development (b) increase access to modern technology

(c) protect domestic industries (d) keep inflation under control

97. Which of the following fiscal remedy would you advice when an economy is facing recession

- (a) the government may cut interest rates to encourage consumption and investment
- (b) the government may cut taxes to increase aggregate demand
- (c) the government may follow a policy of balanced the budget.
- (d) None of the above will work

98. The post independence economic policy was rooted in -

- (a) A capitalist mode of production with heavy industrialization
- (b) social and economic redistribution and industrialization directed by the state
- (c) social and economic redistribution through private sector initiatives
- (d) Industrialization led by private entrepreneurs and redistribution by state

99. If commercial banks reduce their holdings of excess reserves

- (a) the monetary base increases. (b) the monetary base falls.
- (c) the money supply increases. (d) the money supply falls.

100. Which of the following statement is false in respect of FPI?

- (a) portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments
- (b) is effected largely by individuals and institutions through the mechanism of capital market
- (c) is difficult to recover as it involves purely long-term investments and the investors have controlling interest
- (d) investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.

-0-0-0-0-0-0-0-0-0-0-