

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER 4: BUSINESS ECONOMICS AND BUSINESS AND COMMERCIAL KNOWLEDGE

PART- I: BUSINESS ECONOMICS

QUESTIONS

1. Which of the following statements is correct?
 - (a) The Law of Demand states positive relationship between price and quantity demanded.
 - (b) The Law of Supply states positive relationship between price and quantity supplied.
 - (c) As per the Law of diminishing returns as the consumption of any commodity is increased, the average returns start diminishing.
 - (d) None of the above
2. The branch of economic theory that deals with the problem of allocation of resources is
 - (a) Micro-Economic theory
 - (b) Macro-economic theory
 - (c) Econometrics
 - (d) none of the above
3. Choice is created by the-
 - (a) Abundance of resources
 - (b) Scarcity of resources
 - (c) Urgency of needs
 - (d) Non-Availability of resources
4. Which of the following statements would you consider to be a normative one?
 - (a) Faster economic growth should result if an economy has a higher level of investment.
 - (b) Changing the level of interest rates is a better way of managing the economy than using taxation and government expenditure.
 - (c) Higher levels of unemployment will lead to higher levels of inflation.
 - (d) The average level of growth in the economy was faster in the 1990s than the 1980s.
5. Which of the following is not within the scope of Business Economics?
 - (a) Capital Budgeting
 - (b) Risk Analysis
 - (c) Business Cycles
 - (d) Accounting Standards
6. A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of
 - (a) Macro-Economics
 - (b) Descriptive Economics
 - (c) Micro-economics

- (d) Normative economics
7. Excess capacity is not found under _____
- (a) Monopoly
 - (b) Monopolistic competition
 - (c) Perfect competition.
 - (d) Oligopoly
8. Administered prices refer to:
- (a) Prices determined by forces of demand and supply
 - (b) Prices determined by sellers in the market
 - (c) Prices determined by an external authority which is usually the government
 - (d) None of the above
9. If the price of Orange Juice increases, the demand for Apple Juice will _____.
- (a) increase
 - (b) decrease
 - (c) remain the same
 - (d) become negative.
10. If good growing conditions increases the supply of strawberries and hot weather increases the demand for strawberries, the quantity of strawberries bought
- (a) increases and the price might rise, fall or not change.
 - (b) does not change but the price rises.
 - (c) does not change but the price falls.
 - (d) increases and the price rises.
11. If increasing air fares increases revenues and decreasing them decreases revenues, then the demand for air travel has a price elasticity of:
- (a) Zero
 - (b) Greater than zero but less than one
 - (c) One
 - (d) Greater than one
12. Suppose income of the residents of locality increases by 50% and the quantity of gel pens demanded increases by 20%. What is income elasticity of demand for gel pen?
- (a) 0.4
 - (b) 0.6
 - (c) 1.25
 - (d) 1.50
13. The difference between Positive and Normative Economics is:
- (a) Positive Economics explains the performance of the economy while Normative Economics finds out the reasons for poor performance.
 - (b) Positive Economics describes the facts of the economy while Normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.

- (c) Normative Economics describes the facts of the economy while Positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.
- (d) Positive Economics prescribes while Normative Economics describes.
14. What will happen in the rice market if buyers are expecting higher rice prices in the near future?
- (a) The demand for rice will increase.
- (b) The demand for rice will decrease.
- (c) The demand for rice will be unaffected.
- (d) None of the above
15. Capital intensive techniques would get chosen in a
- (a) Labour surplus economy where the relative price of capital is lower.
- (b) Capital surplus economy where the relative price of capital is lower.
- (c) Developed economy where technology is better.
- (d) Developing economy where technology is poor.
16. Suppose potatoes have (-) 0.4 as income elasticity. We can say from the data given that:
- (a) Potatoes are inferior goods.
- (b) Potatoes are superior goods.
- (c) Potatoes are necessities.
- (d) There is a need to increase the income of consumers so that they can purchase potatoes.
17. The cross elasticity between Rye bread and Whole Wheat bread is expected to be:
- (a) positive
- (b) negative
- (c) zero
- (d) can't say
18. In a very short period, the supply
- (a) can be changed.
- (b) cannot be changed.
- (c) can be increased.
- (d) none of the above
19. Exploitation and inequality are minimal under:
- (a) Socialism
- (b) Capitalism
- (c) Mixed economy
- (d) None of the above
20. Suppose the income elasticity of education in private school in India is 1.8. What does this indicate:
- (a) Private school education is a luxury.
- (b) Private school education is a necessity.
- (c) Private school education is an inferior commodity.
- (d) We should have more private schools.

21. Marginal product, mathematically, is the slope of the
- total product curve.
 - average product curve.
 - marginal product curve.
 - implicit product curve.

Read the below table and answer Questions number 22-24

	% Change in price	% change in quantity demanded (quantity supplied)	Elasticity
Demand for salt	20	-1	x
Demand for bananas	15	Y	3
Supply of chicken	z	14	1

22. Refer the above table and find the value of x.
- 20
 - 0.05
 - 1
 - Can not be determined
23. Refer the above table and find the value of y.
- 5
 - 15
 - 45
 - 3
24. Refer the above and find the value of z.
- 14
 - 1
 - 0.07
 - 5
25. Suppose that a sole proprietorship is earning total revenues of Rs. 1, 00,000 and is incurring explicit costs of Rs. 75,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that :
- The firm is incurring an economic loss.
 - Implicit costs are Rs. 25,000.
 - The total economic costs are Rs. 1,00,000.
 - The individual is earning an economic profit of Rs. 25,000.
26. When a market is in equilibrium:
- No shortages exist.
 - Quantity demanded equals quantity supplied.
 - A price is established that clears the market.
 - All of the above are correct.

27. Agricultural goods markets depict characteristics close to
- (a) Perfect competition.
 - (b) Oligopoly.
 - (c) Monopoly.
 - (d) Monopolistic competition.
28. "I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses, his behavior in the short run is:
- (a) Rational, if the firm is covering its variable cost
 - (b) Rational, if the firm is covering its fixed cost
 - (c) Irrational, since plant closing is necessary to eliminate losses
 - (d) Irrational, since fixed costs are eliminated if a firm shuts down
29. Monopolies are allocatively inefficient because:
- (a) They restrict the output to keep the price higher than under perfect competition.
 - (b) They charge a price higher than the marginal cost.
 - (c) Both (a) and (b) are correct.
 - (d) Both (a) and (b) are incorrect.
30. Economic costs of production differ from accounting costs of production because
- (a) Economic costs include expenditures for hired resources while accounting costs do not.
 - (b) Accounting costs include opportunity costs which are deducted later to find paid out costs.
 - (c) Accounting costs include expenditures for hired resources while economic costs do not.
 - (d) Economic costs add the opportunity cost of a firm which uses its own resources.
31. When $e = 1$ then MR is
- (a) positive
 - (b) zero
 - (c) one
 - (d) negative
32. Which of the following statements is correct?
- (a) Fixed costs vary with change in output.
 - (b) If we add total variable cost and total fixed cost we get the average cost.
 - (c) Marginal cost is the result of total cost divided by number of units produced.
 - (d) Total cost is obtained by adding up the fixed cost and total variable cost.
33. If the quantity of blankets demanded increases from 4600 to 5700 in response to a decrease in their price from Rs. 220 to Rs. 190, the price elasticity of demand for blankets is
- (a) 0.69
 - (b) 1.0
 - (c) 1.46
 - (d) 2.66

34. Which of the following involve a trade-off?
- (a) Taking a nap
 - (b) all of these answers involve trade-offs.
 - (c) Watching a football game on Saturday afternoon
 - (d) Going to university
35. If demand for goods and services is more than their supply, the resultant inflation is :
- (a) Cost push inflation.
 - (b) stagflation
 - (c) deflation.
 - (d) demand pull inflation.
36. The lowest point in the business cycle is referred to as the
- (a) Expansion.
 - (b) Boom.
 - (c) Peak.
 - (d) Trough
37. Suppose that at a price of Rs. 300 per month, there are 30,000 subscribers to cable television in Small Town. If Small Town Cablevision raises its price to Rs. 400 per month, the number of subscribers will fall to 20,000. Using the arc elasticity (midpoint) method for calculating the elasticity, what is the price elasticity of demand for cable TV in Small Town?
- (a) 1.4
 - (b) 0.66
 - (c) 0.75
 - (d) 2.0
38. If there are implicit costs of production:
- (a) economic profit will be equal to accounting profit.
 - (b) economic profit will be less than accounting profit.
 - (c) economic profits will be zero.
 - (d) economic profit will be more than accounting profit.
39. In the long-run, some firms will exit the market if the price of the good offered for sale is less than:
- (a) marginal revenue.
 - (b) marginal cost.
 - (c) average total cost.
 - (d) average revenue.
40. The most important function of an entrepreneur is to _____.
- (a) Innovate
 - (b) Bear the sense of responsibility
 - (c) Finance
 - (d) Earn profit

41. If as a result of 50 per cent increase in all inputs, the output rises by 75 per cent, this is a case of:
- (a) increasing returns of a factor
 - (b) increasing returns to scale
 - (c) constant returns to a factor
 - (d) constant returns to scale
42. Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards. is called-
- (a) Leading indicators
 - (b) Indicators
 - (c) Lagging Indicators
 - (d) None of these
43. A significant decline in general economic activity extending over a period of time is-
- (a) Business cycle
 - (b) Contraction phase
 - (c) Recession
 - (d) Recovery
44. In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience
- (a) an increase in pollution level.
 - (b) diseconomies of scale.
 - (c) economies of scale.
 - (d) constant returns to scale.
45. Which of the following statements is incorrect?
- (a) The LAC curve is also called the planning curve of a firm.
 - (b) Total revenue = price per unit × number of units sold.
 - (c) Opportunity cost is also called alternative cost.
 - (d) If total revenue is divided by the number of units sold we get marginal revenue
46. Which of the following is a variable cost in the short run?
- (a) rent of the factory.
 - (b) wages paid to the factory labour.
 - (c) interest payments on borrowed financial capital.
 - (d) payment on the lease for factory equipment.
47. Price discrimination will be profitable only if the elasticity of demand in different markets in which the total market has been divided is:
- (a) uniform
 - (b) different
 - (c) less
 - (d) zero

48. Suppose a firm is producing a level of output such that $MR > MC$, what should be firm do to maximize its profits?
- (a) The firm should do nothing.
 - (b) The firm should hire less labour.
 - (c) The firm should increase price.
 - (d) The firm should increase output.
49. Assume that when price is Rs. 20, the quantity demanded is 15 units, and when price is Rs. 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
- (a) Rs. 18
 - (b) Rs. 16
 - (c) Rs. 12
 - (d) Rs. 28
50. Diminishing marginal returns imply
- (a) decreasing average variable costs
 - (b) decreasing marginal costs
 - (c) increasing marginal costs
 - (d) decreasing average fixed costs
51. When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as
- (a) first degree of price discrimination
 - (b) second degree of price discrimination
 - (c) third degree of price discrimination
 - (d) none of the above.
52. The firm and the industry are one and the same in _____
- (a) Perfect competition
 - (b) Monopolistic competition
 - (c) Duopoly
 - (d) Monopoly
53. If the average cost is higher than the average revenue then the firm incurs _____
- (a) Normal profit
 - (b) Abnormal profit
 - (c) Loss
 - (d) No profit, no loss
54. Secular period is also known as
- (a) very short period
 - (b) short period
 - (c) very long period
 - (d) long period

55. Stock exchange market is an example of
- (a) unregulated market
 - (b) regulated market
 - (c) spot market
 - (d) none of the above
56. When $e < 1$ then MR is
- (a) negative
 - (b) zero
 - (c) positive
 - (d) one
57. According to _____ trade cycles occur due to onset of innovations.
- (a) Hawtrey
 - (b) Adam Smith
 - (c) J M Keynes
 - (d) Schumpeter
58. Economic recession shares all of these characteristics except.
- (a) Fall in the levels of investment, employment
 - (b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
 - (c) Investor confidence is adversely affected and new investments may not be forthcoming
 - (d) Increase in the price of inputs due to increased demand for inputs
59. A variable that tends to move later than aggregate economic activity is called
- (a) a leading variable.
 - (b) a coincident variable.
 - (c) a lagging variable.
 - (d) a cyclical variable.
60. Industries that are extremely sensitive to the business cycle are the
- (a) Durable goods and service sectors.
 - (b) Non-durable goods and service sectors.
 - (c) Capital goods and non-durable goods sectors
 - (d) Capital goods and durable goods sectors.

PAPER – 4 PART - II: BUSINESS AND COMMERCIAL KNOWLEDGE

QUESTIONS

Max. Marks: 40

61. Which of the following occupations requires rendering of services based upon specialised knowledge and membership of an accreditation and assessment body?
- (a) Employment
 - (b) Profession
 - (c) Business
 - (d) Agriculture
62. Threat is an:
- (a) Inherent capacity
 - (b) Strategic disadvantage
 - (c) Unfavourable condition
 - (d) None of the above
63. When did Microsoft begins its business in India?
- (a) 1990
 - (b) 1991
 - (c) 1995
 - (d) 1989
64. Which of the following policy is used to curtail all benefits related to some particular issue?
- (a) Restrictive
 - (b) Regulatory
 - (c) Facilitating
 - (d) Delegation
65. Which of the following is not a function of RBI?
- (a) Monetary Policy
 - (b) Fiscal Policy
 - (c) Custodian of Foreign Exchange Reserves
 - (d) Controller of Credit
66. A very large loan extended by a group of small banks to a single corporate borrower is called as which of the following?
- (a) Time Deposit
 - (b) Long term loan
 - (c) Annuities
 - (d) Syndicated loan
67. Which of the following is not a feature of LLP?
- (a) A legal entity separates from its partners.
 - (b) There is no limit on maximum number of partners.
 - (c) Every partner of LLP is the agent of the firm only.

- (d) Registrar of the firm (of the respective state) is the administering authority.
68. Which of the following is not a part of the economic environment?
- (a) Market and trade cycles
 - (b) Consumer buying patterns
 - (c) Strength of consumer spending
 - (d) Interest and exchange rates
69. Indane LPG is the product of which corporation of India?
- (a) IOCL
 - (b) NTPC
 - (c) ONGC
 - (d) PGCIL
70. In which of the following sector(s), FDI is prohibited at both routes?
- (a) Nidhi Company
 - (b) Media
 - (c) Real Estate
 - (d) Shell Company
71. Which one of the following is not the role of the Competition Commission of India?
- (a) To promote practices having adverse effect on competition.
 - (b) To promote and sustain competition in markets.
 - (c) To protect the interests of consumers and,
 - (d) To ensure freedom of trade carried on by other participants in markets in India.
72. The lowest price at which an owner is willing to sell his securities is called as which of the following?
- (a) Book Value
 - (b) Ask
 - (c) Annuity
 - (d) Bond
73. Which of the following is the concern relate to Business & Commercial Knowledge?
- (a) Sustainability
 - (b) Sociology
 - (c) Traditional
 - (d) Society at large
74. Which of the following tool is used for proactive and structured thinking in the process of decision making?
- (a) SWOT
 - (b) TOWS
 - (c) PEST
 - (d) PESTLE

75. Which bank provides the digital service PayZapp?
- (a) Axis Bank Limited
 - (b) HDFC Bank Limited
 - (c) ICICI Bank Limited
 - (d) State Bank of India
76. Reforms in Dowry Act and Divorce Act are the examples of:
- (a) Economic Reforms
 - (b) Cultural Reforms
 - (c) Commercial Reforms
 - (d) Socio-cultural Reforms
77. A reduction of 35 basis point will be equal to how much of the following?
- (a) 3.50%
 - (b) 0.35%
 - (c) 35%
 - (d) 0.035%
78. A series of payments of an equal amount at fixed intervals for a specified number of periods is called as which of the following?
- (a) Amortize
 - (b) Annuity due
 - (c) Annuity
 - (d) Arbitrage
79. A partnership may not be formed to carry on:
- (a) Any trade
 - (b) Occupation
 - (c) Profession
 - (d) Social enterprise
80. Relationship between organisation and environment can be described through:
- (a) Exchange of information
 - (b) Exchange of resources
 - (c) Exchange of influence and power
 - (d) All of the above
81. Jayesh Merchant is the CFO of which company?
- (a) Asian Paints Ltd.
 - (b) Ambuja Cements Ltd.
 - (c) Ultratech Cements Ltd.
 - (d) Mahindra & Mahindra

82. Selling a portion of ownership in a public enterprise to private parties is called as which of the following?
- (a) Delegation
 - (b) Divestment
 - (c) Displacement
 - (d) Disinvestment
83. Which of the following acts as an indicator of bank's liquidity and solvency position?
- (a) SLR
 - (b) CRR
 - (c) Repo rate
 - (d) Reserve Repo rate
84. A combination of several companies working together for a particular purpose is called as which of the following?
- (a) Competitive advantage
 - (b) Cross-selling
 - (c) Consortium
 - (d) Conglomerate Diversification
85. Which of the following statement is correct with respect to HUF?
- (a) HUF earns income from salary
 - (b) Four successive generations of an undivided
 - (c) HUF enjoys a separate entity status under Income tax act –1961
 - (d) All of the above
86. Read the following three statements:
- (i) The environment is constantly changing in nature.
 - (ii) Various environmental constituents exist in isolation and do not interact with each other.
 - (iii) The environment has a far reaching impact on organizations.
- From the combinations given below select an alternative that represents statements that are true:
- (a) (i) and (ii).
 - (b) (ii) and (iii)
 - (c) (i) and (iii)
 - (d) (i), (ii) and (iii)
87. NESTLE is a beverage partner with which of the following companies?
- (a) Coca-Cola India
 - (b) Pepsico India Holdings Pvt. Ltd.
 - (c) Red Bull India Pvt. Ltd
 - (d) Dabur India Ltd
88. FIPB stands for:
- (a) Foreign Institutional Promotion Board

- (b) Foreign Institutional Preparatory Board
 - (c) Foreign Investment Priority Board
 - (d) Foreign Investment Promotion Board
89. Which one of the following is an Indian Regulatory Body that facilitates business organizations?
- (a) EXIM Bank
 - (b) NABARD
 - (c) IRDA
 - (d) IFCI
90. A stock that provides constant dividends and stable earnings even in the period of economic slowdown is called as which of the following?
- (a) Debtors
 - (b) Defensive stock
 - (c) Bonus
 - (d) Debentures
91. Which of the following statements characterises the best non-economic activities?
- (a) Non-economic activities do not require any investment of resources
 - (b) These activities do not entail any operational costs
 - (c) These activities are undertaken by ascetics
 - (d) The underlying purpose of these activities is not earning of a livelihood but social, psychological or spiritual satisfaction
92. Internal Environment includes _____
- (a) Customer
 - (b) Economic
 - (c) Demography
 - (d) Mission & Objectives
93. The mission of which transnational company is 'Good Food, Good Life'?
- (a) Tata Group
 - (b) Reliance fresh
 - (c) Nestle
 - (d) Starbucks
94. Simplification of trade restrictions related to import is an example of:
- (a) Globalization
 - (b) Privatization
 - (c) Disinvestment
 - (d) Aggregation
95. The RBI has been vested with extensive power to control and supervise commercial banking system under the-
- (a) Reserve Bank of India Act, 1934
 - (b) The Banking Regulation Act, 1949

- (c) Both (a) and (b)
 - (d) The Companies Act, 2013
96. An amount of revenue from sale which exactly equals the amount of expense is called as which of the following?
- (a) Book value
 - (b) Basket trading
 - (c) Break-even point
 - (d) Budget
97. Who is the present chairman of Bajaj Auto Ltd.?
- (a) Mr. Rahul Bajaj
 - (b) Mr. Rajiv Bajaj
 - (c) Jamnalal Bajaj
 - (d) Kevin P D'sa
98. Who was the regulatory body for controlling financial affairs in India before SEBI?
- (a) Controller of Capital Issues
 - (b) Reserve Bank of India
 - (c) Insurance Regulatory and Development Authority of India
 - (d) Government of India
99. A Bull market is:
- (a) Stock price are decreasing consistently
 - (b) Stock price are increasing consistently
 - (c) Stock price are stable consistently
 - (d) Stock price are wildly fluctuating
100. SEBI, RBI & IRDA are:
- (a) Regulatory Bodies
 - (b) Cluster Bodies
 - (c) Goal Sector bodies
 - (d) None of the above

MOCK TEST PAPER 1

FOUNDATION COURSE

PAPER 4: BUSINESS ECONOMICS AND BUSINESS AND COMMERCIAL KNOWLEDGE

PART - I: BUSINESS ECONOMICS

ANSWERS

1	b	11	b	21	a	1	b	41	b	1	
2	a	12	a	22	b	2	d	42	b	2	d
	b	1	b	2				4			
4	b	14	a	24	a	4	b	44		4	
	d	1	b	2	a		d	4	d		b
	a	1	a	2	d		d	4	b		a
		1	a	2	a		a	4	b		d
		1	b	2	a		b	4	d		d
	a	1	a	2				4			
10	a	20	a	0	d	40	a	0		0	d

PAPER – 4 PART- II: BUSINESS AND COMMERCIAL KNOWLEDGE
ANSWERS

61	62	63	64	65	66	67	68	69	70
b		a	a	b	d	d	b	a	a
71	72	73	74	75	76	77	78	79	80
a	b	a	d	b	d	b		d	d
81	82	83	84	85	86	87	88	89	90
a	d	a				a	d		b
91	92	93	94	95	96	97	98	99	100
d	d		a			a	a	b	a