

FOUNDATION COURSE

MOCK TEST PAPER - 2

PAPER – 4: BUSINESS ECONOMICS AND BUSINESS AND COMMERCIAL KNOWLEDGE

PART I: BUSINESS ECONOMICS

Max. Marks: 60

QUESTIONS

1. Consumer surplus means _____
 - (a) the area inside the budget line
 - (b) the area between the average revenue and marginal revenue curves
 - (c) the difference between the maximum amount a person is willing to pay for a good and its market price.
 - (d) none of the above
2. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is
 - (a) zero
 - (b) infinite
 - (c) equal to one
 - (d) greater than zero but less than one
3. Price taker firms:
 - (a) Advertise to increase the demand for their products
 - (b) Do not advertise because most advertising is harmful for the society.
 - (c) Do not advertise because they can sell as much as they want at the current price
 - (d) Who advertise will get more profits than those who do not.
4. The AR curve and industry demand curve are same:
 - (a) In the case of monopoly
 - (b) In the case of oligopoly
 - (c) In the case of perfect competition.
 - (d) None of the above.
5. Which one of the following is the best example of agreement between oligopolists?
 - (a) GATT
 - (b) OPEC
 - (c) WTO
 - (d) UNIDO
6. Marginal utility approach to demand was given by _____
 - (a) J.R. Hicks
 - (b) Alfred Marshall
 - (c) Robbins

- (d) A.C. Pigou
7. Excess capacity is not found under_____.
- Monopoly
 - Monopolistic Competition
 - Perfect Competition
 - Oligopoly.
8. Marginal revenue will be negative if elasticity of demand is_____.
- Less than one
 - More than one.
 - Equal to one
 - Equal to zero
9. If R point bisects the demand curve in two equal part, then elasticity at R equals_____
- Zero
 - Five
 - Two
 - One

Use Table 1 to answer question 10-13

“Bozzo’s burgers is a small restaurant and a price taker. The table below provides the data of Bozzo’s output and costs in Rupee.

Quantity	Total Cost	Fixed Cost	Variable Cost	Average variable cost	Average total Cost	Marginal Cost
0	100	-	-	-		
10	210					
20	300					
30	400					
40	540					
50	790					
60	1060					

10. If burgers sell for Rs. 14 each, what is Bozzo’s profit maximizing level of output?
- 10 burgers
 - 40 burgers
 - 50 burgers
 - 60 burgers
11. What is the total variable cost when 60 burgers are produced?
- Rs. 690
 - Rs. 960
 - Rs. 110
 - Rs. 440

12. What is average fixed cost when 20 burgers are produced?
- (a) Rs.5
 - (b) Rs. 3.33
 - (c) Rs. 10
 - (d) Rs. 2.5
13. Between 10 to 20 burgers, what is the marginal cost (per burger)?
- (a) Rs. 11
 - (b) Rs. 13
 - (c) Rs. 14
 - (d) Rs. 9
14. When _____ we know that the firms must be producing at the minimum point of the average cost curve and so there will be productive efficiency.
- (a) $AC=AR$
 - (b) $MC=AC$
 - (c) $MC=MR$
 - (d) $AR=MR$

Read the following data and answer Questions number 15-20

A shopkeeper sells gel pen at Rs. 10 per pen. At this price he can sell 120 per month. After some time, he raises the price to Rs. 15 per pen. Following the price rise:

- Only 60 pens were sold every month
 - The number of refills bought were down from 200 to 150.
 - The number of ink pen customers bought went up from 90 to 180 per month.
15. The price elasticity of demand when gel pen's price increases from Rs.10 per pen to Rs.15 per pen is equal to:
- (a) 2.5
 - (b) 1.0
 - (c) 1.66
 - (d) 2.66
16. The cross elasticity of monthly demand for refills when the price of gel pen increase from Rs. 10 to Rs. 15 is equal to:
- (a) -0.71
 - (b) + 0.25
 - (c) -0.1
 - (d) + 0.38
17. The cross elasticity of monthly demand for ink pen when the price of gel pen increases from Rs. 10 to Rs. 15 is equal to:
- (a) + 1.66
 - (b) -1.05
 - (c) -2.09

- (d) + 2.09
18. What can be said about the price elasticity of demand for pen?
- (a) It is perfectly elastic
 - (b) It is elastic
 - (d) It is perfectly inelastic
 - (d) It is inelastic
19. 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
20. We can say that gel pen in economics sense is a/an.
- (a) Luxury good
 - (b) inferior good
 - (c) Normal good
 - (d) Nothing can be said.
21. Which of the following is not a characteristic of a "price taker"?
- (a) $TR = P \times Q$
 - (b) $AR = \text{Price}$
 - (c) Negatively – sloped demand
 - (d) $\text{Marginal Revenue} = \text{Price}$
22. Which cost increases continuously with the increase in production?
- (a) Average cost
 - (b) Marginal cost
 - (c) Fixed cost
 - (d) Variable cost
23. Which one is not an assumption of the theory of demand based on analysis of indifference curves?
- (a) Given scale of preferences as between different combinations of two goods.
 - (b) Diminishing marginal rate of substitution
 - (c) Constant marginal utility of money
 - (d) Consumers would always prefer more of a particular good to less of it, other things remaining the same
24. If the quantity demanded of coffee increases by 5% when the price of tea increases by 20%, the cross-price elasticity of demand between tea and coffee is
- (a) -0.25
 - (b) 0.25
 - (c) -4
 - (d) 4

25. When the perfectly competitive firm and industry are in long run equilibrium then:
- $P=MR=SAC=LAC$
 - $D=MR=SMC=LMC$
 - $P=MR$ =Lowest point on the LAC curve
 - All of the above
26. In monopoly, the relationship between average and marginal revenue curves is as follows:
- AR curve lies above the MR curve
 - AR curve coincides with the MR curve
 - AR curve lies below the MR curve
 - AR curve is parallel to the MR curve
27. The total effect of a price change of commodity is
- substitution effect plus price effect
 - substitution effect plus income effect
 - substitution effect plus demonstration effect
 - substitution effect minus income effect

Read table and answer Questions number 28-30

	% 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

28. Refer Table and find the value of x.
- 20
 - 0.05
 - 1
 - Can not be determined
29. Refer Table 2 and find the value of y.
- 5
 - 15
 - 45
 - 3
30. Refer Table 2 and find the value of z.
- 14
 - 1
 - 0.07
 - 5
31. In the short run if a perfectly competitive firm finds itself operating at a loss, it will:
- Reduce the size of its plant to lower fixed costs.

- (b) Raise the price of its product
 - (c) Shut down
 - (d) Continue to operate as long as it covers its variable cost.
32. A competitive firm maximizes profit at the output level where:
- (a) Price equals marginal cost.
 - (b) The slope of the firm's profit function is equal to zero.
 - (c) Marginal revenue equals marginal cost.
 - (d) All of the above.
33. Which of the following is correct?
- (a) If marginal revenue is positive and falling, total revenue will rise at a decreasing rate.
 - (b) Total revenue is equal to price times the quantity sold.
 - (c) Under perfect competition, total revenue is equal to marginal revenue times the quantity sold.
 - (d) All of the above.
34. 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.

Read the following table and answer question number 35-36

Number of products	Total utility	Marginal utility
0	0	-
1	3600	
2	6800	
3	9600	
4	12000	
5	14000	
6	15600	
7	16800	
8	17600	
9	18000	

35. What is marginal utility when consumption increases from 4 units to 5 units?
- (a) 3000
 - (b) 1200
 - (c) 2000
 - (d) 1500
36. What is marginal utility when consumption increases from 8 units to 9 units?
- (a) 3000
 - (b) 400

- (c) 2000
 - (d) 1500
37. Which of the following statements is incorrect?
- (a) Unlike normative economics, positive economics is based on objective analysis of economic issues.
 - (b) The opportunity cost of a good is the quantity of other goods sacrificed to get another unit of that good.
 - (c) Microeconomics emphasizes interactions in the economy as a whole.
 - (d) None of the above.
38. A drought in India leads to unusually low level of wheat production. This would lead to a rise in price of wheat and fall in the quantity of wheat demanded due to:
- (a) excess demand at the original price.
 - (b) excess supply at the original price.
 - (c) the supply curve shifting to the right.
 - (d) the demand curve shifting to the left.
39. If the elasticity of demand for a commodity is perfectly inelastic then which of the following is incorrect?
- (a) The commodity must be essential to those who purchase it.
 - (b) The commodity must have many substitutes.
 - (c) The commodity will be purchased regardless of increase in its price.
 - (d) The elasticity of demand for this commodity must equal zero.
40. If a good has price elasticity greater than one then:
- (a) demand is unit elastic and a change in price does not affect sellers' revenue.
 - (b) demand is elastic and a change in price causes sellers' revenue to change in the opposite direction.
 - (c) demand is inelastic and a change in price causes sellers' revenue to change in the same direction.
 - (d) None of the above is correct.
41. The law of diminishing returns implies that:
- (a) for each extra unit of X consumed, holding constant consumption of other goods, total utility increases.
 - (b) total utility remains unchanged regardless of how many units of X are consumed.
 - (c) marginal utility will increase at a constant rate as more units of X are consumed.
 - (d) each extra unit of X consumed, holding constant consumption of other goods, adds successively less to total utility.
42. Which of the following is correct?
- (a) Firms that earn accounting profits are economically profitable.
 - (b) Opportunity cost plus accounting cost equals economic cost.
 - (c) When a firm's demand curve slopes down marginal revenue will rise as output rises.
 - (d) Firms increase profits by selling more output than their rivals.
43. If marginal revenue exceeds marginal cost, a monopolist should_____.
- (a) increase output.

- (b) decrease output.
 - (c) keep output the same because profits are maximized when marginal revenue exceeds marginal cost.
 - (d) raise the price.
44. A market structure in which many firms sell products that are similar but not identical is known as
- (a) monopolistic competition.
 - (b) monopoly.
 - (c) perfect competition.
 - (d) oligopoly.

Read the following paragraph and answer questions 45-48

Nicole owns a small pottery factory. She can make 1,000 pieces of pottery per year and sell them for Rs. 100 each. It costs Nicole Rs. 20,000 for the raw materials to produce the 1,000 pieces of pottery. She has invested Rs. 1,00,000 in her factory and equipment: Rs. 50,000 from her savings and Rs. 50,000 borrowed at 10 percent. (Assume that she could have loaned her money out at 10 per cent too.) Nicole can work at a competing pottery factory for Rs. 40,000 per year.

45. The accounting cost at Nicole's pottery factory is:
- (a) Rs.25,000
 - (b) Rs.50,000
 - (c) Rs.80,000
 - (d) Rs.75,000
46. The economic cost at Nicole's factory is:
- (a) Rs.75,000
 - (b) Rs.70,000
 - (c) Rs.80,000
 - (d) Rs.30,000
47. The accounting profit at Nicole's pottery factory is:
- (a) Rs.30,000
 - (b) Rs.50,000
 - (c) Rs.80,000
 - (d) Rs.75,000
48. The economic profit at Nicole's factory is:
- (a) Rs. 75,000
 - (b) Rs. 35,000
 - (c) Rs. 80000
 - (d) Rs. 30000
49. A buyer's willingness to pay is that buyer's:
- (a) minimum amount he is willing to pay for a good.
 - (b) producer surplus.
 - (c) consumer surplus.

- (d) maximum amount he is willing to pay for a good.
50. The cost of one thing in terms of the alternative given up is known as:
- (a) product cost
 - (b) physical cost
 - (c) real cost
 - (d) opportunity cost
51. Which of the following is considered production in economics?
- (a) Tilling of soil.
 - (b) Singing a song before friends
 - (c) Preventing a child from falling into a manhole on the road
 - (d) Painting a picture for pleasure.
52. Which of the following is not a property of the indifference curve?
- (a) Indifference curves are convex to the origin
 - (b) Indifference curves slope downwards from left to right
 - (c) No two indifference curves can cut each other
 - (d) None of the above.
53. The structure of the cold drink industry in India is best described as:
- (a) Perfectly competitive
 - (b) Monopolistic
 - (c) Oligopolistic
 - (d) Monopolistically competitive
54. If the price of apples rises from Rs. 30 per quarter kg. to Rs. 40 quarter per kg and the supply increases from 240 kg to 300 kg. Elasticity of supply is:
- (a) .77
 - (b) .67
 - (c) (-) .67
 - (d) (-) .77
55. If a seller realizes Rs. 10,000 after selling 100 units and Rs. 14,000 after selling 120 units. What is the marginal revenue here?
- (a) Rs. 400
 - (b) Rs. 450
 - (c) Rs. 200
 - (d) Rs. 100
56. Under which market condition, though the firms earn normal profits in the long run, there is always excess capacity with them
- (a) Perfect competition
 - (b) Monopoly
 - (c) Oligopoly
 - (d) Monopolistic competition

57. Price discrimination is profitable when:
- (a) the elasticity of the product in different markets is same
 - (b) the elasticity of the product in different market is different
 - (c) the elasticity of the product in different market is zero.
 - (d) None of the above.
58. Which of the following is not an economic activity?
- (a) A son looking after his ailing mother
 - (b) A chartered accountant doing his own practice,
 - (c) A soldier serving at the border.
 - (d) A farmer growing millets
59. Which of the following is not an example of business cycle?
- (a) During 1920s, UK saw rapid growth in gross domestic Product, production levels and living standards.
 - (b) Due to bursting of Information Technology bubble stock markets crashed and countries began feeling of down turn in their economies.
 - (c) The Sub-prime crisis led to chain effect and it had worldwide impact.
 - (d) The cycle business has seen a slowdown in growth over a period of time.
60. Which of the following may be considered a cause of business cycle?
- (a) Fluctuations in effective demand.
 - (b) Fluctuations in investment.
 - (c) Variations in government spending.
 - (d) All of the above.

PART II: BUSINESS AND COMMERCIAL KNOWLEDGE

QUESTIONS

Max. Marks: 40

1. Which of the following is NOT an economic objective of the firm?
 - (a) Sales growth
 - (b) Improvement in market share
 - (c) Profits and return on investment
 - (d) Conservation of natural resources
2. The _____ environment refers to the nature and direction of the economy in which a company competes or may compete.
 - (a) Socio-cultural
 - (b) Internal
 - (c) Micro
 - (d) Economic
3. On May 9, 2018, Walmart acquires what percentage of shares in Flipkart?
 - (a) 67%
 - (b) 77%
 - (c) 51%
 - (d) 90%
4. Identify the sector where, FDI is NOT permitted:
 - (a) Small Arms
 - (b) Insurance Company
 - (c) Nidhi company
 - (d) Animal Husbandry
5. NABARD is the most important institution in the country which looks after the development of the
 - (a) Cottage industry
 - (b) Small industry
 - (c) Village industry
 - (d) All of the above
6. Which one of the following is NOT related to funds transfer in banks?
 - (a) RTGS
 - (b) CRR
 - (c) IFSC
 - (d) NEFT
7. Which one is NOT an economic activity?
 - (a) Purchasing shares
 - (b) Planting a tree in your garden
 - (c) Audit by a Chartered Accountant
 - (d) Production & Consumption

8. Which of the following statement is NOT a factor influencing socio-cultural environment?
- Family structure and changes in it.
 - Educational levels.
 - Launch of mobile phone with advance technology.
 - Position of children and adolescents.

9. Match the following:

	Companies		Product
1	Apple	i	Maggie
2	Maruti	ii	Macintosh
3	Nestle	iii	Ciaz
4	Airtel	iv	Mobile phone service

- 1-ii, 2-iii, 3-i, 4-iv
 - 1-iv, 2-i, 3-iii, 4-ii
 - 1-iii, 2-iv, 3-ii, 4-i
 - 1-i, 2-ii, 3-iv, 4-iii
10. The method of FDI other than Automatic route is called:
- NRI Route
 - Government Route
 - Institutional Route
 - Priority Route
11. EXIM Bank took over the operations of the international finance wing of:
- IFCI
 - IRDAI
 - IDBI
 - SEBI
12. Carrying forward of transaction from one settlement period to the next without effecting delivery or payment called:
- Benami
 - Badla
 - Bid
 - None of these
13. A partnership may not be formed to carry on:
- Any trade
 - Occupation
 - Profession
 - Social enterprise
14. Relationship between organisation and environment can be described through:
- Exchange of information

- (b) Exchange of resources
 - (c) Exchange of influence and power
 - (d) All of the above
15. Who is the current CEO and MD of Infosys Ltd.?
- (a) Salil Parekh
 - (b) U B Pravin Rao
 - (c) N R Narayan Murthy
 - (d) Nandan Nilekani
16. The form of privatization, where government keeps hold of responsibility and private enterprise handles the management of it fully or partly is known as:
- (a) Disinvestment
 - (b) Deregulation
 - (c) Delegation
 - (d) Decentralization
17. Mark Incorrect:
- (a) Development banks provide funds to new and upcoming business houses
 - (b) Development banks accept long term deposits from individual and firms
 - (c) IFCI was the first development bank in India
 - (d) The other two Banks ICICI & IDBI have been converted into commercial banks
18. What is a bear market?
- (a) A market in which the stock prices are increasing consistently.
 - (b) A market in which the stock prices are falling consistently.
 - (c) A market in which the stock prices are stable over a long time.
 - (d) None of the above
19. Which of the following is NOT an economic objective of the firm?
- (a) Sales growth
 - (b) Improvement in market share
 - (c) Profits and return on investment
 - (d) Conservation of natural resources
20. Mark incorrect: Partnership implies
- (a) Contractual ownership of business
 - (b) Liability of partner is limited to the extent of one's share capital
 - (c) The contract is an agreement enforceable at law is called deed
 - (d) Deed may be registered in India under the Partnership Act, 1932
21. Who is the present CEO and MD of Larsen & Toubro Ltd.?
- (a) Keshab Pandey
 - (b) K R Krishanmurthy
 - (c) S N Subrahmanyam

- (d) None of these
22. Which of the following statements about RBI is incorrect?
- (a) It deals largely with Governments, Central and State Banks.
 - (b) Its role is to ensure monetary stability, including stability of domestic price levels.
 - (c) One of its missions is to protect the interest of policyholders.
 - (d) The RBI is the sole authority for the issue of currency in India.
23. Economic Reforms introduced in India in 1992 are called LPG, that refers to
- (a) Liquidation of loss making units
 - (b) Popularise Public private partnership
 - (c) Good governance
 - (d) None of the above
24. Setting low prices in order to discourage or deter potential new entrants to the suppliers market:
- (a) Pre-Emptive Pricing
 - (b) Price Sensitivity
 - (c) Price Discrimination
 - (d) Price Elasticity
25. The maximum number of members of a public company is:
- (a) 07
 - (b) 50
 - (c) No limit
 - (d) 200
26. What is the single word that can best describe today's business?
- (a) Technology
 - (b) Change
 - (c) Persistence
 - (d) Profit making
27. Who was the co-founder of Microsoft with Bill Gates?
- (a) Paul Allen
 - (b) Melinda Gates
 - (c) Satya Nadella
 - (d) Lucci Hood
28. BRICS stands for:
- (a) Belgium, Russia, Indonesia, China and Saudi Arabia
 - (b) Belgium, Russia, India, Cambodia and Saudi Arabia
 - (c) Brazil, Russia, India, China and South Africa
 - (d) Brazil, Romania, India, Cambodia and South Africa
29. Which one of the following is an Indian Regulatory Body that facilitates business organizations?
- (a) EXIM Bank

- (b) NABARD
 - (c) IRDA
 - (d) IFCI
30. When two or more companies come together to expand their business operations in a newly created entity.
- (a) Joint venture
 - (b) Acquisition
 - (c) Partnership
 - (d) Merger
31. Mark Incorrect:
- (a) Business has only one motive; profit
 - (b) Plurality of the objective is a modern phenomenon
 - (c) Objective of survival & growth of business are called organics objectives
 - (d) In addition to economic motive, it may have non-economic motives like social, ethical or environmental.
32. Competition is beneficial to the competing firms besides benefiting the_____.
- (a) Intermediaries
 - (b) Customers
 - (c) Producers
 - (d) Financiers
33. Burman Shell refineries Ltd. was taken over by Government of India to form:
- (a) IOCL
 - (b) NTPC
 - (c) ONGC
 - (d) BPCL
34. Simplification of trade restrictions related to import is an example of:
- (a) Globalization
 - (b) Privatization
 - (c) Disinvestment
 - (d) Aggregation
35. Who was the regulatory body for controlling financial affairs in India before SEBI?
- (a) Controller of Capital Issues
 - (b) Reserve Bank of India
 - (c) IRDA
 - (d) Government of India
36. _____ is a strategy that is used to minimize the risk of a particular investment and maximize the returns of an investment.
- (a) Cap
 - (b) Encryption

- (c) Hedge
 - (d) Term insurance
37. _____ with their own bargaining power affect the cost structure of the industry:
- (a) Intermediaries
 - (b) Suppliers
 - (c) Consumer
 - (d) Government
38. Which cannot be categorised as PSU:
- (a) NTPC
 - (b) BHEL
 - (c) Post & Telegraph
 - (d) Power Grid Corporation in India
39. Mark Correct:
- (a) SEBI came into force from Jan 30, 1992
 - (b) IRDA was set up by an Act of parliament in India
 - (c) EXIM bank of India was set up in 1982
 - (d) All the above
40. The number of units of given currency that can be purchased for one unit of another currency is called _____.
- (a) Current ratio
 - (b) Exchange rate
 - (c) Equity
 - (d) Dividend

FOUNDATION COURSE

MOCK TEST PAPER 2

PAPER – 4 BUSINESS ECONOMICS AND BUSINESS AND COMMERCIAL KNOWLEDGE

PART I: BUSINESS ECONOMICS

ANSWER

1	(c)	13	(d)	25	(d)	37	(c)	49	(d)
2	(b)	14	(b)	26	(a)	38	(a)	50	(d)
3	(c)	15	(c)	27	(b)	39	(b)	51	(a)
4	(a)	16	(a)	28	(b)	40	(b)	52	(d)
5	(b)	17	(a)	29	(c)	41	(d)	53	(c)
6	(b)	18	(b)	30	(a)	42	(b)	54	(a)
7	(c)	19	(a)	31	(d)	43	(a)	55	(c)
8	(a)	20	(c)	32	(d)	44	(a)	56	(d)
9	(d)	21	(c)	33	(d)	45	(a)	57	(b)
10	(b)	22	(d)	34	(c)	46	(b)	58	(a)
11	(b)	23	(c)	35	(c)	47	(d)	59	(d)
12	(a)	24	(b)	36	(b)	48	(d)	60	(d)

PART II: BUSINESS AND COMMERCIAL KNOWLEDGE

ANSWERS

1	2	3	4	5	6	7	8	9	10
d	d	b	c	d	b	b	c	a	b
11	12	13	14	15	16	17	18	19	20
c	b	d	d	a	c	b	b	d	b
21	22	23	24	25	26	27	28	29	30
c	c	d	a	c	b	a	c	c	d
31	32	33	34	35	36	37	38	39	40
a	b	d	a	a	c	b	c	d	b