

**FOUNDATION COURSE**  
**MOCK TEST PAPER - 1**  
**PAPER – 4: PART I : BUSINESS ECONOMICS**

**Max. Marks : 60**

**QUESTIONS**

1. Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be “small” relative to the market. Which of the following best describes this smallness?
  - (a) The individual firm must have fewer than 10 employees
  - (b) The individual firm faces a downward-sloping demand curve
  - (c) The individual firm has assets of less than Rs. 20 lakh
  - (d) The individual firm is unable to affect market price through its output decisions
2. The average product of labour is maximized when marginal product of labour
  - (a) Equal the average product of labour
  - (b) Equals zero
  - (c) Is maximized
  - (d) None of the above
3. Suppose that a sole proprietorship is earning total revenues of Rs. 100,000 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:
  - (a) The firm is incurring an economic loss of Rs. 5,000
  - (b) Implicit costs are Rs. 25,000
  - (c) The total economic costs are Rs. 100,000
  - (d) The individual is earning an economic profit of Rs. 25,000
4. Which of the following statements would you consider to be a normative one?
  - (a) Faster economic growth 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. Consumer surplus is highest in the case of :
  - (a) Necessities
  - (b) Luxuries
  - (c) Comforts
  - (d) Conventional necessities
6. If one unit of labour and one unit of capital give 200 units of output, two units of labour and two units of capital give 400 units of output and 5 units of labour and five units of capital give 1000 units of output then this is a case of:
  - (a) Constant returns of scale

- (b) Increasing returns to scale
  - (c) Decreasing returns to scale
  - (d) None of these
7. \_\_\_\_\_ pair of commodities is an example of substitutes.
- (a) Coffee and milk
  - (b) Diamond and cow
  - (c) Pen and ink
  - (d) Mustard oil and coconut oil
8. 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
9. If a good is a luxury, its income elasticity of demand is
- (a) Positive and less than 1
  - (b) Negative but greater than -1
  - (c) Positive and greater than 1
  - (d) Zero
10. In the case of a Giffen good, the demand curve will be
- (a) Horizontal
  - (b) Downward-sloping to the right
  - (c) Upward-sloping to the right
  - (d) Vertical
11. \_\_\_\_\_ expressed the view the “Economics is neutral between end”.
- (a) Robbins
  - (b) Marshall
  - (c) Pigou
  - (d) Adam Smith
12. The law of demand refers to \_\_\_\_\_.
- (a) Price-supply relationship
  - (b) Price-cost relationship
  - (c) Price-demand relationship
  - (d) Price-income relationship
13. In monopolistic competition, a firm is in long run equilibrium \_\_\_\_\_.
- (a) At the minimum point of the LAC curve
  - (b) In the declining segment of the LAC curve
  - (c) In the rising segment of the LAC curve

- (d) When price is equal to marginal cost
14. Production may be defined as an act of \_\_\_\_\_.
- (a) Creating utility
  - (b) Earning profit
  - (c) Destroying utility
  - (d) Providing services
15. The sale of branded articles is common in a situation of \_\_\_\_\_
- (a) Excess capacity
  - (b) Monopolistic competition
  - (c) Monopoly
  - (d) Pure competition
16. The cost that firm incurs in hiring or purchasing any factor of production is referred to as \_\_\_\_\_.
- (a) Explicit cost
  - (b) Implicit cost
  - (c) Variable cost
  - (d) Fixed cost
17. The law of consumer surplus is based on:
- (a) Indifference curve analysis
  - (b) Revealed preference theory
  - (c) Law of substitution
  - (d) The law of diminishing marginal utility
18. The MC curve cuts the AVC and ATC curves
- (a) At the falling part of each
  - (b) At different points
  - (c) At their respective minimas:
  - (d) At the rising part of each
19. Which of the following market situations explains marginal cost equal to price for attaining equilibrium?
- (a) Perfect competition
  - (b) Monopoly
  - (c) Oligopoly
  - (d) Monopolistic competition
20. A monopolist who is selling in two markets in which demand is not identical will be unable to maximize his profits unless he
- (a) Sells below costs of production in both markets
  - (b) Practices price discrimination.
  - (c) Equates the volume of sales in both markets.
  - (d) Equates marginal costs with marginal revenue in one market only.

21. Which of the following is not micro - economic subject matter?
- The price of apples.
  - The cost of producing a fire truck for the fire department of Delhi, India
  - The quantity of apples produced for the apple market.
  - The national economy's annual rate of growth.
22. Which of the following is correct?
- Normative economics is not concerned with value judgment.
  - A market is a process that reconciles consumer decision, production decisions and labour decisions.
  - A mixed economy has a certain level of government intervention in the economy along with private sector ownership of the economy.
  - Both (b) and (c)
23. In the long run any firm will eventually leave the industry if:
- Price does not at least cover average total cost.
  - Price does not equal marginal cost.
  - Economies of scale are being reaped.
  - Price is greater than long run average cost.
24. You are given the following data:

**Table**

Output	Total Costs
0	0
1	15
2	30
3	45
4	60
5	75

- Constant returns to scale.
  - Decreasing returns to scale.
  - Increasing returns to scale.
  - Globalization.
25. 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.

**Read table 1 and answer questions 26-30**

**Table 1**

Labour Input	Output	Average Product	Marginal Product
0	0	-	-
2			25
4	90		

6	120		
8	140		
10		14	
12		10	

26. At a labour of 2, output is:
- 25
  - 30
  - 50
  - 75
27. At a labor input of 4, output per worker is:
- 20
  - 22.5
  - 45
  - 90
28. At a labour input of 6, the marginal product of labour is:
- 120
  - 20
  - 15
  - 10
29. Output per worker is maximized at a labour input of:
- 2
  - 4
  - 6
  - 8
30. The firm's output is at a short run maximum at a labour input of:
- 6
  - 10
  - 12
  - 2
31. Which of the following is incorrect?
- The cross elasticity of demand for two substitutes is positive.
  - The income elasticity of demand is the percentage change in quantity demanded of a good due to a change in the price of a substitute.
  - The cross elasticity of demand for two complements is negative.
  - The price elasticity of demand is always negative, except for Giffen goods.
32. Which of the following situation does not lead to an increase in equilibrium price?
- An increase in demand, without a change in supply
  - A decrease in supply accompanied by an increase in demand
  - A decrease in supply without a change in demand

- (d) An increase in supply accompanied by a decrease in demand
33. 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 behaviour 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
34. The law of diminishing returns:
- (a) States that beyond some level of a variable input, the average product of that variable input begins to increase steadily.  
 (b) Assumes that there is technological improvement over time.  
 (c) States that beyond some level of a variable input, the marginal product of that variable begins to decrease steadily.  
 (d) Informs a firm whether or not to use a factor input.

**A Competitive firm sells as much as of its product as it chooses at a market price of Rs. 200 per unit. Its fixed cost is Rs. 600 and its variable costs (in rupees) for different levels of production are shown in the following table.**

**Use Table to answer questions 35 to 39:**

Quantity	Variable Cost	Fixed Cost	Total Cost	Average Variable Cost	Average Total Cost	Marginal Cost
0	0			-	-	-
5	500					
10	940					
15	1400					
20	1960					
25	2700					
30	3700					
35	5040					
40	6800					
45	9060					
50	11900					

35. When production is 40 units, the average total cost is
- (a) Rs. 8.80  
 (b) Rs. 15  
 (c) Rs. 170  
 (d) Rs. 185
36. In the table marginal cost per unit that corresponds to 40 units of production is
- (a) Rs. 44  
 (b) Rs. 170  
 (c) Rs. 352  
 (d) Rs. 1760

37. to maximize profit, the firm should produce
- (a) 15 units
  - (b) 30 units
  - (c) 35 units
  - (d) 50 units
38. If the market price drops from Rs. 200 to Rs. 112, the firm's short run response should be
- (a) Shut down
  - (b) Produce 5 units
  - (c) Produce 20 units
  - (d) Continue to produce the same number of units as before the drop in price.
39. If the market price rises form Rs. 200 to Rs. 352, the firm's short run response should be
- (a) Shut down
  - (b) Produce 40 units
  - (c) Produce 20 units
  - (d) Continue to produce the same number of units as before the increase in price.
40. 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
41. 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
42. If an increase in the price of blue jeans leads to an increase in the demand for tennis shoes, then blue jeans and tennis shoes are \_\_\_\_\_
- (a) Complements.
  - (b) Inferior goods
  - (c) Normal goods.
  - (d) Substitutes.
43. Suppose you find Rs. 2000. If you choose to use Rs. 2000 to go to a cricket match, your opportunity cost of going to the game is \_\_\_\_\_.
- (a) Nothing, because you found the money
  - (b) Rs. 2000 (because you could have used Rs. 2000 to buy other things) plus the value of your time spent at the game.
  - (c) Rs. 2000 (because you could have used Rs. 2000 to buy other things) plus the value of your time spent at the game, plus the cost of the dinner you purchased at the game.

- (d) Rs. 2000 (because you could have used Rs. 2000 to buy other things).
44. Suppose consumer tastes shift toward the consumption of apples. Which of the following statements is an accurate description of the impact of this event on the market for apples?
- (a) There is an increase in the quantity demanded of apples and in the supply for apples
  - (b) There is an increase in the demand and supply of apples.
  - (c) There is an increase in the demand for apples and a decrease in the supply of apples.
  - (d) There is an increase in the demand for apples and an increase in the quantity supplied.
45. 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.
46. If a competitive firm doubles its output, its total revenue:
- (a) Doubles.
  - (b) More than doubles.
  - (c) Less than doubles.
  - (d) Cannot be determined because the price of the good may rise or fall.
47. In which of the following market system, there, are few sellers in the market in the market selling similar or differentiated product?
- (a) Perfect Competition
  - (b) Monopoly
  - (c) Oligopoly
  - (d) Monopsony
48. Which of the following statements about price and marginal cost in competitive and monopolized markets is true?
- (a) In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost.
  - (b) In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost.
  - (c) In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost.
  - (d) In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.
49. In the case of an inferior good the income elasticity of demand is:
- (a) Positive
  - (b) Zero
  - (c) Negative
  - (d) Infinite
50. Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:
- (a) Demand

- (b) Price
  - (c) Costs of production
  - (d) State of technology
51. An isoquant slopes:
- (a) Downward to the left
  - (b) Downward to the right
  - (c) Upward to the left
  - (d) Upward to the right
52. Which of the following statement is incorrect?
- (a) Even monopolist can earn losses
  - (b) Firms in a perfectly competitive market are price takers.
  - (c) It is always beneficial for a firm in the perfectly competitive market to discriminate prices
  - (d) Economic laws are exact than the laws of physical sciences
53. Which is the other name that is given to the demand curve?
- (a) Profit curve
  - (b) Average Revenue curve
  - (c) Average Cost Curve
  - (d) Indifference Curve
54. The second slice of bread gives less satisfaction to a hungry boy. This is a clear case of:
- (a) Law of demand
  - (b) Law of diminishing returns
  - (c) Law of diminishing utility
  - (d) Law of supply
55. A firm's average total cost is Rs. 300 at 5 units of output and Rs. 320 at 6 units of output the marginal cost of producing the 6<sup>th</sup> unit is:
- (a) Rs. 20
  - (b) Rs. 120
  - (c) Rs. 320
  - (d) Rs. 420
56. Which of the following is an example of an "explicit cost"?
- (a) The wages a proprietor could have made by working as an employee of a large firm
  - (b) The income that could have been earned in alternative uses by the resources owned by the firm
  - (c) The payment of wages by the firm
  - (d) The normal profit earned by a firm
57. Which of the following is an example of coincident indicator?
- (a) Industrial Production
  - (b) Inflation
  - (c) Retail Sales

- (d) New orders for Plant and equipment
58. When aggregate economic activity is increasing, the economy is said to be in
- (a) Expansion
  - (b) Contraction
  - (c) Peak
  - (d) A turning point.
59. If a fisher man must sell all of his daily catch before its spoils for whatever price he is offered, once the fish are caught the fisherman's price elasticity of supply for fresh fish is
- (a) Zero
  - (b) Infinite
  - (c) One
  - (d) Unable to determine
60. Suppose onions have (-) 0.5 as income elasticity, we can say from the data given that,
- (a) Onions are inferior goods
  - (b) Onions are superior goods
  - (c) Onions are necessities
  - (d) There is a need to increase the income of consumers so that they can buy onions.

FOUNDATION COURSE

MOCK TEST PAPER - 1

PAPER – 4: PART II: BUSINESS AND COMMERCIAL KNOWLEDGE

QUESTIONS

Max. Marks: 40

1. Find out the incorrect:
  - (a) Economic Activities are drive by nationality.
  - (b) Economic Activities are guided by self interest.
  - (c) Non-Economic Activities are driven by emotional or sentimental force.
  - (d) Non-Economic Activities are not at all important in life.
2. SWOT refers to:
  - (a) Strength, Worry, Option, Threat
  - (b) Strength, Weakness, Opportunity, Threat
  - (c) Strong, Weak, Option, Threat
  - (d) Strong, Weakness, Opportunity, Think
3. Which one of the following is NOT a FMCG company?
  - (a) ITC
  - (b) Dabour
  - (c) HUL
  - (d) Maruti
4. Mark incorrect as Globalization refers to:
  - (a) Encouraging regional economic cooperation.
  - (b) Integrating the world into one economic global village.
  - (c) It pares the way for higher factor mobility.
  - (d) Drawing countries out of their insulation.
5. Which of the following is NOT a function of RBI?
  - (a) Monopoly of Note issue
  - (b) Banker to the Government
  - (c) Advancing loan to large business houses
  - (d) Controller of Credit
6. Which of the following is incorrect?
  - (a) Arbitrage is simultaneous purchase and sale of a commodity.
  - (b) Current assets are those which can be turned into cash within a year.
  - (c) Intangible assets are those which do not have physical form. They are in the form of rights.
  - (d) Break-even point is also called an optimum point of a firm.
7. Maximum number of members in a Private Limited Company are:
  - (a) 50
  - (b) 200

- (c) 20
  - (d) 500
8. Environmental Analysis helps in:
- (a) Providing input for strategic decision making
  - (b) Turning threats to firm's advantage
  - (c) Anticipate opportunities and to take optimal responses
  - (d) All of the above
9. Which one of the following is NOT a Foreign Company?
- (a) Dr. Reddy's Laboratories Ltd.
  - (b) Walmart
  - (c) Nestle
  - (d) HP
10. Privatization may NOT be conceptualized in form of:
- (a) Divestment
  - (b) Disinvestment
  - (c) Dedication
  - (d) Displacement
11. Which one of the following is NOT a SEBI function as one body?
- (a) Quasi-legislative
  - (b) Quasi-judicial
  - (c) Quasi-fiscal
  - (d) Quasi-executive
12. ADR stands for:
- (a) American Deficit Record
  - (b) American Depository Receipt
  - (c) Asset Depreciation Record
  - (d) Asset Depository Receipt
13. 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
14. In the PEST framework for environmental analysis, what does the letter 'E' stand for?
- (a) Ecological
  - (b) Economic
  - (c) Ethical
  - (d) Educational

15. Who is the present CFO of Adani Ports and Special Economic Zone Ltd.?
- (a) Ravi Bhamidipaty
  - (b) Karan Gautambhai Adani
  - (c) Alok Kumar Agarwal
  - (d) Farokh Nariman Subedar
16. Which of the following institutions has been scrapped recently?
- (a) Minerals and Metals Regulatory Commission
  - (b) Coal India Limited
  - (c) Planning Commission
  - (d) FIPB
17. Which of the following is a direct beneficiary of IFCI?
- (a) Agro-based industry
  - (b) Service industry
  - (c) Capital & intermediate goods industry
  - (d) All of the above
18. Risk is a probable chance that investments' actual returns will be \_\_\_\_\_ than as calculated.
- (a) Increased
  - (b) Reduced
  - (c) Equal
  - (d) None of the above
19. Find out the incorrect:
- (a) Sole proprietor is a business unit having unlimited liability
  - (b) LLP firm may be constituted
  - (c) HUF business may be formed by a group of people who do not belong to family
  - (d) Hindu includes Buddha, Jain, Sikh, Parsi families
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. Mark the correct:
- (a) Tata Sons is a holding company
  - (b) Infosys, Wipro and TCS are IT companies
  - (c) Flipkart, Amazon, Myntra are online trading companies
  - (d) All of the above are correct
22. Find out the correct:
- (a) For sustainable economic development, FII is more preferable to FDI.
  - (b) FDI has strong speculative effect in equity market.

- (c) In India, permission for FDI is not uniform for all sectors.
  - (d) FDI is usually done to reap short term gains.
23. SIDBI does not function as a Nodal/ Implementing Agency to which ministry of the Government:
- (a) Ministry of textiles
  - (b) Ministry of Food Processing and industry
  - (c) Ministry of Commerce and Industry
  - (d) Ministry of External Affairs
24. Four P's of Marketing are:
- (a) Product
  - (b) Price
  - (c) Place
  - (d) Procedure
25. A partnership may NOT be formed to carry on:
- (a) Any trade
  - (b) Occupation
  - (c) Profession
  - (d) Social enterprise
26. 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
27. American Express was ranked the 17<sup>th</sup> most admired company by Fortune in which year?
- (a) 2014
  - (b) 2015
  - (c) 2016
  - (d) 2017
28. 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
29. Where is the head office of NABARD?
- (a) Mumbai
  - (b) Delhi
  - (c) Gurugram
  - (d) Bengaluru

30. What is a bull market?
- (a) A market in which the stock prices are increasing consistently.
  - (b) A market in which the stock prices are decreasing consistently.
  - (c) A market in which the stock prices are stable over a long time.
  - (d) None of the above
31. A HUF cannot comprise members of a:
- (a) Hindu & Sikh family
  - (b) Parsi family
  - (c) Buddhist family
  - (d) Muslim family
32. The term PESTLE analysis is used to describe a framework for analyzing:
- (a) Macro Environment
  - (b) Micro Environment
  - (c) Both Macro and Micro Environment
  - (d) None of above
33. Indane LPG is the product of which corporation in India?
- (a) IOCL
  - (b) NTPC
  - (c) ONGC
  - (d) PGCIL
34. Simplification of trade restrictions related to import is an example of:
- (a) Globalization
  - (b) Privatization
  - (c) Disinvestment
  - (d) Aggregation
35. 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
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. Which one is NOT a part of environmental scanning?
- (a) Identify opportunities & threats affecting business.
  - (b) It takes events, trends, issues and expectations in the consideration.
  - (c) It is done by government to know if the firm is engaged in any anti national activity.
  - (d) It helps in formulating future path of the firm.
38. Identify the sector where, FDI is NOT permitted:
- (a) Automobile
  - (b) Infrastructure
  - (c) Textile
  - (d) Atomic energy
39. How many members of SEBI should be from RBI?
- (a) 4
  - (b) 3
  - (c) 1
  - (d) 2
40. A portion of the after-tax profits paid out to the owners of a business as a return on their investment is:
- (a) Dividend
  - (b) Expense
  - (c) Expenditure
  - (d) Deferred income

**FOUNDATION COURSE**  
**MOCK TEST PAPER - 1**  
**PAPER – 4: PART I : BUSINESS ECONOMICS**

**ANSWER**

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

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MOCK TEST PAPER

PAPER – 4 PART II: BUSINESS AND COMMERCIAL KNOWLEDGE

**ANSWERS**

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