

MODEL TEST PAPER 1
FOUNDATION COURSE
PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

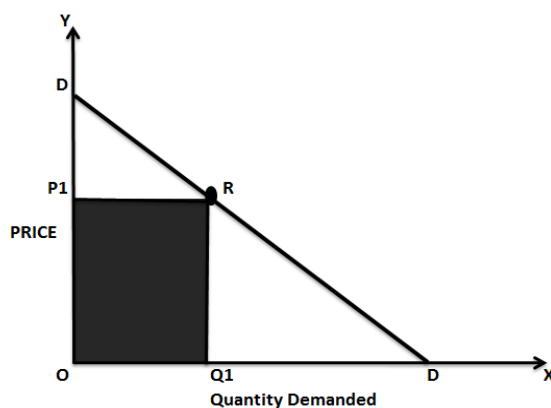
Marks: 100

1. What was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003?
 - (a) Achieve Fiscal Surplus
 - (b) Stop Money Laundering
 - (c) Eliminate Fiscal Deficit
 - (d) Eliminate Revenue deficit
2. Contractionary fiscal policy can involve:
 - (a) Increasing consumption and investment and taxes.
 - (b) Decreasing government spending and increasing taxes.
 - (c) Increasing government spending and increasing taxes.
 - (d) None of the above.
3. 'Who gave 'The Theory of Public Finance (1959)?
 - (a) Adam Smith
 - (b) Richard Musgrave
 - (c) A.C. Pigou
 - (d) Alfred Marshall
4. The stabilization function is concerned with the performance of the aggregate economy in the term of-
 - (a) Overall output & income
 - (b) General price level
 - (c) Balance of international payments
 - (d) All of these
5. Which of the following is an example of market failure?
 - (a) Externalities
 - (b) Low prices
 - (c) Excess supply
 - (d) Excludable and rival goods
6. Which of the following is NOT a conclusion about market allocations of commodities causing pollution externalities?
 - (a) The prices of products responsible for pollution are too high.

- (b) The output of the commodity is too large.
 - (c) Recycling and reuse of the polluting substances are discouraged since release into the environment is so inefficiently cheap.
 - (d) Too much pollution is produced.
7. Which of the following is true of an imperfect market structure?
- (a) Participants in the market have little or no control over outcome in the market.
 - (b) Consumer surplus is maximized.
 - (c) The maximization of producer surplus may lead to a loss of net benefit for society.
 - (d) Imperfect market structures include monopolies but not cartels.
8. Which of the following is not an example of a policy designed to encourage competition?
- (a) Deregulation
 - (b) Trade liberalisation
 - (c) Reducing income tax
 - (d) Anti-monopoly regulations
9. Who defined Business economics in terms of the use of economic analysis in the formulation of business policies?
- (a) Adam Smith
 - (b) Robbins
 - (c) Joel Dean
 - (d) Alfred Marshall
10. Marshallian theory of consumer's behaviour is based on:
- (a) Hypothesis of additive utilities.
 - (b) Hypothesis of independent utilities.
 - (c) Both (A) and (B)
 - (d) Weak ordering
11. Successful business firms spend considerable time, energy, and efforts in analyzing the _____ for their products.
- (A) Supply
 - (b) Price
 - (c) Demand
 - (d) None of these
12. By way of an optimal choice, a consumer tends to:
- (a) save money

- (b) purchase large quantity
 - (c) maximize satisfaction
 - (d) maximize satisfaction subject to constraints like tastes and preferences.
13. The economist's concept of demand is _____ as desire or need or choice or preference or order.
- (a) the same thing
 - (b) not the same thing
 - (c) (a) or (b)
 - (d) None of these
14. The demand for labour in response to the wage rate is _____ whereas the demand for same labour in response to the price of electronic goods where labour enters as an input is_____ .
- (a) Derived Demand, Direct Demand
 - (b) Direct Demand, Derived Demand
 - (c) Individual Demand, Market Demand
 - (d) Company Demand, Industry Demand
15. **Assertion (A):** In the short run, a producer operates in only II stage of Law of Diminishing Returns Where average product of variable factor is declining.
- Reason (R):** In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.
- (a) (A) is true and (R) is false
 - (b) Both (A) and (R) are true & (R) is the correct explanation of (A)
 - (c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
 - (d) (A) is false and (R) is true
16. Which of the following groups of goods have inelastic demand?
- (a) Salt, Smart Phone and Branded Lipstick
 - (b) School Uniform, Branded Goggles and Smart Phone
 - (c) Salt, School Uniform and Medicine
 - (d) Medicine, Branded Sports Shoes, and Diamond ring
17. If the price of a commodity raised by 12% and E_d is (-) 0.63, the expenditure made on the commodity by a consumer will ____
- (a) Decrease
 - (b) Increase
 - (c) Remain same
 - (d) Can't Say

18. A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has _____.
 (a) more of one of the goods
 (b) less of at least one of the goods
 (c) more of at least one of the goods and less of the other good.
 (d) more of at least one of the goods and no less of the other good.
19. During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy _____ vegetables than/as her usual demand showing the demand of vegetables is _____.
 (a) more, inelastic demand
 (b) less, elastic demand
 (c) same, inelastic demand
 (d) same, elastic demand
20. In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion OP_1RQ_1 is _____.



- (a) Total Revenue (TR)
 (b) Marginal Revenue (MR)
 (c) Total Cost (TC)
 (d) None of these
21. Marginal revenue of a firm is constant throughout under:
 (a) Perfect Competition
 (b) Monopolistic Competition
 (c) Oligopoly
 (d) All the above
22. Monopolistic competition constitutes:
 (a) Single firm producing close substitutes

- (b) Many firms producing close substitutes
 - (c) Many firms producing differentiated substitutes
 - (d) Few firms producing differentiated substitutes
23. 'Interdependence Between Firms' is a feature of which type of market form:
- (a) Oligopoly
 - b) Monopolistic Competition
 - (c) Monopoly
 - (d) Perfect Competition
24. Which of the following is a limitation of using GDP as a measure of economic well-being?
- (a) It includes only monetary transactions.
 - (b) It does not account for income distribution.
 - (c) It considers both market and non-market activities.
 - (d) It is not affected by inflation.
25. If a country's Gross Domestic Product (GDP) is greater than its Gross National Product (GNP), it implies that the country:
- (a) Is a net exporter.
 - (b) Is a net importer.
 - (c) Has a trade surplus
 - (d) Has a trade deficit
26. If the central bank conducts an open market purchase of government securities, what is the likely impact on the money supply?
- (a) Increase
 - (b) Decrease
 - (c) No change
 - (d) Variable, depending on other factors.
27. Which of the following is included in M2, a broader measure of money supply compared to M1?
- (a) Currency in circulation
 - (b) Savings deposits
 - (c) Demand deposits
 - (d) Travellers' checks
28. What is the purpose of a voluntary export restraint (VER)?
- (a) To limit the quantity of exports.
 - (b) To encourage foreign producers to export more

- (c) To reduce the cost of imports.
 - (d) To comply with international trade agreements.
29. Which of the following is an example of an automatic stabilizer in the budget?
- (a) Discretionary spending
 - (b) Progressive taxation
 - (c) Infrastructure investment
 - (d) Unemployment benefits
30. Which of the following policy measures is typically used by central banks to manage the business cycle?
- (a) Fiscal policy.
 - (b) Monetary policy.
 - (c) Trade policy.
 - (d) Industrial policy.
31. Concept of Business Economics was given by:
- (a) Joel Dean
 - (b) Alfred Marshall
 - (c) Adam Smith
 - (d) L. Robbins
32. The choice between labour- and Capital-intensive techniques is related with:
- (a) What to Produce?
 - (b) How to Produce?
 - (c) For whom to Produce
 - (d) All of the above.
33. Which of the following is considered as a disadvantage of allocating resources using the market system?
- (a) Income will tend to be unevenly distributed.
 - (b) People do not get goods of their choice.
 - (c) Men of Initiative and enterprise are not rewarded.
 - (d) Profits will tend to be low.
34. Which of the following are the features of a mixed economy?
- (a) Planned economy
 - (b) Dual system of pricing exists
 - (c) Balance regional development
 - (d) All of the above

35. Which of the following is NOT a central issue in macroeconomics?
- (a) How should the central bank of a country fight inflation?
 - (b) What is responsible for high and persistent unemployment?
 - (c) How do tax changes influence consumers' buying choices?
 - (d) What factors determine economic growth?
36. Which of the following is a FALSE statement?
- (a) The very long run focuses on the growth of productive capacity
 - (b) In the very long run, the productive capacity is assumed to be given
 - (c) In the very short run, shifts in aggregate demand determine how much output is produced
 - (d) Fluctuations in the rates of inflation and unemployment are important long-run issues
37. In the very long-run AD-AS model, if the AD-curve shifts to the left, then:
- (a) prices and output will both decrease
 - (b) prices and output will both increase
 - (c) prices will decrease but output will remain the same
 - (d) output will decrease but prices will remain the same
38. The concept of diminishing marginal returns implies that:
- (a) output cannot decrease as long as labour is substituted for capital
 - (b) output decreases if either labour or capital is decreased
 - (c) output increases but at a decreasing rate as the amount of labour is increased and the amount of capital remains fixed
 - (d) if the capital stock is kept constant, output cannot increase even if more labour is available
39. Countries with higher saving rates may have higher equilibrium growth rates since:
- (a) people who save more also are more industrious
 - (b) higher income allows for more savings
 - (c) a higher saving rate allows for more investment in human capital which ultimately enhances economic growth
 - (d) having more capital equipment is more important than having better capital equipment
40. Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?
- (a) consumption and government purchases went up since you bought a used car and government bonds

- (b) consumption and investment went up since you bought a used car and government bonds
 - (c) investment and government purchases went up since you built a new house and bought government bonds
 - (d) investment went up since you built a new house
41. A central bank that wants to stabilize the economy in the short run should try to:
- (a) establish a clear inflation target and stick to it no matter what
 - (b) affect aggregate supply through open market operations
 - (c) affect aggregate demand through open market operations
 - (d) concentrate only on long-run goals
42. Inflation occurs whenever:
- (a) aggregate demand rises.
 - (b) the price of any given commodity rises.
 - (c) the average price of most goods and services rises.
 - (d) the tax rate is lower than the government spending rate.
43. The quantity of dollars supplied will decrease if:
- (a) imports into the United States increase.
 - (b) the expected future exchange rate falls.
 - (c) the interest rate in the United States falls.
 - (d) fewer U.S. residents travel abroad.
44. Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
 - (b) Exports
 - (c) Imports & exports
 - (d) None of the above
45. The expenditure multiplier is used to calculate the change in:
- (A) spending caused by a change in income
 - (b) equilibrium income caused by a change in autonomous spending
 - (c) intended spending caused by a change in consumption
 - (d) disposable income caused by a change in saving
46. 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
47. What is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach?
- (a) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$
 - (b) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$
 - (c) $GDP = \text{Consumption} + \text{Investment}$
 - (d) $GDP = \text{Consumption} + \text{Net Exports}$
48. Which component of National Income represents the income earned by individuals and businesses before taxes and other deductions?
- (a) Personal Income
 - (b) Disposable Income
 - (c) Gross National Product (GNP)
 - (d) Gross Domestic Product (GDP)
49. In modern fiat money systems, the value of money is primarily based on:
- (a) Gold reserves
 - (b) Government authority and public trust
 - (c) Exchange rates
 - (d) Digital transactions
50. Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?
- (a) National debt
 - (b) Budget surplus
 - (c) Fiscal deficit
 - (d) Revenue deficit
51. Which of the following is an example of an automatic stabilizer in the budget?
- (a) Discretionary spending
 - (b) Progressive taxation
 - (c) Infrastructure investment
 - (d) Unemployment benefits
52. Which of the following is more sensitive to short-term changes in economic conditions?
- (a) FDI
 - (b) FPI
 - (c) Both FDI and FPI
 - (d) Neither FDI nor FPI

53. Which type of investment is more influenced by government regulations and policies?
- (a) FDI
 - (b) FPI
 - (c) Both FDI and FPI equally
 - (d) Neither FDI nor FPI
54. The concept of the "multiplier effect" in Keynesian economics refers to:
- (a) The impact of interest rates on investment
 - (b) The magnification of an initial change in spending throughout the economy
 - (c) The impact of taxes on consumer spending
 - (d) The role of exports in economic growth
55. What is the "liquidity trap" in Keynesian theory?
- (a) A situation where interest rates are very high.
 - (b) A situation where interest rates are very low, and savings are hoarded.
 - (c) A situation of hyperinflation
 - (d) A situation of excessive government spending
56. Which international organization is responsible for facilitating trade negotiations and resolving trade disputes among member countries?
- (a) World Health Organization (WHO)
 - (b) International Monetary Fund (IMF)
 - (c) World Trade Organization (WTO)
 - (d) United Nations Educational, Scientific and Cultural Organization (UNESCO)
57. The law of consumer surplus is based on:
- (a) indifferent curve analysis
 - (b) revealed preference theory
 - (c) law of substitution
 - (d) the law of diminishing marginal utility
58. The industrial sector depends on the agricultural sector because:
- (a) the agricultural sector provides food and other products for the consumption purposes of industrial sector
 - (b) the agricultural sector provides raw materials for the development of agro-based industries of the economy
 - (c) the agricultural sector provides market for the industrial products
 - (d) all of the above

59. If the price of apples rises from ₹ 30 per kg to ₹ 40 per kg and the supply increases from 240 kg to ₹ 300 kg. Elasticity of supply is:
- (a) .77
 - (b) .67
 - (c) (–) .67
 - (d) (–) .77
60. The producer is in equilibrium at a point where the cost line is:
- (a) above the isoquant
 - (b) below the isoquant
 - (c) cutting the isoquant
 - (d) tangent to isoquant
61. A monopolist is able to maximize his profits when:
- (a) his output is maximum
 - (b) he charges a high price
 - (c) his average cost is minimum
 - (d) his marginal cost is equal to marginal revenue
62. Agricultural goods markets depict characteristics close to:
- (a) Perfect competition
 - (b) Oligopoly
 - (c) Monopoly
 - (d) Monopolistic competition
63. Which of the following is a function of an entrepreneur?
- (a) Initiating a business enterprise
 - (b) Risk bearing
 - (c) Innovating
 - (d) All of the above
64. Which of the following statements is true of the relationship among the average cost functions?
- (a) $ATC = AFC + AVC$
 - (b) $AVC = AFC + ATC$
 - (c) $AFC = ATC + AVC$
 - (d) $AFC = ATC - AVC$
65. For a Price taking firm:
- (a) Marginal revenue is less than Price
 - (b) Marginal revenue is equal to Price

- (c) The relationship between behavior marginal revenue and Price is indeterminate
 - (d) Marginal revenue is greater than price
66. Coincident indicator is not indicated as:
- (a) Inflation
 - (b) Industrial Production
 - (c) Retail Sales
 - (d) New order for Plant and equipment
67. Indifference Curve analysis is superior to utility analysis:
- (a) It dispenses with the assumption of measurability
 - (b) It segregates income effect and substitution effect
 - (c) It does not assume constancy of marginal utility of money
 - (d) All of the above
68. Perfectly Competitive firm and industry are both in long run equilibrium when:
- (a) $P = MR = SMC = LMC$
 - (b) $P = MR =$ Lowest point on the LAC
 - (c) $P = MR = SAC = LAC$
 - (d) All of the above
69. Economy's historical performance was reflected by:
- (a) Lagging indicating
 - (b) Leading indicating
 - (c) Either (a) or (b)
 - (d) None of these
70. Opportunity cost is ____.
- (a) A cost that cannot be avoided.
 - (b) The cost incurred in the past before we make a decision about what to do in the future.
 - (c) That which we forgo or give up when we make a choice or a decision.
 - (d) The additional benefit of buying an additional unit of a product.
71. Given $TC = 2000 + 15Q - 6Q^2 + Q^3$. How much is TFC at $Q = 2000$?
- (a) 2000
 - (b) 975
 - (c) 30,000
 - (d) Can't be determined

72. Different business cycles _____ in duration and intensity.
- (a) differ
 - (b) similar
 - (c) consistent
 - (d) Can't say
73. 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
74. Price discrimination will be profitable only if the elasticity of demand in different markets in which the total market has been divided is:
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 - (d) zero
75. _____ expressed the view the "Economics is neutral between end".
- (a) Robbins
 - (b) Marshall
 - (c) Pigou
 - (d) Adam Smith
76. Price Rigidity explained by Sweezy's model is related to which market form:
- (a) Monopoly
 - (b) Oligopoly
 - (c) Monopolistic competition
 - (d) Perfect Competition
77. 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) Subsidies
78. Demand for complementary goods are:
- (a) Derived Demand
 - (b) Autonomous demand

- (c) Aggregate Demand
 - (d) None of these
79. Consumers get maximum variety of goods under:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) None of these
80. What is the primary goal of countercyclical fiscal policy in budgeting?
- (a) Maximizing government revenue.
 - (b) Stabilizing the economy during economic downturns.
 - (c) Minimizing government intervention.
 - (d) Reducing public debt.
81. According to Keynes, what can cause involuntary unemployment in an economy?
- (a) High interest rates
 - (b) Insufficient aggregate demand
 - (c) Government intervention
 - (d) Excessive savings
82. The concept of "animal spirits" in Keynesian theory refers to:
- (a) The unpredictable behavior of financial markets
 - (b) Psychological factors influencing economic decisions
 - (c) Government regulations affecting business confidence
 - (d) The impact of interest rates on investment
83. Which trade policy tool is designed to directly support domestic producers by reducing the cost of exporting goods?
- (a) Export subsidy
 - (b) Import quota
 - (c) Voluntary export restraint
 - (d) Export tariff
84. Public goods are characterized by:
- (a) Excludability and rivalry
 - (b) Excludability and non-rivalry
 - (c) Non-excludability and rivalry
 - (d) Non-excludability and non-rivalry

85. Which of the following is a common solution to the problem of common resources being overused?
- (a) Government regulation
 - (b) Privatization
 - (c) Subsidies
 - (d) Free-market competition
86. If the reserve requirement is 20%, what is the potential maximum expansion of the money supply when a new deposit of \$1,000 is made?
- (a) \$5,000
 - (b) \$2,000
 - (c) \$1,000
 - (d) \$500
87. Which of the following is a factor income?
- (a) Profits
 - (b) Transfer payments
 - (c) Subsidies
 - (d) Indirect taxes
88. Which of the following matters is/are fundamentally connected to economic analysis?
- (a) Economic prosperity
 - (b) Higher standard of living
 - (c) Changes in price of a commodity
 - (d) All of the above
89. Management of the firm _____ control over macro-economic factors.
- (a) has
 - (b) has no
 - (c) has partial
 - (d) None of these
90. After reaching the saturation point, consumption of additional units of the commodity cause:
- (a) Total utility to fall and marginal utility to increase.
 - (b) Total and marginal utility both to increase.
 - (c) Total utility to fall and marginal utility to become negative.
 - (d) Marginal utility to fall and total utility to become negative.

91. Which of the following statements is correct?
- (a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero.
 - (b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite.
 - (c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity.
 - (d) None of these
92. Computers and computer software are_____.
- (a) Substitute goods
 - (b) Complementary goods
 - (c) Independent goods
 - (d) Normal goods
93. Which of the following statement(s) is/are true about the slope of budget line?
- (a) The slope of budget line is determined by the relative prices of two goods.
 - (b) The slope of budget line is equal to price ratio of two goods.
 - (c) The slope of budget line measures the rate at which the consumer can trade one good for the other.
 - (d) All of the above
94. Traditional approach of law of demand was propounded by_____.
- (a) Giffen
 - (b) Paul A Samuelson
 - (c) Alfred Marshall
 - (d) Pique
95. Under the law of variable proportion, stage I is known as the stage of increasing returns because:
- (a) Marginal product of the variable factor increases throughout this stage
 - (b) Average product of the variable factor increases throughout this stage
 - (c) Marginal product increases at increasing rate throughout this stage
 - (d) Total increases at increasing rate throughout this stage
96. Production function: $Q = 4L^{1/2}K^{2/3}$ exhibits:
- (a) increasing returns to scale
 - (b) decreasing returns to scale
 - (c) constant returns to scale
 - (d) increasing returns to a factor

97. A mathematical relationship showing the maximum output that can be produced by each and every combination of inputs is called _____.
(a) Production equation
(b) Production function
(c) Production schedule
(d) Production identity
98. In economics, generally the classification of the markets is made on the basis of:
(a) Time
(b) Geographic area
(c) Volume of business
(d) All of these
99. 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)
100. Freedom of choice is the advantage of _____.
(a) Socialism
(b) Capitalism
(c) Communism
(d) None of the above