

**MODEL TEST PAPER 10**  
**FOUNDATION COURSE**  
**PAPER 4: BUSINESS ECONOMICS**

**Time: 2 Hours**

**Marks: 100**

1. The Book "The Wealth of Nations "is written by:
  - (a) Adam Smith
  - (b) Arthur Pigou
  - (c) Robinson
  - (d) Ragnar Nurske
2. The Nature of Business Economics:
  - (a) Business Economics is a Science
  - (b) Incorporate elements of Macro Analysis
  - (c) Interdisciplinary in Nature
  - (d) All the above
3. Which of these country is a purely socialist economy?
  - (a) USSR
  - (b) China
  - (c) Vietnam
  - (d) None of these
4. Rational Decision making requires that:
  - (a) One's Choice be arrived at logically and without error.
  - (b) One's Choice be consistent with one's goal.
  - (c) One's Choice never vary.
  - (d) The consumer Plan's to attain the highest possible level of satisfaction.
5. The Substitution effect will be stronger when:
  - (a) The goods are closer Substitute
  - (b) There is lower cost of Switching to the Substitute good.
  - (c) There is lower inconvenience while switching to the Substitute good.
  - (d) All the above
6. What are the Internal causes of Business Cycle \_?
  - (a) Fluctuations in effective demand.
  - (b) Macroeconomic Policies
  - (c) Money Supply
  - (d) All the above

7. According to Hawtrey trade cycle is a \_
  - (a) Monetary Phenomenon
  - (b) Unplanned Phenomenon
  - (c) Fiscal Phenomenon
  - (d) All the above
8. Which of the following describe a Typical Business Cycle?
  - (a) Economic Expansions are followed by Contraction's.
  - (b) Inflation is followed by rising Income and Unemployment.
  - (c) Economic Expansion are followed by economic growth and development.
  - (d) Stagflation is followed by Inflationary growth.
9. A Relative Price is:
  - (a) Price expressed in terms of money.
  - (b) The ratio of One money Price to another
  - (c) Equal to money price.
  - (d) None of these.
10. In case of Substitute Product:
  - (a) The Demand Curve Slope upwards.
  - (b) The Demand Curve Slope downwards
  - (c) The Demand Curve is Perfectly Elastic
  - (d) None of these.
11. A dealer sells only two brands of Motorcycle- Royal and Hero. It was observed that when the price of royal rises by 10% the demand for Hero increases by 15%. What is the cross elasticity of Hero against the Price of Royal?
  - (a) + 1.5
  - (b) -1.5
  - (c) 2.5
  - (d) None of these
12. When  $e = 0$ , elasticity of demand is :
  - (a) Perfectly elastic
  - (b) Unitary
  - (c) Inelastic
  - (d) Perfectly inelastic demand
13. A rise in Price will –
  - (a) Increase in Consumer Surplus
  - (b) Decrease in Consumer Surplus

- (c) No Change in Consumer Surplus
  - (d) None of these
14. Marginal Product is the slope of –
- (a) Marginal product Curve
  - (b) Average Product Curve
  - (c) Total Product Curve
  - (d) Implicit Product Curve
15. Law of Production does not include \_
- (a) least Cost Combination of factors
  - (b) Law of variable proportion
  - (c) Law of diminishing returns to a factor
  - (d) Return to scale
16. Which of the following Statements is correct concerning the relationship among the firm's Cost Function:
- (a)  $TC = TVC - TFC$
  - (b)  $TFC = TC - TVC$
  - (c)  $TC = TFC - TVC$
  - (d)  $TVC = TFC - TC$
17. In the Cobb Douglas function the change in Output due to increase in one additional unit of an input is called?
- (a) Elasticity
  - (b) Return to scale
  - (c) Total Product
  - (d) Marginal Revenue
18. The Condition for pure competition to be fulfilled are –
- (a) large numbers of buyers and sellers
  - (b) Products are homogeneous
  - (c) Firms are free from entry and exit from the market
  - (d) All the above
19. When the firm is in the long run equilibrium in perfect competition which of the following is true –
- (a)  $AC = MR$
  - (b)  $TR = TC$
  - (c) The firm are earning supernormal profit
  - (d) None of these

20. The opportunity cost of a good is :
- (a) The loss of interest in using savings
  - (b) The time lost in finding it.
  - (c) The quality of other goods sacrificed to get another unit of that good.
  - (d) None of these
21. Which is not the Characteristics of Monopolistic Competition:
- (a) Large number of sellers
  - (b) Homogeneous Product
  - (c) Freedom of entry and exit
  - (d) Non Price Discrimination
22. Demand Curve in the monopolistic competition is –
- (a) Infinitely elastic
  - (b) Downward sloping and highly inelastic
  - (c) Downward sloping and more elastic demand curve.
  - (d) None of these.
23. The Concept of Price rigidity in Sweezy's Model is related to which market form:
- (a) Oligopoly market
  - (b) Perfect Competition market
  - (c) Monopoly market
  - (d) Monopolistic market
24. Which of the following Statement is incorrect ?
- (a) There is no difference between a firm and an Industry
  - (b) The Monopolist may raise the price and restrict the output
  - (c) Heterogeneous product are offered for sale in Perfect Competition
  - (d) In Monopolistic competition product differentiation is peculiar.
25. Foreign Exchange market is an example of –
- (a) Perfect Competition
  - (b) Oligopoly
  - (c) Monopoly
  - (d) Monopolistic Competition
26. Under which market form price discrimination cannot persist –
- (a) Oligopoly
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) Perfect competition.

27. The Relationship between AR, MR and Price Elasticity –
- $MR = AR \times e^{-1}$  divided by  $e$
  - $AR = MR \times e^{-1}$  divided by  $e$
  - $AR - MR = e^{-1}$  divided by  $e$
  - None of these
28. The Price elasticity for Monopolistic Firm is :
- $E > 1$
  - $E < 1$
  - $E = 1$
  - None of these
29. Dynamic Fare charged by Indian Railways is an example of :
- Pure Monopoly
  - Discriminating Monopoly
  - Perfect Competition
  - None of these
30. Price discrimination is possible when
- The Seller should have some control over the supply of the Product
  - The Price elasticity of the Product should be different in different sub market
  - The seller should be able to divide his market into two or more Sub market
  - None of these
31. When a small change in price leads to a large change in demand the demand is
- Inelastic
  - Elastic
  - Stagnant
  - Fixed
32. The relationship between price and quantity supplied in law of supply is :
- Proportionate
  - Homogenous
  - Inverse
  - Direct
33. The Stages in law of variable proportion is :
- 1
  - 2

- (c) 3
  - (d) 4
34. Certain Benefit an Industry gets when it expands its scale of production is Known as
- (a) Internal Economies
  - (b) Diseconomies
  - (c) External economies
  - (d) Profit
35. The Interest on own capital is :
- (a) Implicit cost
  - (b) Future cost
  - (c) Explicit Cost
  - (d) Past Cost
36. The Shape of TR Curve of the Monopolist is :
- (a) U Shaped
  - (b) Inverted U Shaped
  - (c) Downward sloping
  - (d) None of these.
37. The Distinction between Selling Cost and Production cost was made by :
- (a) Chamberlin
  - (b) Sweezy
  - (c) Mrs. Joan Robinson
  - (d) None of these
38. The Firm and Industry are same in:
- (a) Duopoly
  - (b) Monopoly
  - (c) Perfect Competition
  - (d) None of these
39. For Luxuries goods the income elasticity is:
- (a)  $E > 1$
  - (b)  $E < 1$
  - (c)  $E = 0$
  - (d) None of these
40. Long Run Average Cost (LAC) is :
- (a) U Shaped

- (b) Is also called envelope curve
  - (c) Both a and b
  - (d) None of These
41. Under Perfect Competition the Supply Curve is derived from :
- (a) MC Curve
  - (b) AC curve
  - (c) TC Curve
  - (d) None of these.
42. When goods are complementary the Indifference Curve is :
- (a) Is a straight line
  - (b) Is Convex to the origin
  - (c) Consist of two straight line with a right angle bent.
  - (d) None of these
43. The Consumer is in equilibrium when :
- (a) The budget line is tangent to the Indifference Curve
  - (b) Marginal rate of Substitution of one good for another must be equal to the Price ratio of the two goods
  - (c) Either a or b
  - (d) None of these
44. When average cost is equal to average revenue of a firm, it gets \_\_\_\_\_.
- (a) Sub normal profit
  - (b) Normal profit
  - (c) Abnormal profit
  - (d) Super profit
45. Demand for factor of production is
- (a) Supplementary demand
  - (b) Intermediate goods
  - (c) Derived demand
  - (d) Complementary demand
46. The producer's demand for a factor of production is governed by the \_\_\_\_ of that factor.
- (a) Price b)
  - (b) Marginal Productivity
  - (c) Availability
  - (d) (d) Profitability

47. A rise in supply and demand in equal proportion will result in
- (a) Increase in equilibrium price and decrease in equilibrium quantity
  - (b) Decrease in equilibrium price and increase in equilibrium quantity
  - (c) No change in equilibrium price and increase in equilibrium quantity
  - (d) Increase in equilibrium price and no change in equilibrium quantity
48. The Slope of Isoquant is :
- (a) upward to the left
  - (b) Downward to the right
  - (c) downward to the left
  - (d) upward to the right
49. The Cross elasticity between Tea and Coffee is :
- (a) Infinite
  - (b) Positive
  - (c) Zero
  - (d) Negative
50. When the Output increases from 20 to 30 units and TR increases from Rs 400 to Rs 500 then MR is
- (a) 20
  - (b) 10
  - (c) 15
  - (d) None of these
51. In case of Diminishing Return to a factor :
- (a) Marginal Product Diminishes
  - (b) Total Product increase at increasing rate
  - (c) Total Product increases at diminishing rate
  - (d) Both a and b
52. Break even point indicate which of the following ?
- (a)  $TR = TC$
  - (b)  $TR > TC$
  - (c)  $TR = TVC$
  - (d) None of these
53. Negative Return sets in at the stage when :
- (a) MP is negative
  - (b) MP is diminishing
  - (c) MP is rising



- (d) none of these
54. The Problem what to produce relates to :
- (a) The Choice of goods and Services
  - (b) Distribution of Income
  - (c) The Choice of Technique
  - (d) market value of goods and services
55. When violation of law of demand occurs :
- (a) Substitution effect is negative
  - (b) Income effect is negative
  - (c) Negative income effect is less than substitution effect
  - (d) Negative income effect is greater than substitution effect
56. Average revenue curve is more elastic under monopolistic competition than monopoly due to
- (a) Low degree of governmental control
  - (b) lack of close Substitute
  - (c) Availability of close Substitute
  - (d) None of these
57. The Producer reduces supply from 100 units to 50 units. When the Price falls from Rs 20 to Rs 10, the Price elasticity of supply will be :
- (a) 1
  - (b) 2
  - (c) 4
  - (d) None of these
58. The Government offer minimum assured price to the farmers to purchase their Output is called
- (a) Market Price
  - (b) Support Price
  - (c) Equilibrium Price
  - (d) Ceiling Price
59. The Price in Collusive Oligopoly is decided by :
- (a) The Firm
  - (b) Price leader
  - (c) The Industry
  - (d) None of these

60. The Marginal Utility from the last Unit Consumed of Commodity Y = 50 Units and  $MU = 10$ . The Consumer is in equilibrium and consuming commodity y only. Find the Price of Commodity Y—
- (a) 5
  - (b) 10
  - (c) 40
  - (d) None of these
61. Which of the following is NOT a function of public finance?
- (a) Allocation of resources for public goods
  - (b) Income redistribution to achieve social equity
  - (c) Providing tax relief to corporates to boost economic growth
  - (d) Stabilization of the economy through fiscal measures
62. Which of the following is the primary aim of fiscal policy in a country with high unemployment?
- (a) Reducing inflation
  - (b) Achieving full employment
  - (c) Maximizing government revenue
  - (d) Managing the public debt
63. Which of the following is an example of market failure?
- (a) Perfect competition in the economy
  - (b) Non-exclusion in public goods
  - (c) All firms making profits in a perfectly competitive market
  - (d) Optimal allocation of resources by private individuals
64. When a market fails to allocate resources efficiently, leading to overproduction or underproduction of goods, it is called:
- (a) Monopoly
  - (b) Externalities
  - (c) Public Goods
  - (d) Market Equilibrium
65. In the budget-making process, what is the term used to describe the government's planned expenditure exceeding its expected revenue?
- (a) Budget surplus
  - (b) Budget deficit
  - (c) Balanced budget
  - (d) National Debt

66. Which of the following is the correct sequence of stages in the budget-making process?
- (a) Presentation, Drafting, Execution, Approval
  - (b) Drafting, Presentation, Approval, Execution
  - (c) Execution, Presentation, Approval, Drafting
  - (d) Presentation, Approval, Execution, Drafting
67. Which of the following is a tool of expansionary fiscal policy?
- (a) Increasing taxes
  - (b) Cutting government spending
  - (c) Reducing subsidies on essential goods
  - (d) Increasing government spending to stimulate demand
68. Which of the following is NOT typically used as a fiscal policy measure to control inflation?
- (a) Increasing government expenditure
  - (b) Raising taxes
  - (c) Reducing public sector investments
  - (d) Increasing interest rates
69. A fiscal policy aimed at reducing budget deficits and controlling inflation is known as:
- (a) Expansionary fiscal policy
  - (b) Contractionary fiscal policy
  - (c) Neutral fiscal policy
  - (d) Redistributive fiscal policy
70. Which of the following is the most accurate representation of the government's role in resource allocation according to the fiscal function of public finance?
- (a) The government maximizes profits by privatizing public goods.
  - (b) The government ensures the efficient distribution of resources in competitive markets.
  - (c) The government allocates resources to public goods like defense and infrastructure.
  - (d) The government avoids intervening in resource allocation to maintain market efficiency.
71. Which of the following situations best demonstrates a market failure due to asymmetric information?
- (a) A monopolist exploiting market power by reducing supply
  - (b) Consumers buying substandard products because they lack information about quality

- (c) The government providing public goods like street lighting
  - (d) A natural monopoly where economies of scale drive market concentration
72. Which of the following budget types specifically aims to reduce the deficit by either increasing taxes or reducing government spending?
- (a) Balanced budget
  - (b) Expansionary budget
  - (c) Contractionary budget
  - (d) Surplus budget
73. Which of the following would be an example of a counter-cyclical fiscal policy during a period of recession?
- (a) Increasing taxes and reducing government spending
  - (b) Cutting taxes and increasing government expenditure
  - (c) Reducing the public debt by increasing savings
  - (d) Avoiding changes in taxes and government spending
74. Which of the following government interventions is most appropriate to correct the market failure caused by positive externalities?
- (a) Implementing taxes on consumption of the good
  - (b) Subsidizing the production of the good
  - (c) Imposing strict regulations on production
  - (d) Reducing government spending on the good
75. Which of the following factors does NOT directly affect the demand for money?
- (a) Interest rates
  - (b) The level of income or output
  - (d) The price level in the economy
  - (d) The government's fiscal deficit
76. The transaction motive for holding money implies that money is held to:
- (a) Make speculative investments in financial markets
  - (b) Provide liquidity for daily transactions and purchases
  - (c) Protect wealth against inflationary risks
  - (d) Save for future investment in assets
77. Which of the following is NOT a part of the money supply in an economy?
- (a) Currency held by the central bank
  - (b) Demand deposits in commercial banks
  - (c) Saving accounts in commercial banks
  - (d) Time deposits in commercial banks

78. In an economy, a change in the reserve ratio will directly affect the:
- (a) Level of interest rates in the market
  - (b) Supply of money in circulation
  - (c) Demand for money at different income levels
  - (d) Government's budgetary balance
79. Which of the following is the primary objective of monetary policy in a country?
- (a) To reduce government expenditure
  - (b) To regulate the money supply to achieve macroeconomic goals like controlling inflation
  - (c) To provide interest-free loans to the private sector
  - (d) To balance the national budget
80. Which of the following is NOT a typical tool of monetary policy used by a central bank?
- (a) Open market operations
  - (b) Changing the reserve requirements of commercial banks
  - (c) Adjusting the tax rates in the economy
  - (d) Changing the discount rate
81. According to the Quantity Theory of Money, if the money supply increases while the velocity of money and output remain constant, the general price level will:
- (a) Decrease
  - (b) Increase proportionately
  - (c) Stay the same
  - (d) Increase, but unpredictably
82. If the central bank implements an expansionary monetary policy by lowering the reserve requirement, the immediate effect on the money supply will be:
- (a) A decrease in the money supply
  - (b) An increase in the money supply
  - (c) No change in the money supply
  - (d) A reduction in interest rates without affecting money supply
83. Which of the following actions would the central bank most likely take to combat inflationary pressure in the economy?
- (a) Decrease the interest rate
  - (b) Increase the money supply
  - (c) Raise the reserve ratio for commercial banks
  - (d) Lower the statutory liquidity ratio

84. If the central bank wants to decrease the money supply, which of the following tools of monetary policy is most likely to be used?
- (a) Lowering the discount rate
  - (b) Conducting open market purchases of government bonds
  - (c) Increasing the reserve requirement for commercial banks
  - (d) Reducing taxes to increase consumer spending
85. Which of the following is the most effective monetary policy tool for managing short-term fluctuations in the economy?
- (a) Open market operations
  - (b) Changing tax rates
  - (c) Changing government expenditure
  - (d) Price control measures
86. Which of the following is NOT a key assumption of Ricardo's theory of comparative advantage?
- (a) Two countries, each specializing in the good it can produce most efficiently, will both gain from trade.
  - (b) Resources are immobile between countries but mobile within a country.
  - (c) Trade occurs only due to differences in technology between countries.
  - (d) Both countries in trade can benefit even if one country is less efficient in producing both goods.
87. According to the Heckscher-Ohlin theory, a country will have a comparative advantage in the production of goods that:
- (a) Require labor-intensive techniques if the country has a surplus of capital.
  - (b) Utilize abundant factors of production that the country has in large supply.
  - (c) Require advanced technology in which the country is technologically superior.
  - (d) Require high labor costs in a country with low wages.
88. Which of the following is a potential benefit of Foreign Direct Investment (FDI) for the host country?
- (a) Increased inflation due to higher government expenditure
  - (b) Reduction in technological transfer to local industries
  - (c) Creation of employment opportunities and skill development
  - (d) Increased dependence on foreign companies for resources
89. Which of the following is the main motivation for companies to engage in Foreign Direct Investment (FDI)?
- (a) To reduce foreign competition in domestic markets
  - (b) To gain access to new markets and resources

- (c) To avoid taxes in the home country
  - (d) To lower labor costs by outsourcing to developing countries
90. If a country's currency is depreciating, it means that:
- (a) The domestic currency is increasing in value relative to foreign currencies.
  - (b) The country's exports will become more expensive to foreign buyers.
  - (c) The country's exports become cheaper for foreign buyers, potentially boosting trade.
  - (d) The central bank is actively increasing the supply of money.
91. Which of the following would be an effect of a revaluation of a country's currency?
- (a) Increased demand for the country's exports
  - (b) A decrease in the cost of imports for consumers
  - (c) Increased competitiveness of the country's exports in the global market
  - (d) A higher cost of living for consumers due to decreased purchasing power
92. In international trade negotiations, which of the following is the most common objective for countries involved in multilateral trade talks?
- (a) To increase tariffs and protect domestic industries
  - (b) To reduce trade barriers and promote free trade
  - (c) To restrict foreign competition through quotas
  - (d) To enhance domestic subsidies for agricultural sectors
93. In the context of trade negotiations, the term "Most-Favored-Nation (MFN)" status refers to:
- (a) A preferential treatment granted to one country over others in trade agreements.
  - (b) The obligation to trade exclusively with a particular country.
  - (c) A policy that allows countries to impose tariffs on imports from specific nations.
  - (d) A requirement to offer the same trade terms to all trading partners.
94. Which of the following is an example of a multilateral trade agreement?
- (a) North American Free Trade Agreement (NAFTA)
  - (b) European Union (EU) Trade Policies
  - (c) World Trade Organization (WTO) agreements
  - (d) Bilateral Trade Agreement between two countries
95. Which of the following is the primary objective of bilateral trade agreements?
- (a) To create trade barriers between the two countries involved

- (b) To establish free trade between two countries by eliminating tariffs and restrictions
  - (c) To focus on mutual military cooperation between the countries
  - (d) To standardize monetary policies between two countries
96. Which of the following is a primary objective of India's Five-Year Plans?
- (a) To regulate and control foreign trade
  - (b) To promote balanced economic growth across all regions
  - (c) To discourage the private sector in favor of public enterprises
  - (d) To ensure foreign aid and capital inflows into the country
97. Which of the following is the correct sequence of the sectors of the Indian economy according to the economic development stages?
- (a) Primary → Secondary → Tertiary
  - (b) Tertiary → Primary → Secondary
  - (c) Secondary → Tertiary → Primary
  - (d) Primary → Tertiary → Secondary
98. The Green Revolution in India focused primarily on increasing the production of:
- (A) Oilseeds
  - (B) Food grains, especially wheat and rice
  - (C) Fruits and vegetables
  - (D) Cash crops like cotton and sugarcane
99. Which of the following is considered a major challenge to the Indian agricultural sector?
- (A) Over-reliance on capital-intensive machinery
  - (B) Low level of technological adoption and irrigation facilities
  - (C) Excessive imports of agricultural products
  - (D) Lack of foreign investments in the sector
100. Which of the following policies has the Indian government adopted to promote small-scale industries?
- (a) Granting subsidies to large multinational corporations
  - (b) Providing financial and technical assistance to small businesses
  - (c) Encouraging imports of capital goods for industrial use
  - (d) Abolishing labor laws to increase industrial output