

MODEL TEST PAPER 2

FOUNDATION COURSE

PAPER – 1: BUSINESS ECONOMICS

Time: 2 Hours

Marks: 100

1. Which of the following activities is excluded from GDP, causing GDP to understate a nation's well-being?
 - (a) the services of used-car dealers
 - (b) the child-care services provided by stay-at-home parents
 - (c) the construction of new houses
 - (d) government expenditures on military equipment
2. Which of the following is a final good or service?
 - (a) diesel fuel bought for a delivery truck
 - (b) fertilizer purchased by a farm supplier
 - (c) a haircut
 - (d) Chevrolet windows purchased by a General Motors assembly plant
3. Gross investment refers to:
 - (a) private investment minus public investment.
 - (b) net investment plus replacement investment.
 - (c) net investment after it has been "inflated" for changes in the price level.
 - (d) net investment plus net exports.
4. Which of the economists below most likely advocated activist government policies?
 - (a) Milton Friedman
 - (b) John Maynard Keynes
 - (c) Robert Lucas
 - (d) Thomas Sargent
5. Increases in unwanted business inventories are counted as:
 - (a) a decrease in the capital stock
 - (b) an increase in consumption
 - (c) an increase in investment
 - (d) an increase in depreciation
6. If the inflation rate starts to increase, a central bank most likely will:
 - (a) try to stimulate aggregate supply through open market purchases
 - (b) change short-term interest rates through open market sales
 - (c) increase short-term interest rates by buying government bonds

- (d) send signals to financial markets about upcoming open market purchases
7. What is the similarity between the Subprime Crisis and Greece Crisis?
 - (a) High Financial Leverage
 - (b) Low-Interest Rate
 - (c) Credit Expansion
 - (d) All of the above
 8. In the simple Keynesian model investment is:
 - (a) Fixed.
 - (b) A function of the level of income.
 - (c) Either fixed or a function of the level of income.
 - (d) None of the above.
 9. Which is the main objective of a tax?
 - (a) Increase in consumption
 - (b) Increase in production
 - (c) Raising public revenue
 - (d) Reduction in capital formation
 10. Which of the following is a measure of fiscal policy?
 - (a) public expenditure
 - (b) C.R.R.
 - (c) S.L.R.
 - (d) Bank rate
 11. 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.
 12. A Most Favoured nation status doesn't necessarily refer to:
 - (a) Same and equal economic treatment
 - (b) Non-discriminatory treatment
 - (c) Same tariff rates applicable
 - (d) Uniform civil code
 13. The book named "An Inquiry into the Nature and Causes of the Wealth of Nations" was published in:
 - (a) 1885

- (b) 1776
 - (c) 1845
 - (d) 1775
14. Normative Economics Involves:
- (a) Value Judgement
 - (b) Cause and Effect Relationship
 - (c) Determining the fair price
 - (d) None of these
15. The Characteristics of Socialist Economy are:
- (a) Collective Ownership
 - (b) Economic Planning
 - (c) Absence of Consumer Choice
 - (d) All the above
16. Demonstration effects a term coined by:
- (a) James Duesenberry
 - (b) Marshall
 - (c) Keynes
 - (d) None of these
17. Exception to the law of demand:
- (a) Conspicuous goods
 - (b) Giffen goods
 - (c) Future expectations about prices
 - (d) All of the above
18. In the simple Keynesian model consumption is a function of:
- (a) Rate of interest.
 - (b) Level of income.
 - (c) Price level.
 - (d) None of the above.
19. Lower interest rates are likely to:
- (a) Decrease consumption.
 - (b) Increase the cost of borrowing.
 - (c) Encourage saving.
 - (d) Increase borrowing and spending.
20. Education is an example of:
- (a) Public good

- (b) Merit good
 - (c) Social good
 - (d) Club good
21. Specific tariff is imposed on:
- (a) Per unit
 - (b) Value
 - (c) Specific content
 - (d) Per unit and value
22. Countervailing duties are imposed:
- (a) To offset low export prices
 - (b) To offset high export prices
 - (c) To offset low import prices
 - (d) To offset high import prices
23. Making an importing country to go through frustrating experience:
- (a) Trade-related investment Measures
 - (b) Distribution Restrictionism
 - (c) Restriction on Post-sales Services
 - (d) Administrative regulations
24. Increasing import cost by regulating foreign exchange comes under:
- (a) Financial measures
 - (b) Safe guard measures
 - (c) Distribution restrictionism
 - (d) Administrative measures
25. Dumping implies:
- (a) Duties imposed by importing country on cheaper foreign goods
 - (b) Selling much lower than the sales price than domestic market
 - (c) Selling at higher price than domestic market
 - (d) Duties imposed by exporting country on cheaper domestic goods
26. A group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries:
- (a) Free trade area
 - (b) Custom union
 - (c) Trade bloc
 - (d) Regional preferential trade agreements

27. Under which union they have or follow a common monetary policy and fiscal policy:
- (a) Economic Union
 - (b) Custom Union
 - (c) Common market
 - (d) All the above
28. National Treatment Principle (NTP) says:
- (a) Imported goods and domestic goods should be treated equally
 - (b) Exported goods and imported goods should be treated equally.
 - (c) Imported goods and domestic goods should be treated differently
 - (d) Internal trade is more important than international trade
29. Which of the following is not objectives of WTO:
- (a) Settling balance of payments among member countries
 - (b) to increase the transparency of decision-making processes,
 - (c) to cooperate with other major international economic institutions involved in global economic management, and
 - (d) to help developing countries benefit fully from the global trading system.
30. The total member countries under WTO currently:
- (a) 164
 - (b) 171
 - (c) 169
 - (d) 161
31. Which of the following is known as broad money?
- (a) M1
 - (b) M2
 - (c) M3
 - (d) M4
32. Money supply refers to the sum of money held by:
- (a) Public
 - (b) Banks
 - (c) Govt
 - (d) RBI
33. The Supply of Money is a:
- (a) Flow variable
 - (b) Stock variable

- (c) A combination of stock and flow variable
- (d) Cannot be categorized

34. M1 does not include:

- (a) Time deposits with the banking system
- (b) Currency in circulation
- (c) Demand deposits with the banking system
- (d) Other deposits with RBI

35. Reserve money is supplied by:

- (a) RBI
- (b) Government
- (c) Commercial banks
- (d) World bank

36. Calculate M3 from the following money aggregates:

Information	Amount in crores
Currency with Public	5,02,738
Other deposits with the RBI	7016
Banker's deposits with the RBI	202,508
Demand deposits	423,120
Time deposits	23,73636

- (a) 932 874 cr
- (b) 3,306,510 cr
- (c) 925858 cr
- (d) 705246 cr

37. If the required reserve ratio is 20 percent, currency in circulation is ` 800 billion, demand deposits are ` 2000 billion, and excess reserves total ` 2 billion, find the value of money multiplier:

- (a) 2.50
- (b) 2.90
- (c) 2.60
- (d) 2.50

38. Bank earn a profit on the difference between:

- (a) Interest charged to depositors and interest offered to borrowers.
- (b) Interest charged on loans and interest paid on deposits.

- (c) Deposit and loan balances
 - (d) Liabilities and deposits
39. FII inflow will impact:
- (a) BOP
 - (b) Fiscal deficit
 - (c) Govt revenues
 - (d) Banks income
40. FDI implies:
- (a) Short term investment
 - (b) Medium term investment
 - (c) Long term investment
 - (d) Both Short and long term investments
41. Which of the following statement is false regarding FPI?
- (a) Speculative in nature
 - (b) Investment in financial assets
 - (c) Setting up of factory
 - (d) short term investment
42. A firm makes an investment in unrelated business then it is called:
- (a) Horizontal investment
 - (b) Vertical investment
 - (c) Conglomerate
 - (d) FDI
43. Both foreign direct investment (FDI) and foreign institutional investment (FII) are related to investment in a country. Which of the following is incorrect regarding FDI and FII?
- (a) Both FII and FDI bring capital into the economy.
 - (b) FII invests in technology-oriented enterprises, whereas FDI invests in traditional business set ups.
 - (c) The restrictions on the entry of FDI are lower than that on FII.
 - (d) FDI is considered to be more stable than FII. FII can be withdrawn even at a short notice.
44. A surge in foreign capital inflow in India would lead to:
- (a) Sale of foreign exchange by the central bank in order to prevent depreciation of rupee

- (b) Purchase of foreign exchange by central bank in order to prevent depreciation of rupee
 - (c) Sale of foreign exchange by the central bank in order to prevent appreciation of rupee
 - (d) Purchase of foreign exchange by central bank in order to prevent appreciation of rupee
45. Real exchange rate considers:
- (a) relative prices of domestic goods
 - (b) relative prices of foreign goods
 - (c) relative prices essential goods
 - (d) Relative prices of domestic and foreign goods
46. If real exchange rate is high:
- (a) Foreign goods cheaper and imports will raise
 - (b) domestic goods cheaper
 - (c) exports will raise
 - (d) Imports will fall
47. Under floating exchange rate is determined by:
- (a) The value of currency of a country is pegged
 - (b) market forces will determine
 - (c) IMF
 - (d) World bank
48. If rupee is depreciating against the \$:
- (a) RBI will sell the \$
 - (b) RBI will cut the repo rate
 - (c) Govt prints more currency
 - (d) RBI will purchase the \$
49. Which of the following is not determinant of exchange rate:
- (a) Inflation
 - (b) Capital flows
 - (c) Repo rate
 - (d) Domestic Consumption
50. If real exchange rate is high it might lead to:
- (a) Current account deficit
 - (b) fiscal deficit
 - (c) current account surplus
 - (d) Increase in foreign exchange reserves

51. If rupee appreciating against the \$ then RBI:
- (a) Will purchase \$
 - (b) Will increase the repo rate
 - (c) will sell \$
 - (d) Ensures capital fly's out
52. Which of the following statement is false with regard to rupee depreciation:
- (a) builds pressure on corporate and govt debt repayment
 - (b) Capital fly's in
 - (c) Pressure on foreign exchange reserves
 - (d) imports become costly
53. The terms revaluation is applied to:
- (a) Flexible exchange rate
 - (b) Fixed exchange rate
 - (c) Gold
 - (d) ECB
54. Which of the following statement is false:
- (a) Majority of countries follow flexible exchange rate
 - (b) The term devaluation applies to fixed exchange rate
 - (c) RBI wants Indian companies to hedge their currency
 - (d) Dirty float is generally followed by countries with fixed exchange regime
55. The targeted inflation rate for RBI:
- (a) 4%
 - (b) 2%
 - (c) 6%
 - (d) 5%
56. The Repo rate is:
- (a) An emergency window for banks
 - (b) commercial banks lend money to RBI
 - (c) commercial banks rediscount the bills of exchange with RBI
 - (d) RBI lends money to commercial banks
57. Open Market Operations imply:
- (a) Buying and selling securities by RBI
 - (b) Buying and selling securities by commercial banks
 - (c) Buying and selling securities by Investors
 - (d) Buying and selling securities by government

58. MSF rate is:
- (a) Higher than repo rate
 - (b) Higher than CRR
 - (c) Higher than Reverse repo rate
 - (d) Higher than SLR
59. CRR should maintained in:
- (a) Cash
 - (b) Gold
 - (c) Bonds
 - (d) Equity
60. Bank rate is the rate at which:
- (a) Commercial banks lend to RBI
 - (b) RBI lends to commercial banks
 - (c) RBI lends to government
 - (d) RBI lends to foreign banks
61. Reverse repo rate is:
- (a) Equal to CRR
 - (b) Equal to Bank rate
 - (c) Equal to MSF
 - (d) lower than Repo rate
62. MPC comprises ----- members:
- (a) 3
 - (b) 5
 - (c) 6
 - (d) 4
63. SLR should be maintained in:
- (a) Bonds
 - (b) Equity
 - (c) Gold
 - (d) Cash
64. The Reverse repo rate is:
- (a) RBI borrows from the government
 - (b) Commercial banks lends money to RBI
 - (c) Commercial banks rediscount the bills of exchange with RBI
 - (d) RBI lends money to commercial banks

65. The total value of output of a country will be equal to:
- (a) Market prices
 - (b) Consumption
 - (c) Investment
 - (d) National Income
66. Nominal GDP considers:
- (a) Current prices
 - (b) Base year prices
 - (c) Current and base year prices
 - (d) None of the above
67. Real GDP is:
- (a) Devoid of inflation
 - (b) > Nominal GDP
 - (c) = Nominal GDP
 - (d) Considers only current prices
68. The economic well being of economy is measured by:
- (a) Real GDP
 - (b) GNP
 - (c) NNP
 - (d) Nominal GDP
69. NNP =
- (a) GNP- Depreciation
 - (b) GNP- Factor payments
 - (c) GNP- Inflation
 - (d) GNP + Factor Payments
70. GDP deflator:
- (a) $\text{Nominal GDP} / \text{Real GDP} \times 100$
 - (b) $\text{Real GDP} / \text{Nominal GDP} \times 100$
 - (c) $\text{Nominal GDP} + \text{Real GDP} / \text{Real GDP} \times 100$
 - (d) $\text{Nominal GDP} - \text{Real GDP} / \text{Nominal GDP} \times 100$
71. Who does the calculation of the National Income of our country:
- (a) Ministry of Finance
 - (b) Ministry of Commerce
 - (c) Central Statistics Office
 - (d) Nitti Aayog

72. Gross value method is employed in India:
- To avoid double counting
 - To avoid the impact of inflation
 - To capture the consumption levels
 - To calculate the exports
73. CPI is calculated:
- Once in 45 days
 - Once in 3 months
 - Once in fortnight
 - Once in a month
74. Which of the following is an example of Transfer payment:
- Money wages
 - Minimum Support Wages
 - Unemployment allowance
 - Brokerage commission
75. If net factor income of a country is negative then we can say:
- National Income will be less than domestic factor incomes
 - National Income will be more than domestic factor incomes
 - National income will be exactly equal to domestic factor incomes
 - National income will be greater than exports
76. Factor cost implies:
- Market price- net indirect taxes
 - Market price – depreciation of fixed assets
 - Market price – Net factor income abroad
 - Market price – Transfer payments
77. which of the following statements is true with regard to intermediary goods:
- it cannot be used to produce other goods
 - it can be sold directly to final purchasers
 - it leads to the problem of double counting
 - whose price is greater than the final goods
78. Match the following:

'A'	'B'
1. Fish culture	(a) Tertiary sector
2. Highest contribution in national income	(b) Year 1952

3. National income committee was established in	(c) Mixed method
4. National income calculation is done by	(d) Year 1949
5. Establishment of C.S.O.	(e) Primary sector.

79. It is planned to increase national income by ` 1000 cr. How much increase in investment is required? Assume MPC is 0.6:
- (a) ` 100 cr.
 - (b) ` 400 cr.
 - (c) ` 500 cr.
 - (d) None of the above.
80. The particular level of AD which is equal to AS is called_____:
- (a) equilibrium demand
 - (b) effective demand
 - (c) derived demand
 - (d) None of the above
81. What can be the minimum value of investment multiplier?
- (a) 10
 - (b) 1
 - (c) infinity
 - (d) 0
82. Which of the following is the most accurate definition of supply-side policies?
- (a) Policies that aim to increase the supply of goods and services in an economy
 - (b) Policies that oppose Keynesian demand-management policies
 - (c) Policies that increase production in an economy
 - (d) Policies that aim to increase the productive capacity of an economy
83. Which of the following statements does not apply to supply-side polices?
- (a) They seek to improve the institutional framework of the economy to improve its productive capacity
 - (b) They aim to improve the efficiency of the factors of production to increase potential growth
 - (c) They shift the long-run aggregate supply (LRAS) curve to the right
 - (d) They can result in demand-pull inflation
84. Which of the following is not considered an advantage of supply-side policies?
- (a) Makes factor markets work more efficiently
 - (b) Increase economic growth without increasing inflation

- (c) Can help to avoid stagflation
 - (d) Tax cuts to improve incentives can be costly for the government
85. Which of the following is not an example of market-based supply-side policies?
- (a) Policies to improve competition in markets
 - (b) Policies to allow the labour market to work more efficiently
 - (c) Policies to increase infrastructure
 - (d) Policies to provide incentives to set up businesses
86. What is meant by the potential output of the economy?
- (a) Its productive capacity
 - (b) Its institutional framework
 - (c) Its infrastructure
 - (d) Its investment in human capital
87. What is meant by the “institutional framework” of an economy?
- (a) The maximum capacity of the economy in the production process
 - (b) The level of investment in human capital
 - (c) The system of formal laws, regulations and procedures that shape economic activity in the economy
 - (d) Subsidies and tax concessions used to improve employment opportunities in assisted areas of the economy
88. Which of the following policies is least likely to lead to an increased investment in technology?
- (a) Improved communications in the labour market
 - (b) Corporation tax rebates
 - (c) Lower interest rates
 - (d) Spending on research and development (R&D)
89. Policies used to target specific key exporting industries in order to achieve economic growth in that sector is likely to have which following effect?
- (a) Lowering national debt
 - (b) Cause a budget surplus
 - (c) Increase employment rates in that sector and improve the current account balance
 - (d) Increase employment rates in that sector and worsen the current account balance

90. Which policies promote research and development (R&D) for private sector firms and universities in order to improve the productive capacity of the economy?
- (a) Competition policies
 - (b) Industrial policies
 - (c) Incentive-related policies
 - (d) Market-based policies
91. 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
92. The distributive function of the budget is related to the basic function of _____ an economy produces goods and services:
- (a) what
 - (b) for whom
 - (c) how
 - (d) All of the above
93. During recession, the government _____ its expenditure or _____ taxes so that aggregate demand is boosted up:
- (a) increases, decreases
 - (b) decreases, increases
 - (c) increases, increases
 - (d) decreases, decreases
94. Government's stabilization intervention may be through _____:
- (a) Monetary policy only
 - (b) Fiscal policy only
 - (c) Both (A) and (B)
 - (d) None of the above
95. EVA digital assistance Robot of HDFC Bank is:
- (a) An intermediate good
 - (b) A consumer good
 - (c) A capital good
 - (d) None of these
96. Mr. Ram grows tomatoes for home consumption. This activity is:

- (a) excluded from GDP in order to avoid double counting.
 - (b) excluded from GDP because an intermediate good is involved.
 - (c) productive but is excluded from GDP because no market transaction occurs.
 - (d) included in GDP because it reflects production.
97. The Cambridge approach to quantity theory is also known as:
- (a) Cash balance approach
 - (b) Fisher's theory of money
 - (c) Classical approach
 - (d) Keynesian Approach
98. Selling cost are essential in:
- (a) Monopoly
 - (b) Monopolistic competition
 - (c) Perfect competition
 - (d) All of the above
99. Which of the following curve cannot be u-shaped?
- (a) Average total cost
 - (b) Average variable cost
 - (c) Average fixed cost
 - (d) Marginal cost
100. The kinked demand curve theory explains that even when the demand conditions _____ the price _____:
- (a) Change, changes
 - (b) Change, remains stable
 - (c) Remain stable, changes
 - (d) Remain stable, falls