

MODEL TEST PAPER 3
FOUNDATION COURSE
PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

Marks: 100

1. When rent control is imposed above the current market price it will:
 - (a) increase the quantity of rental housing demanded.
 - (b) reduce the quality of rental housing.
 - (c) create a shortage of rental housing.
 - (d) create no impact on the market.
2. In a capitalist economy, profit is socially desirable because it:
 - (a) reallocates wealth from small firms to large firms.
 - (b) attracts resources to the most desirable types of production.
 - (c) allows firms to operate at higher levels of cost.
 - (d) permits firms to hire more workers and thereby reduces the unemployment rate.
3. The tendency for managers to operate a firm in a way that maximizes their personal utility rather than the firm's profits is referred to as the:
 - (a) consumer utility incentive.
 - (b) principal–agent problem.
 - (c) hidden agenda scenario.
 - (d) Modigliani hypothesis.
4. What social function is served by profits in a capitalist economic system?
 - (a) Taxes on profits support government programs.
 - (b) They provide an incentive for the reallocation of resources.
 - (c) Profits allow individuals to accumulate wealth and engage in capital investment.
 - (d) Profits result in higher levels of employment.
5. If we notice that an increase in the price of product X causes reductions in the demand for product Y, then we can conclude that these two products are:
 - (a) complements in consumption.
 - (b) substitutes in consumption.
 - (c) complements in production.
 - (d) substitutes in production.
6. If we assume the following scenario: as the average income of the consumer increases the demand for “fast” food decreases, then we can assume that “fast” food is:

- (a) a normal good.
 - (b) an inferior good.
 - (c) None of the above is correct.
 - (d) Either of these
7. The price elasticity of demand for a good will tend to be more elastic if:
- (a) the good is broadly defined (e.g., the demand for food as opposed to the demand for carrots).
 - (b) the good has relatively few substitutes.
 - (c) a long period of time is required to fully adjust to a price change in the good.
 - (d) None of the above is true.
8. If cross-price elasticity between goods A and B is determined to be exactly zero, which of the following statements is correct?
- (a) Goods A and B are substitutes
 - (b) Goods A and B are complements
 - (c) Goods A and B are comparatives
 - (d) Goods A and B are independent
9. If supply increases while demand decreases:
- (a) the equilibrium price will definitely increase.
 - (b) the equilibrium quantity will definitely increase.
 - (c) the equilibrium price will definitely decrease.
 - (d) the equilibrium quantity will definitely decrease.
10. If marginal product of labour is below average product of labour, then:
- (a) average product of labour is flat.
 - (b) average product of labour is increasing.
 - (c) average product of labour is decreasing.
 - (d) may be increasing, decreasing or flat
11. Inputs that cannot be easily varied during the time period under consideration are called:
- (a) short run inputs.
 - (b) long run inputs.
 - (c) fixed inputs.
 - (d) variable inputs.
12. By using computers to design and manufacture products, firms are able to:
- (a) reduce production costs.

- (b) reduce the optimal lot size.
 - (c) reduce the time required to introduce new products.
 - (d) All of the above are correct.
13. The law of diminishing returns begins at the level of output where:
- (a) marginal cost is at a minimum.
 - (b) average variable cost is at a minimum.
 - (c) average fixed cost is at a maximum.
 - (d) None of the above is correct.
14. If a firm has a downward-sloping long-run average cost curve, then:
- (a) it is experiencing decreasing returns to scale.
 - (b) it is experiencing decreasing returns.
 - (c) it is a natural monopoly.
 - (d) marginal cost is greater than average cost.
15. Price discrimination is a situation when a producer:
- (a) Charge same price
 - (b) Charges many prices
 - (c) Charges different prices in different markets
 - (d) None of these.
16. One reason that a firm may experience increasing returns to scale is that greater levels of output make it possible for the firm to:
- (a) employ more specialized machinery.
 - (b) obtain bulk purchase discounts.
 - (c) employ a greater division of labor.
 - (d) All of the above are correct.
17. If the firm's total costs are INR 2,200,000 and total variable costs are INR 1,300,000, what are the total fixed costs?
- (a) 900,000
 - (b) 1,200,000
 - (c) 4,500,000
 - (d) None of the above.
18. Which type of market structure does not typically have a negatively sloped market demand curve?
- (a) Monopoly
 - (b) Perfect competition
 - (c) Oligopoly

- (d) All of the above typically have negatively sloped market demand curves.
19. The restaurant industry has a market structure that comes closest to:
- (a) monopolistic competition.
 - (b) oligopoly.
 - (c) perfect competition.
 - (d) monopoly.
20. Which of the following markets comes close to satisfying the assumptions of a perfectly competitive market structure?
- (a) The stock market
 - (b) The market for agricultural commodities such as wheat or corn
 - (c) The market for petroleum and natural gas
 - (d) All of the above come close to satisfying the assumptions of perfect competition.
21. Which of the following industries is most likely to be monopolistically competitive?
- (a) The automobile industry
 - (b) The steel industry
 - (c) The car repair industry
 - (d) The electrical generating industry
22. Some economists have suggested that oligopolists tend to maintain stable prices when there are changes in the demand for their products or in their costs of production. Which of the following models provides an explanation for this type of behavior?
- (a) Price leadership
 - (b) Centralized cartel
 - (c) Prisoners' dilemma
 - (d) Kinked demand curve
23. Which of the following is a zero-sum game?
- (a) Prisoners dilemma
 - (b) Competition for market share
 - (c) Pricing strategy
 - (d) None of the above is correct.
24. Which of the following is NOT an example of a transfer payment in the sense of the national income accounts?
- (a) Government family allowances
 - (b) Public unemployment insurance benefits

- (c) Dividends paid by corporations to stockholders
 - (d) Disability pensions paid from the social insurance system
25. The difference between real and nominal GDP is...
- (a) Nominal GDP only accounts for citizens.
 - (b) Nominal GDP uses price-levels of some base year.
 - (c) Nominal GDP uses actual price-levels.
 - (d) Real GDP also includes services, whereas nominal GDP only takes goods into account.
26. A recession is a decline in:
- (a) The unemployment rate that lasts six months or longer
 - (b) Real GDP that lasts six months or longer
 - (c) Potential GDP that lasts six months or longer
 - (d) The inflation rate that lasts six months or longer
27. For a person to keep his real income steady at a certain level from one year to the next, his nominal income must:
- (a) Stay the same as the price index rises
 - (b) Rise as fast as the price index
 - (c) Fall if the price index rises
 - (d) Rise if the price index falls
28. If the GDP gap is positive, then:
- (a) The inflation rate is falling
 - (b) Actual GDP is greater than potential GDP
 - (c) Potential GDP is greater than actual GDP
 - (d) The unemployment rate is rising
29. The government makes the provision of which goods those cannot be provided through the market:
- (a) private and public goods
 - (b) public and merit goods
 - (c) public and necessary goods
 - (d) Giffen and merit goods
30. Which of the following parameter consist of interest, dividend, fees and other receipts for services of the government:
- (a) Non-tax expenses
 - (b) Tax expenses
 - (c) Non-tax revenue

- (d) Tax revenue
- 31. A good taxation system should be used to:
 - (a) finance public services
 - (b) follow higher taxation
 - (c) no taxation
 - (d) finance private services
- 32. Primary deficit is obtained by deducting interest payments from the:
 - (a) Fiscal deficit
 - (b) Revenue deficit
 - (c) Budgetary deficit
 - (d) Monetized deficit
- 33. According to Cambridge equation, the value of money depends upon:
 - (a) Demand for money
 - (b) Supply of money
 - (c) Demand for goods and services
 - (d) All of the above
- 34. The quantity demanded of money rises:
 - (a) As the repo rate increases
 - (b) As the repo rate falls
 - (c) As the supply of money falls
 - (d) As the number of banks rises
- 35. When the Central Bank intends to expand the credit, it should:
 - (a) Raise the margin requirements
 - (b) Raise the variable reserve ratio
 - (c) Lower the bank rate
 - (d) Purchase government securities in the open market
- 36. Which of the following is not an instrument of selective credit control?
 - (a) Margin requirements
 - (b) Open market operation
 - (c) Credit rationing.
 - (d) None of the above
- 37. Which among the following is called the rate of interest charged by RBI for lending money to various commercial banks by rediscounting of the bills in India?
 - (a) Bank rate

- (b) Discount window.
 - (c) Marginal Standing facility
 - (d) Overnight rate
38. The process of selling of the products at a price less than on going price in the market is known as:
- (a) Quota
 - (b) Tariff
 - (c) Subsidies
 - (d) Dumping
39. Comparative advantage is determined by:
- (a) the amount of resources needed to produce a good
 - (b) the money cost of producing any good
 - (c) The opportunity cost of producing any good
 - (d) Absolute advantage and production possibilities combined.
40. A lumps sum tax per unit on imports is known as:
- (a) A specific tariff
 - (b) An effective tariff
 - (c) An effective quota
 - (d) A specific quota
41. A key effect of devaluation is that it:
- (a) Makes the domestic currency cheaper relative to other currencies
 - (b) Makes the domestic currency dearer relative to other currencies
 - (c) Makes the foreign currency Cheaper relative to other currencies
 - (d) Leaves the relative value unchanged
42. Central Government can impose the safeguard duty if it is satisfied that:
- (a) Any article is imported into India in increased quantities
 - (b) Such increased importation is causing or threatening to cause serious injury to domestic industry
 - (c) Either A or B
 - (d) Both A&B
43. Countervailing duty shall not be levied unless it is determined that:
- (a) The subsidy relates to export performance.
 - (b) The subsidy relates to the use of domestic goods over imported goods in the export article

- (c) The subsidy has been conferred on a limited number of persons engaged in the manufacture, production or export of articles.
 - (d) All the above
44. Terms of trade in developing countries are generally unfavorable because:
- (a) They export manufacturing products.
 - (b) They export primary products.
 - (c) They export few goods.
 - (d) Both A and C
45. Most tariffs have:
- (a) only revenue effects
 - (b) only protective effects
 - (c) both protective and revenue effects
 - (d) neither protective or revenue effects
46. Which of the following statements is/are correct regarding FDI under automatic route?
- a. FDI in India under the automatic route does not require prior approval either by the Government of India or the Reserve Bank of India.
 - b. Investors are only required to notify the concerned regional office of the RBI before receipt of inward remittances and file required documents with that office before the issue of shares to foreign investors.
- (a) 1 only
 - (b) 2 only
 - (c) Both 1 and 2
 - (d) Neither 1 nor 2
47. What is a Global Depository Receipt?
- (a) It is a receipt issued by multinational banks on deposit of money.
 - (b) It is a receipt issued by stock exchange to bank clearing mechanism.
 - (c) It is a receipt issued by an overseas bank in lieu of shares of a domestic company.
 - (d) It is a receipt issued by stock exchange on investment by foreign portfolio investor.
48. Any act of interference by a Central Bank like the RBI in influencing the exchange rate is referred to as which of the following in India?
- (a) Dirty Floats
 - (b) Managed Floats
 - (c) Fixed Floats

- (d) Market Stabilization Floats
49. 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
50. Positive economics means:
- (a) Does not depend on market interactions,
 - (b) only looks at the best parts of the economy.
 - (c) Examines how the economy works (as opposed to how it should work)
 - (d) is very subjective.
51. A nation's gross domestic product (GDP):
- (a) can be found by summing $C + I + G + X_n$.
 - (b) is the dollar value of the total output produced by its citizens, regardless of where they are living.
 - (c) can be found by summing $C + S + G + X_n$.
 - (d) is always some amount less than its NDP.
52. 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.
53. The amount of after-tax income received by households is measured by:
- (a) discretionary income.
 - (b) national income.
 - (c) disposable income.
 - (d) personal income.
54. 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) None of these

55. 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) None of these
56. Which type of investment is more susceptible to capital flight during times of economic instability?
- (a) FDI
 - (b) FPI
 - (c) Both FDI and FPI equally
 - (d) Neither FDI nor FPI
57. The concept of "animal spirits" in Keynesian theory refers to:
- (a) The unpredictable behaviour of financial markets
 - (b) psychological factors influencing economic decisions.
 - (c) Government regulations affecting business confidence.
 - (d) The impact of interest rates on investment
58. Mr Amit, a stock market trader through inside information, comes to know that share price of X Ltd is likely to go up in future, so he purchases the shares to make a gain by selling them later at higher price. It is a case of:
- (a) Moral Hazard
 - (b) Asymmetric Information
 - (c) Free Riding
 - (d) None of the above
59. Which concept involves a one-shot injection of government expenditure into a depressed economy with the aim of boosting business confidence and encouraging larger private investment?
- (a) Pump Priming
 - (b) Deficit Financing
 - (c) Compensatory Spending
 - (d) Public Spending
60. What will be the value of Credit Multiplier when the Required Reserve ratio is 50%?
- (a) 4
 - (b) 2
 - (c) 3
 - (d) 1

61. Which of the following measures involve total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period?
- (a) Import Quotas
 - (b) Anti-Dumping Duties
 - (c) Escalated Tariffs
 - (d) Embargos
62. Which of the following is not one of the features of New Trade Theory by Paul Krugman?
- (a) Countries which trade in similar goods are natural trade partners
 - (b) It is based on labour theory of value
 - (c) Network effect as means of engaging in international trade
 - (d) It focuses more on economies of scale
63. A seller cannot influence the market price under:
- (a) Perfect Competition
 - (b) Monopoly
 - (c) Monopolistic Competition
 - (d) All of the above
64. Railways is an example of:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) Oligopoly
65. Demand curve in case of Monopolistic competition is more elastic as compared to demand curve under Monopoly due to:
- (a) Huge Selling Costs
 - (b) Freedom of Entry and Exit
 - (c) Presence of Close Substitutes
 - (d) Large Number of Firms
66. Which of the following is a lagging economic indicator?
- (a) Consumer confidence index.
 - (b) Stock market performance.
 - (c) Unemployment rate.
 - (d) New housing starts.

67. We can say Indian agriculture has become modern since:
- (a) there has been an increase in the use of high yielding varieties of seeds, fertilizers pesticides etc.
 - (b) there has been noticeable positive change in the attitude of farmers towards new techniques of production
 - (c) farmers are increasingly resorting to intensive cultivation, multiple cropping, scientific water management
 - (d) all of the above.
68. 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
69. Which one is a component of profit?
- (a) Dividend
 - (b) Undistributed Profit
 - (c) Corporate Profit Tax
 - (d) All of these
70. 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
71. 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
72. What are the Internal causes of Business Cycle?
- (a) Fluctuations in effective demand.
 - (b) Macroeconomic Policies
 - (c) Money Supply
 - (d) All the above

73. According to Hawtrey trade cycle is a _
- (a) Monetary Phenomenon
 - (b) Unplanned Phenomenon
 - (c) Fiscal Phenomenon
 - (d) All the above
74. The Distinction between Selling Cost and Production cost was made by:
- (a) Chamberlin
 - (b) Sweezy
 - (c) Mrs Joan Robinson
 - (d) None of these
75. Envelope curve is also called:
- (a) Long Run Average Cost curve
 - (b) Short Run Average Cost curve
 - (c) Average Fixed Cost
 - (d) None of these
76. Collectively peaks and troughs together is known as:
- (a) Turning Points
 - (b) Contraction
 - (c) Expansion
 - (d) A trough
77. E – NAM is –
- (a) a pan -India electronic trading portal which networks the existing APMC mandis
 - (b) with the objective of creating a unified national market for agricultural commodities
 - (c) Both a & b
 - (d) None of these
78. India's Rank in Ease of Doing Business is:
- (a) 45
 - (b) 54
 - (c) 63
 - (d) None of these
79. Niti Aayog will work towards the objective:
- (a) To evolve a shared vision of national development priorities, sectors and strategies with active involvement of states

- (b) To foster cooperative federalism
 - (c) To develop mechanisms to formulate credible plans at the village level
 - (d) All the above
80. SEBI was given statutory recognition in:
- (a) 1985
 - (b) 1990
 - (c) 1992
 - (d) None of these
81. The Three component of FDI is:
- (a) equity capital
 - (b) reinvested earnings
 - (c) Intra company loans
 - (d) All the above
82. Which of the following tariff is charged on imports on most-favoured nation (MFN) basis:
- (a) bound tariff
 - (b) applied tariff
 - (c) prohibitive tariff
 - (d) None of these
83. Money cost is considered by:
- (a) Modern theory of trade
 - (b) Comparative cost advantage
 - (c) New Trade theory
 - (d) None of these
84. First mover advantage theory is related to:
- (a) Absolute advantage theory
 - (b) Comparative cost advantage theory.
 - (c) New trade theory
 - (d) None of these
85. 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) None of these

86. Under which union they have or follow a common monetary policy and fiscal policy:
- (a) Economic Union
 - (b) Custom Union
 - (c) Common market
 - (d) None of these
87. The WTO comprises majorly:
- (a) developed countries
 - (b) under developed countries
 - (c) developing countries
 - (d) None of these.
88. Money Supply is directly proportional to:
- (a) Cash reserve ratio (r)
 - (b) Monetary base (H)
 - (c) currency deposit ratio (k)
 - (d) Money Multiplier (m)
89. Reserve money is supplied by:
- (a) RBI
 - (b) Government
 - (c) Commercial banks
 - (d) World bank
90. A firm makes an investment in unrelated business then it is called:
- (a) Horizontal investment
 - (b) Vertical investment
 - (c) Conglomerate
 - (d) None of these
91. Gross value method is employed in India:
- (a) To avoid double counting.
 - (b) To avoid the impact of inflation.
 - (c) To capture the consumption levels.
 - (d) To calculate the exports.
92. Consumer Price Index is calculated:
- (a) Once in 45 days
 - (b) Once in 3 months

- (c) Once in fortnight
 - (d) Once in a month
93. The Producer is in equilibrium at a point there the cost line is:
- (a) above the isoquant
 - (b) cutting the isoquant
 - (c) Tangent to isoquant
 - (d) None of these
94. Break even points occurs when:
- (a) $Y = S$
 - (b) $S = 0$
 - (c) $Y = C$
 - (d) both (b) and (c)
95. Deficient demand leads to:
- (a) inflationary gap
 - (b) deflationary gap
 - (c) both (a) and (b)
 - (d) None of these
96. Which of the following is not a variable in the index of leading indicators?
- (a) Prime rate
 - (b) New building permits
 - (c) Delayed deliveries
 - (d) None of these
97. Dirty Floating is related to:
- (a) Flexible system of exchange rate
 - (b) fixed system of exchange rate
 - (c) Either of these
 - (d) None of these
98. Which of the following are capital receipts of the government?
- (a) Recovery of loans
 - (b) Disinvestment
 - (c) Borrowing
 - (d) All of the above

99. On the basis of volume of Business the market can be classified as:

- (a) Wholesale Market
- (b) Retail Market
- (c) Both a & b
- (d) None of these

100. Which of the following cost wherein curve 'u' shaped?

- (a) Average fixed cost curve
- (b) Average cost curve
- (c) Marginal cost curve
- (d) None of these