

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

Time: 2 Hours

Marks: 100

1. Scarcity of resources exist at:
 - (a) Micro level
 - (b) Macro level
 - (c) Micro as well as Macro
 - (d) None of these
2. Central Problems of an Economy:
 - (a) What to Produce
 - (b) How to Produce
 - (c) For Whom to Produce
 - (d) All the above
3. The Characteristics of Production Possibility Curve:
 - (a) Slopes downwards from left to right
 - (b) PPC is concave to the origin
 - (c) Both A and B
 - (d) None of these
4. Problem of choice is the basis of:
 - (a) Economic Problem
 - (b) Social Problem
 - (c) Political Problem
 - (d) None of these
5. Marginal Utility is _____ when total utility diminishes.
 - (a) Positive
 - (b) Negative
 - (c) Zero
 - (d) Infinity
6. Budget Line indicates:
 - (a) Income Ratio
 - (b) Price Ratio
 - (c) Cost Ratio
 - (d) None of these

7. Availability of close Substitutes makes the demand:
- (a) more elastic
 - (b) less elastic
 - (c) Parallel to Y Axis
 - (d) None of these
8. When Total product is 100 and units of variable factor are 4, average product will be:
- (a) 400
 - (b) 25
 - (c) 104
 - (d) None of these
9. When average cost (AC) is falling:
- (a) $MC < AC$
 - (b) $MC > AC$
 - (c) $MC = AC$
 - (d) None of these
10. 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.
11. 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
12. 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.
13. The Stages in law of variable proportion is:
- (a) 1
 - (b) 2

- (c) 3
 - (d) 4
14. The Price in Collusive Oligopoly is decided by:
- (a) The Firm
 - (b) Price leader
 - (c) The Industry
 - (d) None of these
15. Rationale of the law of demand is:
- (a) Price effect of a fall in price
 - (b) Different uses
 - (c) Arrival of new consumers
 - (d) All of these
16. The Pure monopolist in the long run can make pure profit due to:
- (a) High Selling Price
 - (b) Advertising
 - (c) Low LAC Cost
 - (d) Blocked entry
17. Which of the following is the exception to the law of demand:
- (a) Speculative goods
 - (b) Conspicuous necessities
 - (c) Future expectation about prices
 - (d) Income effect
18. Innovation theory is propounded by:
- (a) Schumpeter
 - (b) Nicholas Kaldor
 - (c) Keynes
 - (d) None of these
19. Globalization indicate rapid ____ between Countries:
- (a) Competition
 - (b) Investment
 - (c) Integration
 - (d) None of these
20. Which is not the External Causes of business cycle:
- (a) Technology shock
 - (b) Population Growth

- (c) Money Supply
 - (d) Technology Shock
21. GDP includes:
- (a) neither intermediate nor final goods.
 - (b) both intermediate and final goods.
 - (c) intermediate, but not final, goods.
 - (d) final, but not intermediate, goods.
22. 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
23. Transfer payments are:
- (a) excluded when calculating GDP because they only reflect inflation.
 - (b) excluded when calculating GDP because they do not reflect current production.
 - (c) included when calculating GDP because they are a category of investment spending.
 - (d) included when calculating GDP because they increase the spending of recipients.
24. Value added refers to:
- (a) any increase in GDP that has been adjusted for adverse environmental effects.
 - (b) the excess of gross investment over net investment.
 - (c) the difference between the value of a firm's output and the value of the inputs it has purchased from others.
 - (d) the portion of any increase in GDP that is caused by inflation as opposed to an increase in real output.
25. Personal income is most likely to exceed national income:
- (a) when gross and net investment are equal.
 - (b) during a period of recession or depression.
 - (c) when gross investment exceeds net investment.
 - (d) during a period of extended inflation.
26. Indian financial system is skewed towards Commercial Banks with no interdependence on NBFCs:
- (a) Yes
 - (b) No

- (c) Partly Right
 - (d) None of the above
27. Among the following canons of taxation which one has been given by Adam Smith?
- (a) Canon of Uniformity
 - (b) Canon of productivity
 - (c) canon of diversity
 - (d) canon of equity
28. 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.
29. 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
30. 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
31. 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
32. The Relationship between AR, MR and Price Elasticity –
- (a) $MR = AR \times e^{-1} \div e$
 - (b) $AR = MR \times e^{-1} \div e$
 - (c) $AR - MR = e^{-1} \div e$
 - (d) None of these

33. The relationship between price and quantity supplied in law of supply is:
- (a) proportionate
 - (b) homogenous
 - (c) inverse
 - (d) direct
34. 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
35. Under which system Freedom of choice is an advantage:
- (a) Capitalism
 - (b) Mixed economy
 - (c) Socialism
 - (d) None of these
36. For Giffen good the Engel curve is:
- (a) Positive sloped
 - (b) Vertical
 - (c) horizontal
 - (d) Negative sloped
37. If the monopolist incur losses in the short run then in the long run:
- (a) It will stay in the business
 - (b) Go out of business
 - (c) Will break even
 - (d) Any of the above is possible
38. 'Time' element in market was conceived by:
- (a) Alfred Marshall
 - (b) Pigou
 - (c) Allen
 - (d) None of these
39. Full Capacity is utilized in the which market condition_____.
- (a) Perfect Competition
 - (b) Monopoly
 - (c) Oligopoly

- (d) None of these
40. The regulatory mechanism of the market system is:
- (a) Self interest
 - (b) Private property
 - (c) Competition
 - (d) Specialization
41. 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
42. Consider the following statements and select the correct answer from the given options:
- Assertion (A): Demand curve is vertical when elasticity of demand is zero.
- Reason (R): Marginal utility of a product is increasing
- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 - (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 - (c) (A) is true but (R) is false
 - (d) (A) is false but (R) is true
43. The oldest approach to the theory of demand is _____.
- (a) the total utility approach
 - (b) the cardinal utility approach
 - (c) the ordinal utility approach
 - (d) None of these
44. Which one of the following is not an internal economies of scale?
- (a) Technical economies
 - (b) Financial economies
 - (c) Economies due to localization of industries
 - (d) Marketing economies
45. 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

46. Peak is the _____ stage of expansion.
- (a) Later
 - (b) Earlier
 - (c) Either (A) or (B)
 - (d) None of the above
47. Which of the following statements is correct regarding business cycles?
- (a) Business cycles are contagious and international in character.
 - (b) Business cycles begin in one country and spread to other countries through trade relations.
 - (c) Business cycles have serious consequences on well-being of the societies.
 - (d) All of the above
48. X, Y and Z are confused with the formula for defining TC:
- (a) X Says: $TC = TVC + TFC$
 - (b) Y Says: $TC = AC \times \text{output}$
 - (c) Z Says: $TC = ZMC + TFC$
- Identify who amongst them is correct.
- (a) X
 - (b) Y
 - (c) Z
 - (d) All of them
49. Interest on own capital is a _____.
- (a) Explicit Cost
 - (b) Implicit Cost
 - (c) Future Cost
 - (d) None of these
50. Consumers get maximum variety of goods under:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) Pure Competition
51. "The increase in demand of a commodity due to the fact that others are also consuming the same commodity" is known as _____.
- (a) Veblen effect
 - (b) Bandwagon effect
 - (c) Snob effect

- (d) Demonstration effect
52. In the Cobb-Douglas production function given as: $Q = A L^a K^{1-a}$ the share of labour in total production is:
- (a) a
 - (b) $1 - a$
 - (c) A
 - (d) $a \cdot L$
53. The budget line is also known as:
- (a) Production Possibility Curve
 - (b) Consumption Possibility Curve
 - (c) Iso Utility Curve
 - (d) None of these
54. Secular Period is also known as:
- (a) Short Period
 - (b) Very Long Period
 - (c) long Period
 - (d) Very short Period
55. At the Point of Inflexion:
- (a) Total Product is maximum
 - (b) Average Product is maximum
 - (c) Marginal Product is maximum
 - (d) Marginal Product is zero
56. The Firm and Industry are same in:
- (a) Duopoly
 - (b) Monopoly
 - (c) Oligopoly
 - (d) None of these
57. Cost Incurred which has no relevance to future planning is called:
- (a) Marginal cost
 - (b) Sunk cost
 - (c) Average cost
 - (d) None of these
58. 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
59. 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
60. 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
61. Most tariffs have:
- (a) only revenue effects
 - (b) only protective effects
 - (c) both protective and revenue effects
 - (d) neither protective or revenue effects
62. 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
63. 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
64. A production function with constant returns to scale for capital alone implies that:
- (a) there are increasing returns to scale for all factors of production taken together
 - (b) if all inputs are doubled then output will more than double
 - (c) smaller firms are more efficient than larger firms
 - (d) both A) and B)

65. Macro-Prudential Policy Measures can help to overcome:
- (a) Systemic Risk
 - (b) Credit Risk
 - (c) Inflation risk
 - (d) None of these
66. Foreign Portfolio Investment (FPI) involves:
- (a) Investment in tangible assets in a foreign country
 - (b) Investment in financial assets such as stocks and bonds of foreign companies
 - (c) Establishing subsidiaries or acquiring stakes in foreign companies
 - (d) Long-term commitment to a foreign market
67. Which of the following is/are the components of the Fiscal Deficit?
- 1. Budgetary Deficit
 - 2. Market Borrowings
 - 3. Expenditure made from Pradhan Mantri Rahat Kosh
- (a) Only 1
 - (b) Only 2
 - (c) Only 3
 - (d) All 1, 2 and 3
68. Which of the following is key operational target in a Budget?
- (a) Fiscal Deficit
 - (b) Revenue Deficit
 - (c) The General Government Debt
 - (d) The Central Government Debt
69. If a Ministry falls short of approved budget in a scheme, what is the process to get additional budget through Parliament?
- (a) Supplementary
 - (b) Re-appropriation
 - (c) Transfer of balances
 - (d) Vote on account
70. Budget of the government generally impacts.
- (a) The resource allocation in the economy
 - (b) Redistribution of income and enhance equity.
 - (c) Stability in the economy by measures to control price fluctuations.
 - (d) All of the above

71. Short -term credit from the Reserve bank to state government:
- (a) RBI credit to states
 - (b) Commercial credit of RBI
 - (c) Ways and Means Advances
 - (d) Short term facility
72. Which of the following is/are the components of Public Debt?
- 1. Market Loans
 - 2. External Loans
 - 3. Outstanding against saving schemes/ provident funds
- (a) only 1
 - (b) only 2
 - (c) Both 1 and 2
 - (d) only 3
73. The External Debt has been shown at the exchange rate applicable at the time of:
- (a) Contracting the debt.
 - (b) Expanding the debt.
 - (c) Both a & b
 - (d) None of the above
74. Which of the followings is not an element of good public expenditure management?
- (a) Elasticity
 - (b) Economy
 - (c) Productivity
 - (d) Deficit
75. The share of agriculture in India's national income has _____ over the years.
- (a) Remained constant.
 - (b) Decreased.
 - (c) Increased.
 - (d) First decreased and then increased.
76. FEMA stands for:
- (a) Foreign Exchange Management Act.
 - (b) Founds Exchange Management Act.
 - (c) Finance Enhancement Monetary Act.
 - (d) Future Exchange Management Act.

77. Broad money refers to:
- (a) M_1
 - (b) M_2
 - (c) M_3
 - (d) M_4
78. The effect of increase CRR will be reduced or nullified if:
- (a) Bank rate is reduced.
 - (b) Securities are sold in the open market.
 - (c) SLR is increased.
 - (d) People do not borrow from non-banking institutions.
79. The pre-condition for privatization to be successful requires:
- (a) Liberalization and de-regulation of the economy.
 - (b) Capital markets should be sufficiently developed.
 - (c) None of the above.
 - (d) (a) & (b) both.
80. During depression, it is advisable to:
- (a) Lower Bank Rate and purchase securities in the market.
 - (b) Increase Bank Rate and purchase securities in the open market.
 - (c) Decrease Bank Rate and sell securities in the open market.
 - (d) Increase Bank Rate and sell securities in the open market.
81. 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
82. Which one is included in three-sector model?
- (a) Family
 - (b) Firm
 - (c) Government
 - (d) All of these
83. Ricardo explained the law of comparative advantage on the basis of:
- (a) opportunity costs
 - (b) economies of scale

- (c) the labour theory
 - (d) None of these
84. Factor abundance is considered to be part of international trade:
- (a) Heckscher Ohlin theory of international trade
 - (b) Comparative cost advantage theory
 - (c) New Trade theory
 - (d) Factor Equalization theorem
85. 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
86. 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
87. Nationalization means:
- (a) Selling of government stake to private sector
 - (b) Selling of government companies to private sector
 - (c) Government purchasing 26% shares in private companies
 - (d) Taking of full control and management from Private Sector by the Government
88. The 'Diamond Water' controversy is explained by:
- (a) Total utility
 - (b) Marginal utility
 - (c) Price offered
 - (d) Quantity supplied
89. Which of the following is an implication of the imposition of price ceiling below the equilibrium price?
- (a) Shortages in the market
 - (b) Problem of allocation of limited supplies among large number of consumer.
 - (c) Black marketing

- (d) All of the above
90. In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45-degree line indicates the:
- (a) level of full employment income.
 - (b) less than full employment level of income.
 - (c) equilibrium level of income which may or may not be full employment level of income.
 - (d) autonomous level of income which may not be full employment level of income.
91. 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
92. At the shut-down point:
- (a) $P = AVC$
 - (b) $TR = TVC$
 - (c) the total losses of the firm equal TFC
 - (d) all of the above.
93. If the income elasticity of demand is greater than 1, the commodity is:
- (a) a necessity,
 - (b) a luxury,
 - (c) an inferior good, or
 - (d) a nonrelated good.
94. What can be the minimum value of investment multiplier?
- (a) 10
 - (b) 1
 - (c) infinity
 - (d) 0
95. Which one is included in National Income?
- (a) Transfer Earnings
 - (b) Sale proceeds of Shares and Bonds
 - (c) Black Money
 - (d) None of the Above

96. 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
97. "If the price of oranges falls due to good crop from ₹ 20 per dozen to ₹ 10 per dozen, the household that was purchasing 3 dozen oranges may now afford to purchase 6 dozen oranges by spending the same amount of money."
- The above statement is depicting -
- (a) Income effect
 - (b) Substitution effect
 - (c) Price effect
 - (d) Both (A) and (C)
98. "Returns to a factor" refers to the effect on total output of changes in:
- (a) One factor only
 - (b) Various inputs separately
 - (c) All the inputs simultaneously
 - (d) None of the above
99. Which one of the following is not an internal economies of scale?
- (a) Technical economies
 - (b) Financial economies
 - (c) Economies due to localization of industries
 - (d) Marketing economies
100. The firm can attain its equilibrium in _____ stage of the law of variable proportion.
- (a) 1st
 - (b) 2nd
 - (c) 3rd
 - (d) Any of the above