

MODEL TEST PAPER 5
FOUNDATION COURSE
PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

Marks: 100

1. If a farmer sells wheat to miller for ₹ 600 and miller sells flour to baker for ₹ 800. The baker sells bread to consumer for ₹ 1300, then the total value added in the process is:
 - (a) ₹ 600
 - (b) ₹ 800
 - (c) ₹ 700
 - (d) ₹ 1200
2. Which investment is made without any reference to level of income or profits?
 - (a) Induced
 - (b) Autonomous
 - (c) Inventory
 - (d) Gross
3. The Value of National Income adjusted for inflation is called?
 - (a) Disposable income
 - (b) Per capita income
 - (c) Inflation adjusted income.
 - (d) Real national Income
4. Which of the following fiscal policy measures would be suitable for addressing a deflationary gap or deficient demand?
 - (a) Reduction in Taxes
 - (b) Increase in Govt. Expenditure
 - (c) Reduction in Public Debt
 - (d) All of these
5. What is the value of Investment Multiplier when saving function is represented as $S = -60 + 0.2Y$?
 - (a) 2
 - (b) 5
 - (c) 4
 - (d) 0.2
6. "What could be the cause of the increase in Aggregate Demand within an economy?"

- (a) Increase in Imports
 - (b) Decrease in Govt. Expenditure
 - (c) Rise in Investment Expenditure
 - (d) Decrease in Exports
7. Which of the following will cause a leakage in the National Income of an economy?
- (a) Decrease in Expenditure
 - (b) Decrease in Taxation
 - (c) Increase in Imports
 - (d) Both a & c
8. The Government adopting Progressive taxation system to tax people on the level of their income is an example of which function of public finance?
- (a) Redistribution Function
 - (b) Allocation Function
 - (c) Normative Function
 - (d) Stabilization
9. The increase in cost of food, fuel and fertilizers in countries due to production of weapons in the war between Russia & Ukraine results in which type of externality?
- (a) Positive Production Externality
 - (b) Negative Production Externality
 - (c) Positive Consumption Externality
 - (d) Negative Consumption Externality
10. 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
11. Which of the following is not true regarding The Minimum Support Price (MSP) mechanism in India?
- (a) MSP works on the principle of Price Ceiling
 - (b) MSP works on the principle of Price Flooring
 - (c) At the price fixed, there exists excess supply
 - (d) Govt. procures the excess supply of farmers.

12. 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
13. The per capita income in country Y increased from ₹ 50,000 to ₹ 65,000 while the per capita consumption increased from ₹ 37,500 to ₹ 48,750. Calculate the spending multiplier for this economy.
- (a) 5
 - (b) 4
 - (c) 2.5
 - (d) 8
14. Which of the following is used to counter recession as part of Expansionary Fiscal Policy?
- (a) Increase in interest rate.
 - (b) Decrease in Taxes
 - (c) Deficit Financing
 - (d) Both b & c
15. Mr. A, who is self-employed decided to keep more money in his savings account, considering the prevailing economic & political conditions. What is the motive for such a move by A?
- (a) Transactions Motive
 - (b) Speculative Motive
 - (c) Precautionary Motive
 - (d) Conservative Motive
16. Which of the following is true with regards to Liquidity Trap?
- (a) Speculative Demand is parallel to X-Axis.
 - (b) Desire to hold bond is infinity.
 - (c) Ineffective Monetary Policy
 - (d) Both a & c
17. Among the following identified by Friedman, which one is not one of the four determinants of demand for money?
- (a) Average return on five asset classes
 - (b) Price level in the economy

- (c) Inflation Rate
 - (d) Forex Trade
18. According to whom, rational behaviour induces individuals to hold an optimally structured wealth portfolio which is comprised of both bonds and money?
- (a) Tobin
 - (b) Baumol
 - (c) Keynes
 - (d) Alfred Marshall
19. Which of the following monetary instruments are indirect instruments of Monetary Policy?
- (a) Cash Reserve Ratio
 - (b) Open Market Operations
 - (c) Repo Rate
 - (d) Both (b) & (c)
20. Which of the following is a disadvantage of international trade?
- (a) Increased choice for consumers
 - (b) Risk of dependence on imports
 - (c) Increased specialization
 - (d) None of the above
21. Which of the following is an example of a local content requirement?
- (a) A limit on the quantity of imports
 - (b) A subsidy for domestic producers
 - (c) A requirement that a certain percentage of a product be produced domestically.
 - (d) All of these
22. 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
23. The central bank of a country is concerned about the high level of household debt and its potential impact on the economy. Which of the following actions can it take to address the issue?
- (a) Increase the reserve requirement ratio to reduce lending.

- (b) Decrease the reserve requirement ratio to increase lending.
 - (c) Increase the interest rate on loans to discourage borrowing.
 - (d) Decrease the interest rate on loans to encourage borrowing.
24. ONGC Videsh Limited has been incorporated by its parent entity ONGC for oil and gas acreages, involving exploration, development and production of oil and gas outside India. Which type of foreign investment is it?
- (a) Joint Venture
 - (b) Brownfield Investment
 - (c) Greenfield Investment
 - (d) Licensing
25. The First Order Condition for the Profit of a firm to be maximum?
- (a) $AC = MR$
 - (b) $MC = MR$
 - (c) $MR = AR$
 - (d) $AC = AR$
26. 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.
27. Which organization is accountable for calculating the Gross Domestic Product of India?
- (a) Indian Statistical Institute
 - (b) Reserve Bank of India
 - (c) National Statistical Office
 - (d) Ministry of Commerce and Industry
28. The survival and success of any business depends on sound_____
- (a) Mind
 - (b) Environment
 - (c) Decisions
 - (d) None of these
29. In economics, generally the classification of the markets is made on the basis of:
- (a) Time

- (b) Geographic area
 - (c) Both (a) and (b)
 - (d) None of these
30. During an expansion phase of the business cycle, which of the following is likely to occur?
- (a) Decrease in consumer spending.
 - (b) Increase in business bankruptcies.
 - (c) Increase in job opportunities.
 - (d) Decrease in government spending.
31. Which of the following phases of the business cycle is characterized by increasing economic activity, rising employment, and growing consumer spending?
- (a) Expansion.
 - (b) Recession.
 - (c) Trough.
 - (d) Recovery.
32. Post war reconstruction:
- (a) will push the economy to slow down because of excess external debts.
 - (b) will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.
 - (c) can cause boom or recession depending upon the policies for reconstruction adopted by govt.
 - (d) None of these
33. _____ is concerned with welfare proposition.
- (a) Normative Economics
 - (b) Positive Economics
 - (c) Both (a) and (b)
 - (d) None of these
34. Under Monopoly, selling costs are incurred for:
- (a) Persuading customers for not buying competitor's product
 - (b) Informative purpose
 - (c) Promoting sales of the product
 - (d) None of these
35. Which of the following is incorrect formula?
- (a) $TC = AC \times Q$

- (b) $\sum MC = TC$
 (c) $\sum MC = TVC$
 (d) $\sum MC + TFC = TC$
36. Diminishing returns are due to _____ and increasing returns are due to _____.
 (a) Internal diseconomies, Internal economies
 (b) Internal economies, Internal diseconomies
 (c) External diseconomies, Internal economies
 (d) Internal diseconomies, external economies
37. 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
38. "If Americans today, for example were to content to live at the level of the Indian middle class people, all their wants would be fully satisfied with their available resources and capacity to produce."
 On the basis of the above statement, which of the following conclusion can be made?
 (a) The possession of goods and services by USA has enormously increased to exceed their wants.
 (b) The affluent and developed countries of USA and Western Europe face the problem of scarcity even today as their present wants to remain a head of their increased resources and capacity to produce.
 (c) The affluent and developed countries are not facing the problem of scarcity.
 (d) None of these
39. A firm reaches a break-even point (normal profit position) where,
 (a) Marginal revenue curve cuts the horizontal axis.
 (b) Marginal cost curve intersects the average variable cost curve.
 (c) Total revenue equals total variable cost.
 (d) Total revenue and total cost are equal.
40. In an economy $C = 300 + 0.5Y$ and $I = ₹ 600$ (where C is consumption, Y is income or investment). The Equilibrium level of income will be:
 (a) 1800
 (b) 1500
 (c) 1400

- (d) None of these
41. When Investment in an economy increases from ₹ 10000 crores to ₹ 14000 crores and as a result of this national income rises ₹ 80000 to ₹ 92000 crores, Investment Multiplier will be:
- (a) 5
 (b) 3
 (c) 2
 (d) None of these
42. Calculate National Income from the following data:
- | | ₹ in Crores |
|----------------------|-------------|
| Consumption | 1000 |
| Investment | 500 |
| Government Purchases | 200 |
| Exports | 200 |
| Imports | 400 |
- (a) 1500
 (b) 1800
 (c) 600
 (d) None of these
43. Firms cooperate with each other in determining price or output or both. It is a feature of:
- (a) Pure Oligopoly
 (b) Non-Collusive Oligopoly
 (c) Imperfect Oligopoly
 (d) Collusive Oligopoly
44. Microeconomics deals primarily with:
- (a) comparative statics, general equilibrium, and positive economics
 (b) comparative statics, partial equilibrium, and normative economics
 (c) dynamics, partial equilibrium, and positive economics
 (d) comparative statics, partial equilibrium, and positive economics.
45. When both the price of a substitute and the price of a complement of commodity X rise, the demand for X:
- (a) rises
 (b) falls
 (c) remains unchanged

- (d) all of the above are possible.
46. A consumer who is below the personal budget line (rather than on it):
- (a) is not spending all personal income
 - (b) is spending all personal income
 - (c) may or may not be spending all personal income
 - (d) is in equilibrium.
47. When the law of diminishing returns begins to operate, the TVC curve begins to:
- (a) fall at an increasing rate
 - (b) rise at a decreasing rate
 - (c) fall at a decreasing rate
 - (d) rise at an increasing rate
48. Which of the following is not an essential condition of pure competition?
- (a) large number of buyers and sellers
 - (b) homogeneous product
 - (c) freedom of entry
 - (d) absence of transport cost
49. In the case of an inferior good the income elasticity of demand is:
- (a) positive
 - (b) zero
 - (c) negative
 - (d) infinite
50. The share of concessional debt in total external debt of India has:
- (a) remained the same
 - (b) doubled
 - (c) reduced
 - (d) increased
51. The Indian industry faced the process of retrogression and deceleration because of:
- (a) unsatisfactory performance of agriculture
 - (b) slackening of real investment in public sector
 - (c) narrow market for industrial goods, especially in rural areas
 - (d) all the above.
52. _____ is an implicit cost of production.
- (a) Wages of the labour.

- (b) Charges for electricity.
 - (c) Interest on owned money capital.
 - (d) Payment for raw material.
53. Export led growth strategy does not include:
- (a) outward oriented growth
 - (b) export promotion
 - (c) import restrictions
 - (d) emphasising comparative advantage
54. In both the Chamberlin and kinked demand curve models, the oligopolists
- (a) recognize their independence
 - (b) do not collude
 - (c) tend to keep prices constant
 - (d) all the above
55. _____ depicts complete picture of consumer's tastes and preferences
- (a) Budget line
 - (b) Average cost curve
 - (c) Indifference map
 - (d) Marginal revenue curve
56. Budgetary deficit can be expressed as:
- (a) the excess of public expenditure over public revenue
 - (b) the sum of deficit on revenue account and deficit on capital account
 - (c) that portion of government expenditure which is financed through the sale of 91 days Treasury Bills and drawing down of cash balances
 - (d) all the above
57. The degree of monopoly power is measured in terms of difference between:
- (a) Marginal cost and the price
 - (b) Average cost and average revenue
 - (c) Marginal cost and average cost
 - (d) Marginal revenue and average cost
58. The MC curve cuts the AVC and ATC curves:
- (a) at different points
 - (b) at the falling parts of each curve
 - (c) at their respective minimas
 - (d) at the rising parts of each curve

59. Firm's supply curve is the _____ part of the _____ starting from above the point minimum AVC.
- (a) rising; AC curve
 - (b) falling; AC curve
 - (c) rising; MC curve
 - (d) falling; MC curve
60. Under monopoly condition, the firm is able to sell more units of output_____.
- (a) at the same price
 - (b) at higher price
 - (c) at constant price
 - (d) None of these
61. What is hedging?
- (a) Protection against extreme weather condition
 - (b) Protection against risk related to variation in Price movement in an asset.
 - (c) When exchange rate is unlocked for future supplies of foreign exchange
 - (d) None of these
62. What is economic planning?
- (a) It refers to Central planning authority.
 - (b) It refers the planning of agricultural production.
 - (c) It means development in the seller's market.
 - (d) A process through which targets are being achieved as per need & means of the economy
63. What is the merit of Capitalism?
- (a) It promotes self-interest & economic growth.
 - (b) It leads economic balance in the country
 - (c) It leads to equitable distribution of wealth.
 - (d) It leads to equitable distribution of wealth
64. Agrarian reforms in Agriculture brought:
- (a) Institutional reforms
 - (b) Technical reforms
 - (c) Land reforms
 - (d) All the three mentioned
65. Interest Rate Policy is a part of:
- (a) Fiscal Policy

- (b) Industrial Policy
 - (c) Monetary Policy
 - (d) None of the above
66. What is the expansion of the term NITI in NITI Aayog?
- (a) National Institution for Transforming India
 - (b) National Institution for Total Improvement
 - (c) National Institution for Technological Improvement
 - (d) None of these
67. One of the reasons mentioned below doesn't justify imposition of tariffs:
- (a) It will enhance consumer sovereignty
 - (b) It helps in curbing BoP deficit.
 - (c) It raises government revenue.
 - (d) It is used to protect domestic industry from subsidized imports.
68. _____ refers to that portion of total deposits that a commercial bank is required to keep with RBI in the forms of reserves.
- (a) Compulsory Reserve Ratio
 - (b) Statutory Liquid Ratio
 - (c) Legal Reserve Ratio
 - (d) Cash Reserve Ratio
69. Which one makes GDP an improper index of welfare?
- (a) Non-monetary transaction
 - (b) Externalities
 - (c) Composition & distribution of GDP
 - (d) All of these
70. Interest on national debt is treated as:
- (a) Transfer payment
 - (b) Domestic payment
 - (c) Govt. payment
 - (d) None of these
71. Are fiscal & monetary policies opposite of each other?
- (a) Yes, they are opposite to each other
 - (b) Fiscal policy is superior to monetary policy.
 - (c) No, these policies are complementary to each other.
 - (d) None of these

72. The level of consumption at which marginal utility of a commodity reaches zero is called:
- Point of Satiety
 - Point of Equilibrium
 - Point of breakeven
 - None of these
73. Following is not a factor affecting price elasticity of demand:
- Price level
 - Cost of Production
 - Availability of substitutes
 - Time period
74. Under monopoly condition, the firm is able to sell more units of output_____.
- at the same price
 - at higher price
 - at constant price
 - at lower price
75. Which of the following statements is false:
- When MP rises, TVC increases at an increasing rate.
 - When MP rises, TVC increases at a diminishing rate.
 - When MP becomes constant, TVC increases at a constant rate.
 - When MP falls, TVC increases at a increasing rate.
76. "A firm can earn only normal profits in long the run." It is an implication of following feature.
- Large number of buyers & sellers.
 - Free entry and exit
 - Availability of substitutes
 - Full or partial control over price
77. Calculate M1 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) 9,32,874 Cr
 - (b) 3,306,510 Cr
 - (c) 9,25,858 Cr
 - (d) 7,05,246Cr
78. Banks 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
79. Under which union they have or follow a common monetary policy and fiscal policy:
- (a) Economic Union
 - (b) Custom Union
 - (c) Perfect Competition
 - (d) None of these
80. New Industrial Policy was announced on _____.
- (a) 24th July 1991
 - (b) 15th August 1990
 - (c) 10th January 1995
 - (d) None of these
81. Measure of fiscal reforms includes:
- (a) Ensuring better tax compliance
 - (b) Encouraging private sector participation
 - (c) Reduction in subsidies and abolition of unnecessary subsidies
 - (d) All of these
82. As per the economic survey 2023-24 the contribution of service sector is _____.
- (a) 55%
 - (b) 60%
 - (c) 45%
 - (d) None of these
83. Quantitative casing is the common name for?
- (a) Asset selling by a Central Bank
 - (b) Asset purchasing by a Central Bank

- (c) Lowering at the interest rate for commercial bank lending
 - (d) None of these
84. Parallel economy emerges because of what?
- (a) Tax Estimation
 - (b) Tax Compliance
 - (c) Tax Avoidance
 - (d) Tax Evasion
85. Which among the following shows a correct descending order of liquidity of M_1 , M_2 , M_3 ?
- (a) $M_1 > M_2, > M_3$
 - (b) $M_2 > M_1 > M_3$
 - (c) $M_3 > M_2 > M_1$
 - (d) $M_1 > M_3 > M_2$
86. Which of the following is not a money market instrument?
- (a) Treasury bills
 - (b) Commercial Paper
 - (c) Certificate of Deposit
 - (d) Equity Share
87. Dumping Refers to:
- (a) Reducing tariffs
 - (b) Sale of goods abroad at a lower price below their cost and price in their home market
 - (c) Buying goods at low prices abroad and selling at higher price locally
 - (d) Expenditure goods selling for low prices
88. Which of the following theories suggests that firms seek to penetrate new markets over time?
- (a) Theory of comparative advantage
 - (b) Product Market theory
 - (c) Imperfect Market theory
 - (d) None of these
89. Who Propounded the Price Equalization Theorem?
- (a) Paul Samuelson
 - (b) Alfred Marshall
 - (c) Irving Fisher
 - (d) Marx

90. On all points of rectangular hyperbola demand curve, elasticity of demand is:
- (a) equal to unity
 - (b) zero
 - (c) less than unity
 - (d) greater than unity
91. Imposition of GST, shifts the supply curve:
- (a) to the left
 - (b) to the right
 - (c) to the right as well as the left
 - (d) None of these
92. Normative economics is also known as -
- (a) Prescriptive Economics
 - (b) Positive Economics
 - (c) Applied Economics
 - (d) None of these
93. Implicit cost added in _____ cost
- (a) Economic
 - (b) Simple
 - (c) Accounting
 - (d) None of the above
94. The World Trade Organization (WTO) was established to implement the final act of round agreement of GATT.
- (a) Geneva
 - (b) Uruguay
 - (c) Tokyo
 - (d) None of these
95. The Government accounts are maintained namely in :
- (a) Consolidated fund of India
 - (b) Contingency fund of India
 - (c) Public Account
 - (d) All of these
96. By convention in an election year the budget may be presented:
- (a) Twice
 - (b) Once

- (c) Thrice
 - (d) Quarterly
97. Deficit financing includes:
- (a) Borrowing from the central bank
 - (b) Issues of new currency by the Government
 - (c) Withdrawal of past accumulated cash balance by the Government
 - (d) All the above
98. Primary deficit means:
- (a) Fiscal deficit -- interest payment
 - (b) Fiscal deficit + revenue deficit
 - (c) Budgetary deficit
 - (d) Revenue deficit -- interest payments
99. The most important aim of fiscal policy in a developing country is :
- (a) economic stability
 - (b) economic development
 - (c) regional balance
 - (d) None of these
100. Which economic indicator is required to predict the turning point of business cycle?
- (a) Leading Indicator
 - (b) Lagging Indicator
 - (c) Coincident
 - (d) All of the above