

MODEL TEST PAPER 6
FOUNDATION COURSE
PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

Marks: 100

1. Which aspect of taxation involves Normative Economics?
 - (a) the incidence of the tax
 - (b) the effect of the tax on incentives to work
 - (c) the “fairness” of the tax
 - (d) all the above.
2. When the price of a substitute of commodity X falls, the demand for X:
 - (a) rises
 - (b) falls
 - (c) remains unchanged
 - (d) any of the above
3. If the quantity of a commodity demanded remains unchanged as its price changes, the coefficient of price elasticity of demand is:
 - (a) >1
 - (b) $= 1$
 - (c) < 1
 - (d) 0
4. A consumer who is below the personal budget line:
 - (a) is not spending all personal income
 - (b) is spending all personal income
 - (c) may be spending all personal income
 - (d) is in equilibrium
5. If the income elasticity of demand is greater than 1, the commodity is:
 - (a) a necessity
 - (b) a luxury
 - (c) an inferior good
 - (d) a non-related good

6. The substitution effect for a fall in the price of a commodity (*ceteris paribus*) is given by:
- (a) a movement up a given IC
 - (b) a movement from a higher to a lower IC
 - (c) a movement down a given IC
 - (d) any of the above
7. If the MRTSLK equals 2, then the MPK/MPL is:
- (a) 2
 - (b) 1
 - (c) 2
 - (d) 4
8. The MC curve reaches its minimum point before the AVC curve and the AC curve. In addition, the MC curve intersects the AVC curve and the AC curve at their lowest point. The above statements are both true:
- (a) always
 - (b) never
 - (c) often
 - (d) sometimes
9. At the shut-down point:
- (a) $P = AVC$
 - (b) $TR = TVC$
 - (c) the total losses of the firm equal TFC
 - (d) all the above.
10. If the monopolist incurs losses in the short run, then in the long run:
- (a) the monopolist will go out of business
 - (b) the monopolist will stay in business
 - (c) the monopolist will break even
 - (d) any of the above
11. In monopolistic competition, we have:
- (a) few firms selling a differentiated product
 - (b) many firms selling a homogeneous product
 - (c) few firms selling a homogeneous product
 - (d) many firms selling a differentiated product
12. In both the Chamberlin and the kinked demand curve models, the oligopolists:
- (a) recognize their interdependence

- (b) do not collude
 - (c) tend to keep prices constant
 - (d) all the above.
13. Who gave the theory of price discrimination?
- (a) Marshall
 - (b) Pigou
 - (c) Cournot
 - (d) Simon
14. If a good has a price elasticity of demand greater than 1, it is considered:
- (a) Price inelastic
 - (b) Price elastic
 - (c) Unit price elastic
 - (d) Price neutral
15. The income elasticity of demand measures:
- (a) The responsiveness of quantity demanded to change in price
 - (b) The responsiveness of quantity demanded to change in income
 - (c) The responsiveness of quantity supplied to change in price
 - (d) The responsiveness of quantity supplied to change in income
16. Which of the following factors does NOT influence supply?
- (a) Production costs
 - (b) Technological advancements
 - (c) Prices of inputs
 - (d) Consumer preferences
17. In a market economy, resource allocation is primarily determined by:
- (a) Central planning by the government
 - (b) Consumer demand and supply in the marketplace
 - (c) The decisions of a few large corporations
 - (d) International trade agreements
18. During a recession, the economy experiences:
- (a) A decrease in prices and inflation
 - (b) High levels of economic growth and expansion
 - (c) A decline in employment and economic activity
 - (d) Increased business investments and consumer spending

19. Which of the following policy measures is typically used by central banks to manage the business cycle?
- (a) Fiscal policy
 - (b) Monetary policy
 - (c) Trade policy
 - (d) Industrial policy
20. Which of the following is a lagging economic indicator?
- (a) Consumer confidence Index
 - (b) Stock market performance
 - (c) Unemployment rate
 - (d) New housing starts
21. Price Elasticity of Demand of a good is $(-)$ 3. It shows that:
- (a) When price falls by 1%, demand rises by 3%
 - (b) When price rises by 1%, demand falls by 3%
 - (c) Either (a) or (b)
 - (d) Neither (a) nor (b)
22. The demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
- (a) Proportionately large fall in quantity demanded
 - (b) No change in quantity demanded
 - (c) Proportionately small fall in quantity demanded
 - (d) Infinite change in quantity demanded
23. Which of the following is not a reason for operation of increasing returns to a factor?
- (a) Better utilisation of fixed factor
 - (b) Limitation of fixed factor
 - (c) Increase in efficiency of variable factor
 - (d) Indivisibility of fixed factor
24. 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

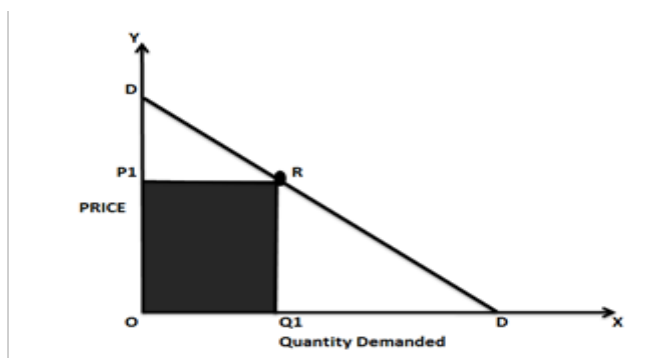
25. Cost function is a _____ concept:
- (a) Economical
 - (b) Functional
 - (c) Financial
 - (d) Technical
26. Demand curve of a firm under monopoly is:
- (a) Downward sloping
 - (b) Indeterminate
 - (c) Upward sloping
 - (d) Perfectly elastic
27. Demand curve under Oligopoly is:
- (a) Less elastic
 - (b) Perfectly elastic
 - (c) Highly elastic
 - (d) Indeterminate
28. In a commodity market, excess demand exists when:
- (a) market price is greater than equilibrium price
 - (b) equilibrium price is greater than market price
 - (c) equilibrium price is not equal to market price
 - (d) government fixes the price
29. A few Big sellers is a Characteristics of:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Oligopoly
 - (d) None of the above
30. The cost curve, which is Inversely S-shaped is:
- (a) Average Cost Curve
 - (b) Total Fixed Cost Curve
 - (c) Total Variable Cost Curve
 - (d) Marginal Cost Curve
31. Fiscal deficit can be remedied by:
- (a) Borrowing money
 - (b) Printing Currency
 - (c) Both (a) and (b)

- (d) Neither (a) nor (b)
32. The cost which is never zero even when production is stopped is known as:
- (a) Supplementary Cost
 - (b) Prime Cost
 - (c) Explicit cost
 - (d) None of these
33. Demand curve of perfectly competitive market form is a horizontal straight line parallel to X-Axis. It happens because:
- (a) Selling costs are zero
 - (b) There is freedom of entry and exit
 - (c) Firm is a price-taker
 - (d) None of these
34. Which of these countries is a purely socialist economy?
- (a) USSR
 - (b) China
 - (c) Vietnam
 - (d) None of these
35. According to Hawtrey trade cycle is a ____
- (a) Monetary phenomenon
 - (b) Unplanned phenomenon
 - (c) Fiscal phenomenon
 - (d) All the above
36. Dynamic fare charged by Indian railways is an example of:
- (a) Pure Monopoly
 - (b) Discriminating Monopoly
 - (c) Perfect Competition
 - (d) None of these
37. The Interest on own capital is:
- (a) Implicit Cost
 - (b) Future Cost
 - (c) Explicit Cost
 - (d) None of these
38. The Firm and Industry are same in:
- (a) Duopoly

- (b) Monopoly
 - (c) Oligopoly
 - (d) None of these
39. Opportunity Cost is _____.
- (a) A cost that cannot be avoided.
 - (b) The cost incurred in the past before we make a decision about what to do in the future.
 - (c) That which we forgo or give up when we make a choice or a decision.
 - (d) The additional benefit of buying an additional unit of a product.
40. Assertion (A): An iso-cost line is a straight line.
Reason (R): The market rate of exchange between the two inputs is constant.
- (a) (A) is true and (R) is false
 - (b) Both (A) and (R) are true & (R) is the correct explanation of (A)
 - (c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
 - (d) (A) is false and (R) is true
41. If increasing air fares increases revenues and decreasing them decreases revenues, then the demand for air travel has a price elasticity of:
- (a) 0
 - (b) > 0 but < 1
 - (c) 1
 - (d) > 1
42. _____ is concerned with welfare proposition.
- (a) Normative Economics
 - (b) Positive Economics
 - (c) Both (a) and (b)
 - (d) None of these
43. Economy's historical performance was reflected by:
- (a) Lagging indicator
 - (b) Leading indicator
 - (c) Either (a) or (b)
 - (d) None of these
44. Collectively peaks and troughs together is known as:
- (a) Turning Points
 - (b) Contraction
 - (c) Expansion

- (d) None of these
45. In Oligopoly the firms may collude in order to:
- (a) Increase Competition
 - (b) Prisoner dilemma for buyers
 - (c) To raise the price of the good they offer
 - (d) None of these
46. Successful business firms spend considerable time, energy, and efforts in analyzing the _____ for their products.
- (a) Supply
 - (b) Price
 - (c) Demand
 - (d) None of these
47. By way of an optimal choice, a consumer tends to:
- (a) save money
 - (b) purchase large quantity
 - (c) None of these
 - (d) maximize satisfaction subject to constraints like tastes and preferences.
48. The economist 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
49. The demand for labour in response to the wage rate is _____ whereas the demand for same labour in response to the price of electronic goods where labour enters as an input is_____.
- (a) Derived demand, Direct demand
 - (b) Direct demand, Derived demand
 - (c) Individual demand, Market demand
 - (d) Company demand, Industry demand
50. Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns Where average product of variable factor is declining.
Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.
- (a) (A) is true and (R) is false
 - (b) Both (A) and (R) are true & (R) is the correct explanation of (A)

- (c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
 (d) (A) is false and (R) is true
51. Which of the following groups of goods have inelastic demand?
 (a) Salt, Smart phone
 (b) School uniform, branded goggles and smart phone
 (c) Salt, school uniform and medicine
 (d) Medicine, branded sports shoes and diamond ring
52. If the price of a commodity is 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
53. A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has _____.
 (a) more of one of the goods
 (b) less of at least one of the goods
 (c) more of at least one of the goods and less of the other good.
 (d) more of at least one of the goods and no less of the other good.
54. During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy _____ vegetables than/as her usual demand showing the demand of vegetables is _____.
 (a) more, inelastic demand
 (b) less, elastic demand
 (c) same, inelastic demand
 (d) same, elastic demand
55. In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion OP1RQ1 is _____.



- (a) Total Revenue (TR)
 - (b) Marginal Revenue (MR)
 - (c) Total Cost (TC)
 - (d) None of these
56. Which of the following is not the mandatory Statement under FRBM Act 2003?
- (a) Macro Economic Framework Statement
 - (b) Medium Term Fiscal Policy Statement
 - (c) Debt Statement
 - (d) None of these
57. Secular Period is also known as:
- (a) long period
 - (b) Short period
 - (c) Very long period
 - (d) None of these
58. An Industry comprised of a very large number of sellers producing a standardized product is known as:
- (a) Pure competition
 - (b) Pure monopoly
 - (c) Monopolistic competition
 - (d) None of these
59. Cost Incurred which has no relevance to future planning is called:
- (a) Marginal cost
 - (b) Sunk cost
 - (c) Average cost
 - (d) None of these
60. Being ____ utility varies with different persons:
- (a) Subjective
 - (b) Absolute
 - (c) Objective
 - (d) None of these
61. Kinked demand was propounded by?
- (a) Paup K. Sweezy
 - (b) Marshall
 - (c) Adam Smith

- (d) None of these.
62. Average revenue curve is also known as –
- (a) Indifference Curve
 - (b) Demand Curve
 - (c) Average Cost Curve
 - (d) None of these
63. Which one is not a tool of Fiscal Policy:
- (a) Taxation
 - (b) Public Expenditure
 - (c) Interest Rate
 - (d) Public Debt
64. In a Public good context, it is difficult to measure impact of real income because:
- (a) Public goods are generally free to the Public
 - (b) They make up a small percentage of total GDP
 - (c) It is hard to measure how people value to public good
 - (d) Inflation decreases the value of the good
65. The Cobweb theory was propounded by –
- (a) Nicholas Kaldor
 - (b) Adam Smith
 - (c) J M Keynes
 - (d) None of these.
66. The nominal and real GDP respectively of a country in a particular year are ₹ 3000 cr. and ₹ 4500 cr respectively. The GDP deflator will be:
- (a) 55.55
 - (b) 66.66
 - (c) 44.45
 - (d) None of these.
67. An increase in investment by 600 cr leads to increase in national income by 1800 cr. The MPC will be –
- (a) 3
 - (b) 4
 - (c) 5
 - (d) None of these

68. Consumption expenditure according to Keynes is determined by:
- (a) Disposable income
 - (b) Level of interest rate
 - (c) Extent of government taxes and subsidies
 - (d) None of these
69. Macro- economic stability is said to exist when:
- (a) When inflation is low and stable
 - (b) The economy's total spending matches its total output
 - (c) The economy's labour resources are fully exposed
 - (d) All the above
70. Statutory Grants in aid from the Union to certain states is based on the constitutional provisions as:
- (a) Article 275
 - (b) Article 282
 - (c) Article 293
 - (d) Article 270
71. Government failure occurs when -
- (a) Government intervention is ineffective and produces fresh and more serious problem
 - (b) A government is unable to get re-elected
 - (c) Both (a) and (b)
 - (d) None of these
72. The Institution responsible for management of external debt is:
- (a) RBI
 - (b) Ministry of Finance
 - (c) SEBI
 - (d) All of above.
73. The Cambridge approach to quantity theory is also known as:
- (a) Classical approach
 - (b) Cash balance approach
 - (c) Fisher's theory of money
 - (d) None of these

74. _____ considered demand for money is an application of a more general theory of demand for capital assets.
- (a) Baumol
 - (b) Milton Friedman
 - (c) J M Keynes
 - (d) None of these
75. If commercial banks reduce their holdings of excess reserves:
- (a) The money supply increases
 - (b) The money base falls
 - (c) The money supply falls
 - (d) None of these
76. RBI provides financial accommodation to the commercial banks through repos/ reverse repos under:
- (a) Statutory Liquidity Ratio (SLR)
 - (b) Market stabilisation scheme (MSC)
 - (c) Liquidity adjustment facility (LAF)
 - (d) None of these
77. Ricardo explained the law of comparative advantage on the basis of-
- (a) Economies of scale
 - (b) The labour theory of value
 - (c) Opportunity costs
 - (d) None of these
78. Escalated tariffs refer to:
- (a) Nominal tariff rate on raw materials which are greater than tariffs on mfg. product
 - (b) A tariff which is escalated to prohibit imports of a particular good to protect domestic Industries
 - (c) Normal tariff rate on mfg. products which are greater than tariffs on raw material
 - (d) None of these
79. The most controversial topic in the yet to conclude Doha Agenda is:
- (a) Trade in agricultural goods
 - (b) Trade in manufactured goods
 - (c) market access to goods from developed countries

- (d) None of these
80. "Vehicle currency" refers to
- (a) A currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties.
 - (b) a currency that is traded internationally and therefore is in high demand
 - (c) either a or b
 - (d) None of these
81. Creation of fresh assets and production are included in which type of FDI:
- (a) Strategic Alliance
 - (b) Merger and Acquisition
 - (c) Brownfield Investment
 - (d) Greenfield Investment
82. Characteristic of Oligopoly market is ----
- (a) Strategic Independence
 - (b) Importance of Advertising and selling costs
 - (c) Group Behaviour
 - (d) All of above
83. The growth rate of population is higher than the rate of economic growth there will be ___ in the economy.
- (a) Lesser savings
 - (b) More savings
 - (c) No effect on savings
 - (d) None of these
84. Inferior goods are those whose income effect is:
- (a) Positive
 - (b) Zero
 - (c) Negative
 - (d) None of these
85. Availability of close substitute makes the demand:
- (a) more elastic
 - (b) Less elastic
 - (c) Parallel to X axis

- (d) None of these
86. When output increases from 10 units to 12 units and TR increases from 300 to 330 then MR will be:
- (a) 30
 - (b) 20
 - (c) 15
 - (d) None of these.
87. _____ is the exception to law of demand.
- (a) Income
 - (b) Price
 - (c) Giffen Good
 - (d) Fashions
88. The IIInd Stage in Law of Returns to Scale is :
- (a) Positive Returns
 - (b) Constant Return
 - (c) Negative return
 - (d) None of these
89. 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
90. Huge selling costs are incurred in which form of market?
- (a) Monopolistic competition
 - (b) Perfect competition
 - (c) Monopoly
 - (d) None of these
91. What is 'price ceiling'?
- (a) Minimum price that can be charged for a good
 - (b) Maximum price that can be charged for a good
 - (c) Minimum support price
 - (d) Both (a) and (b)

92. Government of India recently launched 'Make in India' programme. What will be its impact on Aggregate Demand of India?
- (a) Likely to increase
 - (b) Likely to fall
 - (c) No impact
 - (d) None of these
93. Which of the following does not cause inflation:
- (a) Easy finance facility
 - (b) Growth of Black Money
 - (c) Decrease in public i.e. government expenditure
 - (d) High growth rate of population
94. PSUs are mainly driven by:
- (a) Profit
 - (b) Industrialization
 - (c) Social welfare
 - (d) None of these
95. Who are the normal residents of the country?
- (a) A resident who has own house in that country
 - (b) A resident with a bank account in that country
 - (c) Ordinary residents with economic interest lying in that country
 - (d) None of these
96. Suppose in a country investment increases by ₹ 100 crores and consumption is given by $C = 10 + 0.6Y$. How much increase will there take place in income?
- (a) 250
 - (b) 200
 - (c) 150
 - (d) None of these
97. Which of the following Policy instruments RBI normally resorts to for managing inflation in the economy
- (a) Bank Rate
 - (b) Cash Reserve Ratio
 - (c) Statutory liquidity Ratio
 - (d) Repo rate

98. A chemical factory has full information regarding the risks of a product but continues to sell it. This is possible because of:
- (a) moral hazard
 - (b) Free riding
 - (c) asymmetric information
 - (d) None of these
99. Which of the following is not a criterion for determining distribution of Central taxes among the states for 2021-2026 period:
- (a) Infrastructure performance
 - (b) Forest and ecology
 - (c) Tax and fiscal efforts
 - (d) Demographic performance
100. Suppose the price of a commodity X increases from ₹ 2000 per unit to ₹ 2100 per unit and consequently the quantity supplied rises from ₹ 2500 to ₹ 3000 units. Calculate the elasticity of supply.
- (a) 4
 - (b) 6
 - (c) 8
 - (d) None of these