

MODEL TEST PAPER 7
FOUNDATION COURSE
PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

Marks: 100

1. 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
2. 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
3. Which of the following is not a classification of public expenditure?
 - (a) Functional classification
 - (b) Revenue and Capital
 - (c) Voted and Charged
 - (d) Plan and Non Plan
4. Which of the following curve cannot be u-shaped?
 - (a) Average total cost
 - (b) Average variable cost
 - (c) Average fixed cost
 - (d) Marginal cost
5. Which of the following assumptions is correct in connection with oligopoly?
 1. If an oligopolist increases his price his rivals will follow.
 2. If an oligopolist increases his price his rivals will not follow.
 3. If an oligopolist increases his price his rivals will lower their prices.
 4. If an oligopolist decreases his price his rivals will not react.
 - (a) 1 only

- (b) 2 only
 - (c) 1 & 3 only
 - (d) 4 only
6. Business cycle emerge in _____.
- (a) Socialist economy
 - (b) Free market economy
 - (c) Mixed economic system
 - (d) None of the above
7. Which of the following does not enter the calculation of national income?
- (a) Exchange of previously produced goods
 - (b) Exchange of second-hand goods
 - (c) Exchange of stocks and bonds
 - (d) All the above
8. 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
9. 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 consumers
 - (c) Black marketing
 - (d) All of the above
10. 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

11. While drawing budget line of a consumer consuming Nachos chips and Pepsi, if the quantity of Nachos taken on Y-axis and quantity of Pepsi on X-axis. The slope of budget line will be-

(a) $\frac{P_P}{P_N}$

(b) $\frac{P_N}{P_P}$

(c) $\frac{M}{P_N}$

(d) $\frac{M}{P_P}$

[Where, P_P – Price of Pepsi, P_N - Price of Nachos & M – Money income of consumer]

12. Net domestic expenditure is consumption expenditure plus

(a) Net foreign investment

(b) Net foreign investment plus net domestic investment

(c) Net domestic investment

(d) Replacement expenditure

13. Which of the following measures of meeting deficit in a budget, leads to an increase in money supply in the economy.

(a) Disinvestment

(b) Loan from World Bank

(c) Deficit Financing

(d) All of these

14. With fall in price of commodity, demand of the commodity increases as it becomes relatively cheaper in comparison to other commodities. This effect is known as:

(a) Substitution Effect

(b) Income Effect

(c) Law of Demand

(d) Law of diminishing Returns

15. Which of the following conditions would violate the consumer equilibrium in a two-good world?

(a) The marginal rate of substitution between the two goods equals the ratio of their prices.

(b) The marginal utility per dollar spent on each good is equal.

- (c) The consumer's indifference curve is steeper than the budget line at the chosen bundle.
 - (d) The consumer is spending their entire budget.
16. **Assertion (A):** Consumer surplus is the difference between the potential price and actual price.
- Reason (R):** There exists an inverse relationship between the price and consumer surplus.
- Codes:
- (a) Both A and R are true, and R is the correct explanation of A
 - (b) Both A and R are true, but R is not the correct explanation of A
 - (c) A is true but R is false
 - (d) A is false but R is true
17. The point at which the total product curve begins to flatten out indicates:
- (a) The onset of diminishing marginal returns
 - (b) Maximum efficiency in production
 - (c) A decrease in fixed costs
 - (d) The end of increasing returns to scale
18. **Assertion (A):** Sunk costs are not relevant in economic decisions.
- Reason (R):** The opportunity cost of such resources is zero.
- Codes:
- (a) Both A and R are true, and R is the correct explanation of A
 - (b) Both A and R are true, but R is not the correct explanation of A
 - (c) A is true but R is false
 - (d) A is false but R is true
19. In an oligopoly, price determination is often influenced by:
- (a) The actions of a single firm
 - (b) The collective behavior of a few dominant firms
 - (c) Government-imposed price floors
 - (d) The elasticity of supply alone
20. In a monopoly, the lack of close substitutes for the product typically results in:
- (a) Perfect elasticity of demand
 - (b) A downward-sloping demand curve for the monopolist
 - (c) Constant returns to scale
 - (d) The ability to practice price discrimination

21. Which of the following is NOT included in the calculation of GDP using the expenditure approach?
- (a) Consumption expenditure
 - (b) Government purchases
 - (c) Business investment
 - (d) Transfer payments
22. Which organization is primarily responsible for compiling and publishing regional accounts data in India?
- (a) Reserve Bank of India (RBI)
 - (b) National Sample Survey Organization (NSSO)
 - (c) Central Statistical Office (CSO)
 - (d) Ministry of Finance
23. Which of the following components is used to assess the regional economic performance in India?
- (a) Poverty Ratio
 - (b) Employment Rate
 - (c) Per Capita Income
 - (d) All of the above
24. If government wants to contribute to capital formation, then revenue surplus should be :
- (a) Negative
 - (b) Positive
 - (c) Zero
 - (d) None of the above
25. What is the primary purpose of the Finance Commission in India?
- (a) To formulate monetary policy
 - (b) To allocate central taxes to state governments
 - (c) To recommend measures for economic planning
 - (d) To audit the accounts of the government
26. What is the purpose of a debt-to-GDP ratio in public debt management?
- (a) To measure the government's annual revenue
 - (b) To evaluate the proportion of debt relative to the country's economic output
 - (c) To assess the level of inflation in the economy
 - (d) To determine the amount of currency in circulation

27. In the Cambridge equation for money demand, what does "k" represent?
- (a) The velocity of money
 - (b) The money supply
 - (c) The income elasticity of money demand
 - (d) The proportion of income held as money
28. Which measure of the money supply includes M1 and all other forms of near money that are less liquid than M1?
- (a) M3
 - (b) M2
 - (c) L
 - (d) M0
29. Most Favoured Nation (MFN) clause was introduced by:
- (a) WTO
 - (b) GATT
 - (c) ADB
 - (d) IBRD
30. Which term describes the movement of capital from one country to another to exploit investment opportunities?
- (a) Foreign Direct Investment (FDI)
 - (b) Foreign Portfolio Investment (FPI)
 - (c) Exchange Rate Speculation
 - (d) Capital Flight
31. What is the primary objective of the Indian government's "Make in India" initiative?
- (a) To increase imports from other countries
 - (b) To promote local manufacturing and attract foreign investment
 - (c) To reduce domestic production costs
 - (d) To expand the agricultural sector
32. Which of the following is NOT a function of NITI Aayog?
- (a) Formulating five-year plans
 - (b) Promoting sustainable development
 - (c) Facilitating cooperative federalism
 - (d) Providing policy and technical advice to the central and state governments

33. The Indian government's policy of "Import Substitution Industrialization" (ISI) primarily aimed to:
- Increase imports to stimulate economic growth
 - Reduce dependence on foreign goods by promoting domestic industries
 - Encourage foreign investment in local industries
 - Expand the agricultural sector for export
34. Which economic indicator is commonly used to measure inflation in India?
- Gross Domestic Product (GDP)
 - Consumer Price Index (CPI)
 - Producer Price Index (PPI)
 - Index of Industrial Production (IIP)
35. In a mixed economy resources are used as a result of:
- The decisions of consumers
 - The decisions of firms only
 - The decisions of consumers and firms
 - The decisions of consumers and firms and government
36. If students' expenditures on airline travel increase as a consequence of more heavily discounted fares, students' demand for airline travel must be:
- income elastic.
 - income inelastic.
 - price elastic.
 - price inelastic
37. Shift in demand is caused by changes in the.....
- non-price factors
 - price of a good alone
 - cost of production
 - raw material prices
38. Let $QX = \frac{1500}{P_x}$, the elasticity of demand of the good X when its price falls from \$ 8 to \$ 2 per unit, will be-
- greater than one
 - less than one
 - equal to one
 - can't say

39. With reference to Arc elasticity measures the responsiveness of demand _____ on the demand curve.
- (a) at one given point
 - (b) at intercepts on X-axis & Y-axis
 - (c) between two points
 - (d) Any of the above
40. According to British economist J. M. Keynes _____ was the main cause of massive decline in income and employment during Great Depression of 1930.
- (a) Lower aggregate expenditure in the economy.
 - (b) Banking crises and low money supply.
 - (c) Overdebtness.
 - (d) Lower profits & pessimism
41. 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.
42. Which of the following elasticities measure a movement along a curve rather than a shift in the curve?
- (a) The price elasticity of demand.
 - (b) The cross elasticity of demand.
 - (c) The income elasticity of demand.
 - (d) The price elasticity of supply.
43. If only part of the labour force employed by a firm can be dismissed at any time and without pay, the total wages and salaries paid out by the firm must be considered:
- (a) a fixed cost
 - (b) a variable cost
 - (c) partly a fixed and partly a variable cost
 - (d) any of the above.
44. 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.

45. 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
46. When the industry is in long-run equilibrium, the monopolistic competitor will produce at the lowest point on its LAC curve:
- (a) Always,
 - (b) never,
 - (c) sometimes,
 - (d) cannot say.
47. 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 of the above.
48. In India agricultural income is calculated by :
- (a) Income method
 - (b) Output method
 - (c) Expenditure method
 - (d) None of them.
49. Savings represent
- (a) An injection to the circular flow of income
 - (b) A withdrawal into the circular flow
 - (c) Both an injection and a withdrawal
 - (d) None of the above.
50. In Heckscher Ohlin theory factors of production are---in number.
- (a) one
 - (b) two
 - (c) three
 - (d) four
51. A period of expansion and contraction measured by real GDP is called:
- (a) Business cycle
 - (b) Expansion

- (c) Recession
 - (d) Contraction
52. Who maintains a buffer stock of foodgrains in India ?
- (a) FCI
 - (b) NAFED
 - (c) Ministry of Agriculture
 - (b) None of these
53. The minimum support price is declared by :
- (a) Ministry of Agriculture
 - (b) Ministry of Finance
 - (c) The Cabinet Committee on economic affairs
 - (d) None of these
54. Atal Tinkering lab is an initiative by which of the following institution ?
- (a) Niti Aayog
 - (b) CBSE
 - (c) National Ayush Mission
 - (d) Reserve bank of India
55. Which of the following are the major taxes in India?
- (a) Corporation Tax
 - (b) Stamp Duty and Registration
 - (c) Customs duty
 - (d) None of these
56. Fiscal Policy is formulated by _____ in India?
- (a) Finance Ministry
 - (b) RBI
 - (c) Different Banks
 - (d) None of these
57. A Substantial increase in capital expenditure or revenue expenditure leads to _____
- (a) Fiscal deficit
 - (b) Budgetary deficit
 - (c) Primary deficit
 - (d) None of these

58. Tax reforms are concerned with the reforms in the government taxation and public expenditure policies which are collectively known as its ____
- (a) Financial reform
 - (b) Fiscal Policy
 - (c) Financial Policy
 - (d) None of these
59. Goods and services tax (GST) was enacted by parliament vide ____ Constitutional Amendments Act 2016.
- (a) 103rd
 - (b) 105th
 - (c) 101
 - (d) None of these
60. When some people start investing money in share market then many people start following the same without considering its advantage and disadvantages is called:
- (a) Demonstration effect
 - (b) Snob effect
 - (c) Veblen effect
 - (d) None of these
61. Which of the following cost curve is never U Shaped?
- (a) Marginal cost curves
 - (b) Average cost curve
 - (c) Average fixed cost curve
 - (d) None of these
62. The most important function of an entrepreneur is to:
- (a) Innovate
 - (b) Bear the sense of responsibility
 - (c) Finance
 - (d) None of these
63. Game theory is oligopoly was developed by:
- (a) Von Neumann and Oskar Morgenstern
 - (b) Maltas
 - (c) Adam Smith
 - (d) Robinson

64. If the growth rate of population is higher than the rate of economic growth, there will be ___ in the economy:
- (a) more saving
 - (b) lesser saving
 - (c) no effects on saving
 - (d) None of these
65. Macroeconomic stabilization may be achieved through:
- (a) Free market economy
 - (b) Fiscal Policy
 - (c) Monetary Policy
 - (d) Both (b) & (c)
66. Fiscal Federalism refers to:
- (a) Organising and Implementing development plan
 - (b) The management of Fiscal Policy by a nation
 - (c) Division of economic functions and resources among different layers of the government
 - (d) None of these
67. The major reason for market failure:
- (a) Market Power
 - (b) Externalities
 - (c) Public Good
 - (d) All the above
68. The Public debt management cell was created in:
- (a) 2016
 - (b) 2015
 - (c) 2020
 - (d) 1995
69. Which of the following policies is likely to shift the economy's aggregate demand curve to the right?
- (a) Increase in government spending
 - (b) Increase in taxes
 - (c) A tax cut along with increase in public expenditure
 - (d) All the above

70. ____ 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
71. The ratio that relates the change in the money supply to a given change in the monetary base is called the:
- (a) required reserve ratio
 - (b) money multiplier
 - (c) Deposit ratio
 - (d) None of these
72. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports:
- (a) Capitalism
 - (b) Socialism
 - (c) Mercantilism
 - (d) None of these
73. Which of the following is not a non-tariff barrier:
- (a) Complex documentation requirement
 - (b) Countervailing duties charged by importing country
 - (c) Pre -Shipment product inspection and certification on requirements
 - (d) None of these
74. At any point of time all markets tend to have the same exchange rate for a given currency due to:
- (a) Hedging
 - (b) Arbitrage
 - (c) Speculation
 - (d) None of these
75. Inflationary gap:
- (a) raises the level of output
 - (b) does not impact the level of output
 - (c) raises the general price level
 - (d) both (b) and (c)

76. Which of the following component of monetary policy can be adopted to correct excess demand?
- (a) Increase in repo rate
 - (b) Increase in CRR
 - (c) Increase in margin requirement
 - (d) All of these
77. Reverse repo rate:
- (a) generate interest income
 - (b) is increased to curb inflation
 - (c) is not a policy rate
 - (d) both (a) & (b)
78. The RBI is mandated to Publish a monetary policy report every:
- (a) Six months
 - (b) Three months
 - (c) Twelve months
 - (d) None of these
79. The argument for education subsidy is based on:
- (a) Education is costly
 - (b) The ground that education is merit good
 - (c) Education creates positive externalities
 - (d) (b) & (c)
80. Public financial management system in the central government and matters connected with state finance is managed by:
- (a) The department of expenditure
 - (b) The department of financial services
 - (c) The department of economic affairs
 - (d) None of these
81. The Liquidity Trap is the extreme effect of:
- (a) Monetary Policy
 - (b) Fiscal Policy
 - (c) Either (a) or (b)
 - (d) None of these
82. Which of the following is an intermediate good?
- (a) The Purchase of gasoline for a ski trip to colorado
 - (b) The Purchase of Pizza by a college student

- (c) The Purchase of baseball uniform by a professional baseball team
 (d) The Purchase of Jogging Shoes by a Professor
83. National Income accountants can avoid multiple counting by:
- (a) including transfers in their calculation
 (b) only counting final goods
 (c) counting both intermediate and final Good
 (d) only counting intermediate goods
84. 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
85. If an oligopolist incur losses in the short run then in the long run:
- (a) The oligopolist will go out of the business
 (b) The oligopolist will stay in business
 (c) The Oligopolist will break even
 (d) any of the above is possible
86. In the long run, all production costs are
- (a) Fixed
 (b) Sunk
 (c) Variable
 (d) Marginal
87. Assertion (A). New Economic Policy is to expand the economic wings of the country. Reason
 (R): Due to economic liberalisation or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes a. Both Assertion
 (a) and Reason(R) are true, and Reason (R) is the correct explanation of Assertion (A).
 (b) Both Assertion (A) and Reason(R) are true, and Reason(R) is not the correct explanation of Assertion (A).
 (c) Assertion (A) is true, but Reason (R) is false.
 (d) Assertion (A) is false but Reason(R) are is true.
88. Given Consumption Function is $C = 300 + 0.75 Y$; Investment = ₹ 800; Net Imports = ₹ 100. The equilibrium level of output is:
- (a) 4000

- (b) 5000
(c) 8000
(d) None of these
89. 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
90. If a bank has deposits of INR 50,00,000 and a reserve requirement of 10%, what is its excess reserves?
- (a) INR 55,00,000
(b) INR 30,00,000
(c) INR 45,00,000
(d) INR 5,00,000
91. What will be the value of Credit Multiplier when the Required Reserve ratio is 50%?
- (a) 4
(b) 2
(c) 3
(d) 1
92. 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
93. From the following data, calculate "Gross value added at factor cost".

S. No.	Particulars	₹ In Crore
1.	Sale	180
2.	Rent	5
3.	Subsidy	10
4.	Change in Stock	15
5.	Purchase of Raw Material	100

6. Profits

25

- (a) 105
 - (b) 210
 - (c) 185
 - (d) None of these
94. 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) 2.40
95. Money Supply is directly proportional to:
- (a) Cash reserve ratio (r)
 - (b) Monetary base (H)
 - (c) currency deposit ratio (k)
 - (d) Money Multiplier (m)
96. 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
97. 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
98. The terms revaluation is applied to:
- (a) Flexible exchange rate
 - (b) Fixed exchange rate
 - (c) Gold
 - (d) ECB

99. 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
100. 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