

**MODEL TEST PAPER 8**  
**FOUNDATION COURSE**  
**PAPER – 4: BUSINESS ECONOMICS**

**Time: 2 hours**

**Marks: 100**

1. Which of the following is NOT a function of public finance?
  - (A) Allocation of resources for public goods
  - (B) Income redistribution to achieve social equity
  - (C) Providing tax relief to corporates to boost economic growth
  - (D) Stabilization of the economy through fiscal measures
2. Which of the following is NOT a part of the money supply in an economy?
  - (A) Currency held by the central bank
  - (B) Demand deposits in commercial banks
  - (C) Saving accounts in commercial banks
  - (D) Time deposits in commercial banks
3. Which of the following is NOT a typical tool of monetary policy used by a central bank?
  - (A) Open market operations
  - (B) Changing the reserve requirements of commercial banks
  - (C) Adjusting the tax rates in the economy
  - (D) Changing the discount rate
4. Which of the following is the most effective monetary policy tool for managing short-term fluctuations in the economy?
  - (A) Open market operations
  - (B) Changing tax rates
  - (C) Changing government expenditure
  - (D) Price control measures
5. According to the Heckscher-Ohlin theory, a country will have a comparative advantage in the production of goods that:
  - (A) Require labour-intensive techniques if the country has a surplus of capital.

- (B) Utilize abundant factors of production that the country has in large supply.
  - (C) Require advanced technology in which the country is technologically superior.
  - (D) Require high labour costs in a country with low wages.
6. Which of the following is the main motivation for companies to engage in Foreign Direct Investment (FDI)?
- (A) To reduce foreign competition in domestic markets
  - (B) To gain access to new markets and resources
  - (C) To avoid taxes in the home country
  - (D) To lower labour costs by outsourcing to developing countries
7. Which of the following would be an effect of a revaluation of a country's currency?
- (A) Increased demand for the country's exports
  - (B) A decrease in the cost of imports for consumers
  - (C) Increased competitiveness of the country's exports in the global market
  - (D) A higher cost of living for consumers due to decreased purchasing power
8. In the context of trade negotiations, the term "Most-Favoured-Nation (MFN)" status refers to:
- (A) A preferential treatment granted to one country over others in trade agreements.
  - (B) The obligation to trade exclusively with a particular country.
  - (C) A policy that allows countries to impose tariffs on imports from specific nations.
  - (D) A requirement to offer the same trade terms to all trading partners.
9. Which of the following is a primary objective of India's Five-Year Plans?
- (A) To regulate and control foreign trade
  - (B) To promote balanced economic growth across all regions
  - (C) To discourage the private sector in favour of public enterprises
  - (D) To ensure foreign aid and capital inflows into the country
10. The Green Revolution in India focused primarily on increasing the production of:
- (A) Oilseeds
  - (B) Food grains, especially wheat and rice
  - (C) Fruits and vegetables

- (D) Cash crops like cotton and sugarcane
11. Which of the following policies has the Indian government adopted to promote small-scale industries?
- (A) Granting subsidies to large multinational corporations
  - (B) Providing financial and technical assistance to small businesses
  - (C) Encouraging imports of capital goods for industrial use
  - (D) Abolishing labour laws to increase industrial output
12. Which of the following is the most important source of India's foreign exchange earnings?
- (A) Industrial exports
  - (B) Remittances from Indians working abroad
  - (C) Tourism
  - (D) Services exports, especially IT and software
13. The current account deficit (CAD) in India refers to the excess of:
- (A) Imports over exports
  - (B) Exports over imports
  - (C) Total investment over savings
  - (D) Government expenditure over revenue
14. Which of the following is a correct measure of unemployment in India?
- (A) Labour force participation rate
  - (B) Gross Domestic Product per capita
  - (C) Inflation rate
  - (D) Poverty headcount ratio
15. Which of the following is the primary objective of India's fiscal policy?
- (A) To regulate foreign exchange rates
  - (B) To control inflation through market mechanisms
  - (C) To manage government expenditure and tax collection to influence the economy
  - (D) To encourage high savings rates among citizens
16. Which of the following is a major issue associated with the fiscal deficit in India?
- (A) Increased foreign exchange reserves
  - (B) Higher government borrowing leading to inflation

- (C) Reduced taxation leading to a decrease in government revenue
  - (D) Increase in foreign direct investments
17. Which of the economists below most likely advocated activist government policies?
- (A) Milton Friedman
  - (B) John Maynard Keynes
  - (C) Robert Lucas
  - (D) Thomas Sargent
18. Which of the following refers to the study of the total or aggregate level of output, income, employment, consumption, investment, and prices for the economy viewed as a whole?
- (A) Managerial economics
  - (B) Microeconomics
  - (C) Macroeconomics
  - (D) Econometrics
19. Implicit cost is equal to:
- (A) business profit minus economic profit.
  - (B) business profit plus economic profit.
  - (C) economic profit minus business profit.
  - (D) economic profit minus explicit cost.
20. If the demand curve for a firm's output is perfectly elastic, then the firm is:
- (A) a monopolist.
  - (B) perfectly competitive.
  - (C) an oligopolist.
  - (D) monopolistically competitive.
21. The type of industry organization that is characterized by recognized interdependence and nonprice competition among firms is called:
- (A) monopoly
  - (B) perfect competition.
  - (C) oligopoly.
  - (D) monopolistic competition.
22. Short-run average variable cost is equal to:
- (A) total variable cost divided by output.

- (B) average total cost minus average fixed cost.
  - (C) the cost per unit of the variable input divided by the average product of the variable input.
  - (D) All of the above are correct.
23. The restaurant industry has a market structure that comes closest to:
- (A) monopolistic competition.
  - (B) oligopoly
  - (C) perfect competition.
  - (D) monopoly.
24. Which of the following statements is true?
- (A) NDP is greater than GDP if prices are falling
  - (B) NDP is greater than GDP if prices are rising
  - (C) NDP can be greater than GDP but only if the economy is growing
  - (D) NDP cannot be greater than GDP
25. The difference between gross domestic investment and net domestic investment is equal to:
- (A) unwanted inventory changes
  - (B) the difference between NDP and national income
  - (C) the addition to the capital stock
  - (D) the difference between GDP and NDP
26. Which of the following marks the beginning of a contraction in the business cycle:
- (A) Peak
  - (B) Expansion
  - (C) Recession
  - (D) Trough
27. A recession can manifest itself with:
- (A) a decrease in industrial production.
  - (B) a decrease in consumer spending.
  - (C) a lengthy period of falling GDP.
  - (D) all the above.
28. Economic globalization has seen:
- (A) business cycles in the rest of the world synchronize with those of India.

- (B) financial markets become more integrated over time.
  - (C) financial disruptions spread more easily among countries.
  - (D) all the above.
29. Which one of the following is not an assumption of law of variable proportion?
- (A) Technology of production remains unchanged.
  - (B) Only physical inputs & output are considered.
  - (C) All units of variable factors are different.
  - (D) There must be some inputs whose quantity is kept fixed.
30. Which of the following is an example of market failure?
- (A) Perfect competition in the economy
  - (B) Non-exclusion in public goods
  - (C) All firms making profits in a perfectly competitive market
  - (D) Optimal allocation of resources by private individuals
31. When a market fails to allocate resources efficiently, leading to overproduction or underproduction of goods, it is called:
- (A) Monopoly
  - (B) Externalities
  - (C) Public Goods
  - (D) Market Equilibrium
32. In the budget-making process, what is the term used to describe the government's planned expenditure exceeding its expected revenue?
- (A) Budget surplus
  - (B) Budget deficit
  - (C) Balanced budget
  - (D) National Debt
33. Which of the following is the correct sequence of stages in the budget-making process?
- (A) Presentation, Drafting, Execution, Approval
  - (B) Drafting, Presentation, Approval, Execution
  - (C) Execution, Presentation, Approval, drafting
  - (D) Presentation, Approval, Execution, drafting
34. Which of the following is a tool of expansionary fiscal policy?
- (A) Increasing taxes

- (B) Cutting government spending
  - (C) Reducing subsidies on essential goods
  - (D) Increasing government spending to stimulate demand
35. What was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003?
- (A) Achieve Fiscal Surplus
  - (B) Stop Money Laundering
  - (C) Eliminate Fiscal Deficit
  - (D) Eliminate Revenue deficit
36. Which one is a component of profit?
- (A) Dividend
  - (B) Undistributed Profit
  - (C) Corporate Profit Tax
  - (D) All of these
37. Which of the following is the most accurate representation of the government's role in resource allocation according to the fiscal function of public finance?
- (A) The government maximizes profits by privatizing public goods.
  - (B) The government ensures the efficient distribution of resources in competitive markets.
  - (C) The government allocates resources to public goods like defence and infrastructure.
  - (D) The government avoids intervening in resource allocation to maintain market efficiency.
38. Which of the following situations best demonstrates a market failure due to asymmetric information?
- (A) A monopolist exploiting market power by reducing supply
  - (B) Consumers buying substandard products because they lack information about quality
  - (C) The government providing public goods like street lighting
  - (D) A natural monopoly where economies of scale drive market concentration
39. Which of the following budget types specifically aims to reduce the deficit by either increasing taxes or reducing government spending?
- (A) Balanced budget
  - (B) Expansionary budget
  - (C) Contractionary budget

- (D) Surplus budget
40. Which of the following would be an example of a counter-cyclical fiscal policy during a period of recession?
- (A) Increasing taxes and reducing government spending
  - (B) Cutting taxes and increasing government expenditure
  - (C) Reducing the public debt by increasing savings
  - (D) Avoiding changes in taxes and government spending
41. Which of the following government interventions is most appropriate to correct the market failure caused by positive externalities?
- (A) Implementing taxes on consumption of the good
  - (B) Subsidizing the production of the good
  - (C) Imposing strict regulations on production
  - (D) Reducing government spending on the good
42. Which of the following factors does NOT directly affect the demand for money?
- (A) Interest rates
  - (B) The level of income or output
  - (C) The price level in the economy
  - (D) The government's fiscal deficit
43. The transaction motive for holding money implies that money is held to:
- (A) Make speculative investments in financial markets
  - (B) Provide liquidity for daily transactions and purchases
  - (C) Protect wealth against inflationary risks
  - (D) Save for future investment in assets
44. In an economy, a change in the reserve ratio will directly affect the:
- (A) Level of interest rates in the market
  - (B) Supply of money in circulation
  - (C) Demand for money at different income levels
  - (D) Government's budgetary balance
45. Which of the following is the primary objective of monetary policy in a country?
- (A) To reduce government expenditure
  - (B) To regulate the money supply to achieve macroeconomic goals like controlling inflation



- (C) To provide interest-free loans to the private sector
  - (D) To balance the national budget
46. According to the Quantity Theory of Money, if the money supply increases while the velocity of money and output remain constant, the general price level will:
- (A) Decrease
  - (B) Increase proportionately
  - (C) Stay the same
  - (D) Increase, but unpredictably
47. If the central bank implements an expansionary monetary policy by lowering the reserve requirement, the immediate effect on the money supply will be:
- (A) A decrease in the money supply
  - (B) An increase in the money supply
  - (C) No change in the money supply
  - (D) A reduction in interest rates without affecting money supply
48. Which of the following actions would the central bank most likely take to combat inflationary pressure in the economy?
- (A) Decrease the interest rate
  - (B) Increase the money supply
  - (C) Raise the reserve ratio for commercial banks
  - (D) Lower the statutory liquidity ratio
49. If the central bank wants to decrease the money supply, which of the following tools of monetary policy is most likely to be used?
- (A) Lowering the discount rate
  - (B) Conducting open market purchases of government bonds
  - (C) Increasing the reserve requirement for commercial banks
  - (D) Reducing taxes to increase consumer spending
50. Which of the following is NOT a key assumption of Ricardo's theory of comparative advantage?
- (A) Two countries, each specializing in the good it can produce most efficiently, will both gain from trade.
  - (B) Resources are immobile between countries but mobile within a country.
  - (C) Trade occurs only due to differences in technology between countries.
  - (D) Both countries in trade can benefit even if one country is less efficient in producing both goods.

51. Which of the following is a potential benefit of Foreign Direct Investment (FDI) for the host country?
- (A) Increased inflation due to higher government expenditure
  - (B) Reduction in technological transfer to local industries
  - (C) Creation of employment opportunities and skill development
  - (D) Increased dependence on foreign companies for resources
52. If a country's currency is depreciating, it means that:
- (A) The domestic currency is increasing in value relative to foreign currencies.
  - (B) The country's exports will become more expensive to foreign buyers.
  - (C) The country's exports become cheaper for foreign buyers, potentially boosting trade.
  - (D) The central bank is actively increasing the supply of money.
53. In international trade negotiations, which of the following is the most common objective for countries involved in multilateral trade talks?
- (A) To increase tariffs and protect domestic industries
  - (B) To reduce trade barriers and promote free trade
  - (C) To restrict foreign competition through quotas
  - (D) To enhance domestic subsidies for agricultural sectors
54. Which of the following is an example of a multilateral trade agreement?
- (A) North American Free Trade Agreement (NAFTA)
  - (B) European Union (EU) Trade Policies
  - (C) World Trade Organization (WTO) agreements
  - (D) Bilateral Trade Agreement between two countries
55. Which of the following is the primary objective of bilateral trade agreements?
- (A) To create trade barriers between the two countries involved
  - (B) To establish free trade between two countries by eliminating tariffs and restrictions
  - (C) To focus on mutual military cooperation between the countries
  - (D) To standardize monetary policies between two countries
56. Which of the following is not an example of a policy designed to encourage competition?
- (A) Deregulation
  - (B) Trade liberalization

- (C) Reducing income tax
  - (D) Anti-monopoly regulations
57. Which of the following is considered a major challenge to the Indian agricultural sector?
- (A) Over-reliance on capital-intensive machinery
  - (B) Low level of technological adoption and irrigation facilities
  - (C) Excessive imports of agricultural products
  - (D) Lack of foreign investments in the sector
58. Which of the following sectors saw the highest growth rate after the economic reforms of 1991 in India?
- (A) Agriculture
  - (B) Industrial Sector
  - (C) Services Sector
  - (D) Mining and Quarrying
59. Which of the following is the most accurate reason for the persistence of poverty in India despite economic growth?
- (A) Low level of foreign investment in rural areas
  - (B) High inequality in the distribution of income and resources
  - (C) Limited development in urban sectors
  - (D) Lack of a social security system for the working population
60. 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
61. Which of the following is not a merit of socialist economy?
- (A) It provides equal access to health care and education
  - (B) Workers are no longer exploited because they own the means of production
  - (C) Profits are not spread equitably among all workers according to their individual contributions.
  - (D) Natural resources are preserved for the good of the whole.

62. Which of the following is a primary objective of India's monetary policy?
- (A) To reduce the overall level of taxation in the economy
  - (B) To control the money supply and curb inflation
  - (C) To promote export-led growth through currency devaluation
  - (D) To ensure a balanced budget for the government
63. 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
64. In describing a given production technology, the short run is best described as lasting:
- (A) Up to six months from now.
  - (B) Up to five years from now.
  - (C) As long as all inputs are fixed.
  - (D) As long as at least one input is fixed.
65. Which of the following is NOT dealt with in microeconomics?
- (A) the effect of agricultural subsidies on the price of milk
  - (B) differences between the market for skilled labour versus the market for unskilled labour
  - (C) issues related to the structure and performance of the health care sector
  - (D) policies that affect the level of aggregate consumption
66. Which of the following areas of study refers to the application of economic theory and the tools of analysis of decision science to examine how an organization can achieve its aims or objectives most efficiently?
- (A) Business economics
  - (B) Microeconomics
  - (C) Macroeconomics
  - (D) Econometrics
67. 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
68. Assume that corn and wheat are substitutes in production; that is, the same inputs can be used to produce either one of these two commodities. Also assume that the laws of supply and demand apply in both markets. If the demand for one of these commodities increases, what will likely happen in the other market?
- (A) The demand will increase.
  - (B) The demand will decrease.
  - (C) The supply will increase.
  - (D) The supply will decrease.
69. 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.
70. For Giffen good the angle Curve is:
- (A) Vertical
  - (B) Horizontal
  - (C) Negatively Sloped
  - (D) Positively Sloped
71. 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
72. The management of firm A observed that every time there is an increase in the price charged by firm B, the level of sales of firm A declines. But when firm C increases its price, the level of sales of firm A increases. From this we can conclude that:
- (A) firms A and B produce substitutes in consumption.
  - (B) firms A and C produce substitutes in consumption.

- (C) firms A and B produce unrelated in consumption products.
  - (D) firms A and C produce unrelated in consumption products
73. A cartel which is market sharing will reach the monopoly situation:
- (A) Always when the product is homogenous
  - (B) Always when the product is differentiated
  - (C) Sometime
  - (D) None of these
74. According to Hawtrey trade cycle is a \_\_\_\_
- (A) Monetary phenomenon
  - (B) Unplanned phenomenon
  - (C) Fiscal phenomenon
  - (D) All the above
75. Which of the following statements is incorrect?
- (A) In a recession, normal goods manufacturers are expected to have reductions in the demand.
  - (B) In a recession, inferior goods manufacturers are not expected to have reductions in the demand.
  - (C) All producers are going to be negatively affected in a recession.
  - (D) None of the above is correct.
76. 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
77. Which of the following is not a determinant of the demand for a good?
- (A) Its cost of production
  - (B) Expectations
  - (C) The prices of related products
  - (D) Preferences
78. Why is the supply of eggs inelastic?
- (A) eggs cannot be stored
  - (B) eggs are perishable
  - (C) Both (A) and (B)

- (D) None of these
79. If the price of a good increases, then:
- (A) the demand for complementary goods will increase.
  - (B) the demand for the good will increase.
  - (C) the demand for substitute goods will increase.
  - (D) the demand for the good will decrease.
80. Firms in an industry that produces a differentiated product:
- (A) are either monopolists or oligopolists.
  - (B) are either monopolistically competitive or perfectly competitive.
  - (C) are either monopolistically competitive or oligopolists
  - (D) are either perfectly competitive or oligopolists.
81. If an input is owned and used by a firm, then its:
- (A) explicit cost is zero.
  - (B) implicit cost is zero.
  - (C) opportunity cost is zero
  - (D) economic cost is zero.
82. Short-run average variable cost is equal to:
- (A) total variable cost divided by output.
  - (B) average total cost minus average fixed cost.
  - (C) the cost per unit of the variable input divided by the average product of the variable input.
  - (D) All of the above are correct.
83. 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 labour.
  - (D) All of the above are correct.
84. Economies of scope refers to the decrease in average total cost that can occur when a firm:
- (A) produces more than one product.
  - (B) has monopoly power in world markets.
  - (C) controls the raw materials used as inputs.

- (D) narrows the scope of its regional markets.
85. 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.
86. If the market demand curve for a commodity has a negative slope, then the market structure must be:
- (A) perfect competition.
  - (B) monopoly.
  - (C) imperfectly competitive.
  - (D) The market structure cannot be determined from the information given.
87. If a firm sells its output on a market that is characterized by many sellers and buyers, a homogeneous product, unlimited long-run resource mobility, and perfect knowledge, then the firm is:
- (A) a monopolist.
  - (B) an oligopolist.
  - (C) a perfect competitor.
  - (D) a monopolistic competitor.
88. If a firm sells its output on a market that is characterized by many sellers and buyers, a differentiated product, and unlimited long-run resource mobility, then the firm is :
- (A) a monopolist.
  - (B) an oligopolist.
  - (C) a perfect competitor.
  - (D) a monopolistic competitor.
89. Which of the following is not a barrier to entry that typically results in monopoly?
- (A) The firm controls the entire supply of a raw material.
  - (B) Production of the industry's product is subject to economies of scale over a broad range of output.
  - (C) Production of the industry's product requires a large initial capital investment.
  - (D) The firm holds an exclusive government franchise.



90. Increases in unwanted business inventories are counted as:
- (A) a decrease in the capital stock
  - (B) an increase in consumption
  - (C) an increase in investment
  - (D) an increase in depreciation
91. Which of the following factors does NOT contribute to economic growth?
- (A) the availability of resources such as labour and capital
  - (B) increases in the size of the population
  - (C) the availability of new and better technology
  - (D) increased knowledge gained through education or work experience
92. A consumption function of the form  $C = C_0 + c YD$  has a positive vertical intercept  $C_0$ , which indicates that:
- (A) some consumption is unaffected by changes in disposable income
  - (B) the MPC will increase as disposable income increases
  - (C) the APC will always increase as disposable income increases
  - (D) the APC will always be less than the MPC
93. Economic indicator of contraction and expansionary phase by measuring real GDP is:
- (A) Business cycle
  - (B) Technical indicator
  - (C) Leading indicator
  - (D) Lagging indicator
94. National income accountants can avoid multiple counting by:
- (A) Counting both intermediate and final goods.
  - (B) Only counting final goods.
  - (C) Only counting intermediate goods.
  - (D) Including transfers in their calculations.
95. In a business cycle, a period from peak to trough may be referred to as:
- (A) an expansion.
  - (B) a recurrence.
  - (C) a contraction.
  - (D) a stagflation.

96. In the Cobb Douglas functions the change in Output due to increase in one additional unit of an input is called?
- (A) Elasticity
  - (B) Return to scale
  - (C) Total Product
  - (D) Marginal Revenue
97. When goods are complementary the Indifference Curve is:
- (A) Is a straight line
  - (B) Is Convex to the origin
  - (C) Consist of two straight lines with a right angle bent.
  - (D) None of these
98. Long Run Average Cost (LAC) is:
- (A) U Shaped
  - (B) Is also called envelope curve
  - (C) Both a and b
  - (D) None of These
99. Price discrimination is possible when
- (A) The Seller should have some control over the supply of the Product
  - (B) The Price elasticity of the Product should be different in different sub market
  - (C) The seller should be able to divide his market into two or more Submarket
  - (D) None of these
100. A dealer sells only two brands of Motorcycle- Royal and Hero. It was observed that when the price of royal rises by 10% the demand for Hero increases by 15%. What is the cross elasticity of Hero against the Price of Royal?
- (A) + 1.5
  - (B) -1.5
  - (C) 2.5
  - (D) None of these