

MODEL TEST PAPERS
FOUNDATION COURSE
PAPER 4 – BUSINESS ECONOMICS

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MODEL TEST PAPER 1
FOUNDATION COURSE
PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

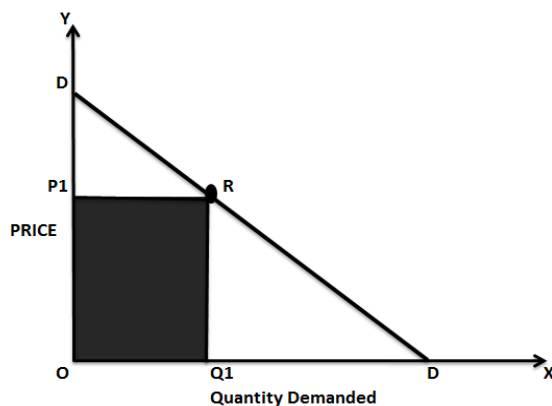
Marks: 100

1. 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
2. Contractionary fiscal policy can involve:
 - (a) Increasing consumption and investment and taxes.
 - (b) Decreasing government spending and increasing taxes.
 - (c) Increasing government spending and increasing taxes.
 - (d) None of the above.
3. 'Who gave 'The Theory of Public Finance (1959)?
 - (a) Adam Smith
 - (b) Richard Musgrave
 - (c) A.C. Pigou
 - (d) Alfred Marshall
4. 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
5. Which of the following is an example of market failure?
 - (a) Externalities
 - (b) Low prices
 - (c) Excess supply
 - (d) Excludable and rival goods
6. Which of the following is NOT a conclusion about market allocations of commodities causing pollution externalities?
 - (a) The prices of products responsible for pollution are too high.

- (b) The output of the commodity is too large.
 - (c) Recycling and reuse of the polluting substances are discouraged since release into the environment is so inefficiently cheap.
 - (d) Too much pollution is produced.
7. Which of the following is true of an imperfect market structure?
- (a) Participants in the market have little or no control over outcome in the market.
 - (b) Consumer surplus is maximized.
 - (c) The maximization of producer surplus may lead to a loss of net benefit for society.
 - (d) Imperfect market structures include monopolies but not cartels.
8. Which of the following is not an example of a policy designed to encourage competition?
- (a) Deregulation
 - (b) Trade liberalisation
 - (c) Reducing income tax
 - (d) Anti-monopoly regulations
9. Who defined Business economics in terms of the use of economic analysis in the formulation of business policies?
- (a) Adam Smith
 - (b) Robbins
 - (c) Joel Dean
 - (d) Alfred Marshall
10. 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
11. 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
12. By way of an optimal choice, a consumer tends to:
- (a) save money

- (b) purchase large quantity
 - (c) maximize satisfaction
 - (d) maximize satisfaction subject to constraints like tastes and preferences.
13. 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
14. 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
15. **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
16. 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
17. If the price of a commodity raised by 12% and Ed is (-) 0.63, the expenditure made on the commodity by a consumer will ____
- (a) Decrease
 - (b) Increase
 - (c) Remain same
 - (d) Can't Say

18. A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has _____.
- more of one of the goods
 - less of at least one of the goods
 - more of at least one of the goods and less of the other good.
 - more of at least one of the goods and no less of the other good.
19. 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 _____.
- more, inelastic demand
 - less, elastic demand
 - same, inelastic demand
 - same, elastic demand
20. In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion OP_1RQ_1 is _____.



- Total Revenue (TR)
 - Marginal Revenue (MR)
 - Total Cost (TC)
 - None of these
21. Marginal revenue of a firm is constant throughout under:
- Perfect Competition
 - Monopolistic Competition
 - Oligopoly
 - All the above
22. Monopolistic competition constitutes:
- Single firm producing close substitutes

- (b) Many firms producing close substitutes
 - (c) Many firms producing differentiated substitutes
 - (d) Few firms producing differentiated substitutes
23. 'Interdependence Between Firms' is a feature of which type of market form:
- (a) Oligopoly
 - b) Monopolistic Competition
 - (c) Monopoly
 - (d) Perfect Competition
24. Which of the following is a limitation of using GDP as a measure of economic well-being?
- (a) It includes only monetary transactions.
 - (b) It does not account for income distribution.
 - (c) It considers both market and non-market activities.
 - (d) It is not affected by inflation.
25. If a country's Gross Domestic Product (GDP) is greater than its Gross National Product (GNP), it implies that the country:
- (a) Is a net exporter.
 - (b) Is a net importer.
 - (c) Has a trade surplus
 - (d) Has a trade deficit
26. If the central bank conducts an open market purchase of government securities, what is the likely impact on the money supply?
- (a) Increase
 - (b) Decrease
 - (c) No change
 - (d) Variable, depending on other factors.
27. Which of the following is included in M2, a broader measure of money supply compared to M1?
- (a) Currency in circulation
 - (b) Savings deposits
 - (c) Demand deposits
 - (d) Travellers' checks
28. What is the purpose of a voluntary export restraint (VER)?
- (a) To limit the quantity of exports.
 - (b) To encourage foreign producers to export more

- (c) To reduce the cost of imports.
 - (d) To comply with international trade agreements.
29. Which of the following is an example of an automatic stabilizer in the budget?
- (a) Discretionary spending
 - (b) Progressive taxation
 - (c) Infrastructure investment
 - (d) Unemployment benefits
30. 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.
31. Concept of Business Economics was given by:
- (a) Joel Dean
 - (b) Alfred Marshall
 - (c) Adam Smith
 - (d) L. Robbins
32. The choice between labour- and Capital-intensive techniques is related with:
- (a) What to Produce?
 - (b) How to Produce?
 - (c) For whom to Produce
 - (d) All of the above.
33. Which of the following is considered as a disadvantage of allocating resources using the market system?
- (a) Income will tend to be unevenly distributed.
 - (b) People do not get goods of their choice.
 - (c) Men of Initiative and enterprise are not rewarded.
 - (d) Profits will tend to be low.
34. Which of the following are the features of a mixed economy?
- (a) Planned economy
 - (b) Dual system of pricing exists
 - (c) Balance regional development
 - (d) All of the above

35. Which of the following is NOT a central issue in macroeconomics?
- (a) How should the central bank of a country fight inflation?
 - (b) What is responsible for high and persistent unemployment?
 - (c) How do tax changes influence consumers' buying choices?
 - (d) What factors determine economic growth?
36. Which of the following is a FALSE statement?
- (a) The very long run focuses on the growth of productive capacity
 - (b) In the very long run, the productive capacity is assumed to be given
 - (c) In the very short run, shifts in aggregate demand determine how much output is produced
 - (d) Fluctuations in the rates of inflation and unemployment are important long-run issues
37. In the very long-run AD-AS model, if the AD-curve shifts to the left, then:
- (a) prices and output will both decrease
 - (b) prices and output will both increase
 - (c) prices will decrease but output will remain the same
 - (d) output will decrease but prices will remain the same
38. The concept of diminishing marginal returns implies that:
- (a) output cannot decrease as long as labour is substituted for capital
 - (b) output decreases if either labour or capital is decreased
 - (c) output increases but at a decreasing rate as the amount of labour is increased and the amount of capital remains fixed
 - (d) if the capital stock is kept constant, output cannot increase even if more labour is available
39. Countries with higher saving rates may have higher equilibrium growth rates since:
- (a) people who save more also are more industrious
 - (b) higher income allows for more savings
 - (c) a higher saving rate allows for more investment in human capital which ultimately enhances economic growth
 - (d) having more capital equipment is more important than having better capital equipment
40. Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?
- (a) consumption and government purchases went up since you bought a used car and government bonds

- (b) consumption and investment went up since you bought a used car and government bonds
 - (c) investment and government purchases went up since you built a new house and bought government bonds
 - (d) investment went up since you built a new house
41. A central bank that wants to stabilize the economy in the short run should try to:
- (a) establish a clear inflation target and stick to it no matter what
 - (b) affect aggregate supply through open market operations
 - (c) affect aggregate demand through open market operations
 - (d) concentrate only on long-run goals
42. Inflation occurs whenever:
- (a) aggregate demand rises.
 - (b) the price of any given commodity rises.
 - (c) the average price of most goods and services rises.
 - (d) the tax rate is lower than the government spending rate.
43. 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.
44. Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
 - (b) Exports
 - (c) Imports & exports
 - (d) None of the above
45. The expenditure multiplier is used to calculate the change in:
- (A) spending caused by a change in income
 - (b) equilibrium income caused by a change in autonomous spending
 - (c) intended spending caused by a change in consumption
 - (d) disposable income caused by a change in saving
46. 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
47. What is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach?
- (a) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$
 - (b) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$
 - (c) $GDP = \text{Consumption} + \text{Investment}$
 - (d) $GDP = \text{Consumption} + \text{Net Exports}$
48. Which component of National Income represents the income earned by individuals and businesses before taxes and other deductions?
- (a) Personal Income
 - (b) Disposable Income
 - (c) Gross National Product (GNP)
 - (d) Gross Domestic Product (GDP)
49. In modern fiat money systems, the value of money is primarily based on:
- (a) Gold reserves
 - (b) Government authority and public trust
 - (c) Exchange rates
 - (d) Digital transactions
50. Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?
- (a) National debt
 - (b) Budget surplus
 - (c) Fiscal deficit
 - (d) Revenue deficit
51. Which of the following is an example of an automatic stabilizer in the budget?
- (a) Discretionary spending
 - (b) Progressive taxation
 - (c) Infrastructure investment
 - (d) Unemployment benefits
52. Which of the following is more sensitive to short-term changes in economic conditions?
- (a) FDI
 - (b) FPI
 - (c) Both FDI and FPI
 - (d) Neither FDI nor FPI

53. Which type of investment is more influenced by government regulations and policies?
- (a) FDI
 - (b) FPI
 - (c) Both FDI and FPI equally
 - (d) Neither FDI nor FPI
54. The concept of the "multiplier effect" in Keynesian economics refers to:
- (a) The impact of interest rates on investment
 - (b) The magnification of an initial change in spending throughout the economy
 - (c) The impact of taxes on consumer spending
 - (d) The role of exports in economic growth
55. What is the "liquidity trap" in Keynesian theory?
- (a) A situation where interest rates are very high.
 - (b) A situation where interest rates are very low, and savings are hoarded.
 - (c) A situation of hyperinflation
 - (d) A situation of excessive government spending
56. Which international organization is responsible for facilitating trade negotiations and resolving trade disputes among member countries?
- (a) World Health Organization (WHO)
 - (b) International Monetary Fund (IMF)
 - (c) World Trade Organization (WTO)
 - (d) United Nations Educational, Scientific and Cultural Organization (UNESCO)
57. The law of consumer surplus is based on:
- (a) indifferent curve analysis
 - (b) revealed preference theory
 - (c) law of substitution
 - (d) the law of diminishing marginal utility
58. The industrial sector depends on the agricultural sector because:
- (a) the agricultural sector provides food and other products for the consumption purposes of industrial sector
 - (b) the agricultural sector provides raw materials for the development of agro-based industries of the economy
 - (c) the agricultural sector provides market for the industrial products
 - (d) all of the above

59. If the price of apples rises from ₹ 30 per kg to ₹ 40 per kg and the supply increases from 240 kg to ₹ 300 kg. Elasticity of supply is:
- (a) .77
 - (b) .67
 - (c) (-) .67
 - (d) (-) .77
60. The producer is in equilibrium at a point where the cost line is:
- (a) above the isoquant
 - (b) below the isoquant
 - (c) cutting the isoquant
 - (d) tangent to isoquant
61. A monopolist is able to maximize his profits when:
- (a) his output is maximum
 - (b) he charges a high price
 - (c) his average cost is minimum
 - (d) his marginal cost is equal to marginal revenue
62. Agricultural goods markets depict characteristics close to:
- (a) Perfect competition
 - (b) Oligopoly
 - (c) Monopoly
 - (d) Monopolistic competition
63. Which of the following is a function of an entrepreneur?
- (a) Initiating a business enterprise
 - (b) Risk bearing
 - (c) Innovating
 - (d) All of the above
64. Which of the following statements is true of the relationship among the average cost functions?
- (a) $ATC = AFC + AVC$
 - (b) $AVC = AFC + ATC$
 - (c) $AFC = ATC + AVC$
 - (d) $AFC = ATC - AVC$
65. For a Price taking firm:
- (a) Marginal revenue is less than Price
 - (b) Marginal revenue is equal to Price

- (c) The relationship between behavior marginal revenue and Price is indeterminate
 - (d) Marginal revenue is greater than price
66. Coincident indicator is not indicated as:
- (a) Inflation
 - (b) Industrial Production
 - (c) Retail Sales
 - (d) New order for Plant and equipment
67. Indifference Curve analysis is superior to utility analysis:
- (a) It dispenses with the assumption of measurability
 - (b) It segregates income effect and substitution effect
 - (c) It does not assume constancy of marginal utility of money
 - (d) All of the above
68. Perfectly Competitive firm and industry are both in long run equilibrium when:
- (a) $P = MR = SMC = LMC$
 - (b) $P = MR =$ Lowest point on the LAC
 - (c) $P = MR = SAC = LAC$
 - (d) All of the above
69. Economy's historical performance was reflected by:
- (a) Lagging indicating
 - (b) Leading indicating
 - (c) Either (a) or (b)
 - (d) None of these
70. 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.
71. Given $TC = 2000 + 15Q - 6Q^2 + Q^3$. How much is TFC at $Q = 2000$?
- (a) 2000
 - (b) 975
 - (c) 30,000
 - (d) Can't be determined

72. Different business cycles _____ in duration and intensity.
- (a) differ
 - (b) similar
 - (c) consistent
 - (d) Can't say
73. 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
74. 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
75. _____ expressed the view the "Economics is neutral between end".
- (a) Robbins
 - (b) Marshall
 - (c) Pigou
 - (d) Adam Smith
76. Price Rigidity explained by Sweezy's model is related to which market form:
- (a) Monopoly
 - (b) Oligopoly
 - (c) Monopolistic competition
 - (d) Perfect Competition
77. Which of the following is not a determinant of the firm's cost function?
- (a) Taxes
 - (b) The Production Function
 - (c) The Price of the firm's output
 - (d) Subsidies
78. Demand for complementary goods are:
- (a) Derived Demand
 - (b) Autonomous demand

- (c) Aggregate Demand
 - (d) None of these
79. Consumers get maximum variety of goods under:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) None of these
80. What is the primary goal of countercyclical fiscal policy in budgeting?
- (a) Maximizing government revenue.
 - (b) Stabilizing the economy during economic downturns.
 - (c) Minimizing government intervention.
 - (d) Reducing public debt.
81. According to Keynes, what can cause involuntary unemployment in an economy?
- (a) High interest rates
 - (b) Insufficient aggregate demand
 - (c) Government intervention
 - (d) Excessive savings
82. The concept of "animal spirits" in Keynesian theory refers to:
- (a) The unpredictable behavior of financial markets
 - (b) Psychological factors influencing economic decisions
 - (c) Government regulations affecting business confidence
 - (d) The impact of interest rates on investment
83. Which trade policy tool is designed to directly support domestic producers by reducing the cost of exporting goods?
- (a) Export subsidy
 - (b) Import quota
 - (c) Voluntary export restraint
 - (d) Export tariff
84. Public goods are characterized by:
- (a) Excludability and rivalry
 - (b) Excludability and non-rivalry
 - (c) Non-excludability and rivalry
 - (d) Non-excludability and non-rivalry

85. Which of the following is a common solution to the problem of common resources being overused?
- (a) Government regulation
 - (b) Privatization
 - (c) Subsidies
 - (d) Free-market competition
86. If the reserve requirement is 20%, what is the potential maximum expansion of the money supply when a new deposit of \$1,000 is made?
- (a) \$5,000
 - (b) \$2,000
 - (c) \$1,000
 - (d) \$500
87. Which of the following is a factor income?
- (a) Profits
 - (b) Transfer payments
 - (c) Subsidies
 - (d) Indirect taxes
88. Which of the following matters is/are fundamentally connected to economic analysis?
- (a) Economic prosperity
 - (b) Higher standard of living
 - (c) Changes in price of a commodity
 - (d) All of the above
89. Management of the firm _____ control over macro-economic factors.
- (a) has
 - (b) has no
 - (c) has partial
 - (d) None of these
90. After reaching the saturation point, consumption of additional units of the commodity cause:
- (a) Total utility to fall and marginal utility to increase.
 - (b) Total and marginal utility both to increase.
 - (c) Total utility to fall and marginal utility to become negative.
 - (d) Marginal utility to fall and total utility to become negative.

91. Which of the following statements is correct?
- (a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero.
 - (b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite.
 - (c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity.
 - (d) None of these
92. Computers and computer software are_____.
- (a) Substitute goods
 - (b) Complementary goods
 - (c) Independent goods
 - (d) Normal goods
93. Which of the following statement(s) is/are true about the slope of budget line?
- (a) The slope of budget line is determined by the relative prices of two goods.
 - (b) The slope of budget line is equal to price ratio of two goods.
 - (c) The slope of budget line measures the rate at which the consumer can trade one good for the other.
 - (d) All of the above
94. Traditional approach of law of demand was propounded by_____.
- (a) Giffen
 - (b) Paul A Samuelson
 - (c) Alfred Marshall
 - (d) Pique
95. Under the law of variable proportion, stage I is known as the stage of increasing returns because:
- (a) Marginal product of the variable factor increases throughout this stage
 - (b) Average product of the variable factor increases throughout this stage
 - (c) Marginal product increases at increasing rate throughout this stage
 - (d) Total increases at increasing rate throughout this stage
96. Production function: $Q = 4L^{1/2}k^{2/3}$ exhibits:
- (a) increasing returns to scale
 - (b) decreasing returns to scale
 - (c) constant returns to scale
 - (d) increasing returns to a factor

97. A mathematical relationship showing the maximum output that can be produced by each and every combination of inputs is called _____.
(a) Production equation
(b) Production function
(c) Production schedule
(d) Production identity
98. 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
99. Decrease in input demand _____.
(a) Doesn't affect inputs prices
(b) Pushes inputs prices up
(c) Pulls inputs prices down
(d) Either (B) or (C)
100. Freedom of choice is the advantage of _____.
(a) Socialism
(b) Capitalism
(c) Communism
(d) None of the above

MODEL TEST PAPER 2
FOUNDATION COURSE
PAPER – 4: BUSINESS ECONOMICS

1. Which of the following activities is excluded from GDP, causing GDP to understate a nation's well-being?
 - (a) the services of used-car dealers
 - (b) the child-care services provided by stay-at-home parents
 - (c) the construction of new houses
 - (d) government expenditures on military equipment
2. 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
3. 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.
4. Which of the economists below most likely advocated activist government policies?
 - (a) Milton Friedman
 - (b) John Maynard Keynes
 - (c) Robert Lucas
 - (d) Thomas Sargent
5. 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
6. If the inflation rate starts to increase, a central bank most likely will:
 - (a) try to stimulate aggregate supply through open market purchases
 - (b) change short-term interest rates through open market sales
 - (c) increase short-term interest rates by buying government bonds
 - (d) send signals to financial markets about upcoming open market purchases
7. What is the similarity between the Subprime Crisis and Greece Crisis?
 - (a) High Financial Leverage
 - (b) Low-Interest Rate
 - (c) Credit Expansion
 - (d) All of the above

8. In the simple Keynesian model investment is:
 - (a) Fixed.
 - (b) A function of the level of income.
 - (c) Either fixed or a function of the level of income.
 - (d) None of the above.
9. Which is the main objective of a tax?
 - (a) Increase in consumption
 - (b) Increase in production
 - (c) Raising public revenue
 - (d) Reduction in capital formation
10. Which of the following is a measure of fiscal policy?
 - (a) public expenditure
 - (b) C.R.R.
 - (c) S.L.R.
 - (d) Bank rate
11. Inflation occurs whenever:
 - (a) aggregate demand rises.
 - (b) the price of any given commodity rises.
 - (c) the average price of most goods and services rises.
 - (d) the tax rate is lower than the government spending rate.
12. A Most Favoured nation status doesn't necessarily refer to:
 - (a) Same and equal economic treatment
 - (b) Non-discriminatory treatment
 - (c) Same tariff rates applicable
 - (d) Uniform civil code
13. The book named "An Inquiry into the Nature and Causes of the Wealth of Nations" was published in:
 - (a) 1885
 - (b) 1776
 - (c) 1845
 - (d) 1775
14. Normative Economics Involves:
 - (a) Value Judgement
 - (b) Cause and Effect Relationship
 - (c) Determining the fair price
 - (d) None of these
15. The Characteristics of Socialist Economy are:
 - (a) Collective Ownership
 - (b) Economic Planning
 - (c) Absence of Consumer Choice

- (d) All the above
- 16. Demonstration effects a term coined by:
 - (a) James Duesenberry
 - (b) Marshall
 - (c) Keynes
 - (d) None of these
- 17. Exception to the law of demand:
 - (a) Conspicuous goods
 - (b) Giffen goods
 - (c) Future expectations about prices
 - (d) All of the above
- 18. In the simple Keynesian model consumption is a function of:
 - (a) Rate of interest.
 - (b) Level of income.
 - (c) Price level.
 - (d) None of the above.
- 19. Lower interest rates are likely to:
 - (a) Decrease consumption.
 - (b) Increase the cost of borrowing.
 - (c) Encourage saving.
 - (d) Increase borrowing and spending.
- 20. Education is an example of:
 - (a) Public good
 - (b) Merit good
 - (c) Social good
 - (d) Club good
- 21. Specific tariff is imposed on:
 - (a) Per unit
 - (b) Value
 - (c) Specific content
 - (d) Per unit and value
- 22. Countervailing duties are imposed:
 - (a) To offset low export prices
 - (b) To offset high export prices
 - (c) To offset low import prices
 - (d) To offset high import prices
- 23. Making an importing country to go through frustrating experience:
 - (a) Trade-related investment Measures
 - (b) Distribution Restrictionism

- (c) Restriction on Post-sales Services
 - (d) Administrative regulations
24. Increasing import cost by regulating foreign exchange comes under:
- (a) Financial measures
 - (b) Safeguard measures
 - (c) Distribution restrictionism
 - (d) Administrative measures
25. Dumping implies:
- (a) Duties imposed by importing country on cheaper foreign goods
 - (b) Selling much lower than the sales price than domestic market
 - (c) Selling at higher price than domestic market
 - (d) Duties imposed by exporting country on cheaper domestic goods
26. 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
27. 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
28. 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
29. Which of the following is not objectives of WTO:
- (a) Settling balance of payments among member countries
 - (b) to increase the transparency of decision-making processes,
 - (c) to cooperate with other major international economic institutions involved in global economic management, and
 - (d) to help developing countries benefit fully from the global trading system.
30. The total member countries under WTO currently:
- (a) 164
 - (b) 171
 - (c) 169
 - (d) 161

31. Which of the following is known as broad money?

- (a) M1
- (b) M2
- (c) M3
- (d) M4

32. Money supply refers to the sum of money held by:

- (a) Public
- (b) Banks
- (c) Govt
- (d) RBI

33. The Supply of Money is a:

- (a) Flow variable
- (b) Stock variable
- (c) A combination of stock and flow variable
- (d) Cannot be categorized

34. M1 does not include:

- (a) Time deposits with the banking system
- (b) Currency in circulation
- (c) Demand deposits with the banking system
- (d) Other deposits with RBI

35. Reserve money is supplied by:

- (a) RBI
- (b) Government
- (c) Commercial banks
- (d) World bank

36. Calculate M3 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) 932 874 cr
- (b) 3,306,510 cr
- (c) 925858 cr
- (d) 705246 cr

37. 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) 2.50
38. Bank 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
39. FII inflow will impact:
- (a) BOP
 - (b) Fiscal deficit
 - (c) Govt revenues
 - (d) Banks income
40. FDI implies:
- (a) Short term investment
 - (b) Medium term investment
 - (c) Long term investment
 - (d) Both Short- and long-term investments
41. Which of the following statement is false regarding FPI?
- (a) Speculative in nature
 - (b) Investment in financial assets
 - (c) Setting up of factory
 - (d) short term investment
42. A firm makes an investment in unrelated business then it is called:
- (a) Horizontal investment
 - (b) Vertical investment
 - (c) Conglomerate
 - (d) FDI
43. Both foreign direct investment (FDI) and foreign institutional investment (FII) are related to investment in a country. Which of the following is incorrect regarding FDI and FII?
- (a) Both FII and FDI bring capital into the economy.
 - (b) FII invests in technology-oriented enterprises, whereas FDI invests in traditional business set ups.
 - (c) The restrictions on the entry of FDI are lower than that on FII.
 - (d) FDI is considered to be more stable than FII. FII can be withdrawn even at a short notice.
44. A surge in foreign capital inflow in India would lead to:
- (a) Sale of foreign exchange by the central bank in order to prevent depreciation of rupee
 - (b) Purchase of foreign exchange by central bank in order to prevent depreciation of rupee
 - (c) Sale of foreign exchange by the central bank in order to prevent appreciation of rupee
 - (d) Purchase of foreign exchange by central bank in order to prevent appreciation of rupee

45. Real exchange rate considers:
- (a) relative prices of domestic goods
 - (b) relative prices of foreign goods
 - (c) relative prices of essential goods
 - (d) Relative prices of domestic and foreign goods
46. If real exchange rate is high:
- (a) Foreign goods cheaper and imports will rise
 - (b) domestic goods cheaper
 - (c) exports will rise
 - (d) Imports will fall
47. Under floating exchange rate is determined by:
- (a) The value of currency of a country is pegged
 - (b) market forces will determine
 - (c) IMF
 - (d) World bank
48. If rupee is depreciating against the \$:
- (a) RBI will sell the \$
 - (b) RBI will cut the repo rate
 - (c) Govt prints more currency
 - (d) RBI will purchase the \$
49. Which of the following is not determinant of exchange rate:
- (a) Inflation
 - (b) Capital flows
 - (c) Repo rate
 - (d) Domestic Consumption
50. If real exchange rate is high it might lead to:
- (a) Current account deficit
 - (b) fiscal deficit
 - (c) current account surplus
 - (d) Increase in foreign exchange reserves
51. If rupee appreciating against the \$ then RBI:
- (a) Will purchase \$
 - (b) Will increase the repo rate
 - (c) will sell \$
 - (d) Ensures capital fly's out
52. Which of the following statement is false with regard to rupee depreciation:
- (a) builds pressure on corporate and govt debt repayment
 - (b) Capital fly's in
 - (c) Pressure on foreign exchange reserves

- (d) imports become costly
53. The terms revaluation is applied to:
- (a) Flexible exchange rate
 - (b) Fixed exchange rate
 - (c) Gold
 - (d) ECB
54. Which of the following statement is false:
- (a) Majority of countries follow flexible exchange rate
 - (b) The term devaluation applies to fixed exchange rate
 - (c) RBI wants Indian companies to hedge their currency
 - (d) Dirty float is generally followed by countries with fixed exchange regime
55. The targeted inflation rate for RBI:
- (a) 4%
 - (b) 2%
 - (c) 6%
 - (d) 5%
56. The Repo rate is:
- (a) An emergency window for banks
 - (b) commercial banks lend money to RBI
 - (c) commercial banks rediscount the bills of exchange with RBI
 - (d) RBI lends money to commercial banks
57. 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
58. MSF rate is:
- (a) Higher than repo rate
 - (b) Higher than CRR
 - (c) Higher than Reverse repo rate
 - (d) Higher than SLR
59. CRR should maintained in:
- (a) Cash
 - (b) Gold
 - (c) Bonds
 - (d) Equity
60. Bank rate is the rate at which:
- (a) Commercial banks lend to RBI
 - (b) RBI lends to commercial banks

- (c) RBI lends to government
 - (d) RBI lends to foreign banks
61. Reverse repo rate is:
- (a) Equal to CRR
 - (b) Equal to Bank rate
 - (c) Equal to MSF
 - (d) lower than Repo rate
62. MPC comprises ----- members:
- (a) 3
 - (b) 5
 - (c) 6
 - (d) 4
63. SLR should be maintained in:
- (a) Bonds
 - (b) Equity
 - (c) Gold
 - (d) Cash
64. The Reverse repo rate is:
- (a) RBI borrows from the government
 - (b) Commercial banks lends money to RBI
 - (c) Commercial banks rediscount the bills of exchange with RBI
 - (d) RBI lends money to commercial banks
65. The total value of output of a country will be equal to:
- (a) Market prices
 - (b) Consumption
 - (c) Investment
 - (d) National Income
66. Nominal GDP considers:
- (a) Current prices
 - (b) Base year prices
 - (c) Current and base year prices
 - (d) None of the above
67. Real GDP is:
- (a) Devoid of inflation
 - (b) > Nominal GDP
 - (c) = Nominal GDP
 - (d) Considers only current prices
68. The economic well-being of economy is measured by:
- (a) Real GDP

- (b) GNP
 - (c) NNP
 - (d) Nominal GDP
69. NNP =
- (a) GNP- Depreciation
 - (b) GNP- Factor payments
 - (c) GNP- Inflation
 - (d) GNP + Factor Payments
70. GDP deflator:
- (a) Nominal GDP/ Real GDP X100
 - (b) Real GDP/Nominal GDP X100
 - (c) Nominal GDP + Real GDP/ Real GDP X100
 - (d) Nominal GDP-Real GDP/ Nominal GDP X100
71. Who does the calculation of the National Income of our country:
- (a) Ministry of Finance
 - (b) Ministry of Commerce
 - (c) Central Statistics Office
 - (d) Nitti Aayog
72. Gross value method is employed in India:
- (a) To avoid double counting
 - (b) To avoid the impact of inflation
 - (c) To capture the consumption levels
 - (d) To calculate the exports
73. CPI is calculated:
- (a) Once in 45 days
 - (b) Once in 3 months
 - (c) Once in fortnight
 - (d) Once in a month
74. Which of the following is an example of Transfer payment:
- (a) Money wages
 - (b) Minimum Support Wages
 - (c) Unemployment allowance
 - (d) Brokerage commission
75. If net factor income of a country is negative then we can say:
- (a) National Income will be less than domestic factor incomes
 - (b) National Income will be more than domestic factor incomes
 - (c) National income will be exactly equal to domestic factor incomes
 - (d) National income will be greater than exports

76. Factor cost implies:
- (a) Market price- net indirect taxes
 - (b) Market price – depreciation of fixed assets
 - (c) Market price – Net factor income abroad
 - (d) Market price – Transfer payments
77. which of the following statements is true with regard to intermediary goods:
- (a) it cannot be used to produce other goods
 - (b) it can be sold directly to final purchasers
 - (c) it leads to the problem of double counting
 - (d) whose price is greater than the final goods

78. Match the following:

'A'	'B'
1. Fish culture	(a) Tertiary sector
2. Highest contribution in national income	(b) Year 1952
3. National income committee was established in	(c) Mixed method
4. National income calculation is done by	(d) Year 1949
5. Establishment of C.S.O.	(e) Primary sector.

79. It is planned to increase national income by ₹ 1000 cr. How much increase in investment is required? Assume MPC is 0.6:
- (a) ₹ 100 cr.
 - (b) ₹ 400 cr.
 - (c) ₹ 500 cr.
 - (d) None of the above.
80. The particular level of AD which is equal to AS is called _____:
- (a) equilibrium demand
 - (b) effective demand
 - (c) derived demand
 - (d) None of the above
81. What can be the minimum value of investment multiplier?
- (a) 10
 - (b) 1
 - (c) infinity
 - (d) 0
82. Which of the following is the most accurate definition of supply-side policies?
- (a) Policies that aim to increase the supply of goods and services in an economy
 - (b) Policies that oppose Keynesian demand-management policies
 - (c) Policies that increase production in an economy
 - (d) Policies that aim to increase the productive capacity of an economy

83. Which of the following statements does not apply to supply-side policies?
- (a) They seek to improve the institutional framework of the economy to improve its productive capacity
 - (b) They aim to improve the efficiency of the factors of production to increase potential growth
 - (c) They shift the long-run aggregate supply (LRAS) curve to the right
 - (d) They can result in demand-pull inflation
84. Which of the following is not considered an advantage of supply-side policies?
- (a) Makes factor markets work more efficiently
 - (b) Increase economic growth without increasing inflation
 - (c) Can help to avoid stagflation
 - (d) Tax cuts to improve incentives can be costly for the government
85. Which of the following is not an example of market-based supply-side policies?
- (a) Policies to improve competition in markets
 - (b) Policies to allow the labour market to work more efficiently
 - (c) Policies to increase infrastructure
 - (d) Policies to provide incentives to set up businesses
86. What is meant by the potential output of the economy?
- (a) Its productive capacity
 - (b) Its institutional framework
 - (c) Its infrastructure
 - (d) Its investment in human capital
87. What is meant by the “institutional framework” of an economy?
- (a) The maximum capacity of the economy in the production process
 - (b) The level of investment in human capital
 - (c) The system of formal laws, regulations and procedures that shape economic activity in the economy
 - (d) Subsidies and tax concessions used to improve employment opportunities in assisted areas of the economy
88. Which of the following policies is least likely to lead to an increased investment in technology?
- (a) Improved communications in the labour market
 - (b) Corporation tax rebates
 - (c) Lower interest rates
 - (d) Spending on research and development (R&D)
89. 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

90. Which policies promote research and development (R&D) for private sector firms and universities in order to improve the productive capacity of the economy?
- (a) Competition policies
 - (b) Industrial policies
 - (c) Incentive-related policies
 - (d) Market-based policies
91. 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
92. The distributive function of the budget is related to the basic function of _____ an economy produces goods and services:
- (a) what
 - (b) for whom
 - (c) how
 - (d) All of the above
93. During recession, the government _____ its expenditure or _____ taxes so that aggregate demand is boosted up:
- (a) increases, decreases
 - (b) decreases, increases
 - (c) increases, increases
 - (d) decreases, decreases
94. Government's stabilization intervention may be through _____:
- (a) Monetary policy only
 - (b) Fiscal policy only
 - (c) Both (A) and (B)
 - (d) None of the above
95. EVA digital assistance Robot of HDFC Bank is:
- (a) An intermediate good
 - (b) A consumer good
 - (c) A capital good
 - (d) None of these
96. Mr. Ram grows tomatoes for home consumption. This activity is:
- (a) excluded from GDP in order to avoid double counting.
 - (b) excluded from GDP because an intermediate good is involved.
 - (c) productive but is excluded from GDP because no market transaction occurs.
 - (d) included in GDP because it reflects production.

97. The Cambridge approach to quantity theory is also known as:
- (a) Cash balance approach
 - (b) Fisher's theory of money
 - (c) Classical approach
 - (d) Keynesian Approach
98. Selling cost are essential in:
- (a) Monopoly
 - (b) Monopolistic competition
 - (c) Perfect competition
 - (d) All of the above
99. Which of the following curve cannot be u-shaped?
- (a) Average total cost
 - (b) Average variable cost
 - (c) Average fixed cost
 - (d) Marginal cost
100. 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

MODEL TEST PAPER 3
FOUNDATION COURSE
PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

Marks: 100

1. When rent control is imposed above the current market price it will:
 - (a) increase the quantity of rental housing demanded.
 - (b) reduce the quality of rental housing.
 - (c) create a shortage of rental housing.
 - (d) create no impact on the market.
2. In a capitalist economy, profit is socially desirable because it:
 - (a) reallocates wealth from small firms to large firms.
 - (b) attracts resources to the most desirable types of production.
 - (c) allows firms to operate at higher levels of cost.
 - (d) permits firms to hire more workers and thereby reduces the unemployment rate.
3. The tendency for managers to operate a firm in a way that maximizes their personal utility rather than the firm's profits is referred to as the:
 - (a) consumer utility incentive.
 - (b) principal–agent problem.
 - (c) hidden agenda scenario.
 - (d) Modigliani hypothesis.
4. What social function is served by profits in a capitalist economic system?
 - (a) Taxes on profits support government programs.
 - (b) They provide an incentive for the reallocation of resources.
 - (c) Profits allow individuals to accumulate wealth and engage in capital investment.
 - (d) Profits result in higher levels of employment.
5. 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.
6. If we assume the following scenario: as the average income of the consumer increases the demand for “fast” food decreases, then we can assume that “fast” food is:

- (a) a normal good.
 - (b) an inferior good.
 - (c) None of the above is correct.
 - (d) Either of these
7. The price elasticity of demand for a good will tend to be more elastic if:
- (a) the good is broadly defined (e.g., the demand for food as opposed to the demand for carrots).
 - (b) the good has relatively few substitutes.
 - (c) a long period of time is required to fully adjust to a price change in the good.
 - (d) None of the above is true.
8. If cross-price elasticity between goods A and B is determined to be exactly zero, which of the following statements is correct?
- (a) Goods A and B are substitutes
 - (b) Goods A and B are complements
 - (c) Goods A and B are comparatives
 - (d) Goods A and B are independent
9. If supply increases while demand decreases:
- (a) the equilibrium price will definitely increase.
 - (b) the equilibrium quantity will definitely increase.
 - (c) the equilibrium price will definitely decrease.
 - (d) the equilibrium quantity will definitely decrease.
10. If marginal product of labour is below average product of labour, then:
- (a) average product of labour is flat.
 - (b) average product of labour is increasing.
 - (c) average product of labour is decreasing.
 - (d) may be increasing, decreasing or flat
11. Inputs that cannot be easily varied during the time period under consideration are called:
- (a) short run inputs.
 - (b) long run inputs.
 - (c) fixed inputs.
 - (d) variable inputs.
12. By using computers to design and manufacture products, firms are able to:
- (a) reduce production costs.

- (b) reduce the optimal lot size.
 - (c) reduce the time required to introduce new products.
 - (d) All of the above are correct.
13. The law of diminishing returns begins at the level of output where:
- (a) marginal cost is at a minimum.
 - (b) average variable cost is at a minimum.
 - (c) average fixed cost is at a maximum.
 - (d) None of the above is correct.
14. If a firm has a downward-sloping long-run average cost curve, then:
- (a) it is experiencing decreasing returns to scale.
 - (b) it is experiencing decreasing returns.
 - (c) it is a natural monopoly.
 - (d) marginal cost is greater than average cost.
15. Price discrimination is a situation when a producer:
- (a) Charge same price
 - (b) Charges may prices
 - (c) Charges different prices in different market
 - (d) None of these.
16. 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 labor.
 - (d) All of the above are correct.
17. If the firm's total costs are INR 2,200,000 and total variable costs are INR 1,300,000, what are the total fixed costs?
- (a) 900,000
 - (b) 1,200,000
 - (c) 4,500,000
 - (d) None of the above.
18. 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.
19. The restaurant industry has a market structure that comes closest to:
- (a) monopolistic competition.
 - (b) oligopoly.
 - (c) perfect competition.
 - (d) monopoly.
20. Which of the following markets comes close to satisfying the assumptions of a perfectly competitive market structure?
- (a) The stock market
 - (b) The market for agricultural commodities such as wheat or corn
 - (c) The market for petroleum and natural gas
 - (d) All of the above come close to satisfying the assumptions of perfect competition.
21. Which of the following industries is most likely to be monopolistically competitive?
- (a) The automobile industry
 - (b) The steel industry
 - (c) The car repair industry
 - (d) The electrical generating industry
22. Some economists have suggested that oligopolists tend to maintain stable prices when there are changes in the demand for their products or in their costs of production. Which of the following models provides an explanation for this type of behavior?
- (a) Price leadership
 - (b) Centralized cartel
 - (c) Prisoners' dilemma
 - (d) Kinked demand curve
23. 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.
24. Which of the following is NOT an example of a transfer payment in the sense of the national income accounts?
- (a) Government family allowances
 - (b) Public unemployment insurance benefits

- (c) Dividends paid by corporations to stockholders
 - (d) Disability pensions paid from the social insurance system
25. The difference between real and nominal GDP is...
- (a) Nominal GDP only accounts for citizens.
 - (b) Nominal GDP uses price-levels of some base year.
 - (c) Nominal GDP uses actual price-levels.
 - (d) Real GDP also includes services, whereas nominal GDP only takes goods into account.
26. A recession is a decline in:
- (a) The unemployment rate that lasts six months or longer
 - (b) Real GDP that lasts six months or longer
 - (c) Potential GDP that lasts six months or longer
 - (d) The inflation rate that lasts six months or longer
27. For a person to keep his real income steady at a certain level from one year to the next, his nominal income must:
- (a) Stay the same as the price index rises
 - (b) Rise as fast as the price index
 - (c) Fall if the price index rises
 - (d) Rise if the price index falls
28. If the GDP gap is positive, then:
- (a) The inflation rate is falling
 - (b) Actual GDP is greater than potential GDP
 - (c) Potential GDP is greater than actual GDP
 - (d) The unemployment rate is rising
29. The government makes the provision of which goods those cannot be provided through the market:
- (a) private and public goods
 - (b) public and merit goods
 - (c) public and necessary goods
 - (d) Giffen and merit goods
30. Which of the following parameter consist of interest, dividend, fees and other receipts for services of the government:
- (a) Non-tax expenses
 - (b) Tax expenses
 - (c) Non-tax revenue

- (d) Tax revenue
31. A good taxation system should be used to:
- (a) finance public services
 - (b) follow higher taxation
 - (c) no taxation
 - (d) finance private services
32. Primary deficit is obtained by deducting interest payments from the:
- (a) Fiscal deficit
 - (b) Revenue deficit
 - (c) Budgetary deficit
 - (d) Monetized deficit
33. 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
34. The quantity demanded of money rises:
- (a) As the repo rate increases
 - (b) As the repo rate falls
 - (c) As the supply of money falls
 - (d) As the number of banks rises
35. When the Central Bank intends to expand the credit, it should:
- (a) Raise the margin requirements
 - (b) Raise the variable reserve ratio
 - (c) Lower the bank rate
 - (d) Purchase government securities in the open market
36. Which of the following is not an instrument of selective credit control?
- (a) Margin requirements
 - (b) Open market operation
 - (c) Credit rationing.
 - (d) None of the above
37. Which among the following is called the rate of interest charged by RBI for lending money to various commercial banks by rediscounting of the bills in India?
- (a) Bank rate

- (b) Discount window.
 - (c) Marginal Standing facility
 - (d) Overnight rate
38. The process of selling of the products at a price less than on going price in the market is known as:
- (a) Quota
 - (b) Tariff
 - (c) Subsidies
 - (d) Dumping
39. Comparative advantage is determined by:
- (a) the amount of resources needed to produce a good
 - (b) the money cost of producing any good
 - (c) The opportunity cost of producing any good
 - (d) Absolute advantage and production possibilities combined.
40. A lumps sum tax per unit on imports is known as:
- (a) A specific tariff
 - (b) An effective tariff
 - (c) An effective quota
 - (d) A specific quota
41. 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
42. Central Government can impose the safeguard duty if it is satisfied that:
- (a) Any article is imported into India in increased quantities
 - (b) Such increased importation is causing or threatening to cause serious injury to domestic industry
 - (c) Either A or B
 - (d) Both A&B
43. Countervailing duty shall not be levied unless it is determined that:
- (a) The subsidy relates to export performance.
 - (b) The subsidy relates to the use of domestic goods over imported goods in the export article

- (c) The subsidy has been conferred on a limited number of persons engaged in the manufacture, production or export of articles.
 - (d) All the above
44. Terms of trade in developing countries are generally unfavorable because:
- (a) They export manufacturing products.
 - (b) They export primary products.
 - (c) They export few goods.
 - (d) Both A and C
45. Most tariffs have:
- (a) only revenue effects
 - (b) only protective effects
 - (c) both protective and revenue effects
 - (d) neither protective or revenue effects
46. Which of the following statements is/are correct regarding FDI under automatic route?
- a. FDI in India under the automatic route does not require prior approval either by the Government of India or the Reserve Bank of India.
 - b. Investors are only required to notify the concerned regional office of the RBI before receipt of inward remittances and file required documents with that office before the issue of shares to foreign investors.
- (a) 1 only
 - (b) 2 only
 - (c) Both 1 and 2
 - (d) Neither 1 nor 2
47. What is a Global Depository Receipt?
- (a) It is a receipt issued by multinational banks on deposit of money.
 - (b) It is a receipt issued by stock exchange to bank clearing mechanism.
 - (c) It is a receipt issued by an overseas bank in lieu of shares of a domestic company.
 - (d) It is a receipt issued by stock exchange on investment by foreign portfolio investor.
48. 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
49. Which of the following is a FALSE statement?
- (a) the very long run focuses on the growth of productive capacity
 - (b) in the very long run, the productive capacity is assumed to be given
 - (c) in the very short run, shifts in aggregate demand determine how much output is produced
 - (d) fluctuations in the rates of inflation and unemployment are important long-run issues
50. Positive economics means:
- (a) Does not depend on market interactions,
 - (b) only looks at the best parts of the economy.
 - (c) Examines how the economy works (as opposed to how it should work)
 - (d) is very subjective.
51. A nation's gross domestic product (GDP):
- (a) can be found by summing $C + I + G + X_n$.
 - (b) is the dollar value of the total output produced by its citizens, regardless of where they are living.
 - (c) can be found by summing $C + S + G + X_n$.
 - (d) is always some amount less than its NDP.
52. 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.
53. The amount of after-tax income received by households is measured by:
- (a) discretionary income.
 - (b) national income.
 - (c) disposable income.
 - (d) personal income.
54. Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?
- (a) National debt
 - (b) Budget surplus
 - (c) Fiscal deficit
 - (d) None of these

55. What is the primary goal of countercyclical fiscal policy in budgeting?
- (a) Maximizing government revenue.
 - (b) Stabilizing the economy during economic downturns.
 - (c) Minimizing government intervention.
 - (d) None of these
56. Which type of investment is more susceptible to capital flight during times of economic instability?
- (a) FDI
 - (b) FPI
 - (c) Both FDI and FPI equally
 - (d) Neither FDI nor FPI
57. The concept of "animal spirits" in Keynesian theory refers to:
- (a) The unpredictable behaviour of financial markets
 - (b) psychological factors influencing economic decisions.
 - (c) Government regulations affecting business confidence.
 - (d) The impact of interest rates on investment
58. 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
59. 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
60. What will be the value of Credit Multiplier when the Required Reserve ratio is 50%?
- (a) 4
 - (b) 2
 - (c) 3
 - (d) 1

61. 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
62. 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
63. A seller cannot influence the market price under:
- (a) Perfect Competition
 - (b) Monopoly
 - (c) Monopolistic Competition
 - (d) All of the above
64. Railways is an example of:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) Oligopoly
65. Demand curve in case of Monopolistic competition is more elastic as compared to demand curve under Monopoly due to:
- (a) Huge Selling Costs
 - (b) Freedom of Entry and Exit
 - (c) Presence of Close Substitutes
 - (d) Large Number of Firms
66. Which of the following is a lagging economic indicator?
- (a) Consumer confidence index.
 - (b) Stock market performance.
 - (c) Unemployment rate.
 - (d) New housing starts.

67. We can say Indian agriculture has become modern since:
- (a) there has been an increase in the use of high yielding varieties of seeds, fertilizers pesticides etc.
 - (b) there has been noticeable positive change in the attitude of farmers towards new techniques of production
 - (c) farmers are increasingly resorting to intensive cultivation, multiple cropping, scientific water management
 - (d) all of the above.
68. The law of consumer surplus is based on:
- (a) indifferent curve analysis
 - (b) revealed preference theory
 - (c) law of substitution
 - (d) the law of diminishing marginal utility
69. Which one is a component of profit?
- (a) Dividend
 - (b) Undistributed Profit
 - (c) Corporate Profit Tax
 - (d) All of these
70. The particular level of AD which is equal to AS is called_____.
- (a) equilibrium demand
 - (b) effective demand
 - (c) derived demand
 - (d) None of the above
71. What is meant by the “institutional framework” of an economy?
- (a) The maximum capacity of the economy in the production process
 - (b) The level of investment in human capital
 - (c) The system of formal laws, regulations and procedures that shape economic activity in the economy
 - (d) Subsidies and tax concessions used to improve employment opportunities in assisted areas of the economy
72. What are the Internal causes of Business Cycle?
- (a) Fluctuations in effective demand.
 - (b) Macroeconomic Policies
 - (c) Money Supply
 - (d) All the above

73. According to Hawtrey trade cycle is a _
- (a) Monetary Phenomenon
 - (b) Unplanned Phenomenon
 - (c) Fiscal Phenomenon
 - (d) All the above
74. The Distinction between Selling Cost and Production cost was made by:
- (a) Chamberlin
 - (b) Sweezy
 - (c) Mrs Joan Robinson
 - (d) None of these
75. Envelope curve is also called:
- (a) Long Run Average Cost curve
 - (b) Short Run Average Cost curve
 - (c) Average Fixed Cost
 - (d) None of these
76. Collectively peaks and troughs together is known as:
- (a) Turning Points
 - (b) Contraction
 - (c) Expansion
 - (d) A trough
77. E – NAM is –
- (a) a pan -India electronic trading portal which networks the existing APMC mandis
 - (b) with the objective of creating a unified national market for agricultural commodities
 - (c) Both a & b
 - (d) None of these
78. India's Rank in Ease of Doing Business is:
- (a) 45
 - (b) 54
 - (c) 63
 - (d) None of these
79. Niti Aayog will work towards the objective:
- (a) To evolve a shared vision of national development priorities, sectors and strategies with active involvement of states

- (b) To foster cooperative federalism
 - (c) To develop mechanisms to formulate credible plans at the village level
 - (d) All the above
80. SEBI was given statutory recognition in:
- (a) 1985
 - (b) 1990
 - (c) 1992
 - (d) None of these
81. The Three component of FDI is:
- (a) equity capital
 - (b) reinvested earnings
 - (c) Intra company loans
 - (d) All the above
82. Which of the following tariff is charged on imports on most-favoured nation (MFN) basis:
- (a) bound tariff
 - (b) applied tariff
 - (c) prohibitive tariff
 - (d) None of these
83. Money cost is considered by:
- (a) Modern theory of trade
 - (b) Comparative cost advantage
 - (c) New Trade theory
 - (d) None of these
84. First mover advantage theory is related to:
- (a) Absolute advantage theory
 - (b) Comparative cost advantage theory.
 - (c) New trade theory
 - (d) None of these
85. The Reverse repo rate is:
- (a) RBI borrows from the government.
 - (b) Commercial banks lends money to RBI
 - (c) Commercial banks rediscount the bills of exchange with RBI
 - (d) None of these

86. Under which union they have or follow a common monetary policy and fiscal policy:
- (a) Economic Union
 - (b) Custom Union
 - (c) Common market
 - (d) None of these
87. The WTO comprises majorly:
- (a) developed countries
 - (b) under developed countries
 - (c) developing countries
 - (d) None of these.
88. Money Supply is directly proportional to:
- (a) Cash reserve ratio (r)
 - (b) Monetary base (H)
 - (c) currency deposit ratio (k)
 - (d) Money Multiplier (m)
89. Reserve money is supplied by:
- (a) RBI
 - (b) Government
 - (c) Commercial banks
 - (d) World bank
90. A firm makes an investment in unrelated business then it is called:
- (a) Horizontal investment
 - (b) Vertical investment
 - (c) Conglomerate
 - (d) None of these
91. Gross value method is employed in India:
- (a) To avoid double counting.
 - (b) To avoid the impact of inflation.
 - (c) To capture the consumption levels.
 - (d) To calculate the exports.
92. Consumer Price Index is calculated:
- (a) Once in 45 days
 - (b) Once in 3 months

- (c) Once in fortnight
 - (d) Once in a month
93. The Producer is in equilibrium at a point there the cost line is:
- (a) above the isoquant
 - (b) cutting the isoquant
 - (c) Tangent to isoquant
 - (d) None of these
94. Break even points occurs when:
- (a) $Y = S$
 - (b) $S = 0$
 - (c) $Y = C$
 - (d) both (b) and (c)
95. Deficient demand leads to:
- (a) inflationary gap
 - (b) deflationary gap
 - (c) both (a) and (b)
 - (d) None of these
96. Which of the following is not a variable in the index of leading indicators?
- (a) Prime rate
 - (b) New building permits
 - (c) Delayed deliveries
 - (d) None of these
97. Dirty Floating is related to:
- (a) Flexible system of exchange rate
 - (b) fixed system of exchange rate
 - (c) Either of these
 - (d) None of these
98. Which of the following are capital receipts of the government?
- (a) Recovery of loans
 - (b) Disinvestment
 - (c) Borrowing
 - (d) All of the above

99. On the basis of volume of Business the market can be classified as:
- (a) Wholesale Market
 - (b) Retail Market
 - (c) Both a & b
 - (d) None of these
100. Which of the following cost wherein curve 'u' shaped?
- (a) Average fixed cost curve
 - (b) Average cost curve
 - (c) Marginal cost curve
 - (d) None of these

ANSWER OF MODEL TEST PAPER 1
FOUNDATION COURSE
PAPER 4: BUSINESS ECONOMICS

1.	(c)	2.	(b)	3.	(b)	4.	(d)	5.	(a)
6.	(a)	7.	(a)	8.	(c)	9.	(c)	10.	(c)
11.	(c)	12.	(d)	13.	(b)	14.	(b)	15.	(b)
16.	(c)	17.	(b)	18.	(d)	19.	(c)	20.	(a)
21.	(a)	22.	(c)	23.	(a)	24.	(b)	25.	(d)
26.	(a)	27.	(b)	28.	(a)	29.	(d)	30.	(b)
31.	(a)	32.	(b)	33.	(a)	34.	(d)	35.	(c)
36.	(d)	37.	(c)	38.	(c)	39.	(c)	40.	(d)
41.	(c)	42.	(c)	43.	(d)	44.	(c)	45.	(b)
46.	(b)	47.	(b)	48.	(a)	49.	(b)	50.	(a)
51.	(d)	52.	(b)	53.	(a)	54.	(b)	55.	(b)
56.	(c)	57.	(d)	58.	(d)	59.	(a)	60.	(d)
61.	(d)	62.	(a)	63.	(d)	64.	(d)	65.	(b)
66.	(d)	67.	(d)	68.	(d)	69.	(a)	70.	(c)
71.	(a)	72.	(a)	73.	(b)	74.	(b)	75.	(a)
76.	(b)	77.	(c)	78.	(a)	79.	(b)	80.	(b)
81.	(b)	82.	(b)	83.	(a)	84.	(d)	85.	(a)
86.	(a)	87.	(a)	88.	(d)	89.	(b)	90.	(c)
91.	(a)	92.	(b)	93.	(d)	94.	(c)	95.	(b)
96.	(a)	97.	(b)	98.	(d)	99.	(c)	100.	(b)

ANSWERS OF MODEL TEST PAPER 2
FOUNDATION COURSE
PAPER 4: BUSINESS ECONOMICS

1.	(b)	2.	(c)	3.	(b)	4.	(b)	5.	(c)
6.	(b)	7.	(d)	8.	(c)	9.	(c)	10.	(a)
11.	(c)	12.	(d)	13.	(b)	14.	(a)	15.	(d)
16.	(a)	17.	(d)	18.	(b)	19.	(d)	20.	(b)
21.	(a)	22.	(c)	23.	(d)	24.	(a)	25.	(b)
26.	(c)	27.	(a)	28.	(a)	29.	(a)	30.	(a)
31.	(c)	32.	(a)	33.	(b)	34.	(a)	35.	(a)
36.	(b)	37.	(a)	38.	(b)	39.	(a)	40.	(c)
41.	(c)	42.	(c)	43.	(b)	44.	(d)	45.	(d)
46.	(a)	47.	(b)	48.	(a)	49.	(d)	50.	(a)
51.	(a)	52.	(b)	53.	(b)	54.	(d)	55.	(a)
56.	(d)	57.	(a)	58.	(a)	59.	(a)	60.	(b)
61.	(d)	62.	(c)	63.	(a)	64.	(b)	65.	(d)
66.	(a)	67.	(a)	68.	(a)	69.	(a)	70.	(a)
71.	(c)	72.	(a)	73.	(d)	74.	(c)	75.	(a)
76.	(a)	77.	(c)	78.	1-(e), 2-(a), 3-(d), 4-(c), 5-(b)	79.	(b)	80.	(b)
81.	(b)	82.	(d)	83.	(d)	84.	(d)	85.	(b)
86.	(a)	87.	(c)	88.	(a)	89.	(c)	90.	(c)
91.	(c)	92.	(b)	93.	(a)	94.	(b)	95.	(c)
96.	(c)	97.	(a)	98.	(b)	99.	(c)	100.	(b)

ANSWER OF MODEL TEST PAPER 3
FOUNDATION COURSE
PAPER 4: BUSINESS ECONOMICS

1.	(c)	2.	(b)	3.	(b)	4.	(b)	5.	(a)
6.	(b)	7.	(d)	8.	(d)	9.	(c)	10.	(c)
11.	(c)	12.	(d)	13.	(a)	14.	(a)	15.	(c)
16.	(d)	17.	(a)	18.	(d)	19.	(a)	20.	(d)
21.	(c)	22.	(d)	23.	(b)	24.	(c)	25.	(b)
26.	(b)	27.	(b)	28.	(b)	29.	(b)	30.	(c)
31.	(a)	32.	(a)	33.	(a)	34.	(b)	35.	(d)
36.	(b)	37.	(a)	38.	(d)	39.	(c)	40.	(a)
41.	(a)	42.	(d)	43.	(d)	44.	(b)	45.	(c)
46.	(c)	47.	(c)	48.	(b)	49.	(d)	50.	(c)
51.	(a)	52.	(b)	53.	(c)	54.	(a)	55.	(b)
56.	(b)	57.	(b)	58.	(b)	59.	(a)	60.	(b)
61.	(d)	62.	(b)	63.	(a)	64.	(c)	65.	(c)
66.	(c)	67.	(d)	68.	(d)	69.	(d)	70.	(b)
71.	(c)	72.	(d)	73.	(a)	74.	(a)	75.	(a)
76.	(a)	77.	(c)	78.	(c)	79.	(d)	80.	(c)
81.	(d)	82.	(b)	83.	(a)	84.	(c)	85.	(b)
86.	(b)	87.	(c)	88.	(b)	89.	(a)	90.	(c)
91.	(a)	92.	(d)	93.	(c)	94.	(d)	95.	(b)
96.	(a)	97.	(a)	98.	(d)	99.	(c)	100.	(a)