



FOUNDATION – BUSINESS ECONOMICS

Paper: BUSINESS ECONOMICS

Marks: 50

SPC Receipt No: National Level Test

Time Allowed: 1 Hours

1) Which of the following statements would you consider to be a normative one?

- (a) Faster economic growth should result if an economy has a higher level of investment.
- (b) Changing the level of interest rates is a better way of managing the economy than using taxation and government expenditure.
- (c) Higher levels of unemployment will lead to higher levels of inflation.
- (d) The average level of growth in the economy was faster in the 1990s than the 1980s.

2) The Nature of Business Economics:

- (a) Business Economics is a Science
- (b) Incorporate elements of Macro Analysis
- (c) Interdisciplinary in Nature
- (d) All the above

3) Which of the following is correct?

- (a) Normative economics is not concerned with value judgment.
- (b) A market is a process that reconciles consumer decision, production decisions and labour decisions.
- (c) A mixed economy has a certain level of government intervention in the economy along with private sector ownership of the economy.
- (d) Both (b) and (c)

Read the below table and answer Questions number 4-6

	% Change in Price	% change in quantity Demanded (quantity	Elasticity
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		supplied)	
Demand of Salt	20	-1	X
Demand for Bananas	15	Y	3
Supply of Chicken	Z	14	1

4) Refer the above table and find the value of x.

- (a) -20
- (b) -0.05
- (c) -1
- (d) Can not be determined

5) Refer the above table and find the value of y.

- (a) -5
- (b) 15
- (c) -45
- (d) -3

6) Refer the above and find the value of z.

- (a) 14
- (b) 1
- (c) 0.07
- (d) 5

7) The supply function is given $Q = - 50 + 10P$. Find elasticity of supply using point elasticity when price is Rs. 30:

- (a) 1.2
- (b) - 1.2
- (c) 3
- (d) - 3

8) No matter what the price of coffee is, Ram always spend a total of exactly 100 per week on coffee.' The statement implies that;

- (a) Ram is very fond coffee and therefore he has an inelastic demand for coffee
- (b) Ram has elastic demand for coffee
- (c) Ram's demand for coffee is relatively less elastic
- (d) Ram's demand for coffee is unit elastic

Use the following information to answer 9-11

Output (O)	0	1	2	3	4	5	6
Total Cost (TC)	Rs 240	Rs 330	Rs 410	Rs 480	Rs 540	Rs 610	Rs 690

9) The average fixed cost of 2 units of output is:

- (a) Rs 80
- (b) Rs 85
- (c) Rs 120
- (d) Rs 205

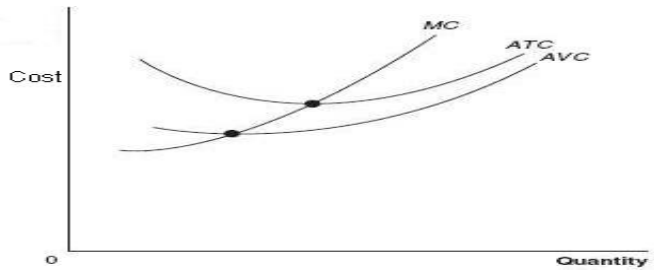
10) The marginal cost of the sixth unit of output is:

- (a) Rs 133
- (b) Rs 75
- (c) Rs 80
- (d) Rs 450

11) Diminishing marginal returns start to occur between units:

- (a) 2 and 3.
- (b) 3 and 4.
- (c) 4 and 5.
- (d) 5 and 6.

12) In figure below, possible reason why the average variable cost curve approaches the average total cost curve as output rises is:

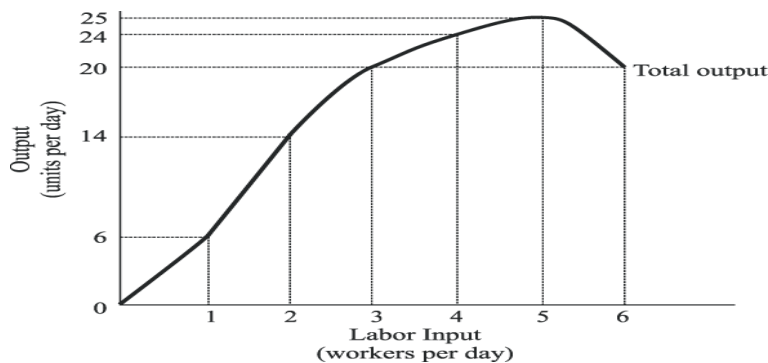


- (a) Fixed costs are falling while total costs are rising at rising output.
- (b) Total costs are rising and average costs are also rising.
- (c) Marginal costs are above average variable costs as output rises.
- (d) Average fixed costs are falling as output rises.

13) Implicit cost can be defined as

- (a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.
- (b) Money not paid out to the owners of the firm for the self-owned factors employed in a business and therefore not entered into books of accounts.
- (c) Money payments which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.
- (d) Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts.

14) Use the following diagram to answer the question given below it



The marginal physical product of the third unit of labour is _____, the MP of the _____ labour is Negative

- (a) Six; fourth
- (b) Six; third
- (c) Six; fifth
- (d) Six; sixth

15) The production function:

- (a) is the relationship between the quantity of inputs used and the resulting quantity of a product.
- (b) Tells us the maximum attainable output from a given combination of inputs.
- (c) Expresses the technological relationship between inputs and output of a product.
- (d) All the above.

Use table to answer question 16-19 Mohan sweets is a small restaurant and a price taker. The table below provides the data of Mohan's Sandwich output and costs in Rupees

Quantity	TC	TFC	TVC	AVC	AC	MC
0	100					
10	210					
20	300					
30	400					
40	540					
50	790					
60	1060					

16) Sandwiches are being sold for Rs. 14 each, what is Mohan's profit maximizing level of output?

- (a) 10 Sandwiches
- (b) 40 Sandwiches
- (c) 50 Sandwiches
- (d) 60 Sandwiches

17) What is the total variable cost when 60 sandwich are produced?

- (a) Rs. 690
- (b) Rs. 960

(c) Rs. 110

(d) Rs. 440

18) What is the average fixed cost when 20 sandwiches are produced?

(a) Rs. 5

(b) Rs. 3.33

(c) Rs. 10

(d) Rs. 2.5

19) Between 10 to 20 sandwiches, what is the marginal cost per sandwich?

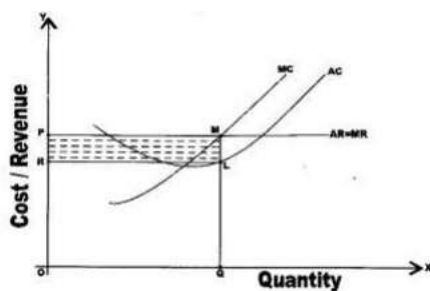
(a) Rs. 11

(b) Rs. 13

(c) Rs. 14

(d) Rs. 9

20) Consider the following figure



(a) super normal profit

(b) normal profit

(c) loss

(d) shut down point

21) The degree of monopoly power is measured in terms of difference between-

(a) Marginal Cost and the price

- (b) Average Cost and Average Revenue
- (c) Marginal Cost and Average Cost
- (d) Marginal Revenue and Average Cost

22) Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?

- (a) The firm should shutdown in order to minimize its losses.
- (b) The firm should raise its price enough to cover its losses.
- (c) The firm should move its resources to another industry.
- (d) The firm should continue to operate in the short run in order to minimize its losses

23) Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be “small” relative to the market. Which of the following best describes this smallness?

- (a) The individual firm must have fewer than 10 employees
- (b) The individual firm faces a downward-sloping demand curve
- (c) The individual firm has assets of less than Rs. 20 lakhs
- (d) The individual firm is unable to affect market price through its output decisions

24) If total revenue of a firm increases by Rs 65025 due to an increase in sale of good X from 60 units to 75 units , then marginal revenue will be –

- (a) 3000
- (b) 4335
- (c) 4000
- (d) 3335

25) Price taker firms:

- (a) Advertise to increase the demand for their products.
- (b) Do not advertise because most advertising is harmful for the society.
- (c) Do not advertise because they can sell as much as they want at the current price.

(d) Who advertise will get more profits than those who do not.

26) From the following data, calculate "Gross value added at factor cost".

S. No.	Particulars	Rs In Crore
1.	Sale	180
2.	Rent	5
3.	Subsidy	10
4.	Change in Stock	15
5.	Purchase of Raw Material	100
6.	Profits	25

(a) 105

(b) 210

(c) 185

(d) None of these

27) National Income accountants can avoid multiple counting by:

(a) including transfers in their calculation

(b) only counting final goods

(c) counting both intermediate and final Good

(d) only counting intermediate goods

28) A period of expansion and contraction measured by real GDP is called:

(a) Business cycle

(b) Expansion

(c) Recession

(d) Contraction

29) What is the value of Investment Multiplier when saving function is represented as $S = -60 + 0.2Y$?

(a) 2

- (b) 5
- (c) 4
- (d) 0.2

30) If a bank has deposits of INR 50,00,000 and a reserve requirement of 10%, what is its excess reserves?

- (a) INR 55,00,000
- (b) INR 30,00,000
- (c) INR 45,00,000
- (d) INR 5,00,000

31) Given Consumption Function is $C = 300 + 0.75 Y$; Investment = ₹ 800; Net Imports = ₹ 100. The equilibrium level of output is:

- (a) 4000
- (b) 5000
- (c) 8000
- (d) None of these

32) In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45-degree line indicates the :

- (a) level of full employment income.
- (b) less than full employment level of income.
- (c) equilibrium level of income which may or may not be full employment level of income
- (d) autonomous level of income which may not be full employment level of income

33) 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

34) Which of the following is not an example of business cycle?

- (a) During 1920s, UK saw rapid growth in gross domestic Product, production levels and living standards.
- (b) Due to bursting of Information Technology bubble stock markets crashed and countries began feeling of down turn in their economies.
- (c) The Sub-prime crisis led to chain effect and it had worldwide impact.
- (d) The cycle business has seen a slowdown in growth over a period of time.

35) Economy's historical performance was reflected by:

- (a) Lagging indicating
- (b) Leading indicating
- (c) Either (a) or (b)
- (d) None of these

36) Which one of the following is an important character of business cycles according to Pigou?

- (a) Psychological factors
- (b) Natural factors
- (c) Demographic factors
- (d) Monetary factors

37) Which of the following is key operational target in a Budget?

- (a) Fiscal Deficit
- (b) Revenue Deficit
- (c) The General Government Debt
- (d) The Central Government Debt

38) The External Debt has been shown at the exchange rate applicable at the time of:

- (a) Contracting the debt.
- (b) Expanding the debt.
- (c) Both a & b

(d) None of the above

39) Which of the following is not a classification of public expenditure?

(a) Functional classification

(b) Revenue and Capital

(c) Voted and Charged

(d) Plan and Non Plan

40) Net domestic expenditure is consumption expenditure plus

(a) Net foreign investment

(b) Net foreign investment plus net domestic investment

(c) Net domestic investment

(d) Replacement expenditure

41) A Substantial increase in capital expenditure or revenue expenditure leads to

(a) Fiscal deficit

(b) Budgetary deficit

(c) Primary deficit

(d) None of these

42) Macroeconomic stabilization may be achieved through:

(a) Free market economy

(b) Fiscal Policy

(c) Monetary Policy

(d) Both (b) & (c)

43) At any point of time all markets tend to have the same exchange rate for a given currency due to:

(a) Hedging

(b) Arbitrage

- (c) Speculation
- (d) None of these

44) Which of the following component of monetary policy can be adopted to correct excess demand?

- (a) Increase in repo rate
- (b) Increase in CRR
- (c) Increase in margin requirement
- (d) All of these

45) Reverse repo rate:

- (a) generate interest income
- (b) is increased to curb inflation
- (c) is not a policy rate
- (d) both (a) & (b)

46) 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

47) 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

48) If a bank has deposits of INR 50,00,000 and a reserve requirement of 10%, what is its excess reserves?

- (a) INR 55,00,000
- (b) INR 30,00,000
- (c) INR 45,00,000
- (d) INR 5,00,000

49) Goods and services tax (GST) was enacted by parliament vide ____ Constitutional Amendments Act 2016.

- (a) 103rd
- (b) 105th
- (c) 101
- (d) None of these

50) Which economic indicator is commonly used to measure inflation in India?

- (a) Gross Domestic Product (GDP)
- (b) Consumer Price Index (CPI)
- (c) Producer Price Index (PPI)
- (d) Index of Industrial Production (IIP)