

INDEX

S.NO.	CHAPTER	PAGE NO.
1.	Chapter 1: Nature & Scope of Business Economics	1–8
2.	Chapter 2: Theory of Demand and Supply	9–28
3.	Chapter 3: Theory of Production and Cost	29–44
4.	Chapter 4: Price Determination in Different Markets	45 –62
5.	Chapter 5: Business Cycles	63 – 68
6.	Chapter 6: Determination of National Income	69–86
7.	Chapter 7: Public Finance	87–106
8.	Chapter 8: Money Market	107–124
9.	Chapter 9: International Trade	125–144
10.	Chapter 10: Indian Economy	145–154





CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS

Chapter 1: Nature & Scope of Business Economics

1. 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
2. Concept of Business Economics was given by:
 - (a) Joel Dean
 - (b) Alfred Marshall
 - (c) Adam Smith
 - (d) L. Robbins
3. 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.
4. 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.
5. 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
6. 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?
7. _____ expressed the view the "Economics is neutral between end".
 - (a) Robbins
 - (b) Marshall
 - (c) Pigou
 - (d) Adam Smith

8. 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
9. Management of the firm _____ control over macro-economic factors.
- (a) has
 - (b) has no
 - (c) has partial
 - (d) None of these
10. Freedom of choice is the advantage of _____.
- (a) Socialism
 - (b) Capitalism
 - (c) Communism
 - (d) None of the above
11. 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
12. Normative Economics Involves:
- (a) Value Judgement
 - (b) Cause and Effect Relationship
 - (c) Determining the fair price
 - (d) None of these
13. The Characteristics of Socialist Economy are:
- (a) Collective Ownership
 - (b) Economic Planning
 - (c) Absence of Consumer Choice
 - (d) All the above
14. 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.
15. 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.

16. 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.
17. Scarcity of resources exist at:
- (a) Micro level
 - (b) Macro level
 - (c) Micro as well as Macro
 - (d) None of these
18. Central Problems of an Economy:
- (a) What to Produce
 - (b) How to Produce
 - (c) For Whom to Produce
 - (d) All the above
19. The Characteristics of Production Possibility Curve:
- (a) Slopes downwards from left to right
 - (b) PPC is concave to the origin
 - (c) Both A and B
 - (d) None of these
20. Problem of choice is the basis of:  **VIDHYODAY**
VIDHYA KA UDAY
- (a) Economic Problem
 - (b) Social Problem
 - (c) Political Problem
 - (d) None of these
21. Under which system Freedom of choice is an advantage:
- (a) Capitalism
 - (b) Mixed economy
 - (c) Socialism
 - (d) None of these
22. The regulatory mechanism of the market system is:
- (a) Self interest
 - (b) Private property
 - (c) Competition
 - (d) Specialization
23. _____ is concerned with welfare proposition.
- (a) Normative Economics
 - (b) Positive Economics
 - (c) Both (a) and (b)
 - (d) None of these

24. "If Americans today, for example were to content to live at the level of the Indian middle class people, all their wants would be fully satisfied with their available resources and capacity to produce."
- On the basis of the above statement, which of the following conclusion can be made?
- (a) The possession of goods and services by USA has enormously increased to exceed their wants.
 - (b) The affluent and developed countries of USA and Western Europe face the problem of scarcity even today as their present wants to remain a head of their increased resources and capacity to produce.
 - (c) The affluent and developed countries are not facing the problem of scarcity.
 - (d) None of these
25. Microeconomics deals primarily with:
- (a) comparative statics, general equilibrium, and positive economics
 - (b) comparative statics, partial equilibrium, and normative economics
 - (c) dynamics, partial equilibrium, and positive economics
 - (d) comparative statics, partial equilibrium, and positive economics.
26. What is economic planning?
- (a) It refers to Central planning authority.
 - (b) It refers the planning of agricultural production.
 - (c) It means development in the seller's market.
 - (d) A process through which targets are being achieved as per need & means of the economy
27. What is the merit of Capitalism?  **VIDHYODAY**
VIDHYA KA UDAY
- (a) It promotes self-interest & economic growth.
 - (b) It leads economic balance in the country
 - (c) It leads to equitable distribution of wealth.
 - (d) It leads to equitable distribution of wealth
28. Normative economics is also known as -
- (a) Prescriptive Economics
 - (b) Positive Economics
 - (c) Applied Economics
 - (d) None of these
29. Which aspect of taxation involves Normative Economics?
- (a) the incidence of the tax
 - (b) the effect of the tax on incentives to work
 - (c) the "fairness" of the tax
 - (d) all the above.
30. If the MRTSLK equals 2, then the MPK/MPL is:
- (a) 2
 - (b) 1
 - (c) 2
 - (d) 4

31. In a market economy, resource allocation is primarily determined by:
- (a) Central planning by the government
 - (b) Consumer demand and supply in the marketplace
 - (c) The decisions of a few large corporations
 - (d) International trade agreements
32. Which of these countries is a purely socialist economy?
- (a) USSR
 - (b) China
 - (c) Vietnam
 - (d) None of these
33. _____ is concerned with welfare proposition.
- (a) Normative Economics
 - (b) Positive Economics
 - (c) Both (a) and (b)
 - (d) None of these
34. The growth rate of population is higher than the rate of economic growth there will be _____ in the economy.
- (a) Lesser savings
 - (b) More savings
 - (c) No effect on savings
 - (d) None of these
35. In a mixed economy resources are used as a result of:
- (a) The decisions of consumers
 - (b) The decisions of firms only
 - (c) The decisions of consumers and firms
 - (d) The decisions of consumers and firms and government
36. If the growth rate of population is higher than the rate of economic growth, there will be _____ in the economy:
- (a) more saving
 - (b) lesser saving
 - (c) no effects on saving
 - (d) None of these
37. 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

38. 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.
39. 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
40. 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
41. 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
42. 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
43. Price in capitalist economy is determined by:
- (a) Small private firms
 - (b) Big corporates
 - (c) Market forces of demand and supply
 - (d) Government
44. Sarah, runs a lemonade stall, her decision-making process involves assessing the demand for her lemonade, pricing strategies, and maximizing her profit within the limited scope of her small business. Which level of the economy does Sarah's lemonade stall represent ?
- (a) Macro Economy
 - (b) Global Economy
 - (c) Micro Economy
 - (d) National Economy

45. In which economy, the material means of production i.e. factories, capital, mines, etc. are owned by the whole community represented by the State ?
- (a) Socialist Economy
 - (b) Capitalist Economy
 - (c) Mixed Economy
 - (d) Communist Economy
46. Which of the following is related with the total arrangements for the production and distribution of goods and services in a society?
- (a) Economic Problem
 - (b) Economic Choice
 - (c) Economic System
 - (d) Economic Institution
47. Business Economics is basically concerned with:
- (a) Applied Economics
 - (b) Managerial Economics
 - (c) Micro Economics
 - (d) Macro Economics
48. The Book "The Wealth of Nations" is written by:
- (a) Adam Smith
 - (b) Arthur Pigou
 - (c) Robinson
 - (d) Ragnar Nurske
49. 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
50. Which of these country is a purely socialist economy?
- (a) USSR
 - (b) China
 - (c) Vietnam
 - (d) None of these
51. Rational Decision making requires that:
- (a) One's Choice be arrived at logically and without error.
 - (b) One's Choice be consistent with one's goal.
 - (c) One's Choice never vary.
 - (d) The consumer Plan's to attain the highest possible level of satisfaction.
52. The Problem what to produce relates to :
- (a) The Choice of goods and Services
 - (b) Distribution of Income
 - (c) The Choice of Technique
 - (d) market value of goods and services



**India's Only Institute That Gives
100% Fees Refund If You Fail**

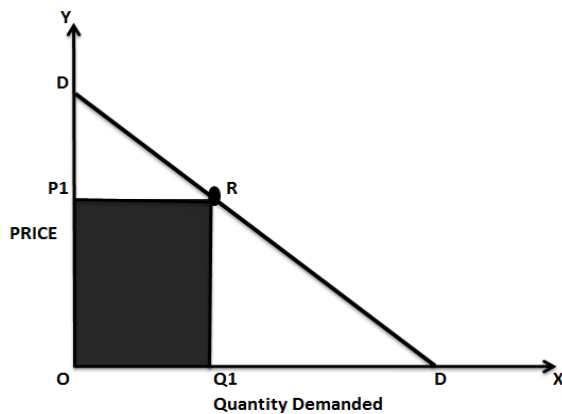
ANSWERS KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
c	a	b	a	d	c	a	d	b	b	b	a	d	b	b	c	c	d	c	a
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
a	c	a	b	d	d	a	d	c	c	b	d	a	a	d	b	c	c	d	a
41	42	43	44	45	46	47	48	49	50	51	52								
c	b	c	c	a	c	c	a	d	d	d	a								

CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS
CHAPTER 2 – Theory of Demand and Supply

1. 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
2. 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
3. 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.
4. 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
5. 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
6. 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
7. If the price of a commodity raised by 12% and E_d is $(-) 0.63$, the expenditure made on the commodity by a consumer will _____.
 - (a) Decrease
 - (b) Increase
 - (c) Remain same
 - (d) Can't Say

8. 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.
9. 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
10. 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 _____.




VIDHYODAY
VIDHYA KA UDAY

- Total Revenue (TR)
 - Marginal Revenue (MR)
 - Total Cost (TC)
 - None of these
11. The law of consumer surplus is based on:
- indifferent curve analysis
 - revealed preference theory
 - law of substitution
 - the law of diminishing marginal utility
12. 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:
- .77
 - .67
 - (-) .67
 - (-) .77

13. 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
14. Demand for complementary goods are:
 - (a) Derived Demand
 - (b) Autonomous demand
 - (c) Aggregate Demand
 - (d) None of these
15. 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.
16. 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
17. Computers and computer software are _____.
 - (a) Substitute goods
 - (b) Complementary goods
 - (c) Independent goods
 - (d) Normal goods
18. 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
19. Traditional approach of law of demand was propounded by _____.
 - (a) Giffen
 - (b) Paul A Samuelson
 - (c) Alfred Marshall
 - (d) Pique

20. Demonstration effects a term coined by:
- (a) James Duesenberry
 - (b) Marshall
 - (c) Keynes
 - (d) None of these
21. Exception to the law of demand:
- (a) Conspicuous goods
 - (b) Giffen goods
 - (c) Future expectations about prices
 - (d) All of the above
22. 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.
23. 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
24. 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.
25. 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
26. 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.

27. 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
28. Marginal Utility is _____ when total utility diminishes.
- (a) Positive
 - (b) Negative
 - (c) Zero
 - (d) Infinity
29. Budget Line indicates:
- (a) Income Ratio
 - (b) Price Ratio
 - (c) Cost Ratio
 - (d) None of these
30. Availability of close Substitutes makes the demand:
- (a) more elastic
 - (b) less elastic
 - (c) Parallel to Y Axis
 - (d) None of these
31. Rationale of the law of demand is:  **VIDHYODAY**
VIDHYA KA UDAY
- (a) Price effect of a fall in price
 - (b) Different uses
 - (c) Arrival of new consumers
 - (d) All of these
32. Which of the following is the exception to the law of demand:
- (a) Speculative goods
 - (b) Conspicuous necessities
 - (c) Future expectation about prices
 - (d) Income effect
33. The relationship between price and quantity supplied in law of supply is:
- (a) proportionate
 - (b) homogenous
 - (c) inverse
 - (d) direct
34. For Giffen good the Engel curve is:
- (a) Positive sloped
 - (b) Vertical
 - (c) horizontal
 - (d) Negative sloped

35. 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
36. Consider the following statements and select the correct answer from the given options:
Assertion (A): Demand curve is vertical when elasticity of demand is zero.
Reason (R): Marginal utility of a product is increasing
- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 - (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 - (c) (A) is true but (R) is false
 - (d) (A) is false but (R) is true
37. The oldest approach to the theory of demand is _____.
- (a) the total utility approach
 - (b) the cardinal utility approach
 - (c) the ordinal utility approach
 - (d) None of these
38. "The increase in demand of a commodity due to the fact that others are also consuming the same commodity" is known as _____.
- (a) Veblen effect
 - (b) Bandwagon effect
 - (c) Snob effect
 - (d) Demonstration effect
39. The budget line is also known as:
- (a) Production Possibility Curve
 - (b) Consumption Possibility Curve
 - (c) Iso Utility Curve
 - (d) None of these
40. If the price of a commodity raised by 12% and E_d is (-) 0.63, the expenditure made on the commodity by a consumer will _____
- (a) Decrease
 - (b) Increase
 - (c) Remain same
 - (d) Can't Say
41. 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

42. 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
43. The 'Diamond Water' controversy is explained by:
- (a) Total utility
 - (b) Marginal utility
 - (c) Price offered
 - (d) Quantity supplied
44. If the income elasticity of demand is greater than 1, the commodity is:
- (a) a necessity,
 - (b) a luxury,
 - (c) an inferior good, or
 - (d) a nonrelated good.
45. "If the price of oranges falls due to good crop from ₹ 20 per dozen to ₹ 10 per dozen, the household that was purchasing 3 dozen oranges may now afford to purchase 6 dozen oranges by spending the same amount of money."
- The above statement is depicting -
- (a) Income effect
 - (b) Substitution effect
 - (c) Price effect
 - (d) Both (A) and (C)
46. When both the price of a substitute and the price of a complement of commodity X rise, the demand for X:
- (a) rises
 - (b) falls
 - (c) remains unchanged
 - (d) all of the above are possible.
47. A consumer who is below the personal budget line (rather than on it):
- (a) is not spending all personal income
 - (b) is spending all personal income
 - (c) may or may not be spending all personal income
 - (d) is in equilibrium.
48. In the case of an inferior good the income elasticity of demand is:
- (a) positive
 - (b) zero
 - (c) negative
 - (d) infinite

49. _____ depicts complete picture of consumer's tastes and preferences
- Budget line
 - Average cost curve
 - Indifference map
 - Marginal revenue curve
50. The level of consumption at which marginal utility of a commodity reaches zero is called:
- Point of Satiety
 - Point of Equilibrium
 - Point of breakeven
 - None of these
51. Following is not a factor affecting price elasticity of demand:
- Price level
 - Cost of Production
 - Availability of substitutes
 - Time period
52. On all points of rectangular hyperbola demand curve, elasticity of demand is:
- equal to unity
 - zero
 - less than unity
 - greater than unity
53. Imposition of GST, shifts the supply curve:
- to the left
 - to the right
 - to the right as well as the left
 - None of these
54. When the price of a substitute of commodity X falls, the demand for X:
- rises
 - falls
 - remains unchanged
 - any of the above
55. If the quantity of a commodity demanded remains unchanged as its price changes, the coefficient of price elasticity of demand is:
- >1
 - $= 1$
 - < 1
 - 0
56. A consumer who is below the personal budget line:
- is not spending all personal income
 - is spending all personal income
 - may be spending all personal income
 - is in equilibrium

57. If the income elasticity of demand is greater than 1, the commodity is:
- (a) a necessity
 - (b) a luxury
 - (c) an inferior good
 - (d) a non-related good
58. The substitution effect for a fall in the price of a commodity (*ceteris paribus*) is given by:
- (a) a movement up a given IC
 - (b) a movement from a higher to a lower IC
 - (c) a movement down a given IC
 - (d) any of the above
59. If a good has a price elasticity of demand greater than 1, it is considered:
- (a) Price inelastic
 - (b) Price elastic
 - (c) Unit price elastic
 - (d) Price neutral
60. The income elasticity of demand measures:
- (a) The responsiveness of quantity demanded to change in price
 - (b) The responsiveness of quantity demanded to change in income
 - (c) The responsiveness of quantity supplied to change in price
 - (d) The responsiveness of quantity supplied to change in income
61. Which of the following factors does NOT influence supply?
- (a) Production costs
 - (b) Technological advancements
 - (c) Prices of inputs
 - (d) Consumer preferences
62. Price Elasticity of Demand of a good is (-) 3. It shows that:
- (a) When price falls by 1%, demand rises by 3%
 - (b) When price rises by 1%, demand falls by 3%
 - (c) Either (a) or (b)
 - (d) Neither (a) nor (b)
63. The demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
- (a) Proportionately large fall in quantity demanded
 - (b) No change in quantity demanded
 - (c) Proportionately small fall in quantity demanded
 - (d) Infinite change in quantity demanded

64. If increasing air fares increases revenues and decreasing them decreases revenues, then the demand for air travel has a price elasticity of:
- (a) 0
 - (b) > 0 but < 1
 - (c) 1
 - (d) > 1
65. 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
66. By way of an optimal choice, a consumer tends to:
- (a) save money
 - (b) purchase large quantity
 - (c) None of these
 - (d) maximize satisfaction subject to constraints like tastes and preferences.
67. The economist concept of demand is _____ as desire or need or choice or preference or order.
- (a) the same thing
 - (b) not the same thing
 - (c) (a) or (b)
 - (d) None of these
68. 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
69. Which of the following groups of goods have inelastic demand?
- (a) Salt, Smart phone
 - (b) School uniform, branded goggles and smart phone
 - (c) Salt, school uniform and medicine
 - (d) Medicine, branded sports shoes and diamond ring
70. If the price of a commodity is raised by 12% and E_d is (-) 0.63, the expenditure made on the commodity by a consumer will _____.
- (a) decrease
 - (b) Increase
 - (c) remain same
 - (d) can't Say

71. 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.
72. 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
73. Being _____ utility varies with different persons:
- Subjective
 - Absolute
 - Objective
 - None of these
74. Inferior goods are those whose income effect is:
- Positive
 - Zero
 - Negative
 - None of these
75. Availability of close substitute makes the demand:
- more elastic
 - Less elastic
 - Parallel to X axis
 - None of these
76. _____ is the exception to law of demand.
- Income
 - Price
 - Giffen Good
 - Fashions
77. Suppose the price of a commodity X increases from ₹ 2000 per unit to ₹ 2100 per unit and consequently the quantity supplied rises from ₹ 2500 to ₹ 3000 units. Calculate the elasticity of supply.
- 4
 - 6
 - 8
 - None of these

78. While drawing budget line of a consumer consuming Nachos chips and Pepsi, if the quantity of Nachos taken on Y-axis and quantity of Pepsi on X-axis. The slope of budget line will be-
- $\frac{P_P}{P_N}$
 - $\frac{P_N}{P_P}$
 - $\frac{M}{P_N}$
 - $\frac{M}{P_P}$
- [Where, P_P – Price of Pepsi, P_N - Price of Nachos & M – Money income of consumer]
79. With fall in price of commodity, demand of the commodity increases as it becomes relatively cheaper in comparison to other commodities. This effect is known as:
- Substitution Effect
 - Income Effect
 - Law of Demand
 - Law of diminishing Returns
80. Which of the following conditions would violate the consumer equilibrium in a two-good world?
- The marginal rate of substitution between the two goods equals the ratio of their prices.
 - The marginal utility per dollar spent on each good is equal.
 - The consumer's indifference curve is steeper than the budget line at the chosen bundle.
 - The consumer is spending their entire budget.
81. **Assertion (A):** Consumer surplus is the difference between the potential price and actual price.
Reason (R): There exists an inverse relationship between the price and consumer surplus.
Codes:
- Both A and R are true, and R is the correct explanation of A
 - Both A and R are true, but R is not the correct explanation of A
 - A is true but R is false
 - A is false but R is true
82. If students' expenditures on airline travel increase as a consequence of more heavily discounted fares, students' demand for airline travel must be:
- income elastic.
 - income inelastic.
 - price elastic.
 - price inelastic
83. Shift in demand is caused by changes in the.....
- non-price factors
 - price of a good alone
 - cost of production
 - raw material prices

84. Let $Q_X = \frac{1500}{P_X}$, the elasticity of demand of the good X when its price falls from \$ 8 to \$ 2 per unit, will be-
- greater than one
 - less than one
 - equal to one
 - can't say
85. With reference to Arc elasticity measures the responsiveness of demand_____ on the demand curve.
- at one given point
 - at intercepts on X-axis & Y-axis
 - between two points
 - Any of the above
86. Which of the following elasticities measure a movement along a curve rather than a shift in the curve?
- The price elasticity of demand.
 - The cross elasticity of demand.
 - The income elasticity of demand.
 - The price elasticity of supply.
87. When some people start investing money in share market then many people start following the same without considering its advantage and disadvantages is called:
- Demonstration effect
 - Snob effect
 - Veblen effect
 - None of these
88. With reference to Arc elasticity measures the responsiveness of demand_____ on the demand curve.
- at one given point
 - at intercepts on X-axis & Y-axis
 - between two points
 - Any of the above
89. 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?
- The demand will increase.
 - The demand will decrease.
 - The supply will increase.
 - The supply will decrease.

90. 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.
91. For Giffen good the angle Curve is:
- (a) Vertical
 - (b) Horizontal
 - (c) Negatively Sloped
 - (d) Positively Sloped
92. 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
93. 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
94. 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
95. 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.
96. 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

97. 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?
- + 1.5
 - 1.5
 - 2.5
 - None of these
98. Suppose the price elasticity of demand of a firm for its product is -1.2. If the price of the product is increased by 5%, then it is most probable that:
- Both total revenue and profit would increase.
 - Both total revenue and profit would decrease,
 - Total revenue would decrease but profit may increase.
 - Total revenue would increase but profit may decrease.
99. The demand function of a product X (in kg.) is expressed as $Q = 1000 - 50P$, where Q is the quantity demanded and P is the price of the product. When price of X is 10 per kg., it's price elasticity will be:
- 1
 - 1
 - 2
 - 2
100. With respect to the properties of indifference curve which of the following statement is false ?
- Higher indifference curve represents higher level of satisfaction.
 - Indifference curve is a negatively sloped line.
 - Intersecting point of two indifference curves represents highest level of satisfaction.
 - An indifference curve is convex to the origin.
101. The price of a commodity is 10 per unit. At this price quantity supplied is 500 units. Price elasticity of supply of the commodity is 1.25. At what price the quantity to be supplied would be 20% more?
- ₹ 8.40
 - ₹ 11.60
 - ₹ 12.50
 - ₹ 7.50
102. Mr. X and Mr. Y are rich rivals and, in a party, Mr. X wears an expensive dress and on seeing it Mr. Y who also has the same dress decided to reject the use of the same dress further. Rather Mr. Y will try to use an even more expensive one. Which effect affects Mr. Y?
- Bandwagon Effect
 - Demonstration Effect
 - Snob Effect
 - Veblen Effect

103. If the income elasticity of a specific types of goods is greater than one, what does it suggest about the goods?
- (a) It is an inferior goods.
 - (b) It is a normal goods.
 - (c) It is a necessity goods.
 - (d) It is a luxury goods.
104. An increase in consumer surplus is likely to occur when:
- (a) There is a rise in price of goods.
 - (b) There is a fall in price of goods.
 - (c) Demand decreases.
 - (d) Supply increases.
105. Which tool does the ordinal utility approach uses to analyse consumer behaviour and is based on consumer preferences ?
- (a) Indifference Curve Analysis
 - (b) Law of Diminishing Marginal Utility
 - (c) Elasticity of Demand
 - (d) Consumer Surplus
106. The price of 1 kg. of tea is price of coffee rises from ₹ 50. At this price, 10 kg. of tea is demanded. If the ₹ 30 to ₹ 40 per kg., the quantity demanded of tea rises from 10 kg. to 15 kg. What will be the cross price elasticity of tea ?
- (a) +1
 - (b) 1.5
 - (c) +1.5
 - (d) -1
107. If change in quantity demanded is 60% and change in advertisement expenditure is 20% then what will be the advertisement elasticity?
- (a) 3
 - (b) 0.33
 - (c) 6
 - (d) 20
108. The Substitution effect will be stronger when:
- (a) The goods are closer Substitute
 - (b) There is lower cost of Switching to the Substitute good.
 - (c) There is lower inconvenience while switching to the Substitute good.
 - (d) All the above
109. A Relative Price is:
- (a) Price expressed in terms of money.
 - (b) The ratio of One money Price to another
 - (c) Equal to money price.
 - (d) None of these.

110. In case of Substitute Product:
- (a) The Demand Curve Slope upwards.
 - (b) The Demand Curve Slope downwards
 - (c) The Demand Curve is Perfectly Elastic
 - (d) None of these.
111. 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
112. When $e = 0$, elasticity of demand is :
- (a) Perfectly elastic
 - (b) Unitary
 - (c) Inelastic
 - (d) Perfectly inelastic demand
113. A rise in Price will –
- (a) Increase in Consumer Surplus
 - (b) Decrease in Consumer Surplus
 - (c) No Change in Consumer Surplus
 - (d) None of these
114. When a small change in price leads to a large change in demand the demand is
- (a) Inelastic
 - (b) Elastic
 - (c) Stagnant
 - (d) Fixed
115. The relationship between price and quantity supplied in law of supply is :
- (a) Proportionate
 - (b) Homogenous
 - (c) Inverse
 - (d) Direct
116. For Luxuries goods the income elasticity is:
- (a) $E > 1$
 - (b) $E < 1$
 - (c) $E = 0$
 - (d) None of these

117. When goods are complementary the Indifference Curve is :
- (a) Is a straight line
 - (b) Is Convex to the origin
 - (c) Consist of two straight line with a right angle bent.
 - (d) None of these
118. The Consumer is in equilibrium when :
- (a) The budget line is tangent to the Indifference Curve
 - (b) Marginal rate of Substitution of one good for another must be equal to the Price ratio of the two goods
 - (c) Either a or b
 - (d) None of these
119. Demand for factor of production is
- (a) Supplementary demand
 - (b) Intermediate goods
 - (c) Derived demand
 - (d) Complementary demand
120. The Cross elasticity between Tea and Coffee is :
- (a) Infinite
 - (b) Positive
 - (c) Zero
 - (d) Negative
121. When violation of law of demand occurs :
- (a) Substitution effect is negative
 - (b) Income effect is negative
 - (c) Negative income effect is less than substitution effect
 - (d) Negative income effect is greater than substitution effect
122. The Producer reduces supply from 100 units to 50 units. When the Price falls from Rs 20 to Rs 10, the Price elasticity of supply will be :
- (a) 1
 - (b) 2
 - (c) 4
 - (d) None of these
123. The Marginal Utility from the last Unit Consumed of Commodity Y = 50 Units and $MU_m = 10$. The Consumer is in equilibrium and consuming commodity y only. Find the Price of Commodity Y—
- (a) 5
 - (b) 10
 - (c) 40
 - (d) None of these



India's Only Institute That Gives
100% Fees Refund If You Fail



ANSWER KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
c	c	d	b	b	c	b	d	c	a	d	a	d	a	c	a	b	d	c	a
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
d	a	b	d	d	c	d	a	b	a	d	d	a	d	c	c	b	b	b	b
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
c	b	b	b	d	d	a	c	c	a	b	a	a	b	d	a	b	c	b	b
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
d	c	a	b	c	d	b	b	c	b	d	c	a	c	a	c	a	a	a	c
81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
a	d	a	c	c	a	d	a	c	d	a	c	b	a	c	c	a	c	a	c
101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
b	c	d	b	a	c	a	d	b	a	a	d	b	b	a	a	c	d	c	d
121	122	123																	
d	a	a																	

SPACE FOR NOTES




CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS
Chapter 3: Theory of Production and Cost

1. **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
2. 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
3. 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
4. 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
5. 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) $AFC = ATC - AVC$
6. 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.



7. 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
8. 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
9. 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
10. 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
11. 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
12. 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.
13. 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
14. 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.

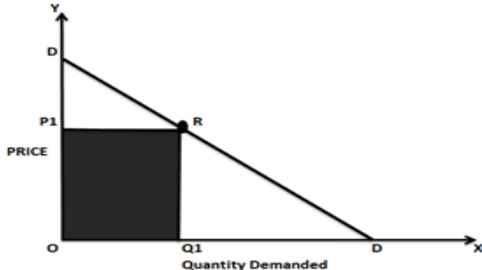
15. By using computers to design and manufacture products, firms are able to:
 - (a) reduce production costs.
 - (b) reduce the optimal lot size.
 - (c) reduce the time required to introduce new products.
 - (d) All of the above are correct.
16. The law of diminishing returns begins at the level of output 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.
17. 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.
18. 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.
19. 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.
20. 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
21. The Distinction between Selling Cost and Production cost was made by:
 - (a) Chamberlin
 - (b) Sweezy
 - (c) Mrs Joan Robinson
 - (d) None of these
22. 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

23. The Producer is in equilibrium at a point where the cost line is:
- (a) above the isoquant
 - (b) cutting the isoquant
 - (c) Tangent to isoquant
 - (d) None of these
24. Which of the following cost curves is 'u' shaped?
- (a) Average fixed cost curve
 - (b) Average cost curve
 - (c) Marginal cost curve
 - (d) None of these
25. When Total product is 100 and units of variable factor are 4, average product will be:
- (a) 400
 - (b) 25
 - (c) 104
 - (d) None of these
26. When average cost (AC) is falling:
- (a) $MC < AC$
 - (b) $MC > AC$
 - (c) $MC = AC$
 - (d) None of these
27. Law of Production does not include  **VIDHYODAY**
VIDHYA KA UDAY
- (a) least Cost Combination of factors
 - (b) Law of variable proportion
 - (c) Law of diminishing returns to a factor
 - (d) Return to scale
28. The Stages in law of variable proportion is:
- (a) 1
 - (b) 2
 - (c) 3
 - (d) 4
29. Innovation theory is propounded by:
- (a) Schumpeter
 - (b) Nicholas Kaldor
 - (c) Keynes
 - (d) None of these
30. Which one of the following is not an internal economy of scale?
- (a) Technical economies
 - (b) Financial economies
 - (c) Economies due to localization of industries
 - (d) Marketing economies

31. X, Y and Z are confused with the formula for defining TC:
 (a) X Says: $TC = TVC + TFC$
 (b) Y Says: $TC = AC \times \text{output}$
 (c) Z Says: $TC = ZMC + TFC$
 Identify who amongst them is correct.
 (a) X
 (b) Y
 (c) Z
 (d) All of them
32. Interest on own capital is a_____ .
 (a) Explicit Cost
 (b) Implicit Cost
 (c) Future Cost
 (d) None of these
33. In the Cobb-Douglas production function given as: $Q = A L^a K^{1-a}$ the share of labour in total production is:
 (a) a
 (b) $1 - a$
 (c) A
 (d) $a \cdot L$
34. 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
35. Cost Incurred which has no relevance to future planning is called:
 (a) Marginal cost
 (b) Sunk cost
 (c) Average cost
 (d) None of these
36. A production function with constant returns to scale for capital alone implies that:
 (a) there are increasing returns to scale for all factors of production taken together
 (b) if all inputs are doubled then output will more than double
 (c) smaller firms are more efficient than larger firms
 (d) both A) and B)
37. At the shut-down point:
 (a) $P = AVC$
 (b) $TR = TVC$
 (c) the total losses of the firm equal TFC
 (d) all of the above.

38. "Returns to a factor" refers to the effect on total output of changes in:
- (a) One factor only
 - (b) Various inputs separately
 - (c) All the inputs simultaneously
 - (d) None of the above
39. Which one of the following is not an internal economies of scale?
- (a) Technical economies
 - (b) Financial economies
 - (c) Economies due to localization of industries
 - (d) Marketing economies
40. The firm can attain its equilibrium in _____ stage of the law of variable proportion.
- (a) 1st
 - (b) 2nd
 - (c) 3rd
 - (d) Any of the above
41. The survival and success of any business depends on sound _____
- (a) Mind
 - (b) Environment
 - (c) Decisions
 - (d) None of these
42. Which of the following is incorrect formula?
- (a) $TC = AC \times Q$
 - (b) $\sum MC = TC$
 - (c) $\sum MC = TVC$
 - (d) $\sum MC + TFC = TC$
43. Diminishing returns are due to _____ and increasing returns are due to _____.
- (a) Internal diseconomies, Internal economies
 - (b) Internal economies, Internal diseconomies
 - (c) External diseconomies, Internal economies
 - (d) Internal diseconomies, external economies
44. When the law of diminishing returns begins to operate, the TVC curve begins to:
- (a) fall at an increasing rate
 - (b) rise at a decreasing rate
 - (c) fall at a decreasing rate
 - (d) rise at an increasing rate
45. _____ is an implicit cost of production.
- (a) Wages of the labour.
 - (b) Charges for electricity.
 - (c) Interest on owned money capital.
 - (d) Payment for raw material.

46. The MC curve cuts the AVC and ATC curves:
- at different points
 - at the falling parts of each curve
 - at their respective minimas
 - at the rising parts of each curve
47. Implicit cost added in _____ cost
- Economic
 - Simple
 - Accounting
 - None of the above
48. The MC curve reaches its minimum point before the AVC curve and the AC curve. In addition, the MC curve intersects the AVC curve and the AC curve at their lowest point. The above statements are both true:
- always
 - never
 - often
 - sometimes
49. Which of the following is not a reason for operation of increasing returns to a factor?
- Better utilisation of fixed factor
 - Limitation of fixed factor
 - Increase in efficiency of variable factor
 - Indivisibility of fixed factor
50. At the Point of Inflexion:
- Total Product is maximum
 - Average Product is maximum
 - Marginal Product is maximum
 - Marginal Product is zero
51. Cost function is a _____ concept:
- Economical
 - Functional
 - Financial
 - Technical
52. The cost curve, which is Inversely S-shaped is:
- Average Cost Curve
 - Total Fixed Cost Curve
 - Total Variable Cost Curve
 - Marginal Cost Curve
53. The cost which is never zero even when production is stopped is known as:
- Supplementary Cost
 - Prime Cost
 - Explicit cost
 - None of these

54. The Interest on own capital is:
 (a) Implicit Cost
 (b) Future Cost
 (c) Explicit Cost
 (d) None of these
55. 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.
56. **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
57. **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
58. In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion OP₁RQ₁ is _____.

 (a) Total Revenue (TR)
 (b) Marginal Revenue (MR)
 (c) Total Cost (TC)
 (d) None of these
59. Cost Incurred which has no relevance to future planning is called:
 (a) Marginal cost
 (b) Sunk cost
 (c) Average cost
 (d) None of these

60. When output increases from 10 units to 12 units and TR increases from 300 to 330 then MR will be:
- 30
 - 20
 - 15
 - None of these.
61. The IIInd Stage in Law of Returns to Scale is :
- Positive Returns
 - Constant Return
 - Negative return
 - None of these
62. Which of the following curve cannot be u-shaped?
- Average total cost
 - Average variable cost
 - Average fixed cost
 - Marginal cost
63. The point at which the total product curve begins to flatten out indicates:
- The onset of diminishing marginal returns
 - Maximum efficiency in production
 - A decrease in fixed costs
 - The end of increasing returns to scale
64. **Assertion (A):** Sunk costs are not relevant in economic decisions.
Reason (R): The opportunity cost of such resources is zero. Codes:
- Both A and R are true, and R is the correct explanation of A
 - Both A and R are true, but R is not the correct explanation of A
 - A is true but R is false
 - A is false but R is true
65. If only part of the labour force employed by a firm can be dismissed at any time and without pay, the total wages and salaries paid out by the firm must be considered:
- a fixed cost
 - a variable cost
 - partly a fixed and partly a variable cost
 - any of the above.
66. When the law of diminishing returns begins to operate, the TVC curve begins to:
- fall at an increasing rate
 - rise at a decreasing rate
 - fall at a decreasing rate
 - rise at an increasing rate.

67. Which of the following cost curve is never U Shaped?
- Marginal cost curves
 - Average cost curve
 - Average fixed cost curve
 - None of these
68. The most important function of an entrepreneur is to:
- Innovate
 - Bear the sense of responsibility
 - Finance
 - None of these
69. In the long run, all production costs are
- Fixed
 - Sunk
 - Variable
 - Marginal
70. Implicit cost is equal to:
- business profit minus economic profit.
 - business profit plus economic profit.
 - economic profit minus business profit.
 - economic profit minus explicit cost.
71. Short-run average variable cost is equal to:
- total variable cost divided by output.
 - average total cost minus average fixed cost.
 - the cost per unit of the variable input divided by the average product of the variable input.
 - All of the above are correct.
72. Which one of the following is not an assumption of law of variable proportion?
- Technology of production remains unchanged.
 - Only physical inputs & output are considered.
 - All units of variable factors are different.
 - There must be some inputs whose quantity is kept fixed.
73. In describing a given production technology, the short run is best described as lasting:
- Up to six months from now.
 - Up to five years from now.
 - As long as all inputs are fixed.
 - As long as at least one input is fixed.
74. **Assertion (A):** An iso-cost line is a straight line.
Reason (R): The market rate of exchange between the two inputs is constant.
- (A) is true and (R) is false
 - Both (A) and (R) are true & (R) is the correct explanation of (A)
 - Both (A) and (R) are true & (R) is not the correct explanation of (A)
 - (A) is false and (R) is true

75. 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
76. 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.
77. 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.
78. 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.
79. 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.
80. 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
81. Long Run Average Cost (LAC) is:
- (a) U Shaped
 - (b) Is also called envelope curve
 - (c) Both a and b
 - (d) None of These

82. At higher levels of output average total cost curve and average variable cost curve come closer because:
- Average fixed cost remains constant.
 - Average variable cost remains constant.
 - Average fixed cost accounts for relatively smaller percentage of average total cost.
 - Average variable cost accounts for relatively smaller percentage of average total cost
83. A firm produces 5 units of output at average fixed cost of 4 per unit. For production of 10 units of output average cost is 7 per unit. Average variable cost for producing 10 units of output is:
- ₹ 4
 - ₹ 5
 - ₹ 6
 - ₹ 10
84. How is production in the economic sense distinguished from non-market activities performed within a household ?
- Involvement of love and affection
 - Exchange in the market
 - Voluntary nature of the activity
 - Intangible outputs

Use the following information to answer questions 85-86.

Hours of labour	Total Product	Average Product	Marginal Product
0	-	-	-
1	20	20	-
2	50	-	-
3	90	-	40
4	-	30	-

85. What is the marginal product of the second hour of labour?
- 10
 - 20
 - 30
 - 40
86. What is the average product for the third hour of labour?
- 25
 - 30
 - 35
 - 40
87. When does the Law of Variable Proportions, or the Law of Diminishing Returns, become relevant?
- In the long run
 - In the short run
 - In both the short and long run
 - Only when all factors are variable

88. What is the primary characteristic of Decreasing Returns to Scale?
- Total output increases at an increasing rate
 - Total output increases at a decreasing rate
 - Total output remains constant
 - Total output decreases
89. What term is used to describe costs that remain fixed over a certain range of output but suddenly jump to a new higher level when output goes beyond a given limit?
- Variable cost
 - Semi-variable cost
 - Stair-step variable cost
 - Sunk cost
90. Which of the following expenses is included in cost of production and termed as accounting cost?
- Wages paid to workers employed in the factory.
 - Expenses incurred on Research & Development.
 - Expenses incurred on advertising.
 - Common costs incurred for general operation of business.
91. What will be the total amount of sunk cost on the basis of following information?

Particulars	Amount (₹) Crores
Fuel and Power	1000
Research and Development	150
Rent	9
Wages	10
Advertisement	5

- ₹ 1,150 crores
 - ₹ 155 crores
 - ₹ 159 crores
 - ₹ 164 crores
92. If Marginal Revenue (MR) for Unit 1 is 10, for Unit 2 is 5, and for Unit 3 is 3 then what will be the amount of Total Revenue (TR)?
- ₹ 15
 - ₹ 10
 - ₹ 28
 - ₹ 18
93. When should a competitive firm consider shutting down its operations?
- When the price is above Total Variable Costs (TVC).
 - When the price is below Average Variable Costs (AVC).
 - When the price is equal to Total Revenue (TR).
 - When the price is constant.

94. In Ricardo's view, what does "Exchange Value" represent?
- (a) The cost of production of a commodity
 - (b) The subjective preferences of individuals
 - (c) Power in exchange over purchasable commodities in general
 - (d) The quantity of labour embodied in a commodity
95. Marginal Product is the slope of –
- (a) Marginal product Curve
 - (b) Average Product Curve
 - (c) Total Product Curve
 - (d) Implicit Product Curve
96. Law of Production does not include _
- (a) least Cost Combination of factors
 - (b) Law of variable proportion
 - (c) Law of diminishing returns to a factor
 - (d) Return to scale
97. Which of the following Statements is correct concerning the relationship among the firm's Cost Function:
- (a) $TC = TVC - TFC$
 - (b) $TFC = TC - TVC$
 - (c) $TC = TFC - TVC$
 - (d) $TVC = TFC - TC$
98. In the Cobb Douglas function 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
99. The opportunity cost of a good is :
- (a) The loss of interest in using savings
 - (b) The time lost in finding it.
 - (c) The quality of other goods sacrificed to get another unit of that good.
 - (d) None of these
100. The Stages in law of variable proportion is :
- (a) 1
 - (b) 2
 - (c) 3
 - (d) 4

101. Certain Benefit an Industry gets when it expands its scale of production is Known as
- Internal Economies
 - Diseconomies
 - External economies
 - Profit
102. The Interest on own capital is :
- Implicit cost
 - Future cost
 - Explicit Cost
 - Past Cost
103. Long Run Average Cost (LAC) is :
- U Shaped
 - Is also called envelope curve
 - Both a and b
 - None of These
104. The producer's demand for a factor of production is governed by the _____ of that factor.
- Price
 - Marginal Productivity
 - Availability
 - Profitability
105. The Slope of Isoquant is :
- upward to the left
 - Downward to the right
 - downward to the left
 - upward to the right
106. In case of Diminishing Return to a factor :
- Marginal Product Diminishes
 - Total Product increase at increasing rate
 - Total Product increases at diminishing rate
 - Both a and b
107. Negative Return sets in at the stage when :
- MP is negative
 - MP is diminishing
 - MP is rising
 - none of these
108. Which of the following statements is false:
- When MP rises, TVC increases at an increasing rate.
 - When MP rises, TVC increases at a diminishing rate.
 - When MP becomes constant, TVC increases at a constant rate.
 - When MP falls, TVC increases at a increasing rate.



ZIDD

MAY 2025

**India's Only Institute That Gives
100% Fees Refund If You Fail**



VIDHYODAY
VIDHYA KA UDAY

ANSWERS KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
b	c	d	d	d	c	a	c	b	a	b	b	c	c	d	a	a	d	a	d
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
a	a	c	a	b	a	a	c	a	c	a	d	a	c	b	d	d	a	c	b
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
c	b	a	d	a	c	c	a	b	c	b	c	a	a	c	b	b	a	b	c
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
b	c	a	b	d	d	c	a	c	d	d	c	d	b	c	a	d	d	a	b
81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
c	c	b	b	b	b	b	b	c	a	b	d	b	c	c	a	b	b	c	c
101	102	103	104	105	106	107	108												
a	a	c	b	b	d	a	b												

CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS


Chapter 4: Price Determination in Different Markets

1. Marginal revenue of a firm is constant throughout under:
 - (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Oligopoly
 - (d) All the above
2. Monopolistic competition constitutes:
 - (a) Single firm producing close substitutes
 - (b) Many firms producing close substitutes
 - (c) Many firms producing differentiated substitutes
 - (d) Few firms producing differentiated substitutes
3. 'Interdependence Between Firms' is a feature of which type of market form:
 - (a) Oligopoly
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) Perfect Competition
4. 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
5. Agricultural goods markets depict characteristics close to:
 - (a) Perfect competition
 - (b) Oligopoly
 - (c) Monopoly
 - (d) Monopolistic competition
6. 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
7. 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

8. 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
9. 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
10. Price Rigidity explained by Sweezy's model is related to which market form:
- (a) Monopoly
 - (b) Oligopoly
 - (c) Monopolistic competition
 - (d) Perfect Competition
11. Consumers get maximum variety of goods under:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) None of these
12. 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
13. Selling cost are essential in:
- (a) Monopoly
 - (b) Monopolistic competition
 - (c) Perfect competition
 - (d) All of the above
14. Which of the following curve cannot be u-shaped?
- (a) Average total cost
 - (b) Average variable cost
 - (c) Average fixed cost
 - (d) Marginal cost

15. 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
16. 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.
17. 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.
18. The restaurant industry has a market structure that comes closest to:
 - (a) monopolistic competition.
 - (b) oligopoly.
 - (c) perfect competition.
 - (d) monopoly.
19. 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.
20. 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
21. 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
22. 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.
23. A seller cannot influence the market price under:
- (a) Perfect Competition
 - (b) Monopoly
 - (c) Monopolistic Competition
 - (d) All of the above
24. Railways is an example of:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) Oligopoly
25. 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
26. 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
27. Demand Curve in the monopolistic competition is_____
- (a) Infinitely elastic
 - (b) Downward sloping and highly inelastic
 - (c) Downward sloping and more elastic demand curve.
 - (d) None of these.
28. The Price in Collusive Oligopoly is decided by:
- (a) The Firm
 - (b) Price leader
 - (c) The Industry
 - (d) None of these
29. 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

30. The condition for pure competition to be fulfilled are _____
- large numbers of buyers and sellers
 - products are homogeneous
 - firms are free from entry and exit from the market
 - all the above
31. The concept of price rigidity in Sweezy's model is related to which market form:
- oligopoly market
 - perfect competition market
 - monopoly market
 - monopolistic market
32. The Relationship between AR, MR and Price Elasticity –
- $MR = AR \times e - 1 \div e$
 - $AR = MR \times e - 1 \div e$
 - $AR - MR = e - 1 \div e$
 - None of these
33. If the monopolist incur losses in the short run then in the long run:
- It will stay in the business
 - Go out of business
 - Will break even
 - Any of the above is possible
34. 'Time' element in market was conceived by:  **VIDHYODAY**
VIDHYA KA UDAY
- Alfred Marshall
 - Pigou
 - Allen
 - None of these
35. Full Capacity is utilized in the which market condition _____.
- Perfect Competition
 - Monopoly
 - Oligopoly
 - None of these
36. In economics, generally the classification of the markets is made on the basis of:
- Time
 - Geographic area
 - Volume of business
 - All of these
37. Consumers get maximum variety of goods under:
- Perfect Competition
 - Monopolistic Competition
 - Monopoly
 - Pure Competition

38. Secular Period is also known as:
- (a) Short Period
 - (b) Very Long Period
 - (c) long Period
 - (d) Very short Period
39. The Firm and Industry are same in:
- (a) Duopoly
 - (b) Monopoly
 - (c) Oligopoly
 - (d) None of these
40. 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
41. The First Order Condition for the Profit of a firm to be maximum?
- (a) $AC = MR$
 - (b) $MC = MR$
 - (c) $MR = AR$
 - (d) $AC = AR$
42. In economics, generally the classification of the markets is made on the basis of:
- (a) Time
 - (b) Geographic area
 - (c) Both (a) and (b)
 - (d) None of these
43. Under Monopoly, selling costs are incurred for:
- (a) Persuading customers for not buying competitor's product
 - (b) Informative purpose
 - (c) Promoting sales of the product
 - (d) None of these
44. 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
45. A firm reaches a break-even point (normal profit position) where,
- (a) Marginal revenue curve cuts the horizontal axis.
 - (b) Marginal cost curve intersects the average variable cost curve.
 - (c) Total revenue equals total variable cost.
 - (d) Total revenue and total cost are equal.

46. Firms cooperate with each other in determining price or output or both. It is a feature of:
 - (a) Pure Oligopoly
 - (b) Non-Collusive Oligopoly
 - (c) Imperfect Oligopoly
 - (d) Collusive Oligopoly
47. Which of the following is not an essential condition of pure competition?
 - (a) large number of buyers and sellers
 - (b) homogeneous product
 - (c) freedom of entry
 - (d) absence of transport cost
48. In both the Chamberlin and kinked demand curve models, the oligopolists
 - (a) recognize their independence
 - (b) do not collude
 - (c) tend to keep prices constant
 - (d) all the above
49. 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
50. Firm's supply curve is the _____ part of the _____ starting from above the point minimum AVC.
 - (a) rising; AC curve
 - (b) falling; AC curve
 - (c) rising; MC curve
 - (d) falling; MC curve
51. Under monopoly condition, the firm is able to sell more units of output _____.
 - (a) at the same price
 - (b) at higher price
 - (c) at constant price
 - (d) None of these
52. Under monopoly condition , the firm is able to sell more units of output _____.
 - (a) at the same price
 - (b) at higher price
 - (c) at constant price
 - (d) at lower price
53. "A firm can earn only normal profits in long the run." It is an implication of following feature.
 - (a) Large number of buyers & sellers.
 - (b) Free entry and exit
 - (c) Availability of substitutes
 - (d) Full or partial control over price

54. At the shut-down point:
- (a) $P = AVC$
 - (b) $TR = TVC$
 - (c) the total losses of the firm equal TFC
 - (d) all the above.
55. If the monopolist incurs losses in the short run, then in the long run:
- (a) the monopolist will go out of business
 - (b) the monopolist will stay in business
 - (c) the monopolist will break even
 - (d) any of the above
56. In monopolistic competition, we have:
- (a) few firms selling a differentiated product
 - (b) many firms selling a homogeneous product
 - (c) few firms selling a homogeneous product
 - (d) many firms selling a differentiated product
57. In both the Chamberlin and the kinked demand curve models, the oligopolists:
- (a) recognize their interdependence
 - (b) do not collude
 - (c) tend to keep prices constant
 - (d) all the above.
58. Who gave the theory of price discrimination?
- (a) Marshall
 - (b) Pigou
 - (c) Cournot
 - (d) Simon
59. Demand curve of a firm under monopoly is:
- (a) Downward sloping
 - (b) Indeterminate
 - (c) Upward sloping
 - (d) Perfectly elastic
60. Demand curve under Oligopoly is:
- (a) Less elastic
 - (b) Perfectly elastic
 - (c) Highly elastic
 - (d) Indeterminate
61. In a commodity market, excess demand exists when:
- (a) market price is greater than equilibrium price
 - (b) equilibrium price is greater than market price
 - (c) equilibrium price is not equal to market price
 - (d) government fixes the price

62. A few Big sellers is a Characteristics of:
- (a) Perfect Competition
 - (b) Monopolistic Competition
 - (c) Oligopoly
 - (d) None of the above
63. Demand curve of perfectly competitive market form is a horizontal straight line parallel to X-Axis. It happens because:
- (a) Selling costs are zero
 - (b) There is freedom of entry and exit
 - (c) Firm is a price-taker
 - (d) None of these
64. Dynamic fare charged by Indian railways is an example of:
- (a) Pure Monopoly
 - (b) Discriminating Monopoly
 - (c) Perfect Competition
 - (d) None of these
65. The Firm and Industry are same in:
- (a) Duopoly
 - (b) Monopoly
 - (c) Oligopoly
 - (d) None of these
66. In Oligopoly the firms may collude in order to:
- (a) Increase Competition
 - (b) Prisoner dilemma for buyers
 - (c) To raise the price of the good they offer
 - (d) None of these
67. Secular Period is also known as:
- (a) long period
 - (b) Short period
 - (c) Very long period
 - (d) None of these
68. An Industry comprised of a very large number of sellers producing a standardized product is known as:
- (a) Pure competition
 - (b) Pure monopoly
 - (c) Monopolistic competition
 - (d) None of these

69. Kinked demand was propounded by?
- (a) Paup K. Sweezy
 - (b) Marshall
 - (c) Adam Smith
 - (d) None of these.
70. Average revenue curve is also known as –
- (a) Indifference Curve
 - (b) Demand Curve
 - (c) Average Cost Curve
 - (d) None of these
71. The Cobweb theory was propounded by –
- (a) Nicholas Kaldor
 - (b) Adam Smith
 - (c) J M Keynes
 - (d) None of these.
72. Characteristic of Oligopoly market is ----
- (a) Strategic Independence
 - (b) Importance of Advertising and selling costs
 - (c) Group Behaviour
 - (d) All of above
73. Huge selling costs are incurred in which form of market?
- (a) Monopolistic competition
 - (b) Perfect competition
 - (c) Monopoly
 - (d) None of these
74. Which of the following assumptions is correct in connection with oligopoly?
1. If an oligopolist increases his price his rivals will follow.
 2. If an oligopolist increases his price his rivals will not follow.
 3. If an oligopolist increases his price his rivals will lower their prices.
 4. If an oligopolist decreases his price his rivals will not react.
- (a) 1 only
 - (b) 2 only
 - (c) 1 & 3 only
 - (d) 4 only
75. In an oligopoly, price determination is often influenced by:
- (a) The actions of a single firm
 - (b) The collective behavior of a few dominant firms
 - (c) Government-imposed price floors
 - (d) The elasticity of supply alone


76. In a monopoly, the lack of close substitutes for the product typically results in:
- Perfect elasticity of demand
 - A downward-sloping demand curve for the monopolist
 - Constant returns to scale
 - The ability to practice price discrimination
77. At the shut-down point:
- $P = AVC$,
 - $TR = TVC$,
 - the total losses of the firm equal TFC,
 - all of the above
78. When the industry is in long-run equilibrium, the monopolistic competitor will produce at the lowest point on its LAC curve:
- Always,
 - never,
 - sometimes,
 - cannot say.
79. In both the Chamberlin and the kinked demand curve models, the oligopolists:
- recognize their interdependence,
 - do not collude,
 - tend to keep prices constant,
 - all of the above.
80. Game theory in oligopoly was developed by:
- Von Neumann and Oskar Morgenstern
 - Maltas
 - Adam Smith
 - Robinson
81. If an oligopolist incur losses in the short run then in the long run:
- The oligopolist will go out of the business
 - The oligopolist will stay in business
 - The Oligopolist will break even
 - any of the above is possible
82. If the demand curve for a firm's output is perfectly elastic, then the firm is:
- a monopolist.
 - perfectly competitive.
 - an oligopolist.
 - monopolistically competitive.
83. The type of industry organization that is characterized by recognized interdependence and nonprice competition among firms is called:
- monopoly
 - perfect competition.
 - oligopoly.
 - monopolistic competition.

84. The restaurant industry has a market structure that comes closest to:
- (a) monopolistic competition.
 - (b) oligopoly
 - (c) perfect competition.
 - (d) monopoly.
85. 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
86. 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
87. 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.
88. 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.
89. 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.
90. 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.

91. 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.
92. 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.
93. 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
94. The supply curve of a perfectly competitive firm in the short run is
 - (a) the portion of the Marginal Cost curve which lies below the minimum point of Average Variable Cost curve.
 - (b) the portion of the Marginal Cost curve which lies above the minimum point of Average Variable Cost curve.
 - (c) the portion of the Average Cost curve which lies below the minimum point of Average Variable Cost curve.
 - (d) the part of the Average Cost curve which lies above the Marginal Cost curve.
95. Three major smartphone manufacturers, Alpha Tech, Beta Mobile, and Gamma Gadgets, dominate the smartphone market. These companies are in constant competition for market share and innovation. Which type of the market structure has been described in this scenario?
 - (a) Monopoly
 - (b) Oligopoly
 - (c) Perfect Competition
 - (d) Monopolistic Competition
96. Which market covers a wider area such as a few adjacent cities, parts of states, or a cluster of states ?
 - (a) Regional Market
 - (b) National Market
 - (c) International Market
 - (d) Local Market
97. What happens to the equilibrium price when there is a decrease in supply with no change in demand?
 - (a) Equilibrium price goes down.
 - (b) Equilibrium price remains constant.
 - (c) Equilibrium price goes up.
 - (d) Equilibrium quantity increases.

98. In the case of demand decreasing and supply increasing, what is the expected impact on equilibrium price?
- Equilibrium price rises
 - Equilibrium price falls
 - Equilibrium price remains constant
 - Equilibrium price remains uncertain
99. Talcum powder market is an example of which of the following market ?
- Collusive Oligopoly
 - Imperfect Oligopoly
 - Open Oligopoly
 - Close Oligopoly
100. A software company engages in price discrimination for its product. The company identifies different market segments and charges different prices based on perceived differences in willingness to pay. This is possible under which situation?
- Monopolistic competition
 - A Monopoly
 - Perfect competition
 - Oligopoly competition
101. According to the Kinked demand curve hypothesis, why does the demand curve facing an oligopolist have a 'Kink' at the prevailing price level?
- To create confusion among competitors
 - To make the demand curve visually interesting
 - The segment above price is highly elastic, and below it is inelastic
 - It is a graphical error in the representation
102. A market structure in which there is only a single buyer and a single seller is known as:
- Monopsony
 - Bilateral Monopoly
 - Oligopoly
 - Duopoly
103. Monopolistic Competition is characterized by
- Many sellers selling identical products to many buyers.
 - Many sellers selling differentiated products to many buyers.
 - Few sellers selling identical products to many buyers.
 - Few sellers selling competing products to selective buyers.
104. Condition for equilibrium of firm under perfect competition:
- Where Marginal Revenue (MR) is equal to the Marginal Cost (MC).
 - Where Average Revenue (AR) is equal to the Average Cost (AC).
 - MC curve cuts MR curve from below.
 - Where MR MC and also MC curve cuts MR curve from below.

105. A market structure in which all firms individually are price takers is known as:
- (a) Monopolistic competition
 - (b) Monopoly
 - (c) Perfect competition
 - (d) Oligopoly
106. The Condition for pure competition to be fulfilled are –
- (a) large numbers of buyers and sellers
 - (b) Products are homogeneous
 - (c) Firms are free from entry and exit from the market
 - (d) All the above
107. When the firm is in the long run equilibrium in perfect competition which of the following is true –
- (a) $AC = MR$
 - (b) $TR = TC$
 - (c) The firm are earning supernormal profit
 - (d) None of these
108. Which is not the Characteristics of Monopolistic Competition:
- (a) Large number of sellers
 - (b) Homogeneous Product
 - (c) Freedom of entry and exit
 - (d) Non Price Discrimination
109. Demand Curve in the monopolistic competition is –
- (a) Infinitely elastic
 - (b) Downward sloping and highly inelastic
 - (c) Downward sloping and more elastic demand curve.
 - (d) None of these.
110. The Concept of Price rigidity in Sweezy's Model is related to which market form:
- (a) Oligopoly market
 - (b) Perfect Competition market
 - (c) Monopoly market
 - (d) Monopolistic market
111. Which of the following Statement is incorrect ?
- (a) There is no difference between a firm and an Industry
 - (b) The Monopolist may raise the price and restrict the output
 - (c) Heterogeneous product are offered for sale in Perfect Competition
 - (d) In Monopolistic competition product differentiation is peculiar.
112. Foreign Exchange market is an example of –
- (a) Perfect Competition
 - (b) Oligopoly
 - (c) Monopoly
 - (d) Monopolistic Competition

113. Under which market form price discrimination cannot persist –
- (a) Oligopoly
 - (b) Monopolistic Competition
 - (c) Monopoly
 - (d) Perfect competition.
114. The Relationship between AR, MR and Price Elasticity –
- (a) $MR = AR \times e^{-1}$ divided by e
 - (b) $AR = MR \times e^{-1}$ divided by e
 - (c) $AR - MR = e^{-1}$ divided by e
 - (d) None of these
115. The Price elasticity for Monopolistic Firm is :
- (a) $E > 1$
 - (b) $E < 1$
 - (c) $E = 1$
 - (d) None of these
116. Dynamic Fare charged by Indian Railways is an example of :
- (a) Pure Monopoly
 - (b) Discriminating Monopoly
 - (c) Perfect Competition
 - (d) None of these
117. Price discrimination is possible when  **VIDHYODAY**
VIDHYA KA UDAY
- (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 Sub market
 - (d) None of these
118. The Shape of TR Curve of the Monopolist is :
- (a) U Shaped
 - (b) Inverted U Shaped
 - (c) Downward sloping
 - (d) None of these.
119. The Distinction between Selling Cost and Production cost was made by :
- (a) Chamberlin
 - (b) Sweezy
 - (c) Mrs. Joan Robinson
 - (d) None of these
120. The Firm and Industry are same in:
- (a) Duopoly
 - (b) Monopoly
 - (c) Perfect Competition
 - (d) None of these

121. Under Perfect Competition the Supply Curve is derived from :
- (a) MC Curve
 - (b) AC curve
 - (c) TC Curve
 - (d) None of these.
122. When average cost is equal to average revenue of a firm, it gets _____.
(a) Sub normal profit
(b) Normal profit
(c) Abnormal profit
(d) Super profit
123. A rise in supply and demand in equal proportion will result in
(a) Increase in equilibrium price and decrease in equilibrium quantity
(b) Decrease in equilibrium price and increase in equilibrium quantity
(c) No change in equilibrium price and increase in equilibrium quantity
(d) Increase in equilibrium price and no change in equilibrium quantity
124. When the Output increases from 20 to 30 units and TR increases from Rs 400 to Rs 500 then MR is
(a) 20
(b) 10
(c) 15
(d) None of these
125. Break even point indicate which of the following ?
(a) $TR = TC$
(b) $TR > TC$
(c) $TR = TVC$
(d) None of these
126. Average revenue curve is more elastic under monopolistic competition than monopoly due to
(a) Low degree of governmental control
(b) lack of close Substitute
(c) Availability of close Substitute
(d) None of these
127. The Price in Collusive Oligopoly is decided by :
(a) The Firm
(b) Price leader
(c) The Industry
(d) None of these



MAY 2025

**India's Only Institute That Gives
100% Fees Refund If You Fail**



VIDHYODAY
VIDHYA KA UDAY

ANSWER KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
a	c	a	d	a	b	d	b	b	b	b	d	b	c	b	c	d	a	d	c
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
d	b	a	c	c	c	c	b	c	d	a	a	d	a	a	d	b	b	b	b
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
b	d	b	b	d	d	d	d	a	c	d	d	b	d	d	d	d	b	a	d
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
b	c	c	b	b	c	c	a	a	b	a	d	a	b	b	b	d	b	d	a
81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
d	b	c	a	d	c	c	b	c	c	d	b	b	b	b	a	c	b	b	b
101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
c	b	b	d	c	d	c	b	c	a	c	a	d	a	a	b	b	b	a	b
121	122	123	124	125	126	127													
a	b	c	b	a	c	b													

CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS

Chapter 5: Business Cycles

1. Coincident indicator is not indicated as:
 - (a) Inflation
 - (b) Industrial Production
 - (c) Retail Sales
 - (d) New order for Plant and equipment
2. Economy's historical performance was reflected by:
 - (a) Lagging indicating
 - (b) Leading indicating
 - (c) Either (a) or (b)
 - (d) None of these
3. Different business cycles _____ in duration and intensity.
 - (a) differ
 - (b) similar
 - (c) consistent
 - (d) Can't say
4. 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)
5. 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.
6. Which of the following is a lagging economic indicator?
 - (a) Consumer confidence index.
 - (b) Stock market performance.
 - (c) Unemployment rate.
 - (d) New housing starts.
7. What are the Internal causes of Business Cycle?
 - (a) Fluctuations in effective demand.
 - (b) Macroeconomic Policies
 - (c) Money Supply
 - (d) All the above

8. According to Hawtrey trade cycle is a _
- (a) Monetary Phenomenon
 - (b) Unplanned Phenomenon
 - (c) Fiscal Phenomenon
 - (d) All the above
9. Collectively peaks and troughs together is known as:
- (a) Turning Points
 - (b) Contraction
 - (c) Expansion
 - (d) A trough
10. 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
11. Which of the following describe a Typical Business Cycle?
- (a) Economic Expansions are followed by Contraction's.
 - (b) Inflation is followed by rising Income and Unemployment.
 - (c) Economic Expansion are followed by economic growth and development.
 - (d) Stagflation is followed by Inflationary growth.
12. Which is not the External Causes of business cycle:
- (a) Technology shock
 - (b) Population Growth
 - (c) Money Supply
 - (d) Technology Shock
13. Peak is the _____ stage of expansion.
- (a) Later
 - (b) Earlier
 - (c) Either (A) or (B)
 - (d) None of the above
14. Which of the following statements is correct regarding business cycles?
- (a) Business cycles are contagious and international in character.
 - (b) Business cycles begin in one country and spread to other countries through trade relations.
 - (c) Business cycles have serious consequences on well-being of the societies.
 - (d) All of the above
15. During an expansion phase of the business cycle, which of the following is likely to occur?
- (a) Decrease in consumer spending.
 - (b) Increase in business bankruptcies.
 - (c) Increase in job opportunities.
 - (d) Decrease in government spending.

16. Which of the following phases of the business cycle is characterized by increasing economic activity, rising employment, and growing consumer spending?
 - (a) Expansion.
 - (b) Recession.
 - (c) Trough.
 - (d) Recovery.
17. Post war reconstruction:
 - (a) will push the economy to slow down because of excess external debts.
 - (b) will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.
 - (c) can cause boom or recession depending upon the policies for reconstruction adopted by govt.
 - (d) None of these
18. Which economic indicator is required to predict the turning point of business cycle?
 - (a) Leading Indicator
 - (b) Lagging Indicator
 - (c) Coincident
 - (d) All of the above
19. During a recession, the economy experiences:
 - (a) A decrease in prices and inflation
 - (b) High levels of economic growth and expansion
 - (c) A decline in employment and economic activity
 - (d) Increased business investments and consumer spending
20. Which of the following is a lagging economic indicator?
 - (a) Consumer confidence Index
 - (b) Stock market performance
 - (c) Unemployment rate
 - (d) New housing starts
21. According to Hawtrey trade cycle is a _____
 - (a) Monetary phenomenon
 - (b) Unplanned phenomenon
 - (c) Fiscal phenomenon
 - (d) All the above
22. Economy's historical performance was reflected by:
 - (a) Lagging indicator
 - (b) Leading indicator
 - (c) Either (a) or (b)
 - (d) None of these
23. Collectively peaks and troughs together is known as:
 - (a) Turning Points
 - (b) Contraction
 - (c) Expansion
 - (d) None of these

24. Business cycle emerge in _____.
(a) Socialist economy
(b) Free market economy
(c) Mixed economic system
(d) None of the above
25. A period of expansion and contraction measured by real GDP is called:
(a) Business cycle
(b) Expansion
(c) Recession
(d) Contraction
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. According to Hawtrey trade cycle is a _____
(a) Monetary phenomenon
(b) Unplanned phenomenon
(c) Fiscal phenomenon
(d) All the above
29. 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.
30. Economic indicator of contraction and expansionary phase by measuring real GDP is:
(a) Business cycle
(b) Technical indicator
(c) Leading indicator
(d) Lagging indicator
31. 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.

32. When there is fall in the levels of investment and employment, producers do not instantaneously recognise the pulse of the economy. What is indicated by this situation?
- (a) Peak
 - (b) Expansion
 - (c) Contraction
 - (d) Trough and Depression
33. What is the term for the lowest point of economic activity in a business cycle, where unemployment is high, and production is at its lowest?
- (a) Prosperity
 - (b) Trough and Depression
 - (c) Peak
 - (d) Expansion
34. Business whose fortune is closely linked to the rate of economic growth is referred to as:
- (a) Cyclical Business
 - (b) Seasonal Business
 - (c) Static Business
 - (d) Dynamic Business
35. During what time, the production of weapons and arms, etc. increase and most of the resources of the country are diverted for their production?
- (a) Post-War
 - (b) Pre-War
 - (c) War
 - (d) Peace
36. In Recovery phase of business cycle, the process of reversal is initially felt in the:
- (a) Capital market
 - (c) Agriculture market
 - (b) Labour market
 - (d) Financial market
37. What are the Internal causes of Business Cycle _?
- (a) Fluctuations in effective demand.
 - (b) Macroeconomic Policies
 - (c) Money Supply
 - (d) All the above
38. According to Hawtrey trade cycle is a _____
- (a) Monetary Phenomenon
 - (b) Unplanned Phenomenon
 - (c) Fiscal Phenomenon
 - (d) All the above
39. Which of the following describe a Typical Business Cycle?
- (a) Economic Expansions are followed by Contraction's.
 - (b) Inflation is followed by rising Income and Unemployment.
 - (c) Economic Expansion are followed by economic growth and development.
 - (d) Stagflation is followed by Inflationary growth.



MAY 2025

**India's Only Institute That Gives
100% Fees Refund If You Fail**



VIDHYODAY
VIDHYA KA UDAY

ANSWERS KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
d	a	a	c	c	c	d	a	a	a	b	c	a	d	c	a	b	d	c	c
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	
a	a	a	b	a	a	d	a	c	a	c	c	b	a	c	c	d	a	b	

CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS
Chapter 6: Determination of National Income

1. 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.

2. 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

3. 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

4. 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

5. 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

6. 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

7. 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
8. 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
9. 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) $GDP = \text{Consumption} + \text{Net Exports}$
10. 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)
11. 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
12. 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
13. Which of the following is a factor income?
 - (a) Profits
 - (b) Transfer payments
 - (c) Subsidies
 - (d) Indirect taxes

14. 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
15. 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
16. 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.
17. 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
18. 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.
19. 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.
20. The total value of output of a country will be equal to:
- (a) Market prices
 - (b) Consumption
 - (c) Investment
 - (d) National Income
21. Nominal GDP considers:
- (a) Current prices
 - (b) Base year prices
 - (c) Current and base year prices
 - (d) None of the above

22. Real GDP is:
- (a) Devoid of inflation
 - (b) $>$ Nominal GDP
 - (c) $=$ Nominal GDP
 - (d) Considers only current prices
23. The economic well being of economy is measured by:
- (a) Real GDP
 - (b) GNP
 - (c) NNP
 - (d) Nominal GDP
24. $NNP =$
- (a) $GNP - \text{Depreciation}$
 - (b) $GNP - \text{Factor payments}$
 - (c) $GNP - \text{Inflation}$
 - (d) $GNP + \text{Factor Payments}$
25. GDP deflator:
- (a) $\text{Nominal GDP} / \text{Real GDP} \times 100$
 - (b) $\text{Real GDP} / \text{Nominal GDP} \times 100$
 - (c) $\text{Nominal GDP} + \text{Real GDP} / \text{Real GDP} \times 100$
 - (d) $\text{Nominal GDP} - \text{Real GDP} / \text{Nominal GDP} \times 100$
26. 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
27. 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
28. CPI is calculated:
- (a) Once in 45 days
 - (b) Once in 3 months
 - (c) Once in fortnight
 - (d) Once in a month
29. Which of the following is an example of Transfer payment:
- (a) Money wages
 - (b) Minimum Support Wages
 - (c) Unemployment allowance
 - (d) Brokerage commission

30. If net factor income of a country is negative then we can say:
- National Income will be less than domestic factor incomes
 - National Income will be more than domestic factor incomes
 - National income will be exactly equal to domestic factor incomes
 - National income will be greater than exports
31. Factor cost implies:
- Market price- net indirect taxes
 - Market price – depreciation of fixed assets
 - Market price – Net factor income abroad
 - Market price – Transfer payments
32. which of the following statements is true with regard to intermediary goods:
- it cannot be used to produce other goods
 - it can be sold directly to final purchasers
 - it leads to the problem of double counting
 - whose price is greater than the final goods

33. 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.

- 1-(e) 2-(a), 3-(d), 4-(c), 5-(b)
 - 1-(b) 2-(a), 3-(d), 4-(c), 5-(e)
 - 1-(b) 2-(d), 3-(a), 4-(c), 5-(e)
 - 1-(b) 2-(c), 3-(d), 4-(a), 5-(e)
34. It is planned to increase national income by ₹ 1000 cr. How much increase in investment is required? Assume MPC is 0.6:
- ₹ 100 cr.
 - ₹ 400 cr.
 - ₹ 500 cr.
 - None of the above.
35. The particular level of AD which is equal to AS is called _____:
- equilibrium demand
 - effective demand
 - derived demand
 - None of the above

36. What can be the minimum value of investment multiplier?
- (a) 10
 - (b) 1
 - (c) infinity
 - (d) 0
37. EVA digital assistance Robot of HDFC Bank is:
- (a) An intermediate good
 - (b) A consumer good
 - (c) A capital good
 - (d) None of these
38. 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.
39. 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
40. 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.
41. 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
42. 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

43. 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
44. 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.
45. 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.
46. The amount of after-tax income received by households is measured by:
- (a) discretionary income.
 - (b) national income.
 - (c) disposable income.
 - (d) personal income.
47. Which one is a component of profit?
- (a) Dividend
 - (b) Undistributed Profit
 - (c) Corporate Profit Tax
 - (d) All of these
48. 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
49. 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.
50. Consumer Price Index is calculated:
- (a) Once in 45 days
 - (b) Once in 3 months
 - (c) Once in fortnight
 - (d) Once in a month

51. Break even points occurs when:
- (a) $Y = S$
 - (b) $S = 0$
 - (c) $Y = C$
 - (d) both (b) and (c)
52. Deficient demand leads to:
- (a) inflationary gap
 - (b) deflationary gap
 - (c) both (a) and (b)
 - (d) None of these
53. GDP includes:
- (a) neither intermediate nor final goods.
 - (b) both intermediate and final goods.
 - (c) intermediate, but not final, goods.
 - (d) final, but not intermediate, goods.
54. 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
55. Transfer payments are:
- (a) excluded when calculating GDP because they only reflect inflation.
 - (b) excluded when calculating GDP because they do not reflect current production.
 - (c) included when calculating GDP because they are a category of investment spending.
 - (d) included when calculating GDP because they increase the spending of recipients.
56. Value added refers to:
- (a) any increase in GDP that has been adjusted for adverse environmental effects.
 - (b) the excess of gross investment over net investment.
 - (c) the difference between the value of a firm's output and the value of the inputs it has purchased from others.
 - (d) the portion of any increase in GDP that is caused by inflation as opposed to an increase in real output.
57. Personal income is most likely to exceed national income:
- (a) when gross and net investment are equal.
 - (b) during a period of recession or depression.
 - (c) when gross investment exceeds net investment.
 - (d) during a period of extended inflation.

58. Which one is included in three-sector model?
- (a) Family
 - (b) Firm
 - (c) Government
 - (d) All of these
59. 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.
60. What can be the minimum value of investment multiplier?
- (a) 10
 - (b) 1
 - (c) infinity
 - (d) 0
61. Which one is included in National Income?
- (a) Transfer Earnings
 - (b) Sale proceeds of Shares and Bonds
 - (c) Black Money
 - (d) None of the Above
62. If a farmer sells wheat to miller for ₹ 600 and miller sells flour to baker for ₹ 800. The baker sells bread to consumer for ₹ 1300, then the total value added in the process is:
- (a) ₹ 600
 - (b) ₹ 800
 - (c) ₹ 700
 - (d) ₹ 1200
63. Which investment is made without any reference to level of income or profits?
- (a) Induced
 - (b) Autonomous
 - (c) Inventory
 - (d) Gross
64. The Value of National Income adjusted for inflation is called?
- (a) Disposable income
 - (b) Per capita income
 - (c) Inflation adjusted income.
 - (d) Real national Income

65. 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
66. "What could be the cause of the increase in Aggregate Demand within an economy?"
- (a) Increase in Imports
 - (b) Decrease in Govt. Expenditure
 - (c) Rise in Investment Expenditure
 - (d) Decrease in Exports
67. Which of the following will cause a leakage in the National Income of an economy?
- (a) Decrease in Expenditure
 - (b) Decrease in Taxation
 - (c) Increase in Imports
 - (d) Both a & c
68. The per capita income in country Y increased from ₹ 50,000 to ₹ 65,000 while the per capita consumption increased from ₹ 37,500 to ₹ 48,750. Calculate the spending multiplier for this economy.
- (a) 5
 - (b) 4
 - (c) 2.5
 - (d) 8
69. Which organization is accountable for calculating the Gross Domestic Product of India?
- (a) Indian Statistical Institute
 - (b) Reserve Bank of India
 - (c) National Statistical Office
 - (d) Ministry of Commerce and Industry
70. In an economy $C = 300 + 0.5Y$ and $I = ₹ 600$ (where C is consumption, Y is income or investment). The Equilibrium level of income will be:
- (a) 1800
 - (b) 1500
 - (c) 1400
 - (d) None of these
71. When Investment in an economy increases from ₹ 10000 crores to ₹ 14000 crores and as a result of this national income rises ₹ 80000 to ₹ 92000 crores, Investment Multiplier will be:
- (a) 5
 - (b) 3
 - (c) 2
 - (d) None of these

72. Calculate National Income from the following data:

	₹ in Crores
Consumption	1000
Investment	500
Government Purchases	200
Exports	200
Imports	400

- (a) 1500
- (b) 1800
- (c) 600
- (d) None of these

73. Which one makes GDP an improper index of welfare?

- (a) Non-monetary transaction
- (b) Externalities
- (c) Composition & distribution of GDP
- (d) All of these

74. Interest on national debt is treated as:

- (a) Transfer payment
- (b) Domestic payment
- (c) Govt. payment
- (d) None of these



75. The nominal and real GDP respectively of a country in a particular year are ₹ 3000 cr. and ₹ 4500 cr respectively. The GDP deflator will be:

- (a) 55.55
- (b) 66.66
- (c) 44.45
- (d) None of these.

76. An increase in investment by 600 cr leads to increase in national income by 1800 cr. The MPC will be –

- (a) 3
- (b) 4
- (c) 5
- (d) None of these

77. Consumption expenditure according to Keynes is determined by:

- (a) Disposable income
- (b) Level of interest rate
- (c) Extent of government taxes and subsidies
- (d) None of these

78. Who are the normal residents of the country?
- (a) A resident who has own house in that country
 - (b) A resident with a bank account in that country
 - (c) Ordinary residents with economic interest lying in that country
 - (d) None of these
79. Suppose in a country investment increases by ₹ 100 crores and consumption is given by $C = 10 + 0.6Y$. How much increase will there take place in income?
- (a) 250
 - (b) 200
 - (c) 150
 - (d) None of these
80. Which of the following does not enter the calculation of national income?
- (a) Exchange of previously produced goods
 - (b) Exchange of second-hand goods
 - (c) Exchange of stocks and bonds
 - (d) All the above
81. 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
82. 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
83. Which of the following is NOT included in the calculation of GDP using the expenditure approach?
- (a) Consumption expenditure
 - (b) Government purchases
 - (c) Business investment
 - (d) Transfer payments
84. Which organization is primarily responsible for compiling and publishing regional accounts data in India?
- (a) Reserve Bank of India (RBI)
 - (b) National Sample Survey Organization (NSSO)
 - (c) Central Statistical Office (CSO)
 - (d) Ministry of Finance

85. According to British economist J. M. Keynes _____ was the main cause of massive decline in income and employment during Great Depression of 1930.
- Lower aggregate expenditure in the economy.
 - Banking crises and low money supply.
 - Overdebttness.
 - Lower profits & pessimism
86. In India agricultural income is calculated by :
- Income method
 - Output method
 - Expenditure method
 - None of them.
87. Savings represent
- An injection to the circular flow of income
 - A withdrawal into the circular flow
 - Both an injection and a withdrawal
 - None of the above.
88. Which of the following is an intermediate good?
- The Purchase of gasoline for a ski trip to colorado
 - The Purchase of Pizza by a college student
 - The Purchase of baseball uniform by a professional baseball team
 - The Purchase of Jogging Shoes by a Professor
89. National Income accountants can avoid multiple counting by:
- including transfers in their calculation
 - only counting final goods
 - counting both intermediate and final Good
 - only counting intermediate goods
90. Gross Investment refers to:
- Private investment minus Public Investment
 - Net Investment plus replacement investment
 - net investment after it has been inflated for changes in the price level
 - net investment plus net exports
91. Given Consumption Function is $C = 300 + 0.75 Y$; Investment = Z 800; Net Imports = Z 100. The equilibrium level of output is:
- 4000
 - 5000
 - 8000
 - None of these

92. What is the value of Investment Multiplier when saving function is represented as $S = -60 + 0.2Y$?
- 2
 - 5
 - 4
 - 0.2
93. From the following data, calculate "Gross value added at factor cost".
- | S. No. | Particulars | ₹ In Crore |
|--------|--------------------------|------------|
| 1. | Sale | 180 |
| 2. | Rent | 5 |
| 3. | Subsidy | 10 |
| 4. | Change in Stock | 15 |
| 5. | Purchase of Raw Material | 100 |
| 6. | Profits | 25 |
- 105
 - 210
 - 185
 - None of these
94. Which of the following statements is true?
- NDP is greater than GDP if prices are falling
 - NDP is greater than GDP if prices are rising
 - NDP can be greater than GDP but only if the economy is growing
 - NDP cannot be greater than GDP
95. The difference between gross domestic investment and net domestic investment is equal to:
- unwanted inventory changes
 - the difference between NDP and national income
 - the addition to the capital stock
 - the difference between GDP and NDP
96. Which one is a component of profit?
- Dividend
 - Undistributed Profit
 - Corporate Profit Tax
 - All of these
97. A consumption function of the form $C = C_0 + c YD$ has a positive vertical intercept C_0 , which indicates that:
- some consumption is unaffected by changes in disposable income
 - the MPC will increase as disposable income increases
 - the APC will always increase as disposable income increases
 - the APC will always be less than the MPC

98. National income accountants can avoid multiple counting by:
- Counting both intermediate and final goods.
 - Only counting final goods.
 - Only counting intermediate goods.
 - Including transfers in their calculations.
99. The ratio between nominal GDP and real GDP is known as:
- Inflation Rate
 - Gross Domestic Product deflator
 - Gross National Product
 - Net National Product
100. If the GDP Deflator of a country in the year 2020 is 140.75 and in the year 2021 is 157.33, then what is the inflation rate in the year 2021?
- 9.09%
 - 10.97%
 - 11.78%
 - 12.34%
101. If GDP at market price is ₹ 6,700 crore and depreciation is ₹ 530 crore, then what will be the NDP at market price?
- ₹ 6,200 crore
 - ₹ 6,170 crore
 - ₹ 7,230 crore
 - ₹ 6,690 crore
102. Suppose the consumption of an economy is given by $C = 30 + 0.5Y$ and investment $I = 12 + 0.15Y$. What will be the equilibrium level of National Income?
- 120
 - 115
 - 105
 - 112
103. Which of the following refers to the mixed income of the self-employed?
- Combined factor payments which are not distinguishable
 - Wages due to non-economic activities
 - Net profits received by self-employed
 - Outside wages received by self-employed
104. What does Disposable Personal Income (DPI) represent?
- The total income earned by individuals before taxes
 - The income individuals have for consumption or saving
 - The total savings accumulated by individuals
 - The total income of a country's government

105. What are the phases included in the circular flow of income?
- Production, Saving and Expenditure
 - Production, Income and Taxation
 - Production, Distribution and Disposition
 - Income, Saving and Investment
106. Which of the following is not the limitation in the computation of the national income?
- Issue of transfer payments
 - Services of durable goods
 - Difficulty of incorporating the distribution of income
 - Quality improvements due to technological innovations
107. Which method measures the contribution of each producing enterprise in the domestic territory of a country over an accounting year by consolidating production of each industry less intermediate purchases from all other industries?
- Income Disposal Method
 - Value Added Method
 - Income Method
 - Expenditure Method
108. In the three-sector model of a closed economy (neglecting foreign trade), what are the three components of aggregate demand?
- Consumption, Savings, and Investment
 - Consumption, Exports, and Government Spending
 - Consumption, Investment, and Government Spending
 - Consumption, Imports, and Exports
109. According to the Keynesian theory of income and employment, national income depends upon:
- Aggregate Effective Supply
 - Aggregate Effective Savings
 - Aggregate Effective Demand
 - Aggregate Effective Production
110. Which of the following is not a correct formula to calculate NNPMP?
- $NNP_{MP} = GNP_{MP} - \text{Depreciation}$
 - $NNP_{MP} = NDP_{MP} + \text{Net Factor Income from Abroad}$
 - $NNP_{MP} = GDP_{MP} + \text{Net Factor Income from Abroad} - \text{Depreciation}$
 - $NNP_{MP} = NDP_{MP} - \text{Depreciation}$
111. The state-level estimates are typically prepared by the State Income Units of the respective states. Which organization is primarily responsible for this task?
- Directorates of Economics and Statistics (DESS)
 - Central Statistical Organization (CSO)
 - Ministry of Finance
 - Reserve Bank of India

112. What will be the Total Income if the value of Average Propensity to Consume (APC) is 0.45 and Total Consumption = ₹ 900 crores ?
- ₹ 2,500 crores
 - ₹ 2,000 crores
 - ₹ 2,050 crores
 - ₹ 2,100 crores

113. What will be the GDP at market price (GDPMP) on the basis of following information?

Particulars	Amount (₹) crores
GNP _{MP}	1100
Net Factor Income from Abroad	200
Depreciation	50
Net Indirect Tax	100

- ₹ 1,000 crores
 - ₹ 1,050 crores
 - ₹ 900 crores
 - ₹ 1,300 crores
114. Real money refers to:
- Real national income
 - Money demanded at given rate of interest
 - Nominal GNP divided by price level
 - Nominal money adjusted to the price level



MAY 2025

**India's Only Institute That Gives
100% Fees Refund If You Fail**




VIDHYODAY
VIDHYA KA UDAY

ANSWERS KEY


1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
b	d	d	c	c	d	b	b	b	a	b	b	a	b	c	b	c	c	b	d
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
a	a	a	a	a	c	a	d	c	a	a	c	a	b	b	b	c	c	c	b
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
b	b	b	a	b	c	d	b	a	d	d	b	d	c	b	c	b	d	c	b
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
d	c	b	d	b	c	d	b	c	a	b	a	d	a	b	a	a	c	c	d
81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
c	c	d	c	a	b	b	c	b	b	a	b	a	d	d	d	a	b	b	c
101	102	103	104	105	106	107	108	109	110	111	112	113	114						
b	a	a	b	c	d	b	c	c	d	a	b	c	d						

CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS

Chapter 7: Public Finance

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. 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
10. 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
11. 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
12. 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.
13. 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
14. 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
15. 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

16. Which of the economists below most likely advocated activist government policies?
 - (a) Milton Friedman
 - (b) John Maynard Keynes
 - (c) Robert Lucas
 - (d) Thomas Sargent
17. 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
18. Which of the following is a measure of fiscal policy?
 - (a) public expenditure
 - (b) C.R.R.
 - (c) S.L.R.
 - (d) Bank rate
19. 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.
20. Education is an example of:
 
 - (a) Public good
 - (b) Merit good
 - (c) Social good
 - (d) Club good
21. 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
22. 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
23. 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

24. 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
25. 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
26. 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
27. 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
28. 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
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. 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
33. 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
34. 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
35. 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
36. 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
37. Among the following canons of taxation which one has been given by Adam Smith?
- (a) Canon of Uniformity
 - (b) Canon of productivity
 - (c) canon of diversity
 - (d) canon of equity

38. The Government offer minimum assured price to the farmers to purchase their output is called:
- (a) market Price
 - (b) support Price
 - (c) equilibrium Price
 - (d) ceiling Price
39. If a Ministry falls short of approved budget in a scheme, what is the process to get additional budget through Parliament?
- (a) Supplementary
 - (b) Re-appropriation
 - (c) Transfer of balances
 - (d) Vote on account
40. Budget of the government generally impacts.
- (a) The resource allocation in the economy
 - (b) Redistribution of income and enhance equity.
 - (c) Stability in the economy by measures to control price fluctuations.
 - (d) All of the above
41. Which of the following is/are the components of Public Debt?
- 1. Market Loans
 - 2. External Loans
 - 3. Outstanding against saving schemes/ provident funds
- (a) only 1
 - (b) only 2
 - (c) Both 1 and 2
 - (d) only 3
42. 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
43. Which of the followings is not an element of good public expenditure management?
- (a) Elasticity
 - (b) Economy
 - (c) Productivity
 - (d) Deficit
44. Which of the following is an implication of the imposition of price ceiling below the equilibrium price?
- (a) Shortages in the market
 - (b) Problem of allocation of limited supplies among large number of consumer.
 - (c) Black marketing
 - (d) All of the above

45. 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
46. 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
47. Which of the following fiscal policy measures would be suitable for addressing a deflationary gap or deficient demand?
 - (a) Reduction in Taxes
 - (b) Increase in Govt. Expenditure
 - (c) Reduction in Public Debt
 - (d) All of these
48. The Government adopting Progressive taxation system to tax people on the level of their income is an example of which function of public finance?
 - (a) Redistribution Function
 - (b) Allocation Function
 - (c) Normative Function
 - (d) Stabilization
49. The increase in cost of food, fuel and fertilizers in countries due to production of weapons in the war between Russia & Ukraine results in which type of externality?
 - (a) Positive Production Externality
 - (b) Negative Production Externality
 - (c) Positive Consumption Externality
 - (d) Negative Consumption Externality
50. 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
51. Which of the following is not true regarding The Minimum Support Price (MSP) mechanism in India?
 - (a) MSP works on the principle of Price Ceiling
 - (b) MSP works on the principle of Price Flooring
 - (c) At the price fixed, there exists excess supply
 - (d) Govt. procures the excess supply of farmers.

52. 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
53. Which of the following is used to counter recession as part of Expansionary Fiscal Policy?
- (a) Increase in interest rate.
 - (b) Decrease in Taxes
 - (c) Deficit Financing
 - (d) Both b & c
54. The share of concessional debt in total external debt of India has:
- (a) remained the same
 - (b) doubled
 - (c) reduced
 - (d) increased
55. Budgetary deficit can be expressed as:
- (a) the excess of public expenditure over public revenue
 - (b) the sum of deficit on revenue account and deficit on capital account
 - (c) that portion of government expenditure which is financed through the sale of 91 days Treasury Bills and drawing down of cash balances
 - (d) all the above
56. The Government accounts are maintained namely in :
- (a) Consolidated fund of India
 - (b) Contingency fund of India
 - (c) Public Account
 - (d) All of these
57. By convention in an election year the budget may be presented:
- (a) Twice
 - (b) Once
 - (c) Thrice
 - (d) Quarterly
58. Deficit financing includes:
- (a) Borrowing from the central bank
 - (b) Issues of new currency by the Government
 - (c) Withdrawal of past accumulated cash balance by the Government
 - (d) All the above

59. Primary deficit means:
- Fiscal deficit -- interest payment
 - Fiscal deficit + revenue deficit
 - Budgetary deficit
 - Revenue deficit -- interest payments
60. The most important aim of fiscal policy in a developing country is :
- economic stability
 - economic development
 - regional balance
 - None of these
61. Fiscal deficit can be remedied by:
- Borrowing money
 - Printing Currency
 - Both (a) and (b)
 - Neither (a) nor (b)
62. Which of the following is not the mandatory Statement under FRBM Act 2003?
- Macro Economic Framework Statement
 - Medium Term Fiscal Policy Statement
 - Debt Statement
 - None of these
63. Which one is not a tool of Fiscal Policy:
- Taxation
 - Public Expenditure
 - Interest Rate
 - Public Debt
64. In a Public good context, it is difficult to measure impact of real income because:
- Public goods are generally free to the Public
 - They make up a small percentage of total GDP
 - It is hard to measure how people value to public good
 - Inflation decreases the value of the good
65. Macro- economic stability is said to exist when:
- When inflation is low and stable
 - The economy's total spending matches its total output
 - The economy's labour resources are fully exposed
 - All the above
66. Statutory Grants in aid from the Union to certain states is based on the constitutional provisions as:
- Article 275
 - Article 282
 - Article 293
 - Article 270

67. Government failure occurs when -
- (a) Government intervention is ineffective and produces fresh and more serious problem
 - (b) A government is unable to get re-related
 - (c) Both (a) and (b)
 - (d) None of these
68. The Institution responsible for management of external debt is:
- (a) RBI
 - (b) Ministry of Finance
 - (c) SEBI
 - (d) All of above.
69. What is 'price ceiling'?
- (a) Minimum price that can be charged for a good
 - (b) Maximum price that can be charged for a good
 - (c) Minimum support price
 - (d) Both (a) and (b)
70. Which of the following does not cause inflation:
- (a) Easy finance facility
 - (b) Growth of Black Money
 - (c) Decrease in public i.e. government expenditure
 - (d) High growth rate of population
71. A chemical factory has full information regarding the risks of a product but continues to sell it. This is possible because of:
- (a) moral hazard
 - (b) Free riding
 - (c) asymmetric information
 - (d) None of these
72. Which of the following is not a criterion for determining distribution of Central taxes among the states for 2021-2026 period:
- (a) Infrastructure performance
 - (b) Forest and ecology
 - (c) Tax and fiscal efforts
 - (d) Demographic performance
73. 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

74. The External Debt has been shown at the exchange rate applicable at the time of:
- Contracting the debt.
 - Expanding the debt.
 - Both a & b
 - None of the above
75. Which of the following is not a classification of public expenditure?
- Functional classification
 - Revenue and Capital
 - Voted and Charged
 - Plan and Non Plan
76. Which of the following is an implication of the imposition of price ceiling below the equilibrium price?
- Shortages in the market
 - Problem of allocation of limited supplies among large number of consumers
 - Black marketing
 - All of the above
77. Which of the following measures of meeting deficit in a budget, leads to an increase in money supply in the economy.
- Disinvestment
 - Loan from World Bank
 - Deficit Financing
 - All of these
78. If government wants to contribute to capital formation, then revenue surplus should be :
- Negative
 - Positive
 - Zero
 - None of the above
79. What is the primary purpose of the Finance Commission in India?
- To formulate monetary policy
 - To allocate central taxes to state governments
 - To recommend measures for economic planning
 - To audit the accounts of the government
80. What is the purpose of a debt-to-GDP ratio in public debt management?
- To measure the government's annual revenue
 - To evaluate the proportion of debt relative to the country's economic output
 - To assess the level of inflation in the economy
 - To determine the amount of currency in circulation
81. Which of the following is a zero-sum game?
- Prisoners dilemma
 - Competition for market share
 - Pricing strategy
 - None of the above is correct.

82. The minimum support price is declared by :
- (a) Ministry of Agriculture
 - (b) Ministry of Finance
 - (c) The Cabinet Committee on economic affairs
 - (d) None of these
83. Which of the following are the major taxes in India?
- (a) Corporation Tax
 - (b) Stamp Duty and Registration
 - (c) Customs duty
 - (d) None of these
84. Fiscal Policy is formulated by _____ in India?
- (a) Finance Ministry
 - (b) RBI
 - (c) Different Banks
 - (d) None of these
85. A Substantial increase in capital expenditure or revenue expenditure leads to _____
- (a) Fiscal deficit
 - (b) Budgetary deficit
 - (c) Primary deficit
 - (d) None of these
86. Tax reforms are concerned with the reforms in the government taxation and public expenditure policies which are collectively known as its _____
- (a) Financial reform
 - (b) Fiscal Policy
 - (c) Financial Policy
 - (d) None of these
87. Goods and services tax (GST) was enacted by parliament vide _____ Constitutional Amendments Act 2016.
- (a) 103rd
 - (b) 105th
 - (c) 101
 - (d) None of these
88. Macroeconomic stabilization may be achieved through:
- (a) Free market economy
 - (b) Fiscal Policy
 - (c) Monetary Policy
 - (d) Both (b) & (c)
89. Fiscal Federalism refers to:
- (a) Organising and Implementing development plan
 - (b) The management of Fiscal Policy by a nation
 - (c) Division of economic functions and resources among different layers of the government
 - (d) None of these

90. The major reason for market failure:
- (a) Market Power
 - (b) Externalities
 - (c) Public Good
 - (d) All the above
91. The Public debt management cell was created in:
- (a) 2016
 - (b) 2015
 - (c) 2020
 - (d) 1995
92. Which of the following policies is likely to shift the economy's aggregate demand curve to the right?
- (a) Increase in government spending
 - (b) Increase in taxes
 - (c) A tax cut along with increase in public expenditure
 - (d) All the above
93. Inflationary gap:
- (a) raises the level of output
 - (b) does not impact the level of output
 - (c) raises the general price level
 - (d) both (b) and (c)
94. The argument for education subsidy is based on:
- (a) Education is costly
 - (b) The ground that education is merit good
 - (c) Education creates positive externalities
 - (d) (b) & (c)
95. Public financial management system in the central government and matters connected with state finance is managed by:
- (a) The department of expenditure
 - (b) The department of financial services
 - (c) The department of economic affairs
 - (d) None of these
96. 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

97. 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
98. 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
99. 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
100. 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
101. Which of the economists below most likely advocated activist government policies?
- (a) Milton Friedman
 - (b) John Maynard Keynes
 - (c) Robert Lucas
 - (d) Thomas Sargent
102. 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
103. When a market fails to allocate resources efficiently, leading to overproduction or under production of goods, it is called:
- (a) Monopoly
 - (b) Externalities
 - (c) Public Goods
 - (d) Market Equilibrium
104. 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

105. Which of the following is the correct sequence of stages in the budget-making process?
- Presentation, Drafting, Execution, Approval
 - Drafting, Presentation, Approval, Execution
 - Execution, Presentation, Approval, drafting
 - Presentation, Approval, Execution, drafting
106. Which of the following is a tool of expansionary fiscal policy?
- Increasing taxes
 - Cutting government spending
 - Reducing subsidies on essential goods
 - Increasing government spending to stimulate demand
107. What was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003?
- Achieve Fiscal Surplus
 - Stop Money Laundering
 - Eliminate Fiscal Deficit
 - Eliminate Revenue deficit
108. 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?
- The government maximizes profits by privatizing public goods.
 - The government ensures the efficient distribution of resources in competitive markets.
 - The government allocates resources to public goods like defence and infrastructure.
 - The government avoids intervening in resource allocation to maintain market efficiency.
109. Which of the following situations best demonstrates a market failure due to asymmetric information?
- A monopolist exploiting market power by reducing supply
 - Consumers buying substandard products because they lack information about quality
 - The government providing public goods like street lighting
 - A natural monopoly where economies of scale drive market concentration
110. Which of the following budget types specifically aims to reduce the deficit by either increasing taxes or reducing government spending?
- Balanced budget
 - Expansionary budget
 - Contractionary budget
 - Surplus budget
111. Which of the following would be an example of a counter-cyclical fiscal policy during a period of recession?
- Increasing taxes and reducing government spending
 - Cutting taxes and increasing government expenditure
 - Reducing the public debt by increasing savings
 - Avoiding changes in taxes and government spending

112. 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
113. Sarah is considering purchasing a used car from a private seller named John. John claims that the car is in excellent condition and has never been in an accident. However, John is aware that the car had significant damage in the past due to an accident, but he has repaired it without disclosing this information to Sarah. Based on the case described, what concept of economics does this scenario illustrate ?
- (a) Moral Hazard
 - (b) Lemons Problem
 - (c) Market Power
 - (d) Government Interventions
114. If the primary deficit is country are 3,500 crores 20,500 crores and the net interest liabilities of a then what will be the fiscal deficit?
- (a) 17,000 crores
 - (b) 21,500 crores
 - (c) 19,500 crores
 - (d) 24,000 crores
115. Which Articles of the Indian Constitution contain specific provisions regarding the distribution of finances among states ?
- (a) Articles 356 to 369
 - (b) Articles 248 to 257
 - (c) Articles 268 to 281
 - (d) Articles 292 to 304
116. Richard Musgrave introduced a three-branch taxonomy describing the role of government in a market economy. What are these branches ?
- (a) Resource allocation, income generation, and price stability
 - (b) Resource allocation, income redistribution, and macro economic stabilization
 - (c) Production efficiency, income equality, and fiscal sustainability
 - (d) Price regulation, employment generation, and fiscal responsibility
117. Under which Supreme Court verdict do the Union and State Legislatures have "equal, simultaneous and unique powers" to make laws on Goods and Services Tax (GST)?
- (a) June 2020 verdict
 - (b) July 2021 verdict
 - (c) Feb. 2022 verdict
 - (d) May 2022 verdict

118. Under institutional responsibility for public debt management, external debt is the responsibility of:
- Reserve Bank of India
 - Ministry of Finance
 - Department of Economic Affairs
 - State Government

119. What actions can be taken during Inflation?
- Introduce subsidies and reduce tax rates.
 - Implement austerity measures and reduce government spending.
 - Levy new taxes and raise the rates of existing taxes.
 - Increase government borrowing and stimulate demand.

120. Which of the following are considered tools of fiscal policy ?
- Taxes, subsidies and tariffs
 - Taxes, government expenditure, public debt and the budget
 - Monetary policy, interest rates and inflation targeting
 - Exchange rates, capital controls and quantitative easing

121. The following figures relate to country A for a particular financial year:

Particulars	Amount (₹) in crores
Revenue deficit	10,000
Fiscal deficit	24,000
Net interest liability	2,000
Borrowing	6,000
Expenditure on revenue account	3,000

What will be the primary deficit of country 'A'?

- ₹ 8,000 crores
 - ₹ 22,000 crores
 - ₹ 18,000 crores
 - ₹ 21,000 crores
122. All revenues received, loans raised and all moneys received by the government in repayment of loans are credited to the:
- Consolidated fund of India
 - Contingency fund of India
 - Public provident fund of India
 - Public Account
123. The Government offer minimum assured price to the farmers to purchase their Output is called
- Market Price
 - Support Price
 - Equilibrium Price
 - Ceiling Price

124. 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
125. Which of the following is the primary aim of fiscal policy in a country with high unemployment?
- (a) Reducing inflation
 - (b) Achieving full employment
 - (c) Maximizing government revenue
 - (d) Managing the public debt
126. 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
127. When a market fails to allocate resources efficiently, leading to overproduction or under production of goods, it is called:
- (a) Monopoly
 - (b) Externalities
 - (c) Public Goods
 - (d) Market Equilibrium
128. 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
129. 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
130. 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

131. Which of the following is NOT typically used as a fiscal policy measure to control inflation?
 - (a) Increasing government expenditure
 - (b) Raising taxes
 - (c) Reducing public sector investments
 - (d) Increasing interest rates
132. A fiscal policy aimed at reducing budget deficits and controlling inflation is known as:
 - (a) Expansionary fiscal policy
 - (b) Contractionary fiscal policy
 - (c) Neutral fiscal policy
 - (d) Redistributive fiscal policy
133. 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 defense and infrastructure.
 - (d) The government avoids intervening in resource allocation to maintain market efficiency.
134. 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
135. 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
136. 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
137. 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



ZIDD

MAY 2025

**India's Only Institute That Gives
100% Fees Refund If You Fail**



VIDHYODAY
VIDHYA KA UDAY

ANSWERS KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
c	b	b	d	a	a	a	c	d	a	d	b	b	d	a	b	c	a	c	b
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
d	d	d	b	a	b	a	b	b	c	a	a	b	b	b	a	d	b	a	d
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
c	a	d	d	a	d	d	a	b	b	a	a	d	c	d	d	a	d	a	b
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
c	d	c	c	d	a	a	a	b	c	c	c	a	a	d	d	d	b	b	b
81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
b	c	b	b	a	b	d	d	c	d	a	d	d	d	a	a	c	a	c	b
101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
b	b	b	b	b	d	c	c	b	c	b	b	b	d	c	b	d	a c	b c	b
121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137			
b	a	b	c	d	b	b	b	b	d	d	b	c	b	c	b	b			

CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS

Chapter 8: Money Market

1. 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.
2. 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
3. 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.
4. 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
5. 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.
6. 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
7. 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

8. 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
9. 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
10. 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
11. Lower interest rates are likely to:
- (a) Decrease consumption.
 - (b) Increase the cost of borrowing.
 - (c) Encourage saving.
 - (d) Increase borrowing and spending.
12. Which of the following is known as broad money?
- (a) M1
 - (b) M2
 - (c) M3
 - (d) M4
13. Money supply refers to the sum of money held by:
- (a) Public
 - (b) Banks
 - (c) Govt
 - (d) RBI
14. The Supply of Money is a:
- (a) Flow variable
 - (b) Stock variable
 - (c) A combination of stock and flow variable
 - (d) Cannot be categorized
15. 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

16. Reserve money is supplied by:

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

17. 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

18. 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

19. 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

20. FII inflow will impact:

- (a) BOP
- (b) Fiscal deficit
- (c) Govt revenues
- (d) Banks income

21. 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

22. 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
23. MSF rate is:
- (a) Higher than repo rate
 - (b) Higher than CRR
 - (c) Higher than Reverse repo rate
 - (d) Higher than SLR
24. CRR should maintained in:
- (a) Cash
 - (b) Gold
 - (c) Bonds
 - (d) Equity
25. 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
26. Reverse repo rate is:
- (a) Equal to CRR
 - (b) Equal to Bank rate
 - (c) Equal to MSF
 - (d) lower than Repo rate
27. MPC comprises _____members:
- (a) 3
 - (b) 5
 - (c) 6
 - (d) 4
28. SLR should be maintained in:
- (a) Bonds
 - (b) Equity
 - (c) Gold
 - (d) Cash
29. 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

30. 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
31. Primary deficit is obtained by deducting interest payments from the:
 - (a) Fiscal deficit
 - (b) Revenue deficit
 - (c) Budgetary deficit
 - (d) Monetized deficit
32. 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
33. 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
34. 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
35. 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
36. 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
37. What will be the value of Credit Multiplier when the Required Reserve ratio is 50%?
 - (a) 4
 - (b) 2
 - (c) 3
 - (d) 1

38. 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
39. Money Supply is directly proportional to:
- (a) Cash reserve ratio (r)
 - (b) Monetary base (H)
 - (c) currency deposit ratio (k)
 - (d) Money Multiplier (m)
40. Reserve money is supplied by:
- (a) RBI
 - (b) Government
 - (c) Commercial banks
 - (d) World bank
41. Which of the following are capital receipts of the government?
- (a) Recovery of loans
 - (b) Disinvestment
 - (c) Borrowing
 - (d) All of the above
42. 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
43. Which of the following is/are the components of the Fiscal Deficit?
1. Budgetary Deficit
 2. Market Borrowings
 3. Expenditure made from Pradhan Mantri Rahat Kosh
- (a) Only 1
 - (b) Only 2
 - (c) Only 3
 - (d) All 1, 2 and 3
44. 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

45. Short -term credit from the Reserve bank to state government:
 - (a) RBI credit to states
 - (b) Commercial credit of RBI
 - (c) Ways and Means Advances
 - (d) Short term facility
46. Broad money refers to:
 - (a) M1
 - (b) M2
 - (c) M3
 - (d) M4
47. The effect of increase CRR will be reduced or nullified if:
 - (a) Bank rate is reduced.
 - (b) Securities are sold in the open market.
 - (c) SLR is increased.
 - (d) People do not borrow from non-banking institutions.
48. During depression, it is advisable to:
 - (a) Lower Bank Rate and purchase securities in the market.
 - (b) Increase Bank Rate and purchase securities in the open market.
 - (c) Decrease Bank Rate and sell securities in the open market.
 - (d) Increase Bank Rate and sell securities in the open market.
49. 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
50. Mr. A, who is self-employed decided to keep more money in his savings account, considering the prevailing economic & political conditions. What is the motive for such a move by A?
 - (a) Transactions Motive
 - (b) Speculative Motive
 - (c) Precautionary Motive
 - (d) Conservative Motive
51. Which of the following is true with regards to Liquidity Trap?
 - (a) Speculative Demand is parallel to X-Axis.
 - (b) Desire to hold bond is infinity.
 - (c) Ineffective Monetary Policy
 - (d) Both a & c

52. Among the following identified by Friedman, which one is not one of the four determinants of demand for money?
- (a) Average return on five asset classes
 - (b) Price level in the economy
 - (c) Inflation Rate
 - (d) Forex Trade
53. According to whom, rational behaviour induces individuals to hold an optimally structured wealth portfolio which is comprised of both bonds and money?
- (a) Tobin
 - (b) Baumol
 - (c) Keynes
 - (d) Alfred Marshall
54. Which of the following monetary instruments are indirect instruments of Monetary Policy?
- (a) Cash Reserve Ratio
 - (b) Open Market Operations
 - (c) Repo Rate
 - (d) Both (b) & (c)
55. The central bank of a country is concerned about the high level of household debt and its potential impact on the economy. Which of the following actions can it take to address the issue?
- (a) Increase the reserve requirement ratio to reduce lending.
 - (b) Decrease the reserve requirement ratio to increase lending.
 - (c) Increase the interest rate on loans to discourage borrowing.
 - (d) Decrease the interest rate on loans to encourage borrowing.
56. Interest Rate Policy is a part of:
- (a) Fiscal Policy
 - (b) Industrial Policy
 - (c) Monetary Policy
 - (d) None of the above
57. _____ refers to that portion of total deposits that a commercial bank is required to keep with RBI in the forms of reserves.
- (a) Compulsory Reserve Ratio
 - (b) Statutory Liquid Ratio
 - (c) Legal Reserve Ratio
 - (d) Cash Reserve Ratio
58. Are fiscal & monetary policies opposite of each other?
- (a) Yes, they are opposite to each other
 - (b) Fiscal policy is superior to monetary policy.
 - (c) No, these policies are complementary to each other.
 - (d) None of these

59. Calculate M1 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) 9,32,874 Cr
 (b) 3,306,510 Cr
 (c) 9,25,858 Cr
 (d) 7,05,246Cr
60. Banks 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
61. Quantitative casing is the common name for?
- (a) Asset selling by a Central Bank
 (b) Asset purchasing by a Central Bank
 (c) Lowering at the interest rate for commercial bank lending
 (d) None of these
62. Which among the following shows a correct descending order of liquidity of M_1 , M_2 , M_3 ?
- (a) $M_1 > M_2 > M_3$
 (b) $M_2 > M_1 > M_3$
 (c) $M_3 > M_2 > M_1$
 (d) $M_1 > M_3 > M_2$
63. Which of the following is not a money market instrument?
- (a) Treasury bills
 (b) Commercial Paper
 (c) Certificate of Deposit
 (d) Equity Share
64. 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

65. The Cambridge approach to quantity theory is also known as:
- Classical approach
 - Cash balance approach
 - Fisher's theory of money
 - None of these
66. _____ considered demand for money is an application of a more general theory of demand for capital assets.
- Baumol
 - Milton Friedman
 - J M Keynes
 - None of these
67. If commercial banks reduce their holdings of excess reserves:
- The money supply increases
 - The money base falls
 - The money supply falls
 - None of these
68. RBI provides financial accommodation to the commercial banks through repos/ reverse repos under:
- Statutory Liquidity Ratio (SLR)
 - Market stabilisation scheme (MSC)
 - Liquidity adjustment facility (LAF)
 - None of these
69. Which of the following Policy instruments RBI normally resorts to for managing inflation in the economy
- Bank Rate
 - Cash Reserve Ratio
 - Statutory liquidity Ratio
 - Repo rate
70. In the Cambridge equation for money demand, what does "k" represent?
- The velocity of money
 - The money supply
 - The income elasticity of money demand
 - The proportion of income held as money
71. Which measure of the money supply includes M1 and all other forms of near money that are less liquid than M1?
- M3
 - M2
 - L
 - M0

72. _____ considered demand for money is an application of a more general theory of demand for capital assets
- Baumol
 - Milton Friedman
 - J M Keynes
 - None of these
73. The ratio that relates the change in the money supply to a given change in the monetary base is called the:
- required reserve ratio
 - money multiplier
 - Deposit ratio
 - None of these
74. Which of the following component of monetary policy can be adopted to correct excess demand?
- Increase in repo rate
 - Increase in CRR
 - Increase in margin requirement
 - All of these
75. Reverse repo rate:
- generate interest income
 - is increased to curb inflation
 - is not a policy rate
 - both (a) & (b)
76. The RBI is mandated to Publish a monetary policy report every:
- Six months
 - Three months
 - Twelve months
 - None of these
77. The Liquidity Trap is the extreme effect of:
- Monetary Policy
 - Fiscal Policy
 - Either (a) or (b)
 - None of these
78. If a bank has deposits of INR 50,00,000 and a reserve requirement of 10%, what is its excess reserves?
- INR 55,00,000
 - INR 30,00,000
 - INR 45,00,000
 - INR 5,00,000

79. What will be the value of Credit Multiplier when the Required Reserve ratio is 50%?
- (a) 4
 - (b) 2
 - (c) 3
 - (d) 1
80. If the required reserve ratio is 20 percent, currency in circulation is ₹ 800 billion, demand deposits are ₹ 2000 billion, and excess reserves total ₹ 2 billion, find the value of money multiplier
- (a) 2.50
 - (b) 2.90
 - (c) 2.60
 - (d) 2.40
81. Money Supply is directly proportional to:
- (a) Cash reserve ratio (r)
 - (b) Monetary base (H)
 - (c) currency deposit ratio (k)
 - (d) Money Multiplier (m)
82. 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
83. 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
84. 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
85. 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

86. Which of the following factors does NOT directly affect the demand for money?
- Interest rates
 - The level of income or output
 - The price level in the economy
 - The government's fiscal deficit
87. The transaction motive for holding money implies that money is held to:
- Make speculative investments in financial markets
 - Provide liquidity for daily transactions and purchases
 - Protect wealth against inflationary risks
 - Save for future investment in assets
88. In an economy, a change in the reserve ratio will directly affect the:
- Level of interest rates in the market
 - Supply of money in circulation
 - Demand for money at different income levels
 - Government's budgetary balance
89. Which of the following is the primary objective of monetary policy in a country?
- To reduce government expenditure
 - To regulate the money supply to achieve macroeconomic goals like controlling inflation
 - To provide interest-free loans to the private sector
 - To balance the national budget
90. 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:
- Decrease
 - Increase proportionately
 - Stay the same
 - Increase, but unpredictably
91. If the central bank implements an expansionary monetary policy by lowering the reserve requirement, the immediate effect on the money supply will be:
- A decrease in the money supply
 - An increase in the money supply
 - No change in the money supply
 - A reduction in interest rates without affecting money supply
92. Which of the following actions would the central bank most likely take to combat inflationary pressure in the economy?
- Decrease the interest rate
 - Increase the money supply
 - Raise the reserve ratio for commercial banks
 - Lower the statutory liquidity ratio

93. 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
94. 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
95. In an economy, the money supply (M) is ₹ 500 crores, the velocity of money (V) is 5 and the total number of transactions (T) is 10,000. Calculate the average price level (P) in the economy.
- (a) ₹ 25 thousand
 - (b) ₹ 25 lakhs
 - (c) ₹ 50 lakhs
 - (d) ₹ 50 thousand
96. If the monetary base in an economy is ₹ 250 crores through an open market operation by the central bank, and the money supply is ₹ 1,000 crores, calculate the money multiplier.
- (a) 0.25
 - (b) 1
 - (c) 4
 - (d) 0.40
97. If the reserve ratio (R) is 0.10 and there is an increase in the reserves by 1,000, what will be the change in the money supply?
- (a) ₹ 10,000
 - (b) ₹ 1,000
 - (c) ₹ 100
 - (d) ₹ 10
98. Which of the following is NOT a function of money?
- (a) Providing a common measure of value
 - (b) Acting as a medium of exchange
 - (c) Serving as a unit of account
 - (d) Easily reproducible by people
99. The concept of "aversion of risk" is propounded by:
- (a) James Tobin
 - (b) Milton Friedman
 - (c) John Maynard Keynes
 - (d) Alfred Marshall

100. What type of currency is issued by the central bank ?
- Commodity money
 - Digital money
 - Fiat money
 - Representative money
101. Which of the following is the correct formula to calculate Excess Reserves?
- $\text{Excess Reserves} = \text{Total reserves} - \text{Required reserves}$
 - $\text{Excess Reserves} = \text{Total reserves} + \text{Required reserves}$
 - $\text{Excess Reserves} = \text{Total reserves} / \text{Required reserves}$
 - $\text{Excess Reserves} = \text{Total reserves} \times \text{Required reserves}$
102. What does RBI publish every six months, providing explanations of the sources of inflation and forecasts for the upcoming period of six to eighteen months?
- Economic Outlook Report
 - Financial Stability Report
 - Monetary Policy Report
 - Inflation Targeting Framework
103. Reverse Repo rate is linked to repo rate in the following way:
- $\text{Reverse Repo Rate} = \text{Repo Rate} + 1$
 - $\text{Reverse Repo Rate} = \text{Repo Rate} - 1$
 - $\text{Reverse Repo Rate} = \text{Repo Rate} \times 0.1\%$
 - $\text{Reverse Repo Rate} = \text{Repo Rate} \times 0.01\%$
104. Which of the following factors does NOT directly affect the demand for money?
- Interest rates
 - The level of income or output
 - The price level in the economy
 - The government's fiscal deficit
105. The transaction motive for holding money implies that money is held to:
- Make speculative investments in financial markets
 - Provide liquidity for daily transactions and purchases
 - Protect wealth against inflationary risks
 - Save for future investment in assets
106. Which of the following is NOT a part of the money supply in an economy?
- Currency held by the central bank
 - Demand deposits in commercial banks
 - Saving accounts in commercial banks
 - Time deposits in commercial banks

107. 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
108. 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
109. 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
110. 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
111. 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
112. 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
113. 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

114. 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





MAY 2025

**India's Only Institute That Gives
100% Fees Refund If You Fail**



VIDHYODAY
VIDHYA KA UDAY

ANSWERS KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
a	b	b	c	c	b	b	a	b	d	d	c	a	b	a	a	c	a	b	a
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
d	a	a	a	b	d	c	c	b	a	a	a	b	d	b	a	b	b	b	a
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
d	a	d	a	c	c	a	a	c	c	d	d	a	d	a	c	d	c	b	b
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
b	a	d	b	b	b	a	c	d	d	b	b	b	d	d	a	a	b	b	a
81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
b	a	a	c	a	d	b	b	b	b	b	b	c	b	b	c	a	d	a	c
101	102	103	104	105	106	107	108	109	110	111	112	113	114						
a	c	b	d	d	a	b	b	c	b	b	c	c	a						

CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS

Chapter 9: International Trade

1. 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.
2. 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.
3. Quantitative restrictions refer to limits set by countries to curb:
 - (a) Imports
 - (b) Exports
 - (c) Imports & exports
 - (d) None of the above
4. 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
5. 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
6. 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)
7. 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

8. 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
9. Specific tariff is imposed on:
 - (a) Per unit
 - (b) Value
 - (c) Specific content
 - (d) Per unit and value
10. 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
11. 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
12. Increasing import cost by regulating foreign exchange comes under:
 - (a) Financial measures
 - (b) Safe guard measures
 - (c) Distribution restrictionism
 - (d) Administrative measures
13. 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
14. 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

15. 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
16. 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
17. 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.
18. The total member countries under WTO currently:
 - (a) 164
 - (b) 171
 - (c) 169
 - (d) 161
19. FDI implies:
 - (a) Short term investment
 - (b) Medium term investment
 - (c) Long term investment
 - (d) Both Short and long term investments
20. 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
21. A firm makes an investment in unrelated business then it is called:
 - (a) Horizontal investment
 - (b) Vertical investment
 - (c) Conglomerate
 - (d) FDI

22. 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.
23. 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
24. 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
25. If real exchange rate is high:
- (a) Foreign goods cheaper and imports will raise
 - (b) domestic goods cheaper
 - (c) exports will raise
 - (d) Imports will fall
26. 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
27. 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 \$
28. Which of the following is not determinant of exchange rate:
- (a) Inflation
 - (b) Capital flows
 - (c) Repo rate
 - (d) Domestic Consumption

29. 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
30. 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
31. 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
32. The terms revaluation is applied to:
 - (a) Flexible exchange rate
 - (b) Fixed exchange rate
 - (c) Gold
 - (d) ECB
33. 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
34. The targeted inflation rate for RBI:
 - (a) 4%
 - (b) 2%
 - (c) 6%
 - (d) 5%
35. 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
36. 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.

37. 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
38. 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
39. 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
40. 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
41. 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
42. Most tariffs have:
- (a) only revenue effects
 - (b) only protective effects
 - (c) both protective and revenue effects
 - (d) neither protective or revenue effects
43. 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

44. What is a Global Depository Receipt?
- It is a receipt issued by multinational banks on deposit of money.
 - It is a receipt issued by stock exchange to bank clearing mechanism.
 - It is a receipt issued by an overseas bank in lieu of shares of a domestic company.
 - It is a receipt issued by stock exchange on investment by foreign portfolio investor.
45. 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?
- Dirty Floats
 - Managed Floats
 - Fixed Floats
 - Market Stabilization Floats
46. Which type of investment is more susceptible to capital flight during times of economic instability?
- FDI
 - FPI
 - Both FDI and FPI equally
 - Neither FDI nor FPI
47. 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?
- Import Quotas
 - Anti-Dumping Duties
 - Escalated Tariffs
 - Embargos
48. Which of the following is not one of the features of New Trade Theory by Paul Krugman?
- Countries which trade in similar goods are natural trade partners
 - It is based on labour theory of value
 - Network effect as means of engaging in international trade
 - It focuses more on economies of scale
49. The Three component of FDI is:
- equity capital
 - reinvested earnings
 - Intra company loans
 - All the above
50. Which of the following tariff is charged on imports on most-favoured nation (MFN) basis:
- bound tariff
 - applied tariff
 - prohibitive tariff
 - None of these

51. Money cost is considered by:
- (a) Modern theory of trade
 - (b) Comparative cost advantage
 - (c) New Trade theory
 - (d) None of these
52. First mover advantage theory is related to:
- (a) Absolute advantage theory
 - (b) Comparative cost advantage theory.
 - (c) New trade theory
 - (d) None of these
53. 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
54. The WTO comprises majorly:
- (a) developed countries
 - (b) under developed countries
 - (c) developing countries
 - (d) None of these.
55. A firm makes an investment in unrelated business then it is called:
- (a) Horizontal investment
 - (b) Vertical investment
 - (c) Conglomerate
 - (d) None of these
56. 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
57. Globalization indicate rapid _____ between Countries:
- (a) Competition
 - (b) Investment
 - (c) Integration
 - (d) None of these
58. 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.

59. 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
60. Most tariffs have:
- (a) only revenue effects
 - (b) only protective effects
 - (c) both protective and revenue effects
 - (d) neither protective or revenue effects
61. 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
62. Macro-Prudential Policy Measures can help to overcome:
- (a) Systemic Risk
 - (b) Credit Risk
 - (c) Inflation risk
 - (d) None of these
63. Foreign Portfolio Investment (FPI) involves:
- (a) Investment in tangible assets in a foreign country
 - (b) Investment in financial assets such as stocks and bonds of foreign companies
 - (c) Establishing subsidiaries or acquiring stakes in foreign companies
 - (d) Long-term commitment to a foreign market
64. Ricardo explained the law of comparative advantage on the basis of:
- (a) opportunity costs
 - (b) economies of scale
 - (c) the labour theory
 - (d) None of these
65. Factor abundance is considered to be part of international trade:
- (a) Heckscher Ohlin theory of international trade
 - (b) Comparative cost advantage theory
 - (c) New Trade theory
 - (d) Factor Equalization theorem
66. 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

67. Nationalization means:
- (a) Selling of government stake to private sector
 - (b) Selling of government companies to private sector
 - (c) Government purchasing 26% shares in private companies
 - (d) Taking of full control and management from Private Sector by the Government
68. Which of the following is a disadvantage of international trade?
- (a) Increased choice for consumers
 - (b) Risk of dependence on imports
 - (c) Increased specialization
 - (d) None of the above
69. Which of the following is an example of a local content requirement?
- (a) A limit on the quantity of imports
 - (b) A subsidy for domestic producers
 - (c) A requirement that a certain percentage of a product be produced domestically.
 - (d) All of these
70. 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
71. ONGC Videsh Limited has been incorporated by its parent entity ONGC for oil and gas acreages, involving exploration, development and production of oil and gas outside India. Which type of foreign investment is it?
- (a) Joint Venture
 - (b) Brownfield Investment
 - (c) Greenfield Investment
 - (d) Licensing
72. 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.
73. Export led growth strategy does not include:
- (a) outward oriented growth
 - (b) export promotion
 - (c) import restrictions
 - (d) emphasising comparative advantage

74. What is hedging?
- Protection against extreme weather condition
 - Protection against risk related to variation in Price movement in an asset.
 - When exchange rate is unlocked for future supplies of foreign exchange
 - None of these
75. One of the reasons mentioned below doesn't justify imposition of tariffs:
- It will enhance consumer sovereignty
 - It helps in curbing BoP deficit.
 - It raises government revenue.
 - It is used to protect domestic industry from subsidized imports.
76. Under which union they have or follow a common monetary policy and fiscal policy:
- Economic Union
 - Custom Union
 - Perfect Competition
 - None of these
77. Dumping Refers to:
- Reducing tariffs
 - Sale of goods abroad at a lower price below their cost and price in their home market
 - Buying goods at low prices abroad and selling at higher price locally
 - Expenditure goods selling for low prices
78. Which of the following theories suggests that firms seek to penetrate new markets over time?
- Theory of comparative advantage
 - Product Market theory
 - Imperfect Market theory
 - None of these
79. Who Propounded the Price Equalization Theorem?
- Paul Samuelson
 - Alfred Marshall
 - Irving Fisher
 - Marx
80. The World Trade Organization (WTO) was established to implement the final act of round agreement of GATT.
- Geneva
 - Uruguay
 - Tokyo
 - None of these

81. Ricardo explained the law of comparative advantage on the basis of-
- (a) Economies of scale
 - (b) The labour theory of value
 - (c) Opportunity costs
 - (d) None of these
82. Escalated tariffs refer to:
- (a) Nominal tariff rate on raw materials which are greater than tariffs on mfg. product
 - (b) A tariff which is escalated to prohibit imports of a particular good to protect domestic Industries
 - (c) Normal tariff rate on mfg. products which are greater than tariffs on raw material
 - (d) None of these
83. The most controversial topic in the yet to conclude Doha Agenda is:
- (a) Trade in agricultural goods
 - (b) Trade in manufactured goods
 - (c) market access to goods from developed countries
 - (d) None of these
84. "Vehicle currency" refer to
- (a) A currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties.
 - (b) a currency that is traded internationally and therefore is in high demand
 - (c) either a or b
 - (d) None of these
85. Creation of fresh assets and production are included in which type of FDI:
- (a) Strategic Alliance
 - (b) Merger and Acquisition
 - (c) Brownfield Investment
 - (d) Greenfield Investment
86. Most Favoured Nation (MFN) clause was introduced by:
- (a) WTO
 - (b) GATT
 - (c) ADB
 - (d) IBRD
87. Which term describes the movement of capital from one country to another to exploit investment opportunities?
- (a) Foreign Direct Investment (FDI)
 - (b) Foreign Portfolio Investment (FPI)
 - (c) Exchange Rate Speculation
 - (d) Capital Flight

88. In Heckscher Ohlin theory factors of production are---in number.
- (a) one
 - (b) two
 - (c) three
 - (d) four
89. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports:
- (a) Capitalism
 - (b) Socialism
 - (c) Mercantilism
 - (d) None of these
90. Which of the following is not a non-tariff barrier:
- (a) Complex documentation requirement
 - (b) Countervailing duties charged by importing country
 - (c) Pre -Shipment product inspection and certification on requirements
 - (d) None of these
91. 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
92. 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
93. 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
94. The terms revaluation is applied to:
- (a) Flexible exchange rate
 - (b) Fixed exchange rate
 - (c) Gold
 - (d) ECB

95. 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
96. 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.
97. 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
98. 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
99. 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.
100. 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
101. 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.

102. Which of the following is a potential benefit of Foreign Direct Investment (FDI) for the host country?
- Increased inflation due to higher government expenditure
 - Reduction in technological transfer to local industries
 - Creation of employment opportunities and skill development
 - Increased dependence on foreign companies for resources
103. If a country's currency is depreciating, it means that:
- The domestic currency is increasing in value relative to foreign currencies.
 - The country's exports will become more expensive to foreign buyers.
 - The country's exports become cheaper for foreign buyers, potentially boosting trade.
 - The central bank is actively increasing the supply of money.
104. In international trade negotiations, which of the following is the most common objective for countries involved in multilateral trade talks?
- To increase tariffs and protect domestic industries
 - To reduce trade barriers and promote free trade
 - To restrict foreign competition through quotas
 - To enhance domestic subsidies for agricultural sectors
105. Which of the following is an example of a multilateral trade agreement?
- North American Free Trade Agreement (NAFTA)
 - European Union (EU) Trade Policies
 - World Trade Organization (WTO) agreements
 - Bilateral Trade Agreement between two countries
106. Which of the following is the primary objective of bilateral trade agreements?
- To create trade barriers between the two countries involved
 - To establish free trade between two countries by eliminating tariffs and restrictions
 - To focus on mutual military cooperation between the countries
 - To standardize monetary policies between two countries
107. Policies used to target specific key exporting industries in order to achieve economic growth in that sector is likely to have which following effect?
- Lowering national debt
 - Cause a budget surplus
 - Increase employment rates in that sector and improve the current account balance
 - Increase employment rates in that sector and worsen the current account balance
108. As of 1 February 2021, how many Regional Trade Agreements (RTAs) were in force worldwide ?
- 239 RTAS
 - 339 RTAS
 - 439 RTAS
 - 539 RTAS

109. Suppose the exchange rate between INR and EUR changes from 1 EUR = 80 INR to 1 EUR = 85 INR. What can be said about the change in the value of the INR relative terms to the EUR?
- INR has appreciated against EUR.
 - INR has depreciated against the EUR.
 - EUR has no effect against INR.
 - EUR has depreciated against INR.
110. What does the principle of Absolute Advantage refer to ?
- The ability to produce a greater quantity of a goods using fewer resources
 - The ability to produce a greater quantity of a goods using the same amount of resources as competitors
 - The ability to produce a lesser quantity of a goods using the same amount of resources as competitors
 - The ability to produce a greater variety of goods than competitors
111. The North American Free Trade Agreement (NAFTA), is a trade agreement signed between :
- United States of America and Canada
 - United States of America, Canada, and Mexico
 - United States of America and Mexico
 - Canada and Mexico
112. What does TRIPS stand for?
- Trade-Related Agreements on Investment Policies
 - Trade-Related Aspects of Intellectual Property Rights
 - Transnational Regulations for International Product Standards
 - Trade Regulations for International Patent Systems
113. What term is used for the rate between currencies Y and Z, which is derived from the given rates of another set of two pairs of currency (say, X and Y, and, X and Z)?
- Bid rate
 - Spot rate
 - Ask rate
 - Cross rate
114. What is the main difference between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)?
- FDI creates physical assets, while FPI involves only financial assets.
 - FDI involves financial assets, while FPI creates physical assets.
 - Both FDI and FPI create physical assets.
 - Both FDI and FPI involve only financial assets.
115. Foreign corporations invest in India to benefit from the country's particular investment privileges such as tax breaks and comparatively lower salaries.
This type of investment is an example of:
- Foreign Portfolio Investment
 - Joint Venture
 - Foreign Direct Investment
 - Strategic Alliance

116. A tariff which a WTO member binds itself with a legal commitment not to raise tariff rate above a certain level is known as:
- Applied tariff
 - Bound tariff
 - Specific tariff
 - Most-favoured nation tariffs
117. Which of the following is covered under Technical Barriers to Trade (TBT) ?
- Only food products.
 - Only non-food traded products.
 - Only technical standard products.
 - Both food and non-food traded products.
118. Which of the following is NOT a key assumption of Ricardo's theory of comparative advantage?
- Two countries, each specializing in the good it can produce most efficiently, will both gain from trade.
 - Resources are immobile between countries but mobile within a country.
 - Trade occurs only due to differences in technology between countries.
 - Both countries in trade can benefit even if one country is less efficient in producing both goods.
119. According to the Heckscher-Ohlin theory, a country will have a comparative advantage in the production of goods that:
- Require labor-intensive techniques if the country has a surplus of capital.
 - Utilize abundant factors of production that the country has in large supply.
 - Require advanced technology in which the country is technologically superior.
 - Require high labor costs in a country with low wages.
120. Which of the following is a potential benefit of Foreign Direct Investment (FDI) for the host country?
- Increased inflation due to higher government expenditure
 - Reduction in technological transfer to local industries
 - Creation of employment opportunities and skill development
 - Increased dependence on foreign companies for resources
121. Which of the following is the main motivation for companies to engage in Foreign Direct Investment (FDI)?
- To reduce foreign competition in domestic markets
 - To gain access to new markets and resources
 - To avoid taxes in the home country
 - To lower labor costs by outsourcing to developing countries
122. If a country's currency is depreciating, it means that:
- The domestic currency is increasing in value relative to foreign currencies.
 - The country's exports will become more expensive to foreign buyers.
 - The country's exports become cheaper for foreign buyers, potentially boosting trade.
 - The central bank is actively increasing the supply of money.

123. 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
124. 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
125. In the context of trade negotiations, the term "Most-Favored-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.
126. 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
127. 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



India's Only Institute That Gives
100% Fees Refund If You Fail



ANSWERS KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
a	d	c	c	a	c	a	d	a	c	d	a	b	c	a	a	a	a	c	c
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
c	b	d	d	a	b	a	d	a	a	b	b	d	a	d	c	a	a	d	d
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
b	c	c	c	b	b	d	c	d	b	a	c	b	c	c	a	c	d	b	c
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
a	a	b	c	a	a	d	b	c	d	c	b	c	b	a	a	b	d	a	b
81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
b	c	a	a	d	b	b	b	b	b	b	a	b	b	b	b	b	b	d	d
101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
c	c	c	b	c	b	c	b	b	b	b	b	d	a	c	b	d	c	b	c
121	122	123	124	125	126	127													
b	c	b	b	d	c	b													

SPACE FOR NOTES.



CA FOUNDATION
CHAPTER-WISE MODEL TEST PAPERS

Chapter 10: Indian Economy

1. 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
2. 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
3. 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)
4. 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
5. 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
6. 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

7. 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.
8. 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
9. 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
10. India's Rank in Ease of Doing Business is:
- (a) 45
 - (b) 54
 - (c) 63
 - (d) None of these
11. 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
12. SEBI was given statutory recognition in:
- (a) 1985
 - (b) 1990
 - (c) 1992
 - (d) None of these
13. Indian financial system is skewed towards Commercial Banks with no interdependence on NBFCs:
- (a) Yes
 - (b) No
 - (c) Partly Right
 - (d) None of the above

14. The share of agriculture in India's national income has _____ over the years.
 - (a) Remained constant.
 - (b) Decreased.
 - (c) Increased.
 - (d) First decreased and then increased.
15. FEMA stands for:
 - (a) Foreign Exchange Management Act.
 - (b) Funds Exchange Management Act.
 - (c) Finance Enhancement Monetary Act.
 - (d) Future Exchange Management Act.
16. The pre-condition for privatization to be successful requires:
 - (a) Liberalization and de-regulation of the economy.
 - (b) Capital markets should be sufficiently developed.
 - (c) None of the above.
 - (d) (a) & (b) both.
17. The Indian industry faced the process of retrogression and deceleration because of:
 - (a) unsatisfactory performance of agriculture
 - (b) slackening of real investment in public sector
 - (c) narrow market for industrial goods, especially in rural areas
 - (d) all the above.
18. Agrarian reforms in Agriculture brought:
 - (a) Institutional reforms
 - (b) Technical reforms
 - (c) Land reforms
 - (d) All the three mentioned
19. What is the expansion of the term NITI in NITI Aayog?
 - (a) National Institution for Transforming India
 - (b) National Institution for Total Improvement
 - (c) National Institution for Technological Improvement
 - (d) None of these
20. New Industrial Policy was announced on _____.
 - (a) 24th July 1991
 - (b) 15th August 1990
 - (c) 10th January 1995
 - (d) None of these
21. Measure of fiscal reforms includes:
 - (a) Ensuring better tax compliance
 - (b) Encouraging private sector participation
 - (c) Reduction in subsidies and abolition of unnecessary subsidies
 - (d) All of these

22. As per the economic survey 2023-24 the contribution of service sector is _____.
(a) 55%
(b) 60%
(c) 45%
(d) None of these
23. Parallel economy emerges because of what?
(a) Tax Estimation
(b) Tax Compliance
(c) Tax Avoidance
(d) Tax Evasion
24. Nationalization means:
(a) Selling of government stake to private sector
(b) Selling of government companies to private sector
(c) Government purchasing 26% shares in private companies
(d) Taking of full control and management from Private Sector by the Government
25. Government of India recently launched 'Make in India' programme. What will be its impact on Aggregate Demand of India?
(a) Likely to increase
(b) Likely to fall
(c) No impact
(d) None of these
26. PSUs are mainly driven by:
(a) Profit
(b) Industrialization
(c) Social welfare
(d) None of these
27. Nationalization means:
(a) Selling of government stake to private sector
(b) Selling of government companies to private sector
(c) Government purchasing 26% shares in private companies
(d) Taking of full control and management from Private Sector by the Government
28. Which of the following components is used to assess the regional economic performance in India?
(a) Poverty Ratio
(b) Employment Rate
(c) Per Capita Income
(d) All of the above

29. What is the primary objective of the Indian government's "Make in India" initiative?
- To increase imports from other countries
 - To promote local manufacturing and attract foreign investment
 - To reduce domestic production costs
 - To expand the agricultural sector
30. Which of the following is NOT a function of NITI Aayog?
- Formulating five-year plans
 - Promoting sustainable development
 - Facilitating cooperative federalism
 - Providing policy and technical advice to the central and state governments
31. The Indian government's policy of "Import Substitution Industrialization" (ISI) primarily aimed to:
- Increase imports to stimulate economic growth
 - Reduce dependence on foreign goods by promoting domestic industries
 - Encourage foreign investment in local industries
 - Expand the agricultural sector for export
32. Which economic indicator is commonly used to measure inflation in India?
- Gross Domestic Product (GDP)
 - Consumer Price Index (CPI)
 - Producer Price Index (PPI)
 - Index of Industrial Production (IIP)
33. Who maintains a buffer stock of foodgrains in India ?
- FCI
 - NAFED
 - Ministry of Agriculture
 - None of these
34. Atal Tinkering lab is an initiative by which of the following institution ?
- Niti Aayog
 - CBSE
 - National Ayush Mission
 - Reserve bank of India
35. **Assertion (A).** New Economic Policy is to expand the economic wings of the country.
Reason (R) : Due to economic liberalisation or relaxation in the import tariffs, deregulation of markets or opening the markets for private and foreign players, and reduction of taxes a. Both Assertion
- and Reason(R) are true, and Reason (R) is the correct explanation of Assertion (A).
 - Both Assertion (A) and Reason(R) are true, and Reason(R) is not the correct explanation of Assertion (A).
 - Assertion (A) is true, but Reason (R) is false.
 - Assertion (A) is false but Reason(R) are is true.

36. 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
37. 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
38. 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
39. 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
40. 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.
41. 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
42. 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

43. 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
44. 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
45. Transportation and storage, real estate service, public administration and education are the activities in India which are covered by:
 - (a) Primary sector
 - (b) Secondary sector
 - (c) Tertiary sector
 - (d) Private sector
46. Which of the following is a feature of green revolution ?
 - (a) Grow more crops by redistributing land to landless people
 - (b) Use of soil friendly green manure to preserve fertility of soil
 - (c) Diversification to horticulture
 - (d) Use of high yielding varieties of seeds and scientific cultivation
47. On which date was the 'New Industrial Policy' announced by Government of India?
 - (a) 15th August 1947
 - (b) 24th July 1991
 - (c) 26th January 1950
 - (d) 5th September 1992
48. On which date was the apex policy-making body, the Planning Commission, replaced by the National Institution for Transforming India (NITI) Aayog ?
 - (a) 1st April 2015
 - (b) 1st July 2015
 - (c) 1st January 2015
 - (d) 1st July 2016
49. Which government scheme supports and promotes organic farming, as well as the improvement of soil health?
 - (a) National Rural Employment Guarantee Act (NREGA)
 - (b) Rashtriya Krishi Vikas Yojana (RKVY)
 - (c) Pradhan Mantri Fasal Bima Yojana (PMFBY)
 - (d) Paramparagat Krishi Vikas Yojana (PKVY)

50. Which initiative aims at the empowerment of Micro Small and Medium Enterprises (MSMEs)?
- (a) Udyami Bharat
 - (b) Start-up India
 - (c) Make in India
 - (d) Digital India
51. The India Development Update (IDU) report published in November 2022 is published by:
- (a) United Nations Development Programme (UNDP)
 - (b) International Monetary Fund (IMF)
 - (c) World Bank
 - (d) Asian Development Bank (ADB)
52. What is the full form of DPIIT?
- (a) Department for Promotion of Industry and International Trade
 - (b) Department for Promotion of Industrial and Internal Trade
 - (c) Directorate for Promotion of Industry and Internal Trade
 - (d) Department for Promotion of Industry and Internal Trade
53. Which of the following is not the aim of 'Methanol Economy' programme?
- (a) Converting coal reserves and municipal solid waste into methanol.
 - (b) Reducing Greenhouse gas (GHG) emissions.
 - (c) Reducing India's oil import bill.
 - (d) Converting industrial waste into methanol.
54. Which of the following statement is true in relation to the object of The National Data and Analytics Platform (NDAP)?
- (a) To ensure data security.
 - (b) To facilitate and improve access to Indian government data.
 - (c) To convert all government data in electronic form.
 - (d) To formulate a national cyber security law.
55. 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 favor of public enterprises
 - (d) To ensure foreign aid and capital inflows into the country
56. Which of the following is the correct sequence of the sectors of the Indian economy according to the economic development stages?
- (a) Primary → Secondary → Tertiary
 - (b) Tertiary → Primary → Secondary
 - (c) Secondary → Tertiary → Primary
 - (d) Primary → Tertiary → Secondary

57. 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
58. 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
59. 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 labor laws to increase industrial output





ANSWERS KEY

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
d	c	a	c	c	c	d	c	c	c	d	c	b	b	a	d	d	d	b	a
21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
d	a	d	d	a	c	d	d	b	a	b	b	a	a	a	b	b	b	a	d
41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	
c	b	c	b	c	d	b	c	d	a	c	d	d	b	b	a	b	b	b	