

Date: _____

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Test No: _____ Subject: _____

Marks Scored: Total _____/_____

Que. No.	Marks Obtained	Que. No.	Marks Obtained	Que. No.	Marks Obtained	Que. No.	Marks Obtained

Remarks:

Subject Strategy:

CA FOUNDATION – NEW SYLLABUS
BUSINESS ECONOMICS AND BUSINESS AND COMMERCIAL KNOWLEDGE

MARKS: 50
DURATION: 90 MINS

TEST NO. 3 CHAPTER – 7 TO 10

QUESTION PAPER

INSTRUCTIONS:

- Mention your name, subject name & Test No on your first page of the Answer Sheet.
- Paper will only be accepted when uploaded on the Students dashboard.
- Login in to your dashboard, and upload your answers under “**My Answer sheet**” tab
- You can Use **Adobe Scan app or Other**, available in Play Store / App Store for scanning your answer sheet.
- Scan your answer sheet as a single pdf in order to avoid rejection or delay in evaluation.
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OMR SHEET

Q.N.		Q.N.		Q.N.	
1.	(A) (B) (C) (D)	11.	(A) (B) (C) (D)	21.	(A) (B) (C) (D)
2.	(A) (B) (C) (D)	12.	(A) (B) (C) (D)	22.	(A) (B) (C) (D)
3.	(A) (B) (C) (D)	13.	(A) (B) (C) (D)	23.	(A) (B) (C) (D)
4.	(A) (B) (C) (D)	14.	(A) (B) (C) (D)	24.	(A) (B) (C) (D)
5.	(A) (B) (C) (D)	15.	(A) (B) (C) (D)	25.	(A) (B) (C) (D)
6.	(A) (B) (C) (D)	16.	(A) (B) (C) (D)	26.	(A) (B) (C) (D)
7.	(A) (B) (C) (D)	17.	(A) (B) (C) (D)	27.	(A) (B) (C) (D)
8.	(A) (B) (C) (D)	18.	(A) (B) (C) (D)	28.	(A) (B) (C) (D)
9.	(A) (B) (C) (D)	19.	(A) (B) (C) (D)	29.	(A) (B) (C) (D)
10.	(A) (B) (C) (D)	20.	(A) (B) (C) (D)	30.	(A) (B) (C) (D)

MCQ Marks Scored: /

Note: Kindly mention the question number and sub-question properly.

- Questions with incorrect question number/sub question number will not be evaluated.
- Start new questions on new page.

Multiple Choice Questions
Total No. of Questions – 50 (1 Mark each)

- 1. Redistribution policies are likely to have efficiency costs because**
 - a. They will reduce the efficiency of governments
 - b. They may create disincentives to work and save
 - c. Governments have to forego taxes
 - d. They are likely to make the poor people dependent on the rich

- 2. Macroeconomic stabilization may be achieved through**
 - a. Free market economy
 - b. Fiscal policy
 - c. Monetary policy
 - d. (b) and (c) above

- 3. Which of the following policies of the government fulfils the redistribution function**
 - a. Parking the army on the northern borders of the country
 - b. Supply of food grains at subsidized prices to the poor people
 - c. Controlling the supply of money through monetary policy
 - d. All of the above

- 4. Choose the correct statement**
 - a. Fiscal policy involves the use of changes in taxation and government spending; At price P1, the firm in the figure would produce while monetary policy involves the use of price and profit controls.
 - b. Fiscal policy involves the use of price and profit controls, while monetary policy involves the use of taxation and government spending.
 - c. Fiscal policy involves the use of changes in taxation and government spending, while monetary policy involves the use of changes in the supply of money and interest rates.
 - d. Fiscal policy involves the use of changes in the supply of money and interest rates, while monetary policy involves the use of changes in taxation and government spending.

- 5. The justification for government intervention is best described by**
 - a. The need to prevent recession and inflation in the economy
 - b. The need to modify the outcomes of private market actions
 - c. The need to bring in justice in distribution of income and wealth
 - d. All the above

6. Read the following statements

- I** The market-based approaches to control externalities operate through price mechanism
- II** When externalities are present, the welfare loss would be eliminated
- III** The key to internalizing an externality is to ensure that those who create the externalities include them while making decisions

Of the above statements

- a.** II and III are correct
- b.** I only is correct
- c.** II only is correct
- d.** I and III are correct

7. Which of the following statements is false?

- a.** Tradable permits provide incentive to innovate and reduce negative externalities
- b.** A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower
- c.** Substantial negative externalities are involved in the consumption of merit goods.
- d.** Merit goods are likely to be under-produced and under consumed through the market mechanism

8. Which one of the following would you suggest for reducing negative externality?

- a.** Production subsidies
- b.** Excise duty
- c.** Pigouvian taxes
- d.** All of the above

9. A Pigouvian subsidy

- a.** cannot be present when externalities are present
- b.** is a good solution for negative externality as prices will increase
- c.** is not measurable in terms of money and therefore not practical
- d.** may help production to be socially optimal when positive externalities are present

10. If governments make it compulsory to avail insurance protection, it is because

- a.** Insurance companies need to be running profitably
- b.** Insurance will generate moral hazard and adverse selection
- c.** Insurance is a merit good and government wants people to consume it
- d.** None of the above

11. The capital receipts are

- a. 23.5
- b. 19.7
- c. 11.3
- d. None of the above

12. Revenue deficit is

- a. 23.6
- b. 13.0
- c. 7.0
- d. 2.6

13. The non-debt capital receipts of this country is

- a. 45.1
- b. 16.7
- c. 15.8
- d. None of the above

14. A budget is said to be unbalanced when

- a. when government's revenue exceeds government's expenditure
- b. when government's expenditure exceeds government's revenue
- c. either budget surplus or budget deficit occurs
- d. All the above

15. Stock exchange market is an example of

- a. unregulated market
- b. regulated market
- c. spot market
- d. none of the above

16. While the government resorts to deliberate fiscal policy it may not attempt to manipulate

- a. Government expenditures on public works
- b. The rates of personal income taxes and corporate taxes
- c. Government expenditures on goods and services purchased by government
- d. The rate of interest prevailing in the economy

17. Which of the following fiscal remedy would you advice when an economy is facing recession

- a. the government may cut interest rates to encourage consumption and investment
- b. the government may cut taxes to increase aggregate demand
- c. the government may follow a policy of balanced the budget.
- d. None of the above will work

18. The substitution effect will be stronger when:

- a. The goods are closer substitutes
- b. There is lower cost of switching to the substitute good
- c. There is lower inconvenience while switching to the substitute good.
- d. All of these

19. In order to influence spending on the goods and services in the short run, is directed at directly influencing interest rate:

- a. Fiscal policy
- b. Budgetary policy
- c. Monetary policy
- d. Economic policy

20. 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

21. Which characteristic of money refers to its ability to hold value over time?

- a. Divisibility
- b. Durability
- c. Portability
- d. Store of value

22. 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. Traveler's checks

23. The quantity theory of money holds that

- a. changes in the general level of commodity prices are caused by changes in the quantity of money
- b. there is strong relationship between money and price level and the quantity of money is the main determinant of the price
- c. changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation
- d. All the above

24. Real money is

- a. nominal money adjusted to the price level
- b. real national income
- c. money demanded at given rate of interest
- d. nominal GNP divided by price level

25. The money multiplier and the money supply are

- a. positively related to the excess reserves ratio e.
- b. negatively related to the excess reserves ratio e.
- c. not related to the excess reserves ratio e.
- d. proportional to the excess reserves ratio e.

26. The size of the money multiplier is determined by

- a. the currency ratio (c) of the public,
- b. the required reserve ratio (r) at the central bank, and
- c. the excess reserve ratio (e) of commercial banks.
- d. all the above

27. Which of the following statements is correct?

- a. The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same
- b. While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself
- c. When repo rates increase, it means that banks can now borrow money through open market operations (OMO)
- d. None of the above

28. RBI provides financial accommodation to the commercial banks through repos/reverse repos under

- a. Market Stabilization Scheme (MSS)
- b. The Marginal Standing Facility (MSF)
- c. Liquidity Adjustment Facility (LAF).
- d. Statutory Liquidity Ratio (SLR)

29. Fiscal deficit can be remedied by:

- a. Borrowing money
- b. Printing Currency
- c. Both (a) and (b)
- d. Neither (a) nor (b)

30. Which one is not a tool of Fiscal Policy:

- a. Taxation
- b. Public Expenditure
- c. Interest Rate
- d. Public Debt

31. In a Public good context, it is difficult to measure impact of real income because:

- a. Public goods are generally free to the Public
- b. They make up a small percentage of total GDP
- c. It is hard to measure how people value to public good
- d. Inflation decreases the value of the good

32. 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

33. Statutory Grants in aid from the Union to certain states is based on the constitutional provisions as:

- a. Article 275
- b. Article 282
- c. Article 293
- d. Article 270

34. Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

- a. Bangladesh has a comparative advantage in mats
- b. India has a comparative advantage in tables
- c. Bangladesh has an absolute advantage in mats
- d. All the above are true

35. Anti-dumping duties are

- a. additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.
- b. additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government
- c. additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market
- d. Both (a) and (c) above

36. A countervailing duty is

- a. a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country
- b. charged by importing countries to ensure fair and market-oriented pricing of imported products
- c. charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies
- d. All the above

37. Which of the following culminated in the establishment of the World Trade Organization?

- a. The Doha Round
- b. The Tokyo Round
- c. The Uruguay Round
- d. The Kennedy Round

38. 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

39. 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

40. 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

41. 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

42. 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

43. 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

44. At any point of time, all markets tend to have the same exchange rate for a given currency due to

- a. Hedging
- b. Speculation
- c. Arbitrage
- d. Currency futures

45. 'Vehicle Currency' refers to

- a. a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties
- b. a currency that is traded internationally and, therefore, is in high demand
- c. a type of currency used in euro area for synchronization of exchange rates
- d. 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.

46. Which is the leading country in respect of inflow of FDI to India?

- a. Mauritius
- b. USA
- c. Japan
- d. USA

47. Which of the following statement is false in respect of FPI?

- a. portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments
- b. is effected largely by individuals and institutions through the mechanism of capital market
- c. is difficult to recover as it involves purely long-term investments and the investors have controlling interest
- d. investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.

48. Imports of foreign goods and entry of foreign investments were restricted in India because -

- a. The government wanted people to follow the policy of 'Be Indian; Buy Indian'
- b. Because foreign goods were costly and meant loss of precious foreign exchange
- c. Government policy was directed towards protection of domestic industries from foreign competition
- d. Government wanted to preserve Indian culture and to avoid influence of foreign culture

49. The 'Hindu growth rate' is a term used to refer to -

- a. the high rate of growth achieved after the new economic policy of 1991
- b. the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year
- c. the low growth of the economy during British period marked by an average of 3.5 percent
- d. the growth rate of the country because India is referred to as 'Hindustan'

50. The Industrial Policy Resolution (1948) aimed at -

- a. Market oriented economic reforms and opening up of economy
- b. A shift from state led industrialization to private sector led industrialization
- c. an expanded role for the public sector and licensing to the private sector
- d. an expanded role of private sector a limited role of public sector

