

CA (FOUNDATION)



BUSINESS ECONOMIC

MOCK TEST

MARKS- 100

QUESTION PAPER

DURATION- 180 MINUTES

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1. A Free Market economy solves its Central Problems through .
 - (a) planning authority
 - (b) market mechanism
 - (c) both
 - (d) none
2. Which market have characteristic of product differentiation?
 - (a) Perfect Competition
 - (b) Monopoly
 - (c) Monopolistic Competition
 - (d) Oligopoly
3. A developed economy uses _____ technique in production.
 - (a) labour intensive.
 - (b) capital intensive.
 - (c) home-based.
 - (d) traditional.
4. A contractionary monetary policy-induced increase in interest rates
 - (a) increases the cost of capital and the real cost of borrowing for firms
 - (b) increases the cost of capital and the real cost of borrowing for firms and households
 - (c) decreases the cost of capital and the real cost of borrowing for firms
 - (d) has no interest rate effect on firms and households
5. Micro Economics is concerned with:
 - (a) Consumer Behaviour.
 - (b) Product pricing.
 - (c) Factor Pricing .
 - (d) All of the above.
6. 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'
7. In India, the term 'Policy rate' refers to
 - (a) The bank rate prescribed by the RBI in its half yearly monetary policy statement
 - (b) The CRR and SLR prescribed by RBI in its monetary policy statement
 - (c) the fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)
 - (d) the fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)
8. In a capitalist economy the allocation of resources is performed by:
 - (a) Producers
 - (b) Government
 - (c) Planners
 - (d) Price mechanism
9. The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -
 - (a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few

- (b) to provide for the control of monopolies
- (c) to prohibit monopolistic and restrictive trade practice
- (d) all the above

10. Inequalities of income do not perpetuate in .

- (a) socialism
- (b) mixed economy
- (c) capitalism
- (d) none

11. In Inductive method, logic proceeds from:

- (a) General to Particular
- (b) Particular to General
- (c) Both (a) and (b)
- (d) None of these.

12. A Capitalist Economy follows the policy of :-

- (a) Laissez faire
- (b) Regulated markets
- (c) Promoting public sector
- (d) None of the above.

13. What will be the shape of Production Possibility Curve (PPC) when marginal opportunity cost is constant?

- (a) Concave
- (b) Convex
- (c) Backward bending
- (d) Straight line

14. The demand of which type of goods do not decrease with increase in its price

- (a) Comforts
- (b) Luxury
- (c) Necessities
- (d) Capital goods

15. Expansion & contraction of Demand curve occurs due to:

- (a) Change in the price of commodity
- (b) Change in price of substitute or complementary goods
- (c) Change in income
- (d) None

16. When price remains constant and quantity demanded changes, then the elasticity of demand will be:

- (a) Vertical to X axis
- (b) Horizontal to X axis
- (c) Either (a) or (b)
- (d) None

17. The prices of a commodity were increased from Rs. 4 to Rs. 6. As a result demand decreased from 15 units to 10 units. What is the price elasticity? (Point elasticity)

- (a) 0.66
- (b) 0.33
- (c) 1.00
- (d) 1.5

18. Other things remaining constant, if the price of the inferior goods decreases then what will be the effect?
- (a) Demand increases
 - (b) Demand decreases
 - (c) Quantity demanded increases
 - (d) Quantity demand decreases.
19. A consumer spends Rs. 80 on purchasing a commodity when its price is Rs. 1 per unit and spends Rs. 96 when the price is Rs. 2 per unit. Calculate the price elasticity of demand.
- (a) 0.2
 - (b) 0.3
 - (c) 0.4
 - (d) 0.5
20. Which one of the following is a feature of green revolution -
- (a) use of soil friendly green manure to preserve fertility of soil
 - (b) grow more crops by redistributing land to landless people
 - (c) High yielding varieties of seeds and scientific cultivation
 - (d) Diversification to horticulture
21. Marginal utility approach was given by:
- (a) J.R. Hicks
 - (b) Alfred Marshall
 - (c) Robbins
 - (d) A.C. Pigou
22. When supply is perfectly inelastic, elasticity of supply is equal to :
- (a) + 1
 - (b) 0
 - (c) .1
 - (d) Infinity
23. The precautionary money balances people want to hold
- (a) as income elastic and not very sensitive to rate of interest
 - (b) as income inelastic and very sensitive to rate of interest
 - (c) are determined primarily by the level of transactions they expect to make in the future.
 - (d) are determined primarily by the current level of transactions
24. If the price of apples rises from Rs. 30 per Kg to Rs. 40 per Kg and the supply increases from 240 Kg to 300 Kg. Elasticity of supply is :
- (a) 0.75
 - (b) 0.67
 - (c) 00.67
 - (d) 00.77
25. Gross National Product at market prices GNP MP is
- (a) GDP MP + Net Factor Income from Abroad
 - (b) GDP MP - Net Factor Income from Abroad
 - (c) GDP MP - Depreciation
 - (d) GDP MP + Net Indirect Taxes
26. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is :
- (a) Zero
 - (b) Infinite
 - (c) Equal to one

(d) Greater than zero but less than one

27. The main objective of monetary policy in India is _____ :

- (a) reduce food shortages to achieve stability
- (b) economic growth with price stability
- (c) overall monetary stability in the banking system
- (d) reduction of poverty and unemployment

28. When Supply Curve shifts to the right there is _____ in Supply.

- (a) an increase
- (b) expansion
- (c) contraction
- (d) decrease.

29. Choose the correct statement

- (a) An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency
- (b) the fixed exchange rate regime is said to be efficient and highly transparent.
- (c) A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency
- (d) Exchange rates are generally fixed by the central bank of the country

30. Total utility derived from the consumption of a commodity is equal to Rs. 5. Marginal utility is equal to 1 and consumer has bought 3 units. What will be his consumer surplus?

- (a) Rs.2
- (b) Rs. 2.5
- (c) Rs.3
- (d) Rs. 4

31. Who has given the concept of Innovative Entrepreneurship?

- (a) Robbins
- (b) Adam Smith
- (c) Schumpeter
- (d) Sweezy

32. Functions of the entrepreneur are :

- (a) Risk bearing
- (b) Initiating a business enterprise and resource co-ordinating
- (c) Introducing new innovations
- (d) All of the above

33. If the consumption function is expressed as $C = a + bY$ then a represents

- (a) autonomous consumer expenditure.
- (b) the marginal propensity to consume.
- (c) the consumption income relationship
- (d) Non- linear consumption function

34. Law of diminishing returns is applicable in :

- (a) Manufacturing industry
- (b) Agriculture
- (c) Neither (a) nor (b)
- (d) Any economic activity at a point of time.

35. Speculative demand for money

- (a) is not determined by interest rates
- (b) is positively related to interest rates

- (c) is negatively related to interest rates
- (d) is determined by general price level

36. Labour force wants more .

- (a) facility
- (b) leisure
- (c) benefit
- (d) all of the above

37. Production activity in the short run is analysed by.

- (a) Returns to scale
- (b) Economies of scale
- (c) Law of variable proportion
- (d) None of these

38. Increasing returns to scale occurs due to:

- (a) Economies of scale
- (b) Specialization
- (c) Indivisibility of factors
- (d) All of these

39. Non-debt capital receipts

- (a) do not add to the assets of the government and therefore not treated as capital receipts
- (b) are those that do not create any future repayment burden for the government
- (c) are those that create future liabilities for the government
- (d) facilitate capital investments at low cost

40. Which of the following cost curves is never 'U' shaped?

- (a) Average total cost curve
- (b) Marginal cost curve
- (c) Total cost curve
- (d) Total Fixed cost curve

41. Which of the following is the right argument for provision of public good by government?

- (a) Governments have huge resources at their disposal
- (b) Public goods will never cause any type of externality
- (c) Markets are unlikely to produce sufficient quantity of public goods
- (d) Provision of public goods are very profitable for any government

42. Suppose, the total cost of production of commodity X is Rs. 1,25,000. Out of this cost implicit cost is Rs. 35,000 and normal profit is Rs. 25,000. What will be the explicit cost of commodity X?

- (a) 90,000
- (b) 65,000
- (c) 60,000
- (d) 1,00,000

43. What is the total cost of production of 20 units, if fixed cost is Rs. 5,000 and variable cost is Rs.2/-?

- (a) 5,400
- (b) 5,040
- (c) 4,960
- (d) 5,020

44. At which point does the marginal cost curve intersect the average variable cost curve and short run average total cost curve?
- At equilibrium points
 - At their lowest points
 - At their optimum points
 - They don't intersect at all
45. The free rider problem arises because of
- ability of participants to produce goods at zero marginal cost
 - marginal benefit cannot be calculated due to externalities present
 - the good or service is non excludable
 - general poverty and unemployment of people
46. Which of the following curves never touch any axis but is downward?
- Marginal cost curve
 - Total cost curve
 - Average fixed cost curve
 - Average variable cost curve
47. Choose the correct statement
- GNP includes earnings of Indian corporations overseas and Indian residents working overseas; but GDP does not include these
 - $NNPFC = \text{National Income} = FID (\text{factor income earned in domestic territory}) - NFIA$.
 - Capital goods and inventory investment are excluded from computation of GDP
 - $NDPMP = GDPMP + \text{Depreciation}$
48. Which of the following is known as Envelope curve?
- MC curve
 - AFC curve
 - LAC curve
 - TFC curve
49. Equilibrium state is achieved at
- The peak point of supply curve
 - The bottom point of demand curve
 - The inflection point of demand curve
 - The intersection of demand and supply curve
50. The basis of distinction between market price and factor cost is
- net factor income from abroad
 - net indirect taxes (i.e., Indirect taxes - Subsidies)
 - net indirect taxes (i.e., Indirect taxes + Subsidies)
 - depreciation (consumption of fixed capital)
51. The demand for a product is 25 units when the price is Rs. 10, however if the price is reduced to Rs. 9 but the demand goes to 26 units. What is the marginal revenue from sale of 26th unit.
- Rs. 250
 - Rs. (-16)
 - Rs. 16
 - Rs. 234
52. A tax applied as a percentage of the value of an imported good is known as
- preferential tariff
 - ad valorem tariff

- (c) specific tariff
- (d) mixed or compound tariff

53. If there is simultaneous fall in consumers disposal income as well number of suppliers of a product in the market, the

- (a) Equilibrium quantity will decrease
- (b) Equilibrium price will decrease
- (c) Equilibrium price will go up
- (d) Equilibrium quantity will increase

54. A tariff on imports is beneficial to domestic producers of the imported good because

- (a) they get a part of the tariff revenue
- (b) it raises the price for which they can sell their product in the domestic market
- (c) it determines the quantity that can be imported to the country
- (d) it reduces their producer surplus, making them more efficient

55. If supply of X products decreases due to heavy imports, this will lead to.....

- (a) Increase in equilibrium quantity
- (b) Increase in equilibrium price
- (c) Decrease in equilibrium price
- (d) Decrease in equilibrium quantity

56. Which of the following enters into the calculation of national income?

- (a) The value of the services that accompany the sale
- (b) Additions to inventory stocks of final goods and materials
- (c) Stocks and bonds sold during the current year
- (d) (a) and (b) above

57. Simultaneous increase in demand and quantity supplied will

- (a) Increase in equilibrium quantity
- (b) Decrease equilibrium price and quantity
- (c) Increase equilibrium price but decrease quantity
- (d) Decrease equilibrium price but increase quantity

58. A firm faces the shut down situation when

- (a) Price is less than average variable cost
- (b) Price is more than the average variable cost
- (c) Price is equal to fixed cost
- (d) Price is more than the average fixed cost

59. Markets do not exist

- (a) for goods which have positive externalities
- (b) for pure public goods
- (c) for goods which have negative externalities
- (d) none of the above

60. If a firm shut down at a level when $AVC = \text{Price}$, the firm restricts its losses to

- (a) Average fixed cost
- (b) Total cost
- (c) Variable cost
- (d) Average variable cost

61. An expansionary fiscal policy, taking everything else constant, would in the short-run have the effect of

- (a) a relative large increase in GDP and a smaller increase in price

- (b) a relative large increase in price, a relatively smaller increase in GDP
- (c) both GDP and price will be increasing in the same proportion
- (d) both GDP and price will be increasing in a smaller proportion

62. When the price is less than the average variable cost, the firm should

- (a) Continue to operate till the market recover
- (b) Shut down its operation for the time being
- (c) Retrench workers and pay them compensation
- (d) Clear the existing stock at a price less than the prevailing price to beat the competitors

63. Which of the following statements is true?

- (a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency
- (b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency
- (c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.
- (d) All the above

64. Break even point refers to the situation when

- (a) Total revenue is equal to total cost
- (b) Total revenue is more than total cost
- (c) Total revenue is less than total cost
- (d) Total revenue is equal to total variable cost

65. According to Keynes, if the current interest rate is high

- (a) people will demand more money because the capital gain on bonds would be less than return on money
- (b) people will expect the interest rate to rise and bond price to fall in the future.
- (c) people will expect the interest rate to fall and bond price to rise in the future.
- (d) Either a) or b) will happen

66. The demand for a product is 30 units when the price is Rs. 10, however the demand rises to 31 when the price is reduced to Rs. 9.95 per unit. The marginal revenue from production and sale of additional unit from 30 to 31 is

- (a) Rs. 8.45
- (b) Rs. 12
- (c) Rs.13.6
- (d) Rs.308.35

67. Which of the following is a component of foreign capital?

- (a) Direct inter government loans
- (b) Loans from international institutions (e.g. World Bank, IMF, ADB)
- (c) Soft loans for e.g. from affiliates of World Bank such as IDA
- (d) All the above

68. A firm that break even after all the economic costs are paid is earning

- (a) Economic profit
- (b) Accounting profit
- (c) Normal profit
- (d) Super normal profit

69. Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as _____

- (a) RBI credit to states

- (b) Commercial credit of RBI
- (c) Ways and Means Advances (WMA)
- (d) Short term facility

70. A firm that makes profit in excess of normal profit is earning

- (a) Economic profit
- (b) Costing profit
- (c) Normal profit
- (d) Super normal profit

71. 'Retail Direct 'scheme is

- (a) Initiated by the Reserve Bank of India
- (b) facilitate investment in government securities by individual investors.
- (c) Direct sale of goods and services by government departments
- (d) Both (a) and (b) are correct

72. According to Marshall approach price is determined by

- (a) Interaction of buyers and sellers
- (b) Utility
- (c) Cost of production
- (d) Price of close substitute products

73. Identify the incorrect statement

- (a) A progressive direct tax system ensures economic growth with stability because it distributes the burden of taxes unequally
- (b) A carefully planned policy of public expenditure helps in redistributing income from the rich to the poorer sections of the society.
- (c) There are possible conflicts between different objectives of fiscal policy such that a policy designed to achieve one goal may adversely affect another
- (d) An increase in the size of government spending during recessions may possibly 'crowd- out' private spending in an economy.

74. Long-term equilibrium of an industry under a perfectly market conditions is achieved when

- (a) All the firms are earning normal profit
- (b) All the firms are in equilibrium
- (c) There is a entry or exit of firms from the industry
- (d) All the three

75. The strategy of agricultural development in India before green revolution was -

- (a) High yielding varieties of seeds and chemical fertilizers to boost productivity
- (b) Institutional reforms such as land reforms
- (c) Technological up gradation of agriculture
- (d) All the above

76. Which of the following statement is true?

- (a) In perfect competition Average and Marginal revenue are identical
- (b) In perfect competition Average and Marginal cost are identical
- (c) In perfect competition Average price and Marginal cost are identical
- (d) In perfect competition only normal profit can be earned by a firm

77. If a firm under monopoly wants to sell more, its average revenue curve will be a _____ line.

- (a) horizontal
- (b) vertical
- (c) downward sloping

(d) upward sloping

78. Price discrimination is profitable only when:

- (a) Different markets are kept separate
- (b) Distance between the consumer and the market is more
- (c) Elasticity of demand in different markets is different
- (d) The consumers are segregated on the basis of their purpose of use of the commodity.

79. If the behaviour of the public and the commercial banks is constant, then

- (a) the total supply of nominal money in the economy will vary directly with the supply of the nominal high-powered money issued by the central bank
- (b) the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money
- (c) the total supply of nominal money in the economy will vary inversely with the supply of high powered money
- (d) all the above are possible

80. Which amongst the following is not an objective of price discrimination?

- (a) To hold the extra stocks
- (b) To earn maximum profits
- (c) To enjoy economies of scale
- (d) To secure equity through pricing.

81. In the context of the new economic policy of 1991, the term 'disinvestment' stands for

- (a) A policy whereby government investments are reduced to correct fiscal deficit
- (b) The policy of sale of portion of the government shareholding of a public sector enterprise
- (c) The policy of public partnership in private enterprise
- (d) A policy of opening up government monopoly to the privates sector

82. Under perfect competition firm is described as:

- (a) price taker and not price maker
- (b) price maker and not price taker
- (c) neither price maker nor price taker
- (d) none of the above.

83. An increase in personal income taxes

- (a) reduces disposable incomes leading to fall in consumption spending and aggregate demand
- (b) is desirable during inflation or when there is excessive levels of aggregate demand
- (c) is to compensate the deficiency in effective demand by boosting aggregate spending
- (d) both a) and b) are correct

84. According to pigou, first degree price discrimination charges price to;

- (a) Individual capacity
- (b) Quantities sold
- (c) Location
- (d) None of the above

85. Price Discrimination is possible only when.

- (a) Seller is alone.
- (b) Goods are homogeneous.
- (c) Market is controlled by the government.
- (d) None of the above.

86. Price rigidity is a situation found in which of the following market forms?

- (a) Perfect competition.

- (b) Monopoly.
- (c) Monopolistic competition.
- (d) Oligopoly.

87. When elasticity of demand is Equal to one in monopoly, marginal Revenue will be _____ .

- (a) equal to one.
- (b) greater than one.
- (c) less than one.
- (d) zero.

88. In oligopoly, the kink on the demand curve is more due to _____ .

- (a) discontinuity in MR.
- (b) discontinuity in AR.
- (c) Fulfillment of the assumption that a price cut is followed by others and a price increase by a firm is not followed by others.
- (d) price war amongst the firms.

89. If the population growth rate is higher than the economic growth rate it will result in _____

- (a) higher income ; lower savings ; lower employment
- (b) lower income; lower savings; lower investment
- (c) higher investment; lower income ; higher saving
- (d) lower income ; lower savings ; higher employment

90. If any unemployment exists during expansion phase of business cycle, it is _____ unemployment.

- (a) voluntary and frictional
- (b) technological and structural
- (c) frictional and structural
- (d) structural and involuntary

91. Which of the following is a capital receipt?

- (a) Licence fee received
- (b) Sale proceeds from disinvestment
- (c) Assistance from Japan for covid vaccine
- (d) Dividend from a public sector enterprise

92. The most probable outcome of increase in aggregate demand is

- (a) expansion of economic activity
- (b) contraction of economic activity
- (c) stable economic activity
- (d) volatile economic activity

93. Production of new and better goods and services using new technology results in

- (a) expansion of employment
- (b) increase in the incomes and profits
- (c) boost to economy
- (d) all the above

94. Understanding the business cycle is important for business managers because

- (a) they affect the demand for their products
- (b) they affect their profits
- (c) to frame appropriate policies and forward planning
- (d) all the above

95. Economic recession is characterized by all of the following except

- (a) Decline in investments, employment
- (b) Increase in the price of inputs due to increased demand for inputs
- (c) Investors confidence is shaken
- (d) Demand for goods, services decline

96. If the consumption function is $C = 20 + 0.5Y_d$, then an increase in disposable income by Rs. 100 will result in an increase in consumer expenditure by Rs.-----

- (a) 25
- (b) 70
- (c) 50
- (d) 100

97. Production of _____ goods fall during the war times.

- (a) arms and ammunition
- (b) non-durable and capital
- (c) capital and weapons
- (d) capital and consumer

98. The marginal propensity to consume (MPC) can be defined as

- (a) a change in spending due to a change in income
- (b) a change in income that is saved after consumption
- (c) part of income that is spent on consumption.
- (d) part of income that is not saved.

99. Business cycles appear due to present fluctuations in prices affecting the output and employment in future is _____

- (a) Cobweb theory by Nicholas Kaldor
- (b) Ordinal theory by Allen & Hicks
- (c) Cobweb theory by J.M. Keyens
- (d) None of the above

100. Which of the following does not enter into 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