

Mock Test Paper - Series I: August, 2025

Date of Paper: 14th August, 2025

Time of Paper: 2.00 P.M. to 4.00 P.M.

FOUNDATION COURSE

PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours

Marks: 100

1. Bank Rate is the rate:
 - (a) At which RBI lends to the commercial banks
 - (b) At which RBI rediscounts the bills of the commercial banks
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b)
2. Which of the following is NOT an instrument of monetary policy?
 - (a) Cash Reserve Ratio
 - (b) Statutory Liquidity Ratio
 - (c) Public Expenditure Management
 - (d) Repo Rate
3. Reverse Repo Rate is:
 - (a) Rate at which RBI borrows from commercial banks
 - (b) Rate at which RBI lends to the commercial banks
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b)
4. Fiscal deficit can be remedied by:
 - (a) Borrowing money
 - (b) Printing Currency
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b)
5. Which of the following Budget documents is mandated by Fiscal Responsibility and Budget Management Act, 2003?
 - (a) Annual Financial Statement (AFS)

- (b) Demand for Grants
 - (c) Finance Bill
 - (d) Macro-Economic Framework Statement
6. Non-Plan Grants are determined by:
- (a) Planning Commission
 - (b) Finance Commission
 - (c) Central Government
 - (d) State Government
7. Public Debt Management refers to:
- (a) Terms of new bonds
 - (b) Proportion of different components of public debt
 - (c) Maturity
 - (d) All the above
8. Public Expenditure increases:
- (a) Interest rate
 - (b) Employment
 - (c) Exports
 - (d) Imports
9. Which of the following are the instruments of money market?
- (a) Call money
 - (b) Certificate of deposits
 - (c) Trade bills
 - (d) All of the above
10. Who issues a treasury bill?
- (a) Any nationalised bank
 - (b) Any private sector bank
 - (c) Reserve Bank of India
 - (d) All of the above

11. It is a method by which banks borrow from each other to be able to maintain the cash reserve ratio.
- (a) Commercial bill
 - (b) Commercial papers
 - (c) Call money
 - (d) None of the above
12. The Dumping word refers to:
- (a) Tariffs should be cut to make more money.
 - (b) A lower-priced sale of goods abroad is below the cost and price of their home market.
 - (c) Buying goods at low prices in another country and selling them at a higher price here.
 - (d) Expensive goods are being sold at low prices.
13. The margin for a currency long term must be retained with the repository by:
- (a) The buyer
 - (b) The seller
 - (c) Both the buyer and the seller
 - (d) None
14. Money cost is considered by:
- (a) Modern theory of trade
 - (b) Comparative cost advantage
 - (c) New Trade theory
 - (d) Factor equalization theorem
15. 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
16. The most controversial topic in the Doha Agenda?
- (a) Agriculture

- (b) Industry
 - (c) Service
 - (d) None of these
17. Hedging is indicated by:
- (a) Transaction in odd amounts
 - (b) Presentation in documentary support
 - (c) Frequency of such transactions
 - (d) None of these
18. In the long run_____ affect the exchange rate:
- (a) Transaction in odd amount
 - (b) Presentation of documentary support
 - (c) Frequency of such transaction
 - (d) None of these
19. India's foreign exchange rate system is:
- (a) Free Float
 - (b) Managed Float
 - (c) Fixed
 - (d) Fixed target of bank
20. Which of the following measures of money supply is known as Broad Money?
- (a) M_1
 - (b) M_2
 - (c) M_3
 - (d) M_4
21. Which one is not true regarding the Market Stabilization Scheme (MSS)?
- (a) It absorbs surplus liquidity of enduring nature arising out of large capital flows
 - (b) It absorbs surplus liquidity through sale of short, dated government securities and treasury bills
 - (c) Mobilised surplus liquidity is held in the MSS accounts with the RBI

- (d) MSS account liquidity can be used for normal government expenditure of capital nature
22. Business Economics is:
- (a) A normative science
 - (b) Interdisciplinary
 - (c) Pragmatic
 - (d) All the above
23. In the free market economy the allocation of resources is determined by _____
- (a) voting done by consumers
 - (b) A Central Planning Authority
 - (c) Consumer Preferences
 - (d) The level of profits of firms
24. Unlimited ends and limited means together present the problem of _____
- (a) Scarcity of Resources
 - (b) Distribution
 - (c) Choice
 - (d) None of these
25. When two goods are complementary to each other the cross elasticity between them is:
- (a) Negative
 - (b) Positive
 - (c) Constant
 - (d) None of these
26. The Indifference curve analysis is superior to utility analysis:
- (a) It dispenses with the assumption of measurability of Utility
 - (b) It studies more than one commodity at a time
 - (c) It segregate income effect from substitution effect
 - (d) All the above
27. Comfort lie between:
- (a) Inferior goods and necessities

- (b) Luxuries and Inferior good
 - (c) necessities and Luxuries
 - (d) None of the above
28. How would that budget line be affected if the price of both goods fell?
- (a) The budget line could not shift
 - (b) The new budget line must be parallel to the old budget line
 - (c) The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion
 - (d) None of these
29. Exception to the law of demand includes _____
- (a) Giffen goods
 - (b) Speculative goods
 - (c) Conspicuous necessities
 - (d) All the above
30. What are the Characteristics of labour?
- (a) Labour is perishable
 - (b) Labour is an active
 - (c) Labour is mobile
 - (d) All the above
31. A consumer buys 80 units of a good at a price of ₹ 4 per unit. Suppose the price elasticity of demand is -4. At what prices will he buys 60 units.
- (a) 4.2 per unit
 - (b) 3.8 per unit
 - (c) 4 per unit
 - (d) None of these
32. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
- (a) Zero
 - (b) Infinity
 - (c) Equal to One

- (d) None of these
- 33. In the third of three stages of Production:
 - (a) The marginal Product curve had a positive slope
 - (b) The marginal product curve lies completely below the average product curve
 - (c) The Total Product Increases
 - (d) None of these
- 34. Time element was conceived by:
 - (a) Adam Smith
 - (b) Alfred Marshall
 - (c) Pigou
 - (d) None of these
- 35. The Firm and the Industry are one and the same in:
 - (a) Perfect Competition
 - (b) Monopolistic Competition'
 - (c) Monopoly
 - (d) Oligopoly
- 36. A rational person does not act unless:
 - (a) The action is ethical
 - (b) The action produces marginal costs that exceed marginal benefit
 - (c) The action makes money for the person
 - (d) The marginal benefits that exceed marginal cost
- 37. The Structure of the Cold drink Industry in India is best described as:
 - (a) Perfectly Competitive
 - (b) Monopolistic
 - (c) Oligopolistic
 - (d) Monopolistically Competitive
- 38. In the long run equilibrium, the pure monopolist can make pure profits because of:
 - (a) Blocked entry
 - (b) The high price he charges

- (c) The Low LAC Costs
 - (d) Advertising
39. Full capacity is utilized only when there is:
- (a) Monopoly
 - (b) Perfect Competition
 - (c) Price discrimination
 - (d) Oligopoly
40. The Kinked demand hypothesis is designed to explain in the context of oligopoly:
- (a) Price and output determination
 - (b) Price rigidity
 - (c) Collusion among rivals
 - (d) None of these
41. Which of the following is not a variable in the Index of leading indicators:
- (a) New consumer good orders
 - (b) Prime rate
 - (c) New building permits
 - (d) None of these
42. The main thrust of New Industrial Policy is to invite greater participation of:
- (a) Public sector
 - (b) Private sector
 - (c) Stock Holders
 - (d) Bank
43. Pump Priming should be resorted to at the time of:
- (a) Inflation
 - (b) Deflation
 - (c) Reflation
 - (d) Stagflation
44. The expansion of the government debt could result in:
- (a) A decline in savings

- (b) An increase in interest
 - (c) A decline in Investment
 - (d) All the above
45. Psychological law of consumption is given by:
- (a) Milton Friedman
 - (b) Pigou
 - (c) Tobin
 - (d) Keynes
46. One of the most important factors in trade reforms is to:
- (a) Increase export duties
 - (b) Reduce import duties
 - (c) Keep export duties constant
 - (d) Keep import duties constant
47. Fiscal Policy relates to government decision in respect of:
- (i) Taxation
 - (ii) Government spending
 - (iii) Government borrowing
 - (iv) Public debt
- Codes
- (a) iii and iv are correct
 - (b) ii, iii, iv
 - (c) i and ii are correct
 - (d) All the above are correct
48. An agreement between two countries to maintain a free trade area, a common external tariff free mobility of capital and labour and degree of unification in government policies and monetary policy is called:
- (a) Common market
 - (b) Free Trade Area
 - (c) Economic Union

- (d) Custom Union
- 49. Margin requirement specified under instrument of monetary policy:
 - (a) Variable reserve requirement
 - (b) Statutory liquidity requirement
 - (c) Selective credit control
 - (d) Open market operation
- 50. High growth of which Industry provide a positive signal for Industrial Growth in Future?
 - (a) Capital good industries
 - (b) Basic good industries
 - (c) Durable consumer good industries
 - (d) Intermediate good Industries
- 51. Even as fixed average cost continues to fall the average variable cost begins to rise because:
 - (a) return to factor start diminishing
 - (b) return to factor start rising
 - (c) input price start rising
 - (d) producer budget starts shrinking
- 52. Adverse Selection arises because of:
 - (a) Lack of information
 - (b) Wrong Information
 - (c) Asymmetrical Information
 - (d) Uncertainty of future
- 53. Which of the following is not used to measure inflation?
 - (a) Wholesale Price Index Number
 - (b) Consumer Price Index number
 - (c) Purchasing Power Parity Prices
 - (d) GDP deflator
- 54. Public goods are characterized by:
 - (1) Collective Consumption

- (2) Divisibility
- (3) Non-Exclusion
- (4) Rival Consumption

Select the correct answer from the code given below:

- (a) 1 & 2 are correct
 - (b) 1 & 3 are correct
 - (c) 1 & 4 are correct
 - (d) 2 & 4 are correct
55. Giffen Paradox occurs when income effect is:
- (a) Greater than the substitution effect
 - (b) Equal to the substitution effect
 - (c) Less than substitution effect
 - (d) Negative and is greater than substitution effect
56. In case of deficit budget when the deficit are covered through taxes that budget is called:
- (a) Unbalanced budget
 - (b) Surplus budget
 - (c) Balanced budget
 - (d) None of these
57. Which of the following is credited with Introduction of LPG Model of economic development in India?
- (a) Dr. C Rangarajan
 - (b) Dr. Montek Singh Ahluwalia
 - (c) Dr. Manmohan Singh
 - (d) None of these
58. In which of the following market situations/forms, firms are able to maximise profits?
- (a) Price Leadership
 - (b) Cartel
 - (c) At the Kink Point
 - (d) Monopolistic Competition

59. The slope of aggregate demand becomes flatter?
- (a) The more sensitive investment spending is to the rate of interest
 - (b) The more sensitive the demand for money is to the rate of interest
 - (c) The larger the nominal money supply
 - (d) None of these
60. When exchange rate is flexible a decrease in country B's taxes:
- (a) Has no effect upon output in country B
 - (b) Causes output in country B to increase
 - (c) Results in an increase in country B's export
 - (d) None of these
61. Crowding Out occurs when _____
- (a) A decrease in the money supply raises the rate of interest which crowds out interest sensitive private sector spending
 - (b) An increase in taxes for the private sector reduces private sector disposable income and spending
 - (c) A reduction in income taxes results in a higher interest rate which crowds out interest sensitive private sector spending
 - (d) None of these
62. A change in autonomous spending is represented by:
- (a) A movement along (C+I+G) spending line
 - (b) A shift of a (C+I+G) spending line
 - (c) A change in the behavioural coefficient
 - (d) None of these
63. In mixed economy the feature include existence of:
- (a) Private Sector
 - (b) Public Sector
 - (c) Combined Sector
 - (d) All of these
64. Which of the following is demerit of capitalism:
- (a) There is precedence of property rights over human right

- (b) It functions in a domestic framework
 - (c) High degree of operative efficiency
 - (d) None of these
65. Which of the following is included in study of Micro Economics:
- (a) Product Pricing
 - (b) Factor Pricing
 - (c) Both (a) and (b)
 - (d) None of these
66. Scarcity definition in economics is given by:
- (a) Lipsey
 - (b) Adam Smith
 - (c) J B Say
 - (d) Robinson
67. Snob effect is explained as:
- (a) It is a function of consumption of others
 - (b) It is a function of price
 - (c) Both (a) and (b)
 - (d) None of these
68. Which of the following are the determinant of price elasticity of demand:
- (a) Availability of substitutes
 - (b) Time period
 - (c) Tied demand
 - (d) All of these
69. If the cross elasticity is only- slightly below zero which of the following is correct?
- (a) They are weak complements
 - (b) Negative and very high they are strong complements
 - (c) Both (a) and (b)
 - (d) None of these

70. Indifference Curve Analysis was proposed by _____
- (a) J. R Hicks and R.G.D Allen
 - (b) Alfred Marshall
 - (c) Jeremy Bentham
 - (d) None of these
71. The rate at which the consumer is prepared to exchange-good x and y is:
- (a) Marginal rate of Substitution
 - (b) Elasticity of Substitution
 - (c) Diminishing Marginal Utility
 - (d) None of these
72. Contraction of demand is the result of:
- (a) Decrease in the number of consumers
 - (b) Increase in the price of the good concerned
 - (c) Price of related products
 - (d) None of these
73. Economic indicator required to predict the turning point of business cycle is:
- (a) Leading Indicator
 - (b) Lagging Indicator
 - (c) Coincident Indicator
 - (d) All the above
74. Empirical evidence of liquidity trap is found during:
- (a) COVID – 19
 - (b) Great Recession
 - (c) Global Financial Crisis
 - (d) None of the above
75. New Trade Theory was developed in:
- (a) 1919
 - (b) 1970
 - (c) 2008

- (d) 1991
76. 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
77. The major reasons for market failure is:
- (a) Market Power
 - (b) Externalities
 - (c) Incomplete Information
 - (d) All the above
78. Which of the following instrument is not FDI Compliant Instrument:
- (a) Equity Shares
 - (b) Compulsorily Convertible Debentures
 - (c) Redeemable Preference Share
 - (d) None of the above
79. An expansionary fiscal policy is used for:
- (a) Reduction in Inflation
 - (b) Increase in Exports.
 - (c) Appreciation of Currency
 - (d) Close recessionary gap
80. What is GDP Deflector?
- (a) It is GDP of Base Year
 - (b) It is ratio of nominal GDP in a given year to real GDP of that year
 - (c) It is GDP at current price
 - (d) It is GDP of current year at base year price
81. An increase in the price of a commodity when demand is inelastic causes the total expenditures of consumers of the commodity to:
- (a) Increase,

- (b) Decrease,
 - (c) Remain unchanged,
 - (d) any of the above.
82. At the point of producer equilibrium:
- (a) The isoquant is tangent to the isocost,
 - (b) The MRTSLK equals PL/PK ,
 - (c) $MPL/PL / MPK/PK$,
 - (d) All of the above.
83. Price varies by attributes such as location or by customer segment is _____degree of price discrimination:
- (a) First
 - (b) Second
 - (c) Third
 - (d) None of these
84. The Idea of _____in economics is that we have unlimited wants but limited resources:
- (a) Opportunity Costs.
 - (b) Scarcity
 - (c) Marginal Analysis
 - (d) Specialization
85. Which of the following is a key assumption of the monopoly model?
- (a) Barriers to entry
 - (b) A product with several substitutes
 - (c) Price-taking behavior
 - (d) Many identical producers
86. What is the full form of LIFE?
- (a) Lifestyle for Economy
 - (b) Life for Everyone
 - (c) Lifestyle for Environment
 - (d) Living in Financial Equality

87. Which program was launched to promote organic farming?
- (a) MIDH
 - (b) PMFBY
 - (c) PKVY
 - (d) None of these
88. Which of the following is a non-tariff barrier?
- (a) Ad valorem duty
 - (b) Quotas
 - (c) Countervailing duty
 - (d) None of these
89. Most-Favoured Nation (MFN) principle under WTO means:
- (a) Preferential tariffs for allies
 - (b) Equal treatment to all members
 - (c) Protection to domestic producers
 - (d) All of these
90. Which agreement replaced GATT and created WTO?
- (a) Doha Round
 - (b) Tokyo Round
 - (c) Uruguay Round
 - (d) Marrakesh Protocol
91. What is a liquidity trap?
- (a) Money becomes illiquid due to inflation
 - (b) Money supply becomes ineffective at zero interest rate
 - (c) Interest rate becomes infinite
 - (d) All the above
92. According to Friedman, the key determinant of money demand is:
- (a) Current Income
 - (b) Future expectations only
 - (c) Permanent Income

- (d) Government Spending
93. According to Baumol, cash balances are kept to:
- (a) Invest in stock
 - (b) Earn capital gains
 - (c) Minimize total transaction cost
 - (d) Hedge inflation
94. When demand increases and supply remains constant, what happens to equilibrium price?
- (a) Falls
 - (b) Rises
 - (c) Remains same
 - (d) Cannot say
95. Mixed income of self-employed includes:
- (a) Rent and Interest only
 - (b) Wages only
 - (c) Capital and Labour income that cannot be separated
 - (d) Only profit
96. The LAC curve is also known as:
- (a) Shut down curve
 - (b) Expansion path
 - (c) Planning curve
 - (d) None of these
97. Fiscal federalism refers to:
- (a) Sharing of political power
 - (b) Sharing of fiscal functions and resources
 - (c) Decentralization of planning
 - (d) None of these

98. The percentage of Central tax share for 2021–26 is:
- (a) 38%
 - (b) 41%
 - (c) 46%
 - (d) Not decided
99. Liquidity Adjustment Facility (LAF) includes:
- (a) Only Repo
 - (b) Repo and Reverse Repo
 - (c) Only Reverse Repo
 - (d) None of these
100. The Monetary Policy Committee Sets:
- (a) SLR
 - (b) CRR
 - (c) Repo rate
 - (d) Bank rate