

Mock Test Paper - Series II: August, 2025

Date of Paper: 29th 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. Which of the following mechanisms are used for Allocation of Resources in Public Financial Management:
 - (a) Market Mechanism
 - (b) Public Sector Units
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (B)
2. Which of the following is/are a function of the government?
 - (a) Allocation of Resources
 - (b) Distribution of Income and Wealth
 - (c) Economic Stabilization
 - (d) All of Above
3. Which of the following is NOT an element of effective Government Budgeting?
 - (a) Aggregate Fiscal Discipline
 - (b) Maximization of Revenue
 - (c) Allocative Efficiency
 - (d) Operational Efficiency
4. Allocative efficiency can be improved by:
 - (a) Strategic Planning and Medium-Term Fiscal Framework
 - (b) Program Budgeting and Program Evaluation
 - (c) Both (a) and (b)

- (d) Neither (a) nor (b)
- 5. Information asymmetry with respect to factors that degrade the operational efficiency is defined as:
 - (a) Service providers know more about outputs and costs than those who allocate resources
 - (b) Spenders have incentives to use all the resources provided to them
 - (c) Government lacks independent information on performance
 - (d) Detailed ex-ante controls are costly and drive out initiative and variation
- 6. Which of the following statements is true about Open Market Operations?
 - (a) Central Bank controls the flow of credit through the sale and purchase of securities in open market
 - (b) It increases money supply with commercial banks and public
 - (c) It will expand credit in the economy
 - (d) All of the above
- 7. Statutory Liquidity Ratio is:
 - (a) Banks have to keep deposits with RBI
 - (b) Certain percentage of deposits are to be kept by the bank in form of liquid assets
 - (c) It is the discount rate of the banks
 - (d) None of the above
- 8. The difference between revenue deficit and grants for creation of capital assets is called:
 - (a) Fiscal deficit
 - (b) Budget deficit
 - (c) Effective revenue deficit
 - (d) Primary deficit
- 9. The Book "The Wealth of Nations" is written by:
 - (a) Adam Smith
 - (b) Arthur Pigou

- (c) Robinson
 - (d) Ragnar Nurske
10. 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
11. Which of these country is a purely socialist economy?
- (a) USSR
 - (b) China
 - (c) Vietnam
 - (d) None of these
12. 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.
13. 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
14. What are the Internal Causes of Business Cycle _____?
- (a) Fluctuations in effective demand.
 - (b) Macroeconomic Policies
 - (c) Money Supply

- (d) All the above
15. According to Hawtrey trade cycle is a _____
- (a) Monetary Phenomenon
 - (b) Unplanned Phenomenon
 - (c) Fiscal Phenomenon
 - (d) All the above
16. 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.
17. 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.
18. 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.
19. 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
20. When $e = 0$, elasticity of demand is :
- (a) Perfectly elastic
 - (b) Unitary
 - (c) Inelastic
 - (d) Perfectly inelastic demand
21. 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
22. Marginal Product is the slope of –
- (a) Marginal product Curve
 - (b) Average Product Curve
 - (c) Total Product Curve
 - (d) Implicit Product Curve
23. 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) None of these
24. What are the determinants of price elasticity?
- (a) Availability of substitutes
 - (b) Price range
 - (c) Position of a Commodity in the Consumer's budget.
 - (d) All the above

25. Income elasticities _____ in the short run and long run
- (a) differ
 - (b) Same
 - (c) Can't say
 - (d) Both (a) and (b)
26. Accounting costs are :
- (a) Implicit cost
 - (b) Explicit Costs
 - (c) Economics Costs
 - (d) None of these
27. Telecom Industry is an example of :
- (a) Monopoly
 - (b) Perfect Competition
 - (c) Oligopoly
 - (d) Monopolistic competition
28. On the basis of nature of transaction the market is classified into :
- (a) Regulated and Unregulated market
 - (b) Wholesale and Retail market
 - (c) Spot and future Market
 - (d) None of these
29. Total Revenue is maximised when total revenue is _____
- (a) 1
 - (b) 0
 - (c) High
 - (d) None of these

30. Third degree Price discrimination can be explained through example of :
- (a) Dumping
 - (b) Charging different Prices for domestic and commerce use
 - (c) Lower Price in ratioing for senior citizen
 - (d) All of the above.
31. Related goods are of _____ types.
- (a) two
 - (b) three
 - (c) Four
 - (d) Five
32. The elasticity of supply at any point on a given supply curve passing through the origin point making angle of 35 degree with X-axis is _____
- (a) Greater than one
 - (b) Less than one
 - (c) Equal to one
 - (d) Any of the above
33. Traditional approach of law of demand was propounded by _____
- (a) Giffen
 - (b) Paul A Samuelson
 - (c) Alfred Marshall
 - (d) Pique
34. Which initiative aims to improve agricultural market infrastructure?
- (a) PM Kisan
 - (b) E-NAM
 - (c) NDAP
 - (d) Shoonya

35. Which year marked the beginning of the Green Revolution?
- (a) 1947
 - (b) 1956
 - (c) 1965
 - (d) 1991
36. What was the average GDP growth rate between 1950–80 (Hindu growth rate)?
- (a) 2%
 - (b) 3.5%
 - (c) 5%
 - (d) 7%
37. Which state was NOT a major beneficiary of the Green Revolution?
- (a) Punjab
 - (b) Haryana
 - (c) Bihar
 - (d) Western UP
38. Which sector contributed the most to India's GDP in 2022 ?
- (a) Agriculture
 - (b) Industry
 - (c) Services
 - (d) Mining
39. Which initiative is aimed at reducing India's oil import bill through alternative fuel?
- (a) NDAP
 - (b) Methanol Economy Programme
 - (c) Shoonya
 - (d) E-Amrit

40. FDI is distinguished from FPI mainly because:
- (a) FDI is short-term
 - (b) FDI is only financial
 - (c) FDI involves ownership & control
 - (d) FDI is speculative
41. Brownfield investment refers to:
- (a) Building new infrastructure
 - (b) Investing in agriculture
 - (c) Buying or leasing existing setups
 - (d) foreign loans for farms
42. Which of the following best defines the real exchange rate?
- (a) The market rate for converting one currency into another
 - (b) The rate at which a country trades goods/service for another
 - (c) Rate fixed by central bank
 - (d) The average of spot and forward rates
43. Which of the following effects real exchange rate directly?
- (a) Spot rate only
 - (b) Domestic interest rate
 - (c) Domestic and foreign price levels
 - (d) Central bank reserves
44. Which of the following is a disadvantage of a floating exchange rate system?
- (a) Requires large forex reserves
 - (b) Creates rigid monetary policy
 - (c) Currency fluctuations create trade uncertainty
 - (d) Fixed import/export prices

45. Absolute advantage theory assumes:
- (a) Equal opportunity cost
 - (b) Fixed exchange rates
 - (c) Mobility of labour across countries
 - (d) Labour as the only input
46. Which of the following is a non-tariff barrier?
- (a) Ad valorem duty
 - (b) Quotas
 - (c) Countervailing duty
 - (d) Export tax
47. Tariff Rate Quotas (TRQ) refer to:
- (a) Export quotas only
 - (b) Prohibited tariffs
 - (c) Low tariff for a quota and high tariff beyond
 - (d) Elimination of tariff and quota
48. Which WTO agreement allows review of member trade policies?
- (a) TBT Agreement
 - (b) SPS Agreement
 - (c) Trade Policy Review Mechanism
 - (d) Agreement on Agriculture
49. Escalated tariffs refer to:
- (a) Uniform tariff structure
 - (b) Higher tariffs on final goods than raw materials
 - (c) Preferential tariffs
 - (d) Free trade policies

50. Which of the following protects against underpriced foreign goods?
- (a) TRIMs
 - (b) Safeguards
 - (c) Anti-dumping duty
 - (d) Import subsidy
51. New Trade Theory emphasizes:
- (a) No gains from trade
 - (b) Constant returns to scale
 - (c) Economies of scale and product variety
 - (d) No role for governments
52. The money multiplier is:
- (a) $(1 + c) / (r + e + c)$
 - (b) $(1 - c) / (r + e + c)$
 - (c) $(1 + r) / (c + e + r)$
 - (d) None of the above
53. Money Supply (M) is equal to:
- (a) $M1 + M2$
 - (b) $CRR \times SLR$
 - (c) Money Multiplier \times Base Money
 - (d) $GDP \div \text{Inflation}$
54. MSF is always:
- (a) 0.5% above repo
 - (b) 2% above bank rate
 - (c) 1% above repo rate
 - (d) 1% below reverse repo

55. Which is a consequence of high money multiplier?
- (a) High inflation risk
 - (b) Tight liquidity
 - (c) Increase in SLR
 - (d) Decline in GDP
56. 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) Bonds have negative yield
57. Which theory introduced the idea of interest rate influencing money demand?
- (a) Fisher's theory
 - (b) Cambridge approach
 - (c) Keynesian theory
 - (d) Inventory theory
58. Which economist applied capital asset demand theory to money?
- (a) Keynes
 - (b) Tobin
 - (c) Baumol
 - (d) Milton Friedman
59. The function of money that allows individuals to save purchasing power for the future is called:
- (a) Medium of exchange
 - (b) Unit of account
 - (c) Store of value
 - (d) Standard of deferred payment

60. Which statement about the Finance Bill is correct?
- (a) It authorizes public borrowing
 - (b) It includes details of tax proposals
 - (c) It gives expenditure estimates
 - (d) It is introduced in Rajya Sabha
61. Guillotine in budgetary procedure refers to:
- (a) Cancelling debt
 - (b) Reducing tax rates
 - (c) Voting on all pending demands at once
 - (d) Cutting grants to states
62. Which department manages internal public debt in India?
- (a) NITI Aayog
 - (b) Finance Commission
 - (c) RBI
 - (d) Economic Survey Cell
63. Which of the following reduces income inequality?
- (a) Flat tax system
 - (b) Public expenditure on luxury goods
 - (c) Progressive taxation and targeted subsidies
 - (d) Tax holidays for MNCs
64. Outcome budgeting primarily links:
- (a) Fiscal deficit with borrowing
 - (b) Policy and implementation
 - (c) Budget allocations with performance outcomes
 - (d) Revenue and capital expenditures

65. Keynes advocated increased government spending to tackle:
- (a) Hyperinflation
 - (b) Balance of payments deficit
 - (c) Recession and unemployment
 - (d) Asset bubbles
66. Subsidy on goods with positive externalities leads to:
- (a) Higher cost
 - (b) Higher price
 - (c) Lower price
 - (d) Inefficiency
67. In the consumption function $C = a + bY_c = a + bY_c = a + bY$, the term 'a' represents:
- (a) Marginal Consumption
 - (b) Marginal Income
 - (c) Autonomous Consumption
 - (d) Autonomous Investment
68. What typically happens during the contraction phase?
- (a) Employment increases
 - (b) Prices rise sharply
 - (c) Investment and demand decline
 - (d) GDP grows rapidly
69. Which sector is most vulnerable to business cycles?
- (a) Agriculture
 - (b) Capital goods and durable goods
 - (c) Banking
 - (d) Education

70. Which of the following does not lead to a shift in demand?
- (a) Change in income
 - (b) Change in population
 - (c) Change in price of the good
 - (d) Change in taste
71. Which market has infinite price elasticity of demand?
- (a) Monopoly
 - (b) Monopolistic
 - (c) Oligopoly
 - (d) Perfect competition
72. What is the marginal revenue when price elasticity of demand is 1?
- (a) Equal to price
 - (b) Equal to zero
 - (c) Equal to AR
 - (d) Maximum
73. AR and MR curves coincide in:
- (a) Monopoly
 - (b) Monopolistic competition
 - (c) Perfect competition
 - (d) Oligopoly
74. Which of the following leads to Internal economies of scale?
- (a) Technological progress in the industry
 - (b) Development of skilled labour in a region
 - (c) Bulk purchase of raw materials
 - (d) Government tax incentives

75. Which is an example of a sunk cost?
- (a) Cost of raw material
 - (b) Cost of hiring temporary workers
 - (c) Advertising expenditure already incurred
 - (d) Salaries to be paid
76. Identify the items which is not a factor payment:
- (a) free uniform to defence personnel.
 - (b) salaries to the members of Parliament.
 - (c) imputed rent of an owner-occupied building.
 - (d) scholarships given to the scheduled caste students.
77. Demand for final consumption arises in
- (a) household sector only.
 - (b) government sector only.
 - (c) both household and government sector.
 - (d) neither household nor government sector.
78. 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.
79. Broad money refers to:
- (a) M_1
 - (b) M_2
 - (c) M_3
 - (d) M_4

80. Which of the following is a lagging economic indicator?
- (a) Consumer confidence index
 - (b) Stock market performance
 - (c) Unemployment rate
 - (d) New housing starts
81. 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)
82. 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
83. Which of the following is not a reason for operation of increasing returns to a factor?
- (a) Better utilisation of fixed factor
 - (b) Limitation of fixed factor
 - (c) Increase in efficiency of variable factor
 - (d) Indivisibility of fixed factor
84. 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
85. Cost function is a _____ concept:
- (a) Economical

- (b) Functional
 - (c) Financial
 - (d) Technical
86. According to Hawtrey trade cycle is a ____
- (a) Monetary phenomenon
 - (b) Unplanned phenomenon
 - (c) Fiscal phenomenon
 - (d) All the above
87. Minimum assured prices to the farmers to purchase their output by the government is called:
- (a) Market Price
 - (b) Equilibrium Price
 - (c) Support Price
 - (d) Ceiling Price
88. The income elasticity For Luxuries goods is:
- (a) $E > 1$
 - (b) $E < 1$
 - (c) $E = 0$
 - (d) None of these
89. Unique supply curve is monopoly is not due to _____
- (a) $P > MC$
 - (b) $P < MC$
 - (c) $P = MC$
 - (d) None of these
90. Which of the following involve a trade-off?
- (a) Taking a nap
 - (b) Going to University
 - (c) Watching a football game on Saturday afternoon

- (d) All of these
91. 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
92. If the quantity demanded of mutton increases by 5 % when the price of chicken increases by 20%, the cross elasticity of demand between mutton and chicken is:
- (a) -0.25
 - (b) 0.25
 - (c) -4
 - (d) 4
93. The Supply function is given as $Q = -100 + 10P$. Find the elasticity using point method when price is Rs 15
- (a) 4
 - (b) 3
 - (c) -5
 - (d) None of these
94. The cobweb theory was propounded by ____
- (a) Hawtrey
 - (b) Adam smith
 - (c) Nicolas Kaldor
 - (d) None of these
95. Find normal GDP if real GDP = 450 and price index= 120
- (a) 540
 - (b) 640
 - (c) 500
 - (d) None of these

96. Suppose the Consumption of an economy is given by $C = 20 + 0.6Y$ and Investment $I = 10 + 0.2Y$. What will be the equilibrium level of National Income.
- (a) 150
 - (b) 200
 - (c) 350
 - (d) None of these
97. If commercial banks reduce their holdings of excess reserves:
- (a) The money supply falls
 - (b) The money supply increases
 - (c) The monetary base falls
 - (d) None of these
98. Non – tariff barriers (NTBs) include all the following except:
- (a) import quotas
 - (b) technical standards of products
 - (c) tariff
 - (d) None of these
99. Pure Oligopoly is based on the ____ products.
- (a) Differentiated
 - (b) Homogeneous
 - (c) unrelated
 - (d) None of these
100. Under equation $C = a + bY$, $b = 0.8$, what is the value of 2 sector expenditure multiplier:
- (a) 4
 - (b) 5
 - (c) 2
 - (d) None of these.