Mock Test Paper - Series II: April 2026

Date of Paper: 29th April 2026

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 aspect of taxation involves normative economics?
   (a) the incidence of (i.e., who actually pays for) the tax
   (b) the effect of the tax on incentives to work
   (c) the "fairness" of the tax
   (d) all the above

2. What are functions of Government in economy?
   (a) Allocation Function
   (b) Redistribution Function
   (c) Stabilization Function
   (d) All of the above

3. 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.

4. Point elasticity is useful for which of the following situations?
   (a) The bookstore is considering doubling the price of notebooks.
   (b) A restaurant is considering lowering the price of its most expensive dishes by 50%.
   (c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by ₹ 100.
   (d) None of the above.

5. Which one of the following could explain a shift to the right of the supply curve for a good?
   (a) The imposition of a tax on the good
   (b) A new supplier entering the market
   (c) A rise in firms' wage costs
   (d) A rise in the price of the good
6. Which of the following is an economic activity?
   (a) Listening to music on the radio
   (b) Teaching one's own son at home
   (c) Medical facilities rendered by a charitable dispensary
   (d) A housewife doing household duties
7. The FRBM Act, 2003 emphasises on:
   (a) revenue-led fiscal consolidation
   (b) better expenditure outcomes
   (c) rationalisation of tax regime
   (d) all of the above
8. Stagflation:
   (a) means prices are falling and purchasing power is increasing
   (b) is in the form of a low rate of growth combined with the general price level increase
   (c) means high rate of growth combined with rise in the general price level
   (d) means that due to increase in the cost of products, prices of final products are increasing
9. The Law of Scarcity:
   (a) Does not apply to rich, developed countries
   (b) Does not apply to poor, underdeveloped countries
   (c) Implies only to socialist economies.
   (d) Implies that all consumer wants will never be completely satisfied.

10. Which of the following is not a part of Fiscal policy?

(a) Subsidy under public distribution system

(b) Control of population

(c) Imposition of taxation

(d) Issue of bonds by government

11. Administered Prices refer to:

(a) Price determined by forces of demand and supply

(b) Price determined by sellers in the market

(c) Price determined by an external authority which is usually the government

d) None of these

12. If the quantity demanded by 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

13. With reference to Union Budget, which of the following is/are covered under Non-Plan Expenditure?

1. Défense -expenditure

2. Interest payments

3. Salaries and pensions

4. Subsidies

Select the correct answer using the code given below.

(a) 1 only

(b) 2 and 3 only

(c) 1, 2, 3 and 4

(d) None

14. To obtain full benefits of demographic dividend, what should India do?

(a) Promoting skill development

(b) Introducing more social security schemes

(c) Reducing infant mortality rate

(d) Privatization of higher education

15. If the interest rate is decreased in an economy, it will:

    (a) decrease the consumption expenditure in the economy

    (b) increase the tax collection of the Government

    (c) increase the investment expenditure in the economy

    (d) increase the total savings in the economy

16. The “Communist Manifesto” was published in:

    (a) 1848

    (b) 1905

    (c) 1952

    (d) None of these.

17. 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

18. In the case of a Giffen good, the demand curve will be.

    (a) Horizontal

    (b) Downward sloping to the right

    (c) Upward-sloping to the right

    (d) Vertical

19. 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

20. Which market sells both homogeneous as well as differentiated goods?
   (a) Oligopoly
   (b) Perfect competition
   (c) Monopoly
   (d) None of these

21. Which of the following measures of meeting deficit in a budget, leads to an increase in money supply in the economy?
   (a) Disinvestment
   (b) Loan form World Bank
   (c) Deficit Financing
   (d) All of these

22. 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 nonrelated good

23. Within the relevant range, isoquants:
   (a) are negatively sloped
   (b) are convex to the origin
   (c) cannot cross
   (d) All of the above

24. The MC curve reaches its minimum point before the AVC curve and the AC curve. In addition, the MC curve inter-sects the AVC curve and the AC curve at their lowest point. The above statements are both true.
   (a) Always
   (b) Never
   (c) Often
   (d) Sometimes

25. 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

26. 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 is possible

27. 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 of the above

28. 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

29. For substitutes, cross elasticity of demand is_____.
    (a) Positive
    (b) Negative
    (c) Zero
    (d) Always less than one

30. Law of diminishing returns to scale is relevant to-
    (a) short period

(b) long period

(c) market period

(d) None of these

A consumer spends her entire income on goods A and B. Suddenly, the price of good A doubles while income and price of B remain unchanged.

On the basis of above situation, answer the following questions (31 and 32)

31. The immediate effect on the budget line will be:

(a) Parallel inward shift

(b) Outward rotation

(c) Inward rotation towards A-axis

(d) No change

32. At the new equilibrium, the consumer is most likely to:

(a) Reach a higher indifference curve

(b) Reach a lower indifference curve

(c) Remain on same indifference curve

(d) Consume more of good A

33. The backward bending supply curve of labour occurs because:

(a) Labor becomes less productive over time

(b) Workers prefer more leisure than additional income beyond a certain wage level

(c) Wages decrease at higher employment levels

(d) Labor unions restrict working hours

34. The concept of vertical equity in fiscal federalism refers to:

(a) Equity among individuals

(b) Equity between regions

(c) Revenue sharing between centre and states

(d) Allocation of GST among consumers

35. Time element in market was conceived by:

(a) Alfred Marshall

(b) Pigou

(c) Allen

(d) None of these

36. Modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism is opined by___

(a) Pigou

(b) Keynes

(c) Hawtrey

(d) None of these

37. Taxation involves which aspects of normative economics:

(a) Incidence

(b) Fairness

(c) Incentive to work

(d) All of the above

38. Full Capacity is utilized in the which market condition:

(a) Perfect Competition

(b) Monopoly

(c) Oligopoly

(d) None of these

39. The difference between AR and MR in monopoly arises due to:

(a) Constant price

(b) Price elasticity

(c) Same price at all outputs

(d) Multiple sellers

40. Which feature of business cycles explains why the duration and intensity of cycles vary across time?

(a) International contagion

(b) Periodicity and variability

(c) Uniform causes

(d) Constant amplitude

41. Which factors most influences when a company should strategically plan to launch a new product?

    (a) Inflation only

    (b) Phase of business cycle

    (c) Fixed costs

    (d) Monopolistic competition

42. The immediate cause for the 1991 reforms was:

    (a) Trade surplus

    (b) Balance of payments crisis

    (c) Political change

    (d) Agricultural boom

43. A major difference between pre- and post-independence economy is:

    (a) Drop in population after 1947

    (b) Shift from service to agriculture dominance

    (c) Move from colonial exploitation to planned development

    (d) Removal of private sector

44. A country deciding to export goods that utilize its most abundant production factor reflects which theoretical proposition?

    (a) Absolute Advantage Theory

    (b) Comparative Cost Theory

    (c) Factor Proportions Theory

    (d) Opportunity Cost Theory

45. A key limitation of mercantilist trade theory is its focus on:

    (a) Balance of trade rather than overall welfare

    (b) Comparative cost differences

    (c) International capital flows

    (d) Factor proportions

46. The Doha Development Round primarily aims to:
    (a) Liberalise only developed economies
    (b) Address developing country concerns in global trade
    (c) Eliminate services trade
    (d) Restrict foreign investment
47. Which factor represents central bank policy influence?
    (a) Currency-deposit ratio
    (b) Reserve ratio
    (c) Income level
    (d) Price level
48. A liquidity trap in money demand occurs when:
    (a) Money demand is perfectly inelastic
    (b) Money demand is perfectly elastic
    (c) Interest rates are extremely high
    (d) Money supply is zero
49. According to the simple money multiplier formula, if the reserve ratio is 0.2, the money multiplier equals:
    (a) 2
    (b) 5
    (c) 20
    (d) 0.2
50. Which policy instrument is commonly used to correct negative externalities?
    (a) Subsidies
    (b) Price ceilings
    (c) Pigouvian taxes
    (d) Import quotas
51. Government intervention through subsidies and taxes is an example of:
    (a) Market deregulation
    (b) Monetary policy

(c) International trade policy

(d) Market correction

52. The “free-rider problem” is most associated with:

(a) Private goods

(b) Public goods

(c) Merit goods

(d) Demerit goods

53. The cost which is never zero even when production is stopped is known as:

(a) Supplementary Cost

(b) Prime Cost

(c) Explicit cost

(d) Implicit cost

54. Which of the following is true with respect to relationship between AC and MC?

(a) When MC> AC, AC falls

(b) AC curve intersects MC curve at minimum MC

(c) MC curve intersects AC curve at minimum AC

(d) When MC < AC, ATC rises

55. Cost function is a __________ concept:

(a) Economical

(b) Functional

(c) Financial

(d) Technical

56. The theory of monopolistic competition has been formulated in the United States of America by:

(a) Joseph Schumpeter

(b) Joan Robinson

(c) Edward Chamberlin

(d) John Bates Clark

57. Unlimited ends and limited means together present the problem of:
   (a) Choice
   (b) Distribution
   (c) Scarcity of resources
   (d) None of these

58. A vertical supply curve parallel to Y axis implies that the elasticity of supply is :
   (a) Infinity
   (b) Zero
   (c) Equal to one
   (d) None of these

59. Which of the following is an external economy of scale in Long Run?
   (a) Risk bearing economies
   (b) Financial Economies
   (c) Development of skill labour
   (d) All the above

60. Combination of Monopoly Market and Monopsony market is called as:
   (a) Duopoly market
   (b) Bilateral Monopoly Market
   (c) Monopolistic market
   (d) None of these

61. Find nominal GDP if real GDP = 450 and price index = 120
   (a) 450
   (b) 540
   (c) 240
   (d) None of these

62. Mixed Income of the self -employed means:
   (a) net profits received by self-employed people
   (b) Wages due to non-economics activities

(c) combined factor payments which are not distinguishable

(d) None of these

63. Which of the following is concerned with division of economic responsibilities between the central and state government of India?

(a) NITI Aayog

(b) Finance Commission

(c) Central bank

(d) none of these

64. Short term credit from the Reserve bank of India to state government to bridge temporary mismatches in cash flows is known as:

(a) Ways and Means Advance

(b) Commercial credit by RBI

(c) short term facility

(d) None of these

65. What does the fiscal deficit relate to under the government budget?

(a) Taxes shortfall

(b) Disinvestment shortfall

(c) Borrowings requirement

(d) None of these

66. 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

67. High-powered money is also known as:

(a) Base money

(b) Reserve money

(c) Narrow money

(d) All of the above

68. Equation of exchange is converted into the quantity theory of money by assuming the following variables as constants:

(a) V and T

(b) M and V

(c) M and P

(d) V and P

69. Which of the following is not a function of Central Bank?

(a) Enjoys monopoly of note issue

(b) Acts as the banker's bank

(c) Creation of credit

(d) Lender of the last resort

70. According to Keynes, inflationary gap is caused by:

(a) excess supply

(b) excess demand

(c) deficiency of demand

(d) deficiency of supply

71. Which theory considers bullion as a part of the international trade:

(a) Modern theory of trade

(b) Factor equalization theorem

(c) Comparative cost advantage theory

(d) Mercantilism

72. Foreign Exchange and Foreign currencies in India are governed by:

(a) RBI

(b) Banking Regulation Act

(c) FEMA Act

(d) SEBI Act

73. _____ promotes the development friendly integration of developing Countries into the world economy:

(a) UNCTAD

(b) IBRD

(c) IMF

(d) IDA

74. Quantitative restrictions refer to limit set by countries to curb:

(a) Imports

(b) Exports

(c) Imports & Exports

(d) None of the above

75. Industrial sector reforms under the New Economic Policy (NEP) comprised which of the following?

(a) Abolition of industrial licencing

(b) De-reservation of production areas

(c) Contraction of public sector

(d) All of these

76. Assertion (A): NITI Aayog is a policy think-tank of Government of India that aims to involve the states in economic policy making in India.

Reason (R): Planning commission was replaced on January 1, 2015, due to its traditional top-down approach.

(a) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are true, and Reason (R) is not the correct explanation of Assertion (A).

(c) Both Assertion (A) and Reason (R) is false

(d) Assertion (A) is false but Reason (R) is true.

77. Keynesian analysis is:

(a) A short-run analysis

(b) Long-run analysis

(c) Both short and long-run analysis

(d) Neither short nor long-run analysis

78. What is the function of the GDP deflator?

(a) It evaluates inflation by utilizing the present production basket.

(b) It shows real GDP growth based on current production.

(c) The GDP deflator is in real terms while the CPI is in nominal terms.

(d) None of the above

79. As a part of WTO guidelines the Agreement on Agriculture (AOA) doesn't consider:

(a) Direct payments to farmers are permitted.

(b) Indirect assistance and support to farmers including R & D support by govt. are not permitted.

(c) Domestic policies which directly affect production and trade must be cut back.

(d) Least developed countries do not need to make any cuts.

80. When the U.S. exchange rate rises, foreign goods become ________ and U.S. imports ________.

(a) more expensive; decrease

(b) less expensive; decrease

(c) more expensive; increase

(d) less expensive; increase

81. Education is an example of:

(a) Public good

(b) Merit good

(c) Social good

(d) Club good

82. Which of the following is not a criterion for determining distribution of central taxes among the states for 2021-26:

(a) Demographic performance

(b) Tax and fiscal efforts

(c) Infrastructure performance

(d) None of these

83. An increase in marginal propensity to consume will:

    (a) Lead to the consumption function becoming steeper.

    (b) Shift the consumption function upwards.

    (c) Shift the consumption function downwards.

    (d) Shift the savings function upwards.

84. 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

85. 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

86. 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

87. What is a Global Depository Receipt?

    (a) It is a receipt issued by multinational banks on deposit of money

    (b) It is a receipt issued by stock exchange to bank clearing mechanism

    (c) It is a receipt issued by an overseas bank is lieu of shares of a domestic company

    (d) It is a receipt issued by stock exchange on investment by foreign portfolio investor

88. 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 behaviour?

(a) Price leadership

(b) Centralized cartel

(c) Prisoners' dilemma

(d) Kinked demand curve

89. Money Supply is directly proportional to:

(a) Cash reserve ratio (r)

(b) Monetary base (H)

(c) Currency deposit ratio (k)

d) Money Multiplier (m)

90. Redemption of public debt means:

(a) Repayment of debt

(b) Repayment of FDI

(c) Additional borrowing

(d) Deficit financing

91. Pump Priming is related with:

(a) Monetary policy

(b) Income policy

(c) Price policy

(d) Fiscal policy

92. Fiscal Federalism refers to:

(a) Sharing of political power between centre and states

(b) Organising and implementing economic plans (

(c) Division of economic functions and resources among different layers of Govt.

(d) None of these

93. 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.

94. Which of the following assumptions is commonly used in classical trade theory?

(a) Increasing opportunity costs

(b) Imperfect competition

(c) Constant opportunity costs

(d) Government intervention

95. The General Agreement on Tariffs and Trade (GATT) aimed to:

(a) Promote protectionism worldwide

(b) Reduce tariffs among member nations

(c) Regulate only exchange rates

(d) Control foreign direct investment

96. Modes of FDI include:

(a) Export quotas only

(b) Joint ventures, mergers and greenfield investments

(c) Preferential tariffs

(d) Exchange rate controls

97. Which policy tool directly affects bank lending capacity?

(a) CRR

(b) Repo rate

(c) SLR

(d) All of the above

98. Primary deficit equals:

(a) Fiscal deficit – Interest payments

(b) Fiscal deficit + interest payments

(c) Revenue deficit – interest payments

(d) Capital deficit

99. The “free-rider problem” is most associated with:
   (a) Private goods
   (b) Public goods
   (c) Merit goods
   (d) Demerit goods

100. If a government increases spending and cuts taxes to fight recession, this is:
   (a) Contractionary fiscal policy
   (b) Expansionary fiscal policy
   (c) Neutral policy
   (d) Regulatory policy