Mock Test Paper - Series I: August 2026

Date of Paper: 17th August 2026

Time of Paper: 2 P.M. to 4 P.M.

FOUNDATION COURSE

PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours **Marks: 100**

1. The meaning of the word "economic" is most closely associated with the word:
   (a) free
   (b) scarce
   (c) unlimited
   (d) unrestricted
2. 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 of the above
3. When the price of a substitute for commodity X falls, the demand for X :
   (a) rises
   (b) falls
   (c) remains unchanged
   (d) any of the above
4. If the quantity of commodities demanded remains unchanged as their price changes, the coefficient of price elasticity of demand is :
   (a) greater than 1
   (b) equal to 1
   (c) smaller than 1
   (d) zero.
5. If the amount of a commodity purchase remains unchanged when the price of another commodity changes, the cross elasticity of demand between them is:
   (a) negative,
   (b) positive
   (c) zero
   (d) 1

6. A consumer who is below the personal budget line (rather than on it):
   (a) is not spending all personal income
   (b) is spending all personal income
   (c) may or may not be spending all personal income
   (d) is in equilibrium
7. If the $MRTS_{LK}$ equals 2, then the MP_K/MP_L is :
   (a) 2
   (b) 1
   (c) 1 /2
   (d) 4
8. When the law of diminishing returns begins to operate, the TVC curve begins to :
   (a) fall at an increasing rate
   (b) rise at a decreasing rate
   (c) fall at a decreasing rate
   (d) rise at an increasing rate
9. Which of the following industries most closely approximates the perfectly competitive model?
   (a) automobile
   (b) cigarette
   (c) newspaper
   (d) wheat farming
10. In the short run, the monopolist:
   (a) breaks even
   (b) incurs a loss
   (c) makes a profit
   (d) any of the above
11. Which form of monopoly regulation is most advantageous for the consumer?
   (a) price control
   (b) lump-sum tax
   (c) per-unit tax
   (d) all the above three forms are equally advantageous
12. When the industry is in long-run equilibrium, the monopolistic competitor will produce at the lowest point on its LAC curve:
   (a) always
   (b) never

(c) sometimes

(d) cannot say

13. Which of the following is not within the Scope of Business Economics?

    (a) capital budgeting

    (b) accounting standards

    (c) business cycles

    (d) risk analysis

14. Capital is a:

    (a) stock concept

    (b) flow Concept

    (c) both (a) and (b)

    (d) none of the above

15. Choice is created by the:

    (a) abundance of resources

    (b) scarcity of resources

    (c) urgency of needs

    (d) non-Availability of resources

16. The industrialization and economic development of the USA Great Britain and other Western European Countries here have taken place under the condition of:

    (a) capitalism and laissez faire

    (b) mixed economic structure

    (c) socialism and planned structure

    (d) none of these

17. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:

    (a) horizontal

    (b) vertical

    (c) positively sloped

    (d) negatively sloped

18. When the numerical value of cross elasticity between two goods is very high, it means:

    (a) the goods are perfect complements and therefore must be used together

    (b) the goods are perfect substitutes and can be used with ease in place of one another

    (c) there is a high degree of substitutability between the two goods

    (d) the goods are neutral and therefore cannot be considered as substitutes

19. Total utility is maximum when:

    (a) marginal utility is zero

    (b) marginal utility is at its highest point

    (c) marginal utility is negative

    (d) None of the above

20. Trade is not possible if countries operate under____

    (a) absolute cost difference

    (b) equal cost difference

    (c) comparative cost difference

    (d) none of the above

21. In case of composition of international trade_____ play major role.

    (a) manufactures

    (b) agricultural products

    (c) fuel and Mining

    (d) none of these.

22. Ricardian theory assumes perfect mobility of labour __

    (a) within the country

    (b) between the countries

    (c) both within and between the countries

    (d) none of these

23. Which of the following refers to the situation that arises when consumers view products produced in an industry as similar, but not perfect substitutes for each other?

    (a) product differentiation

    (b) net trade

    (c) intra-industry trade

    (d) constant returns to trade

24. A government's restriction on the quantity of imports of a country is known as:

    (A) export quota

    (b) import quota

    (c) import rent

    (d) embargo.

25. Which of the following agencies is responsible for formulating the fiscal policy in India?

    (a) SEBI

    (b) RBI

(c) Ministry of Finance, Govt. of India

(d) NABARD

26. Who among the following was a strong advocate of free markets and minimal governmental activity?

(a) Adam Smith

(b) Richard Musgrave

(c) A.C. Pigou

(d) Alfred Marshall

27. During depression, it is advisable to:

(a) lower Bank Rate and purchase securities in the market.

(b) Increase Bank Rate and purchase securities in the open market.

(c) decrease Bank Rate and sell securities in the open market.

(d) Increase Bank Rate and sell securities in the open market.

28. Which of the following options is true?

(a) Disposable Income= Savings in the Household Sector – Total consumption of the Household Sector

(b) GNP of Factor Cost = Net Indirect Tax + GNP at Market Price

(c) National Income = NDP of Factor Cost – Abroad Net Factor Income

(d) Personal Income = Total Private Income – Corporate Savings – Corporate Tax

29. Which one of the following is included in circular flow?

(a) real flow

(b) money flow

(c) both (a) and (b)

(d) none of these

30. When planned savings are more than planned investment, firms will then___________

(a) reduce production until the economy returns to equilibrium

(b) Increase production until the economy returns to equilibrium.

(c) produce same quantity

(d) none of the above

31. In an economy MPC is 0.75. If investment is increased by ₹ 500 crore, calculate the total increase in income

(a) ₹ 1500 cr

(b) ₹ 200 cr

(c) ₹ 2000 cr

(d) ₹ 5000 cr.

32. What can be the minimum value of investment multiplier?

(a) 10

(b) 1

(c) infinity

(d) 0

33. Which of the following is true of an imperfect market structure?

(a) participants in the market have little or no control over outcome in the market.

(b) consumer surplus is maximized.

(c) the maximization of producer surplus may lead to a loss of net benefit for society.

(d) imperfect market structures include monopolies but not cartels.

34. How does the government intervene in the supply and demand of demerit goods?

(a) by making public service announcements

(b) by upping the sales tax on the goods

(c) by requiring warning labels

(d) all the above are correct

35. What was the main objective of the Fiscal Responsibility and Budget Management Act of 2003?

(a) achieve fiscal surplus

(b) stop money laundering

(c) eliminate fiscal deficit

(d) eliminate revenue deficit

36. All of the following are variables that can be manipulated to affect fiscal policy except:

(a) personal income taxes

(b) government expenditures on goods and services

(c) government expenditures on unemployment benefits

(d) the rate of interest

37. If real exchange rate is high, it might lead to :

(a) current account deficit

(b) fiscal deficit

(c) current account surplus

(d) increase in foreign exchange reserves

38. Which of the following statements is false?

(a) majority of countries follow flexible exchange rate

(b) the term devaluation applies to fixed exchange rate

(c) RBI wants Indian companies to hedge their currency

(d) dirty float is generally followed by countries with fixed exchange regime

39. Sanitary regulations come under:
   (a) non-tariff barriers
   (b) tariff barriers
   (c) IMF
   (d) both tariff and non-tariff barriers.

40. SLR should be maintained in:
   (a) bonds
   (b) equity
   (c) gold
   (d) cash

41. Which of the following statements is false regarding FPI?
   (a) speculative in nature
   (b) investment in financial assets
   (c) setting up of factory
   (d) short term investment

42. Which of the following steps should be taken by the central bank if there is excessive rise in the foreign exchange rate?
   (a) supply foreign exchange from its stock
   (b demand more of other foreign exchange
   (c) allow commercial banks to work under less strict environment
   (d) both (b) and (c)

43. One major feature of the reforms was:
   (a) expansion of license raj
   (b) reduction of import tariffs
   (c) band foreign companies
   (d) nationalization of banks

44. If foreign investment increases significantly, the most likely effect is:
   (a) capital inflow and technology transfer
   (b) trade isolation
   (c) decline in productivity
   (d) reduction in employment

45. The term “economic liberalization” mainly refers to:
   (a) government monopoly in industries

(b) removal of regulatory restrictions

(c) expansion of licensing

(d) increase in tariffs

46. 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

47. Protectionism refers to:

    (a) free trade policies

    (b) policies restricting imports

    (c) currency appreciation

    (d) removal of tariffs

48. If advertising expenditure increases demand by 8% when advertising rises by 4%, the advertisement elasticity is :

    (a) 0.5

    (b) 1

    (c) 2

    (d) 4

49. Which of these is a drawback of socialist economies?

    (a) bureaucratic inefficiency and delays

    (b) excessive competition

    (c) high income inequality

    (d) unrestricted private property

50. When managers use economic theory to decide between alternative production techniques, they are using business economics as:

    (a) a theoretical concept only

    (b) a decision-making tool

    (c) pure statistics

    (d) a macroeconomic policy

51. For a discriminating monopolist, price discrimination depends mainly on:

    (a) cost of production

    (b) Size of market

    (c) elasticity of demand

    (d) government regulation

52. Which type of industry is typically most sensitive to business cycle fluctuations?

(a) non-durable goods

(b) durable and capital goods

(c) basic services

(d) government services

53. Interest rate hikes aimed at controlling inflation are most likely to be used during which phase of the business cycle :

(a) contraction

(b) trough

(c) expansion or peak

(d) recovery

54. One limitation of using GDP as a welfare measure is that it:

(a) accounts for intermediate goods

(b) records value of illegal activities

(c) ignores income distribution

(d) includes only final goods

55. The main reason GDP may not reflect living standards is its inability to:

(a) measure output

(b) capture non-market activities

(c) include all finished goods

(d) reflect total factor cost

56. Expansionary fiscal policy involves:

(a) higher taxes and lower spending

(b) lower taxes and higher spending

(c) higher interest rates

(d) lower imports

57. Grants provided by the central government to states fall under which category of public finance?

(a) externalities correction

(b) revenue sharing and fiscal federalism

(c) rational pricing

(d) monetary policy

58. Fiscal policy intended to reduce inflation is:

(a) expansionary

(b) contractionary

(c) neutral

(d) monetary

59. In the simple Keynesian model, stability of equilibrium exists, if:

(a) APC is less than one.

(b) APS is less than one.

(c) MPC is less than one.

(d) None of the above.

60. Positive economics means:

(a) does not depend on market interactions,

(b) only looks at the best parts of the economy.

(c) examines how the economy works (as opposed to how it should work)

(d) is very subjective.

61. 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

62. If labour continues to be used intensively despite high battery prices, the most logical explanation is:

(a) labour is relatively cheaper than capital

(b) capital is freely available

(c) the economy is socialist

(d) producers ignore cost minimization

63. In Cobb-Douglas production function, the constants represent:

(a) prices of inputs

(b) units of output

(c) technological parameters

(d) marginal productivity

64. Normal price is determined in the:

(a) very short period

(b) short period

(c) long period

(d) market period

65. The IT bubble burst illustrates failure of:

(a) fiscal policy

(b) demand forecasting

(c) innovation theory

(d) growth-over-profits strategy

66. The trough phase of a business cycle is characterized by:

(a) peak employment levels

(b) maximum aggregate economic activity

(c) lowest point of aggregate economic activity

(d) rapid economic expansion

67. Tobin's portfolio approach modifies Keynesian liquidity preference by introducing:

(a) perfect certainty

(b) risk-neutral behaviour

(c) risk-return trade-off and diversification

(d) zero transaction costs

68. A contractionary monetary policy is least effective in influencing output when:

(a) interest elasticity of investment is high

(b) the economy operates under a liquidity trap

(c) exchange rates are flexible

(d) asset prices respond strongly to interest rates

69. If a central bank intervenes in the foreign exchange market to prevent appreciation of domestic currency by purchasing foreign assets, the immediate impact on BOP accounts will be:

(a) increase in current account surplus

(b) increase in capital account deficit

(c) increase in official reserve assets

(d) reduction in errors and omissions

70. Which committee's recommendations led to the reduction of reserve requirements (SLR and CRR) in the early 1990s?

(a) Kelkar Committee

(b) Narasimham Committee

(c) Chelliah Committee

(d) Gadgil Committee

71. According to the India Development Update (2022) by the World Bank, why is India's economy considered more insulated from global spillovers compared to other emerging markets?

(a) due to its 100% reliance on the agricultural sector.

(b) because of its large domestic market and less exposure to international trade flows.

(c) because it has no external debt.

(d) due to the fixed exchange rate system maintained by the RBI.

72. Automatic stabilizers operate:

(a) only after government approval

(b) without deliberate policy changes

(c) through monetary policy

(d) through foreign trade policy

73. The 25% decline in the stock market, in this scenario it can be classified as:

(a) a leading indicator predicting future economic recovery

(b) a coincident indicator reflecting current economic conditions

(c) a lagging indicator showing past economic performance

(d) an unrelated financial market fluctuation

74. Which market structure is characterized by extreme product differentiation?

(a) perfect competition

(b) monopolistic competition

(c) oligopoly

(d) monopoly

75. A manufacturing firm finds that the selling price of its product is below Average Total Cost (ATC) but above Average Variable Cost (AVC) in the short run. According to the firm's behavioral principles, the most rational decision is to:

(a) shut down immediately because the firm is incurring losses.

(b) continue production because variable costs are fully covered and part of fixed costs is recovered.

(c) continue production only if price equals Average Total Cost.

(d) increase production indefinitely until Total Revenue is maximized.

76. A software company offers student, corporate, and institutional licenses for the same software at different prices. The pricing is based on identifiable customer groups rather than quantity purchased. This is an example of:

(a) First-degree price discrimination

(b) Second-degree price discrimination

(c) Third-degree price discrimination

(d) Peak-load pricing

77. A group of five cement manufacturers secretly agree to fix prices and production quotas to maximize their joint profits and discourage new competitors. This market arrangement is best classified as:

(a) competitive oligopoly

(b) collusive oligopoly

(c) monopolistic competition

(d) pure competition

78. A pharmaceutical company decides not to establish an additional manufacturing unit because the expected savings from technical specialization would be outweighed by higher administrative complexity, communication delays, and rising coordination costs. Which concept best explains this decision?

(a) opportunity cost

(b) diseconomies of scale beyond the optimum level of production

(c) law of demand

(d) consumer equilibrium

79. 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.

80. FDI is prohibited in all the following except:

(a) atomic energy

(b) lottery business

(c) gambling and betting

(d) banking operations.

81. 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

82. The kinked demand curve model of oligopoly assumes that:

(a) response to a price increase is less than the response to a price decrease

(b) response to a price increase is more than the response to a price decrease

(c) elasticity of demand is constant regardless of whether price increases or decreases

(d) elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price

83.. 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

84. In the long run, normal profits are included in the ______ curve.

(a) LAC

(b) LMC

(c) AFC

(d) SAC

85. A firm encounters its "shutdown point" when:

(a) average total cost equals price at the profit-maximizing level of output

(b) average variable cost equals price at the profit-maximizing level of output

(c) average fixed cost equals price at the profit-maximizing level of output

(d) marginal cost equals price at the profit-maximizing level of output

86. The efficient scale of production is the level of output at which:

(a) AFC is minimum

(b) AVC is minimum

(c) ATC is minimum

(d) MC is minimum

87. A business economy involves the theory of business economics with:

(a) normative Economics

(b) business Practices

(c) microeconomics

(d) macro-Economics

88. Giffen paradox is an exception of:

(a) demand

(b) supply

(c) production

(d) utility

89. MC curve in a perfectly competitive industry depicts?

(a) demand Curve

(b) supply Curve

(c) average cost curve

(d) total cost curve

90. OPEC is an example of:

(a) monopolistic Competition

(b) monopoly

(c) oligopoly

(d) duopoly

91. Which of the following method is used to estimate the National Income of India?
    (a) expenditure approach
    (b) consumer price index method
    (c) profit and loss Method
    (d) balance of payment approach

92. Which statistical yearbook published by the CSO includes the data and analysis on the system of regional accounts in India?
    (a) Economic Survey of India
    (b) Indian Financial yearbook
    (c) National Accounts Statistics
    (d) None of these

93. The Keynesian theory emphasizes the role of ___ in influencing national Income.
    (a) aggregate supply
    (b) government policies
    (c) foreign trade
    (d) none of these

94. Which of the following is a reason why market fails?
    (a) perfect competition among firms
    (b) absence of externalities
    (c) adequate provision of public good
    (d) information asymmetry

95. After the budget is prepared, it is usually sent to:
    (a) The President for approval
    (b) The Supreme court for review
    (c) The Parliament & Legislature for approval and debate
    (d) None of these

96. If the autonomous consumption equals ₹ 2000 and marginal propensity to consume equals 0.8. If disposal income equals ₹ 10000 then total consumption will be:
    (a) 8000
    (b) 6000
    (c) 10,000
    (d) None of these

97. Inflation target is set by Govt of India in consultation with RBI once in every ___ year .
    (a) 2

(b) 5

(c) 3

(d) 4

98. Which initiatives of NITI Aayog facilitates and improves access to Indian Government data?

(a) India Policy Insights

(b) E Amrit

(c) NDAP

(d) Shoonya

99. ______ refers to the way one person's value for a good or service is affected by its value to others.

(a) Bandwagon Effect

(b) Network Effects

(c) Economies of scale

(d) Both (a) and (b)

100. Investments which are reciprocal investment between countries are referred to as ___.

(a) Horizontal direct Investment

(b) Vertical direct Investment

(c) Two way direct foreign Investment

(d) Conglomerate foreign Investment.