Mock Test Paper - Series II: August 2026

Date of Paper: 27th August 2026

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

FOUNDATION COURSE

PAPER – 4: BUSINESS ECONOMICS

Time: 2 Hours **Marks: 100**

1. In the four-sector model, which of the following is not a leakage from the circular flow?
   (a) Saving
   (b) Investment
   (c) Taxes
   (d) Imports

2. If income rises by ₹ 200 and consumption rises by ₹ 150, MPC is:
   (a) 0.75
   (b) 0.5
   (c) 0.6
   (d). 0.8

3. Which one of the following is a transfer payment?
   (a) Interest on loan
   (b) Rent received
   (c) Pension
   (d) Salary

4. Which method of National Income estimation measures value added at each stage?
   (a) Income Method
   (b) Product Method
   (c) Expenditure Method
   (d) Transfer Method

5. 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
6. The Heckscher-Ohlin theory bases trade on:
   (a) Labour productivity
   (b) Factor endowments
   (c) Network effects
   (d) Currency arbitrage
7. A tariff that combines both value-based and quantity-based charges is called:
   (a) Preferential tariff
   (b) Mixed tariff
   (c) Compound tariff
   (d) Trigger price
8. Sanitary and Phytosanitary (SPS) measures aim to protect:
   (a) Trademarks
   (b) Intellectual property
   (c) Human, animal and plant life
   (d) Software exports
9. WTO's dispute resolution functions are carried out by:
   (a) Trade Policy Review Mechanism
   (b) Appellate Body
   (c) Ministerial Council
   (d) TRIPS Council
10. Which of the following is a qualitative instrument of monetary policy?
   (a) Repo rate

(b) CRR

(c) Margin requirement

(d) OMO

11. Money Supply (M) is equal to:

(a) M1 + M2

(b) CRR × SLR

(c) Money Multiplier × Base Money

(c) GDP ÷ Inflation

12. Which is a consequence of high money multiplier?

(a) High inflation risk

(b) Tight liquidity

(c) Increase in SLR

(d) Decline in GDP

13. The Monetary Policy Committee sets:

(i) SLR

(ii) CRR

(c) Repo rate

(d) Bank rate

14. Which initiative focuses on sustainable lifestyle choices?

(a) NDAP

(b) Shoonya

(c) LIFE

(d) Make in India

15. Which program was launched to promote organic farming?

(a) MIDH

(b) PMFBY

(c) PKVY

(d) E-NAM

16. Which organisation launched India Policy Insights (IPI)?

    (a) SEBI

    (b) RBI

    (c) NITI Aayog

    (d) DPIIT

17. Which of the following affects real exchange rate directly?

    (a) Spot rate only

    (b) Domestic interest rate

    (c) Domestic and foreign price levels

    (d) Central bank reserves

18. 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

19. Which economist applied capital asset demand theory to money?

    (a) Keynes

    (b) Tobin

    (c) Baumol

    (d) Milton Friedman

20. 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

21. Keynes advocated increased government spending to tackle:

    (a) Hyperinflation

    (b) Balance of payments deficit

    (c) Recession and unemployment

    (d) Asset bubbles

22. One major limitation of fiscal policy is:

    (a) Absence of borrowing options

    (b) Difficulty in cutting government salaries

    (c) Implementation lags

    (d) Volatility of currency

23. Free rider problem occurs due to:

    (a) Low costs

    (b) non-excludability

    (c) Unemployment

    (d) High production

24. What implications does resource scarcity have for the satisfaction of wants?

    (a) Not all wants can be satisfied

    (b) We will never need to make choices

    (c) We must decrease our individual wants

    (d) New natural resources are necessary in every case

25. Who is the main exponent of Marginal Utility Analysis?

    (a) Keynes

    (b) Hicks

    (c) Paul Samuelson

    (d) Marshall

26. Purchasing power of money falls when:

    (a) Price level increases

(b) Income level increases

(c) Money supply falls

(d) Price level decreases

27. ______ is the total volume of the commodity which can be brought into the market for sale at short notice

(a) Demand

(b) Supply

(c) Stock

(d) Sales

28. Production means:

(a) Capital goods only

(b) Consumer goods only

(c) Both capital and consumer goods

(d) Neither

29 Economic Cost is equal to:

(a) Implicit Cost

(b) Explicit Cost

(c) Explicit Cost + Implicit Cost

(d) Fixed Cost + Variable Cost

30. Even with a lower rate of interest, demand for credit declines during:

(a) Contraction Phase

(b) Expansion Phase

(c) Peak

(d) Recovery

31. According to Keynes, fluctuations in economic activity are due to fluctuations in:

(a) Supply of resources

(b) Aggregate effective demand

(c) Price

(d) Money supply

32. Which is the primary tool for government to influence aggregate demand according to Keynesian economics?

    (a) Monetary policy

    (b) Fiscal policy

    (c) Supply-side policies

    (d) Exchange rate policy

33. Which of the following analytical tools is commonly used in Business Economics?

    (a) Supply & Demand equilibrium model

    (b) Cost–benefit analysis

    (c) Price elasticity of demand

    (d) Balance of payments

34. In the basic economic problems list, “For whom to produce” relates to:

    (a) Distribution of output

    (b) Price control

    (c) Budget deficit

    (d) Trade policy

35. Which economic system most emphasizes consumer choice?

    (a) Capitalist

    (b) Socialist

    (c) Mixed

    (d) Traditional

36. A product with income elasticity less than one but greater than zero is:

    (a) Inferior good

    (b) Necessity

    (c) Luxury

    (d) Unrelated

37. Which factor causes a rightward shift of the supply curve?

(a) Increase in input cost

(b) Decrease in technology

(c) Improvement in technology

(d) Increase in taxes

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

(a) Cost of production

(b) Size of market

(c) Elasticity of demand

(d) Government regulation

39. If a monopolistic competitive firm earns super-normal profits in the short run, in the long run:

(a) Profits increase

(b) Firms exit the market

(c) New firms enter, reducing profits

(d) Market price increases

40. Which market form's demand curve is identical to its industry demand?

(a) Perfect competition

(b) Monopolistic competition

(c) Monopoly

(d) Oligopoly

41. The kinked demand curve in oligopoly explains:

(a) Price stability

(b) Constant MR

(c) Homogeneous products

(d) Only one seller

42. 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

43. Understanding business cycles helps investors primarily because

(a) It ensures profits

(b) It aids in timing market entry and exits

(c) It eliminates risk

(d) It predicts inflation exactly

44. Which classical trade theory explains international trade purely on differences in labour productivity?

(a) Heckscher–Ohlin theory

(b) Ricardian comparative advantage theory

(c) Opportunity cost theory

(d) Gravity model

45. Voluntary export restraints are classified as

(a) Tariff-based barriers

(b) Non-tariff trade barriers

(c) Export subsidies

(d) Trade liberalization measures

46. Modes of FDI include:

(a) Export quotas only

(b) Joint ventures, mergers and greenfield investments

(c) Preferential tariffs

(d) Exchange rate controls

47. When a government officially lowers its currency value under a fixed regime, it is called:

(a) Depreciation

(b) Devaluation

(c) Appreciation

(d) Revaluation

48. In the Cambridge cash-balance approach, money demand is expressed as:

(a) M = PT/V

(b) Md = kPY

(c) MV = PT

(d) Md = rY

49. A key objective of monetary policy is to:

(a) Eliminate the banking system

(b) Achieve price stability and sustainable growth

(c) Set tax policy

(d) Fix stock market indices

50. A tax imposed equal to the external marginal cost of pollution is called a:

(a) Tariff

(b) Pigouvian tax

(c) Subsidy

(d) Excise duty

51 In the case of a straight-line demand curve meeting the two axes, the price elasticity of demand at y-axis of the line would be equal to:

(a) 1

(b) Infinity

(c) 3

(d) 1.25

52. Average fixed cost cannot be:

(a) less than one

(b) One

(c) Zero

(d) Greater than one

53. If firm's average cost is falling then marginal curve must be:

(a) falling

(b) Rising

(c) below average cost curve

(d) None of the above

54. When two goods are perfect substitutes of each other then:

(a) MRS is falling

(b) MRS is rising

(c) MRS is constant

(d) None of the above

55. In Perfect Competition Utilization of resources is:

(a) Partial

(b) Moderate

(c) Full

(d) Over

56. Economic Cost means:

(a) Accounting cost + Implicit cost

(b) Accounting cost + Marginal Cost

(c) Cash cost + Opportunity Cost

(d) Implicit cost

57. The cost incurred on the factor of production is known as:

(a) Accounting cost

(b) Economic Cost

(c) Marginal Cost

(d) Implicit Cost

58. The share of concessional debt in total debt external debt of India has:

(a) Remained the same

(b) Doubled

(c) Reduced

(d) Increased

59. Soap Industry is an Example of:

(a) Oligopoly

(b) Perfect Competition

(c) Monopolistic Competition

(d) Monopoly

60. A Purely competitive firm's supply schedule in the short run is determined by:

(a) Its average revenue

(b) Its marginal revenue

(c) Its marginal cost curve

(d) Marginal Utility for money curve

61. The basic distinction between M1 and M2 is in the:

(a) Treatment of Post Office Deposit

(b) Treatment of time deposits of banks

(c) Treatment of saving deposits of banks

(d) Treatment of Currency

62. All are features of monopoly except:

(a) There is a single seller

(b) The firm is a price taker

(c) The Firm Produces a unique product

(d) The existence of some advertising

63. In the long run the monopolistic competitive firm has:

(a) Excess capacity

(b) Excess Profits

(c) Zero fixed cost

(d) All the above

64. Which of the following concept of budget deficit has become practically redundant in India?

(a) Fiscal deficit

(b) Budgetary deficit

(c) Primary deficit

(d) Revenue deficit

65. If increasing airfare increases revenue and decreasing revenue decreases then the demand for air travel has a price elasticity of:

(a) Zero

(b) Greater than zero but less than one

(c) One

(d) Greater than one

66. A monopoly who sells in two markets in which demand is not identical will be unable to maximize his profits unless he:

(a) sells below cost of production in both markets.

(b) practices price discrimination

(c) equate the volume of sales in both markets.

(d) equate marginal cost and marginal revenue in one market only.

67. Abolition of intermediaries and tenancy reforms are both part of:

(a) Industrial reform in India

(b) External Sector reform in India

(c) Land reforms in India

(d) Banking reforms in India

68. If the government sets a maximum price below equilibrium price, this will likely cause:

(a) Surplus

(b) Shortage

(c) No change

(d) Increase in supply

69. Which economic system most emphasizes consumer choice?

(a) Capitalist

(b) Socialist

(c) Mixed

(d) Traditional

70. The assumption of rationality in utility theory means consumers:

(a) Always have unlimited budgets

(b) Make choices to maximize satisfaction subject to constraints

(c) Ignore prices

(d) Spend only on one good

71. 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

72. Which market form best reflects real-world product differentiation?

(a) Perfect competition

(b) Monopoly

(c) Monopolistic competition

(d) None of these

73. 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

74. Which of the following is *not* a typical source of market failure?

(a) Imperfect information

(b) Perfect competition

(c) Market power

(d) Externalities

75. Deficit financing means:

(a) Financing expenditure through borrowing

(b) Reducing taxes

(c) Increasing exports

(d) Reducing imports

76. Which concept of national income best reflects economic welfare?

(a) Nominal GDP

(b) Net National Product at factor cost

(c) GDP at market price

(d) GNP at current prices

77. For substitutes, cross elasticity of demand is-

(a) Positive

(b) Negative

(c) Zero

(d) Always less than one

78. Given $TC = 2000 + 15Q - 6Q^2 + Q^3$, how much is TFC at Q = 2000?

(a) 2000

(b) 975

(c) 30,000

(d) Can't be determined

79. The difference between fiscal deficit and interest payment is:

(a) budget deficit

(b) primary deficit

(c) capital deficit

(d) None of these

80. Which exchange rate regime is adopted by highest no of IMF members?

(a) Hard Peg

(b) Floating

(c) Free Floating

(d) Soft Peg

81. Government of India recently launched 'Make in India' programme. What will be its impact on Aggregate Demand of India?

(a) Likely to increase

(b) Likely to fall

(c) No impact

(d) None of these

82. A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has _______

(a) more of one of the goods

(b) less of at least one of the goods

(c) more of at least one of the goods and less of the other good

(d) more of at least one of the goods and no less of the other good.

83. The Finance Bill is discussed and debated in which house of parliament?

(a) The Lok Sabha

(b) The Rajya Sabha

(c) Both the Lok Sabha and Rajya Sabha

(d) The State Assemblies

84. The concept of "crowding out" refers to:

(a) The phenomenon where the demand for public goods exceeds the government's ability to provide them.

(b) Government spending on public goods leading to reduced private sector investment.

(c) The government's attempt to exclude certain individuals from accessing public

(d) The competition between private firms in providing public goods.

85. If, in the four-sector model, aggregate consumption and taxes are greater than aggregate income, it indicates that:

(a) The economy is in equilibrium

(b) The economy is in recession

(c) The economy is facing a deficit

(d) None of these

86. The base year for computing the Gross Domestic Product (GDP) in India is generally revised after every:

(a) 5 years

(b) 8 years

(c) 10 years

(d) 2 years

87. Reverse repo operation takes place when:

(a) RBI borrows money from banks by giving them securities

(b) banks borrow money from RBI by giving them securities

(c) banks borrow money in the overnight segment of the money market

(d) None of these

88. When we study why saving rates are high or low, we are studying:

(a) Macro Economics

(b) Microeconomics

(c) Econometrics

(d) Both (a) and (b)

89 At saturation point of TU curve, the slope of TU curve is______

(a) 1

(b) Infinity

(c) Zero

(d) Positive

90. In the long run, normal profits are included in the curve:

(a) LAC

(b) LMC

(c) AFC

(d) SAC

91. 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

92. When we know that the firms must be producing at the minimum point of the average cost curve and so there will be productive efficiency:

(a) AC = AR

(b) MC = AC

(c) MC = MR

(d) AR = MR

93. Long run production function related to______.

(a) Returns to a factor

(b) Returns to scale

(c) Both a and b

(d) None of these

94. Which of the following is not a condition of perfect competition?

(a) A large number of firms

(b) Perfect mobility of factors

(c) Informative advertising to ensure that consumers have good information.

(d) Freedom of entry and exit into and out of the market

95. Peaks and troughs of the business cycle are known collectively as:

(a) Volatility

(b) Turning points

(c) Equilibrium points

(d) Real business cycle events

96. Government borrowings from foreign governments and institutions:

(a) Capital receipt

(b) Revenue receipt

(c) Accounts for fiscal deficit

(d) Any of the above depending on the purpose of borrowing

97. Atal Tinkering lab is an initiative by which of the following institution?

(a) Niti Aayog

(b) CBSE

(c) National Ayush Mission

(d) Reserve bank of India

98. Which type of investment is more influenced by government regulations and policies?

(a) FDI

(b) FPI

(c) Both FDI and FPI equally

(d) Neither FDI nor FPI

99. Which of the following is not a money market instrument?

(a) Treasury bills

(b) Commercial Paper

(c) Certificate of Deposit

(d) Equity Share

100. The primary source of money supply in all countries is:

(a) the Reserve Bank of India

(b) the Central bank of the country

(c) the Bank of England

(d) the Federal Reserve