

Mock Test Paper - Series I: December, 2025

Date of Paper: 22nd, December, 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. What is the similarity between the Subprime Crisis and Greece Crisis?
 - (a) High Financial Leverage
 - (b) Low-Interest Rate
 - (c) Credit Expansion
 - (d) All of the above
2. In explaining the level of unemployment, Keynes emphasized, -
 - (a) Changes in technology.
 - (b) Aggregate demand.
 - (c) Inflationary expectations.
 - (d) Lending by financial institutions.
3. 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.
4. Which is the main objective of a tax?
 - (a) Increase in Consumption
 - (b) Increase in Production
 - (c) Raising Public Revenue
 - (d) Reduction in Capital Formation
5. The value of which work is added in the calculation of GDP?
 - (a) Housewife's works
 - (b) A teacher teaching his own child

- (c) The value of resale of old shares
 - (d) Construction of a new house by an artisan
6. The objective of the fiscal policy of the government should be:
- (a) To increase production
 - (b) To reduce inequality of income and wealth
 - (c) To maintain economic growth
 - (d) All of the above
7. Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
 - (b) Exports
 - (c) Imports & exports
 - (d) None of the above
8. Theory of Mercantilism propagates:
- (a) Encourage exports and imports
 - (b) Encourage exports and discourage imports
 - (c) Discourage exports and imports
 - (d) Discourage exports and encourage imports
9. The quantity of dollars supplied will decrease if:
- (a) imports into the United States increase.
 - (b) the expected future exchange rate falls.
 - (c) the interest rate in the United States falls.
 - (d) fewer U.S. residents travel abroad.
10. EVA digital assistance Robot of HDFC Bank is:
- (a) An intermediate good
 - (b) A consumer good
 - (c) A capital good
 - (d) None of these
11. Gross investment refers to:
- (a) private investment minus public investment.

- (b) net investment plus replacement investment.
 - (c) net investment after it has been "inflated" for changes in the price level.
 - (d) net investment plus net exports
12. Which one of the following is NOT a function of Finance Commission in India?
- (a) Devolution of Income Tax
 - (b) Devolution of Excise Duty
 - (c) Award of grants-in-aid
 - (d) Devolution of Trade Tax
13. Who is the chairman of the 16th Central Finance commission, Government of India?
- (a) Mr. N.K. Singh
 - (b) Mr. Y.V. Reddy
 - (c) Mr. M. Govinda Rao
 - (d) Dr. Arvind Panagariya
14. Differentiated Products is a characteristic of:
- (a) Monopolistic Competition only
 - (b) Oligopoly only
 - (c) Both Monopolistic Competition and Oligopoly
 - (d) Monopoly
15. Under which market form, the demand curve is steeper as compared to monopolistic competition?
- (a) Monopoly
 - (b) Oligopoly
 - (c) Perfect Competition
 - (d) None of these
16. Which of the following cost curves is rectangular hyperbola?
- (a) Average cost curve
 - (b) Marginal cost curve
 - (c) Average variable cost curve
 - (d) Average fixed cost curve

17. _____ cost refers to actual payment made by the entrepreneur to the providers of factor services.
- (a) Explicit
 - (b) Implicit
 - (c) Variable
 - (d) Fixed
18. AVC can fall even when MC is rising, provided:
- (a) $MC < AVC$
 - (b) $MC > AVC$
 - (c) $MC = AVC$
 - (d) None of these
19. Which of the following is not an essential condition of 'Pure Competition'?
- (a) Large number of Buyers and Sellers
 - (b) Homogeneous Product
 - (c) Freedom of entry
 - (d) Absence of Transport Cost
20. Broad money refers to:
- (a) M_1
 - (b) M_2
 - (c) M_3
 - (d) M_4
21. 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
22. Markets fail because:
- (a) Externalities are not accounted for in pricing and quantity decisions of firms

- (b) Most often the prerequisite of competition is unlikely to be present in an economy
 - (c) Prices fail to reflect the true costs and benefits to the society
 - (d) All the above
23. Business cycle emerge in ____.
- (a) Socialist economy
 - (b) Free market economy
 - (c) Mixed economic system
 - (d) None of the above
24. The Reverse repo rate is:
- (a) RBI borrows from the government
 - (b) Commercial banks lend money to RBI
 - (c) Commercial banks rediscount the bills of exchange with RBI
 - (d) RBI lends money to commercial banks
25. Which of the following does not enter into the calculation of national income?
- (a) Exchange of previously produced goods
 - (b) Exchange of second-hand goods
 - (c) Exchange of stocks and bonds
 - (d) All the above
26. Which of the following is an implication of the imposition of price ceiling below the equilibrium price?
- (a) Shortages in the market
 - (b) Problem of allocation of limited supplies among large number of consumers.
 - (c) Black marketing
 - (d) All of the above
27. Which market sells both homogeneous as well as differentiated goods?
- (a) Oligopoly
 - (b) Perfect competition
 - (c) Monopoly
 - (d) None of these

28. 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
29. Which one of the following is the best example of agreement between oligopolists?
- (a) GATT
 - (b) OPEC
 - (c) WTO
 - (d) UNIDO
30. TRIPs stand for:
- (a) Trade Related Intellectual Property Rights
 - (b) Transaction Related Intellectual Property Rights
 - (c) Trade Related Intelligence Property Rights
 - (d) Trade Related International Rights
31. The 'substitution effect' takes place due to change in:
- (a) Income of the consumer
 - (b) Prices of the commodity
 - (c) Relative prices of the commodities
 - (d) All of the above
32. Successful business firms spend considerable time, energy and efforts in analyzing the _____ for their products.
- (a) Supply
 - (b) Price
 - (c) Demand
 - (d) None of these
33. By way of an optimal choice, a consumer tends to :
- (a) save money

- (b) purchase large quantity
 - (c) maximize satisfaction
 - (d) maximize satisfaction subject to constraints like tastes and preferences.
34. The economist's concept of demand is _____ as desire or need or choice or preference or order.
- (a) the same thing
 - (b) not the same thing
 - (c) (A) or (B)
 - (d) None of these
35. The demand for labour in response to the wage rate is _____ whereas the demand for same labour in response to the price of electronic goods where labour enters as an input is_____.
- (a) Derived Demand, Direct Demand
 - (b) Direct Demand, Derived Demand
 - (c) Individual Demand, Market Demand
 - (d) Company Demand, Industry Demand
36. Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns Where average product of variable factor is declining.
Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.
- (a) (A) is true and (R) is false
 - (b) Both (A) and (R) are true & (R) is the correct explanation of (A)
 - (c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
 - (d) (A) is false and (R) is true
37. Which of the following groups of goods have inelastic demand?
- (a) Salt, Smart Phone and Branded Lipstick
 - (b) School Uniform, Branded Goggles and Smart Phone
 - (c) Salt, School Uniform and Medicine
 - (d) Medicine, Branded Sports Shoes and Diamond ring

38. If the price of a commodity raised by 12% and Ed is (-) 0.63, the expenditure made on the commodity by a consumer will _____
- (a) Decrease
 - (b) Increase
 - (c) Remain same
 - (d) Can't Say
39. 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.
40. During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy _____ vegetables than/as her usual demand showing the demand of vegetables is _____.
- (a) more, inelastic demand
 - (b) less, elastic demand
 - (c) same, inelastic demand
 - (d) same, elastic demand
41. Money cost is considered by:
- (a) Modern theory of trade
 - (b) Comparative cost advantage
 - (c) New Trade theory
 - (d) Factor equalization theorem
42. More expansion of foreign direct investment can boost _____ .
- (a) Money circulation
 - (b) Demand
 - (c) employment
 - (d) unemployment

43. Which of the following is NOT a criterion for determining distribution of Central taxes among states for 2021-26 period:
- (a) Demographic Performance
 - (b) Forest and Ecology
 - (c) Infrastructure Performance
 - (d) None of these
44. Which of the followings is not an element of good public expenditure management?
- (a) Elasticity
 - (b) Economy
 - (c) Productivity
 - (d) Deficit
45. Computers and Computer software are _____
- (a) Substitute goods
 - (b) Complementary goods
 - (c) Independent goods
 - (d) Normal goods
46. If the amounts of two commodities purchased both increase or decrease when the price of one change, the cross elasticity of demand between them is:
- (a) Negative
 - (b) Positive
 - (c) Zero
 - (d) 1
47. 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
48. According to British economist J. M. Keynes _____ was the main cause of massive decline in income and employment during Great Depression of 1930.
- (a) Lower aggregate expenditure in the economy

- (b) Banking crises and low money supply.
 - (c) Overdebttness
 - (d) Lower profits & pessimism
49. When real income rather than money income is kept constant in drawing a consumer's demand curve for a commodity, the demand curve is negatively sloped:
- (a) Always
 - (b) Never
 - (c) Sometimes
 - (d) often.
50. Which one of the following is not an Internal economies of scale?
- (a) Technical economies
 - (b) Financial economies
 - (c) Economies due to localization of industries
 - (d) Marketing economies
51. A mathematical relationship showing the maximum output that can be produced by each, and every combination of inputs is called _____.
- (a) Production equation
 - (b) Production function
 - (c) Production schedule
 - (d) Production identity
52. In economics, generally the classification of the markets is made on the basis of:
- (a) Time
 - (b) Geographic area
 - (c) Volume of business
 - (d) All of these
53. Peak is the _____ stage of expansion.
- (a) Later
 - (b) Earlier
 - (c) Either (A) or (B)\

- (d) None of the above
54. Repercussions of business cycles get _____ felt on nearly all economic variables.
- (a) alternatively
 - (b) simultaneously
 - (c) one by one
 - (d) All of the above
55. In order to influence spending on the goods and services in the short run, _____ is directed at directly influencing interest rate.
- (a) fiscal policy
 - (b) budgetary policy
 - (c) monetary policy
 - (d) economic policy
56. Consider the following statements and select the correct answer from the given options.
- Assertion (A):** In the short run under perfect competition, given the market demand and market supply the industry is in equilibrium at that price which clears the market.
- Reason (R):** In the long run all the firms in the industry earns profit.
- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)
 - (b) Both (A) and (R) are true and (R) is not the correct explanation of (A)
 - (c) (A) is true but (R) is false
 - (d) (A) is false but (R) is true
57. Which of the following is correct regarding long run cost?
- 1. It is least cost of producing each level of output
 - 2. LAC curve is envelope of SAC curves.
 - 3. LAC is U-shaped
- (a) 1 & 2 only
 - (b) 2 & 3 only
 - (c) 1 & 3 only
 - (d) 1, 2 & 3

58. 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
59. Management of the firm _____ control over macro-economic factors.
- (a) has
 - (b) has no
 - (c) has partial
 - (d) None of these
60. Which of the following is a lagging economic indicator?
- (a) Consumer confidence index
 - (b) Stock market performance
 - (c) Unemployment rate
 - (d) New housing starts
61. Which of the following is implication of fiscal deficit?
- (a) Crowding- out
 - (b) Inflationary spiral
 - (c) Erosion of government credibility
 - (d) All of these
62. India's foreign exchange reserves has jumped high. The reason may be:
- (a) Inflow foreign exchange
 - (b) Outflow of foreign exchange
 - (c) Autonomous payments over Autonomous Receipts
 - (d) All the above
63. Which of the following is the primary objective of economic planning in India?
- (a) Abolition of poverty
 - (b) Removing unemployment

- (c) Growth with social justice
 - (d) Reducing inequality of income
64. The programme of economic reforms in India was started on
- (a) 26th July 1990
 - (b) 23rd July 1992
 - (c) 21st July 1991
 - (d) 24th July 1991
65. Impure Public goods are:
- (a) Private goods
 - (b) Public goods
 - (c) A Package of Public and Private goods
 - (d) Harmful goods for the society
66. REER (Real Effective Exchange Rate) is:
- (a) Weighted average of forward exchange rates
 - (b) Nominal rate adjusted for interest
 - (c) Nominal effective exchange rate adjusted for inflation
 - (d) None of these
67. Brownfield investment refers to:
- (a) Building new infrastructure
 - (b) Investing in agriculture
 - (c) Buying or leasing existing setups
 - (d) None of these
68. FDI in India is encouraged through all EXCEPT:
- (a) Tax holidays
 - (b) Ease of doing business
 - (c) Protectionists import bans
 - (d) SEZs
69. Which initiative focuses on sustainable lifestyle choices?
- (a) NDAP

- (b) Shoonya
 - (c) LiFE
 - (d) Make in India
70. Which policy ended the License Raj?
- (a) Industrial Policy Resolution 1956
 - (b) New Industrial Policy 1991
 - (c) GST Act 2017
 - (d) PLI Scheme 2020
71. Which organisation launched India Policy Insights (IPI)?
- (a) SEBI
 - (b) RBI
 - (c) NITI Aayog
 - (d) None of these
72. Which of these is NOT a public sector monopoly anymore?
- (a) Atomic energy
 - (b) Railways
 - (c) Telecom
 - (d) Arms & ammunition
73. Non-tariff measures that affect product quality and standards are called:
- (a) Quotas
 - (b) Technical barriers to trade (TBT)
 - (c) Tariff quotas
 - (d) None of these
74. GDP deflator is used to measure:
- (a) Fiscal deficit
 - (b) Inflation
 - (c) Trade balance
 - (d) Saving rate

75. The income received but not earned is part of:
- (a) National Income
 - (b) Personal Income
 - (c) Factor Income
 - (d) Disposable Income
76. 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
77. Moral hazard refers to:
- (a) Risk-taking due to insurance cover
 - (b) Uninformed pricing
 - (c) Externalities
 - (d) High subsidies
78. Which exchange rate regime is adopted by highest no of IMF members
- (a) Hard Peg
 - (b) Floating
 - (c) Free Floating
 - (d) Soft Peg
79. The 'U' shape of the short-run average cost curve is due to:
- (a) Fixed inputs
 - (b) Increasing and then diminishing returns
 - (c) Constant returns to scale
 - (d) None of these
80. Which of the following costs is not considered while calculating accounting cost?
- (a) Rent paid
 - (b) Salary paid
 - (c) Interest on borrowed funds

- (d) Normal profit
81. A trough in the business cycle indicates:
- (a) The highest level of economic activity
 - (b) A period of zero unemployment
 - (c) The lowest point of economic decline
 - (d) None of these
82. In the four-sector model, which of the following is not a leakage from the circular flow?
- (a) Saving
 - (b) Investment
 - (c) Imports
 - (d) None of these
83. When income increases and APC decreases, it indicates that:
- (a) Autonomous consumption is increasing
 - (b) Marginal propensity to consume is increasing
 - (c) Consumption is growing slower than income
 - (d) Savings are falling
84. The formula for the investment multiplier (k) is:
- (a) $1 / \text{MPC}$
 - (b) $1 / \text{APS}$
 - (c) $1 / (1 - \text{MPC})$
 - (d) $1 / (1 + \text{MPC})$
85. Subsidy on goods with positive externalities leads to:
- (a) Higher cost
 - (b) Higher price
 - (c) Lower price
 - (d) Inefficiency
86. 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
87. Which one is not true about merit goods?
- (a) Under-consumed
 - (b) Government promotes them
 - (c) Have negative externalities
 - (d) None of these
88. Which theory introduced the idea of interest rate influencing money demand?
- (a) Fisher's theory
 - (b) Cambridge approach
 - (c) Keynesian theory
 - (d) None of these
89. Speculative demand becomes perfectly elastic when:
- (a) Inflation is zero
 - (b) Interest rate is zero
 - (c) Bond prices fall
 - (d) None of these
90. Which tool is used to absorb liquidity by RBI?
- (a) Reverse Repo Rate
 - (b) Repo Rate
 - (c) Bank Rate
 - (d) CRR
91. The Monetary Policy Committee sets:
- (a) SLR
 - (b) CRR
 - (C) Repo rate
 - (D) Bank rate
92. CPI inflation target under current framework is:
- (a) $5\% \pm 2\%$

- (b) $4\% \pm 2\%$
 - (c) $3\% \pm 1\%$
 - (d) None of these
93. 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
94. Which of the following Statements is correct concerning the relationship among the firm's Cost Function:
- (a) $TC = TVC - TFC$
 - (b) $TFC = TC - TVC$
 - (c) $TC = TFC - TVC$
 - (d) $TVC = TFC - TC$
95. When violation of law of demand occurs:
- (a) Substitution effect is negative
 - (b) Income effect is negative
 - (c) Negative income effect is less than substitution effect
 - (d) Negative income effect is greater than substitution effect
96. 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
97. The market demand curve for a perfectly competitive industry is: $Q_d = 12 - 2P$ and the market supply curve is: $Q_s = 3 + P$. The market will be in equilibrium if
- (a) $P = 6$ and $Q = 9$
 - (b) $P = 5$ and $Q = 2$

- (c) P = 4 and Q = 4
 - (d) P = 3 and Q = 6
98. In economics, we are concerned with:
- (A) Value in use only
 - (B) Exchange value only
 - (C) Both value in use and exchange value
 - (D) None of the above
99. Which is the leading Country in respect of inflow of FDI to India?
- (a) Singapore
 - (b) Mauritius
 - (c) Japan
 - (d) None of these
100. 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