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PAPER – 4: BUSINESS ECONOMICS

QUESTIONS

1. Which of the following is the primary aim of fiscal policy in a country with high unemployment?
   (A) Reducing inflation
   (B) Achieving full employment
   (C) Maximizing government revenue
   (D) Managing the public debt
2. Which of the following factors does NOT directly affect the demand for money?
   (A) Interest rates
   (B) The level of income or output
   (C) The price level in the economy
   (D) The government's fiscal deficit
3. Which of the following is a potential benefit of Foreign Direct Investment (FDI) for the host country?
   (A) Increased inflation due to higher government expenditure
   (B) Reduction in technological transfer to local industries
   (C) Creation of employment opportunities and skill development
   (D) Increased dependence on foreign companies for resources

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4. Which of the following is a primary objective of India's Five-Year Plans?
   (A) To regulate and control foreign trade
   (B) To promote balanced economic growth across all regions
   (C) To discourage the private sector in favour of public enterprises
   (D) To ensure foreign aid and capital inflows into the country
5. The current account deficit (CAD) in India refers to the excess of:
   (A) Imports over exports
   (B) Exports over imports
   (C) Total investment over savings
   (D) Government expenditure over revenue
6. Business Economics is mainly based on:
   (A) Macro Economics
   (B) Micro Economics
   (C) Political Economy
   (D) Fiscal Economics
7. Which economic system ensures consumer sovereignty?
   (A) Socialist
   (B) Mixed
   (C) Capitalist
   (D) None
8. The price line in indifference analysis represents:
   (A) Income of consumer
   (B) Market supply
   (C) Budget constraint
   (D) Utility curve

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9. The LAC curve is also known as:
   (A) Shut down curve
   (B) Expansion path
   (C) Planning curve
   (D) Operating curve
10. Forward market involves:
   (A) Immediate cash transaction
   (B) Future delivery contract
   (C) Barter system
   (D) Spot payment
11. Which one is not a classification of market based on area?
   (A) Local
   (B) Regional
   (C) Retail
   (D) International
12. The kinked demand curve is associated with which market structure?
   (A) Perfect Competition
   (B) Monopoly
   (C) Monopolistic Competition
   (D) Oligopoly
13. Which phase of the business cycle is marked by full employment and rising inflation?
   (A) Expansion
   (B) Peak
   (C) Trough
   (D) Contraction

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14. Which method of National Income estimation measures value added at each stage?
    (A) Income Method
    (B) Product Method
    (C) Expenditure Method
    (D) Transfer Method
15. Which department manages internal public debt in India?
    (A) NITI Aayog
    (B) Finance Commission
    (C) RBI
    (D) Economic Survey Cell
16. Velocity of money refers to:
    (A) Speed at which money is destroyed
    (B) Average number of times money changes hands
    (C) Rate at which banks create money
    (D) RBI policy cycles
17. Which tool is used to absorb liquidity by RBI?
    (A) Reverse Repo Rate
    (B) Repo Rate
    (C) Bank Rate
    (D) CRR
18. Customs union has:
    (A) no tariffs
    (B) common external tariff
    (C) no imports
    (D) quotas

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19. Incidence of tax means:
    (A) Direct money burden
    (B) indirect money burden
    (C) actual tax burden
    (D) none of these
20. Giffen goods are characterized by:
    (A) Negative income effect stronger than positive substitution effect
    (B) Positive income effect stronger than negative substitution effect
    (C) Zero income effect
    (D) Perfect substitutes available in the market
21. The "U" shape of the long-run average cost curve is due to:
    (A) Law of diminishing returns
    (B) Variable proportions
    (C) Economies and diseconomies of scale
    (D) Fixed factor constraint
22. A phase where unemployment is mainly frictional and structural is known as:
    (A) Trough
    (B) Peak
    (C) Expansion
    (D) Contraction
23. The concept of 'deflationary gap' in Keynesian economics specifically refers to:
    (A) The excess of actual output over potential GDP at full employment
    (B) The shortfall in aggregate demand required to achieve full employment equilibrium
    (C) The reduction in price levels due to contractionary monetary policy

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(D) The difference between actual inflation and target inflation rates

24. A cap-and-trade system ensures cost-effective pollution control because:

(A) All firms must reduce pollution equally

(B) High polluters are exempted

(C) Firms with lower abatement costs reduce more

(D) Pollution taxes are eliminated

25. Credit multiplier differs from money multiplier mainly because credit multiplier assumes:

(A) No time deposits

(B) No excess reserves and no currency leakages

(C) Perfect capital mobility

(D) Fixed interest rates

SUGGESTED ANSWERS/HINTS

1.	**(B)**	2.	**(D)**	3.	**(C)**	4.	**(B)**	5.	**(A)**
6.	**(B)**	7.	**(C)**	8.	**(C)**	9.	**(C)**	10.	**(B)**
11.	**(C)**	12.	**(D)**	13.	**(B)**	14.	**(B)**	15.	**(C)**
16.	**(B)**	17.	**(A)**	18.	**(B)**	19.	**(C)**	20.	**(A)**
21.	**(C)**	22.	**(C)**	23.	**(B)**	24.	**(C)**	25.	**(B)**

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