

FOUNDATION COURSE
MOCK TEST PAPER 2
PAPER – 4: PART I : BUSINESS ECONOMICS

Max. Marks : 60

QUESTIONS

1. In the long run under which competition a firm may earn super normal profits?
 - (a) Monopolistic competition
 - (b) Perfect competition
 - (c) Oligopoly
 - (d) Monopoly
2. In Law of negative returns (Third stage of Law of variable proportions)
 - (a) Total Product declines, MP is positive
 - (b) Total Product declines, MP is Zero
 - (c) Total Product declines, MP is negative
 - (d) Total Product in constant, MP is constant
3. Supply of a good and its price have
 - (a) Negative relationship
 - (b) Inverse relationship
 - (c) No relationship
 - (d) Positive relationship
4. If firm's average cost curve is falling then marginal curve must be:
 - (a) Falling
 - (b) Rising
 - (c) Below average cost curve
 - (d) None of the above
5. An expansion in the supply of a good is caused by a:
 - (a) Rise in the price of good
 - (b) Fall in the prices of other goods
 - (c) Fall in the prices of factors of production
 - (d) All of the above

6. Which of the following has the lowest price elasticity of supply?
- (a) Luxury
 - (b) Necessities
 - (c) Salt
 - (d) Perishable goods
7. In Economics, the central economic problem means:
- (a) Output is restricted to the limited availability of resources
 - (b) Consumers do not have as much money as they would wish
 - (c) There will always be certain level of unemployment
 - (d) Resources are not always allocated in an optimum way
8. The law of scarcity
- (a) Does not apply to rich, developed countries
 - (b) Does not apply to poor, under developed countries
 - (c) Implies only to socialist economies.
 - (d) Implies that all consumer wants will never be completely satisfied.
9. For the prices- taking firm:
- (a) Marginal revenue is less than price
 - (b) Marginal revenue is equal to price
 - (c) Marginal revenue is greater than price
 - (d) The relationship between marginal revenue and price is indeterminate
10. A monopolist is able to maximize his profits when:
- (a) His output is maximum
 - (b) He charges high price
 - (c) His average cost is minimum
 - (d) His marginal cost is equal to marginal revenue
11. In Imperfect competition:
- (a) Excess capacity always exists
 - (b) Excess capacity never exists
 - (c) Excess capacity may or may not exist
 - (d) None of the above
12. Product differentiation is the most important feature of:
- (a) Monopolistic Competition

- (b) Monopoly
 - (c) Oligopoly
 - (d) Perfect Competition
13. Relationship between AR, MR and Price elasticity of demand is
- (a) $MR = AR + [e-1/e]$
 - (b) $MR = AR \times [e-1/e]$
 - (c) $AR = MR \times [e-1/e]$
 - (d) $MR = AR \times [e/e - 1]$
14. In a perfectly competitive firm, MC curve above AVC is the _____ Curve of the firm
- (a) Average cost
 - (b) Marginal revenue
 - (c) Demand
 - (d) Supply
15. Questions like what should be the level of national income, what should be the wage rate fall within the scope of:
- (a) Positive Science
 - (b) Normative Science
 - (c) Both (a) and (b)
 - (d) None of the above
16. Which of the following is not one of the features of capitalist economy?
- (a) Right of private property
 - (b) Freedom of choice by the consumers
 - (c) No profit, No Loss motive
 - (d) Competition
17. Which is not the assumption of Indifference curve Analysis?
- (a) The consumer is rational and possesses full information about all the aspects of economic environment
 - (b) The consumer is not capable of ranking all combinations
 - (c) If consumer prefers combination A to B, and B to C, then he must prefer combination A to C
 - (d) If combination A has more commodities than combination B, then A must be preferred to B.
18. The horizontal demand curve parallel to x-axis implies that the elasticity of demand is
- (a) Zero
 - (b) Infinite

- (c) Equal to one
 - (d) Greater than zero but less than infinity
19. When is TP maximum
- (a) When AP becomes Zero
 - (b) When MP becomes Zero
 - (c) At the intersecting point of AP and MP
 - (d) When MP is highest
20. Variable cost includes the cost of
- (a) Buying land and building
 - (b) Hire charges of machinery
 - (c) Insurance premium
 - (d) Material bought
21. Which of the following is correct?
- (a) Marginal cost is always less than the average cost.
 - (b) Marginal cost is always more than the average cost.
 - (c) Marginal cost is always equal to the average cost at its minimum point.
 - (d) Marginal cost is always equal to the average cost
22. When average cost curve is rising then, marginal cost
- (a) Must be decreasing
 - (b) Must be above the average cost curve
 - (c) Must be constant
 - (d) Must be equal to average cost
23. A firm has variable cost of Rs. 1,000 at 5 units of output. If fixed cost are Rs. 400, what will be the average total cost at 5 units of output?
- (a) 380
 - (b) 280
 - (c) 60
 - (d) 400
24. The vertical difference between TVC and TC is equal to:
- (a) MC
 - (b) AVC
 - (c) TFC

- (d) None of the above
25. The consumer is in equilibrium when:
- (a) When marginal utility is constant
 - (b) When marginal utility is greater than price of the good
 - (c) When marginal utility is less than price of the good
 - (d) When marginal utility is equal to price of the good
26. Capital is a :
- (a) Stock concept
 - (b) Flow Concept
 - (c) Both (a) and (b)
 - (d) None of the above
27. Which is not the function of an entrepreneur?
- (a) Initiating a business enterprise and resource co-ordination
 - (b) Risk bearing or uncertainty bearing
 - (c) Innovation
 - (d) Mobilisation of savings
28. A higher indifference curve shows:
- (a) A higher level of satisfaction
 - (b) A higher level of production
 - (c) A higher level of income
 - (d) None of the above
29. In case of an inferior good the income elasticity of demand is:
- (a) Zero
 - (b) Positive
 - (c) Negative
 - (d) None of the above
30. When quantity demanded changes by larger percentage than does price, elasticity is termed as:
- (a) Inelastic
 - (b) Elastic
 - (c) Perfectly Elastic
 - (d) Perfectly Inelastic

31. Marginal cost is defined as:
- (a) The change in total cost due to a one unit change in output
 - (b) Total cost divided by output
 - (c) The change in output due to a one unit change in an input
 - (d) Total product divided by the quantity of input
32. Indifference curve is convex to the origin due to:
- (a) Falling MRS
 - (b) Rising MRS
 - (c) Constant MRS
 - (d) None of the above
33. Which of the following is not included in the stages of capital formation?
- (a) Savings
 - (b) Mobilisation of Income
 - (c) Mobilisation of saving
 - (d) Investment
34. We mainly study the following in Micro Economics:
- (a) Location of a Industry
 - (b) Study of firms
 - (c) Factor pricing
 - (d) All of the above
35. In perfect competition in the long run there will be _____
- (a) Normal Profits
 - (b) Super Normal Profit
 - (c) Less production
 - (d) Cost will be falling
36. A firm encounters its shut down point when:
- (a) Average total cost equal 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

37. In which form of the market structure is the degree of control over the price of its product by a firm is very large?
- (a) Imperfect competition
 - (b) Monopoly
 - (c) Oligopoly
 - (d) Perfect competition
38. Which of the following statements is correct?
- (a) As normative science, Economics involves value judgments
 - (b) Robbins has made economics as a form of welfare economics
 - (c) The Law of Demand is always true
 - (d) None of the above
39. An economy achieves "productive efficiency" when:
- (a) The best quality goods are produced
 - (b) The highly skillful resources in the country are fully employed
 - (c) All resources are utilized and goods and services are produced at least cost
 - (d) None of the above
40. If the proportion of income spent on a goods decrease as income rises then income elasticity is:
- (a) Greater than one
 - (b) Less than one
 - (c) One
 - (d) Zero
41. If two goods are totally unrelated, then cross elasticity between them is:
- (a) Zero
 - (b) One
 - (c) Infinite
 - (d) None of the above
42. Which of the following is considered production in Economics?
- (a) Teaching CA students in CA Institute by a teacher
 - (b) Singing a song before friends
 - (c) Flying kite for pleasure
 - (d) Teaching to friends in a library any concept of Economics

Use following table to answer questions 43-46

| Quantity | Variable Cost | Fixed Cost | Total Cost | AVC | ATC | MC |
|----------|---------------|------------|------------|-----|-----|----|
| 0 | 0 | | | | | |
| 5 | 25 | | | | | |
| 10 | 470 | | | | | |
| 15 | 700 | | | | | |
| 20 | 980 | | | | | |
| 25 | 1350 | | | | | |
| 30 | 1850 | | | | | |
| 35 | 2520 | | | | | |
| 40 | 3400 | | | | | |
| 45 | 4530 | | | | | |
| 50 | 5950 | | | | | |

A firm operating in perfect competition sells as much as of its products as it chooses at a market price of Rs. 100 per unit. Its Fixed cost is Rs. 300 and its Variable cost for different levels of production are shown in the above table.

43. When production is 40 units, the average cost is:
- Rs. 4.40
 - Rs. 7.50
 - Rs. 85
 - Rs. 92.50
44. In the table, marginal cost per unit that corresponds to 40 units of production is:
- Rs. 22
 - Rs. 85
 - Rs. 176
 - Rs. 880
45. To maximize profit the firm should produce:
- 15 units
 - 30 units
 - 35 units
 - 50 units
46. If the market price drops from Rs. 100 to Rs. 56 per unit, the firm's short run response should be
- Shut down
 - Produce 5 units
 - Produce 20 units
 - Continue to produce the same number of units as before the drop in price
47. The LAC curve
- Falls when the LMC curve falls

- (b) Rises when the LMC curve rises
 - (c) Goes through the lowest point of the LMC curve
 - (d) Falls when $LMC < LAC$ and rises when $LMC > LAC$
48. When we are studying how a producer fixes the price of his products we are studying
- (a) Macro Economics
 - (b) Micro Economics
 - (c) Both Micro and Marco Economics
 - (d) None of the above
49. Macro economics doesn't include one example from the following:
- (a) National Income and output
 - (b) Study of firms
 - (c) General Price Level
 - (d) Saving and Investment
50. Normal goods have:
- (a) Positive income elasticity
 - (b) Negative income elasticity
 - (c) Fluctuating income elasticity
 - (d) Zero income elasticity
51. _____ is an implicit cost of production
- (a) Wages of the labour
 - (b) Charges for electricity
 - (c) Interest on owned money capital
 - (d) Payment for raw material
52. Cardinal Measurability of utility means:
- (a) Utility can be measured
 - (b) Utility cannot be measured
 - (c) Utility can be ranked
 - (d) Utility can be measured in some case
- 53 Which of the following statement is false?
- (a) An indifference curve is concave to the origin
 - (b) An indifference curve is convex to the origin
 - (c) A higher indifference curve is better than a lower indifferent curve
 - (d) An indifference curve is a curve which represents all those combinations of two goods which give same satisfaction to the consumer.
54. Identify the factor which generally keeps the price-elasticity of a demand for a good high.
- (a) Its very high price

- (b) Its very low price
 - (c) Large number of substitutes
 - (d) None of the above
55. Under which market structure, the control of firm over price is nil?
- (a) Perfect competition
 - (b) Monopoly
 - (c) Oligopoly
 - (d) Monopolistic Competition
56. If as a result of 80 percent increase in all inputs, the output increases by 25 percent, this is a case of:
- (a) Increasing return to scale
 - (b) Decreasing return to factor
 - (c) Decreasing returns to scale
 - (d) Diminishing return to factor
57. When marginal product is negative, then total product is:
- (a) Maximum
 - (b) Decreasing
 - (c) Constant
 - (d) None of the above
58. Suppose that an owner is earning total revenue of Rs. 1,00,000 and is incurring explicit cost of Rs. 60,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that:
- (a) The firm is earning economic profit of Rs. 10,000
 - (b) The firm is earning accounting profit of Rs. 40,000
 - (c) The firm is earning economic profit of Rs. 40,000
 - (d) Both (a) and (b)
59. The four phases of the business cycle are
- (a) peak, recession, trough and boom
 - (b) peak, depression, trough and boom
 - (c) peak, recession, trough and recovery
 - (d) peak, depression, bust and boom.
60. Peaks and troughs of the business cycle are collectively known as:
- (a) Volatility
 - (b) Turning points
 - (c) Equilibrium points
 - (d) Real business cycle events.

PAPER – 4 PART II: BUSINESS AND COMMERCIAL KNOWLEDGE

QUESTIONS

Max. Marks: 40

1. The occupation in which people work for others and get remunerated in return is known as:
 - (a) Business
 - (b) Employment
 - (c) Profession
 - (d) None of these
2. The price sensitivity of the market is an important factor of which element of Micro environment:
 - (a) Suppliers
 - (b) Market
 - (c) Intermediaries
 - (d) Customer
3. Jayesh Merchant is the CFO of which company?
 - (a) Asian Paints Ltd.
 - (b) Ambuja cements Ltd.
 - (c) Bosch Ltd.
 - (d) Ultratech cement Ltd.
4. Which of the following institutions has been scrapped recently?
 - (a) Minerals and Metals Regulatory Commission
 - (b) Coal India Limited
 - (c) Planning Commission
 - (d) FIPB
5. When was IRDAI constituted?
 - (a) 1997
 - (b) 1998
 - (c) 1999
 - (d) 2000
6. 'Personal selling' is done through:
 - (a) Written communication
 - (b) Oral communication
 - (c) TV and media
 - (d) Sign language
7. The Indian Companies Act provides for the registration of:
 - (a) Private Limited and Public Company

- (b) One Person Company and Small Company
 - (c) Defunct Company
 - (d) All of the above
8. Environment which is close to business and affect its capacity to work is known as _____ environment:
- (a) Micro
 - (b) Macro
 - (c) Internal
 - (d) External
9. Where are the headquarters of Walmart?
- (a) Arkansas, US
 - (b) California, US
 - (c) New York, US
 - (d) None of the above
10. In case of Maruti–Suzuki, the Union Government surrendered partial ownership and sold the majority stake to Suzuki of Japan in course of time. This is a case of:
- (a) Partial Disinvestment
 - (b) Displacement
 - (c) Delegation
 - (d) Divestment
11. Where is the headquarter of NABARD?
- (a) Mumbai
 - (b) Delhi
 - (c) Gurugram
 - (d) Benlgaluru
12. Bid is the opposite of
- (a) Ask/offer
 - (b) Call
 - (c) Equity
 - (d) None of the above
13. Mark Incorrect:
- (a) Business has only one motive; profit
 - (b) Plurality of the objective is a modern phenomenon
 - (c) Objective of survival & growth of business are called organic objectives
 - (d) In addition to economic motive, it may have non-economic motives like social, ethical or environmental

14. Which of the following constitute Demographic Environment?
- (a) Nature of economy i.e. capitalism, socialism, Mixed
 - (b) Size, composition, distribution of population, sex ratio
 - (c) Foreign trade policy of Government
 - (d) Economic policy i.e. fiscal and monetary policy of Government

15. Match the following:

| Companies | Product |
|------------------|----------------------|
| Microsoft | Coffee |
| Bajaj | Windows |
| Nestle | Activa |
| Jio | Mobile phone service |

- (a) Microsoft-Activa, Bajaj-Windows, Nestle-Coffee, Jio-Mobile phone service
- (b) Microsoft-Windows, Bajaj-Activa, Nestle-Coffee, Jio-Mobile phone service
- (c) Microsoft-Coffee, Bajaj-Windows, Nestle-Activa, Jio-Mobile phone service
- (d) Microsoft-Windows, Bajaj-Coffee, Nestle-Activa, Jio-Mobile phone service

16. Mark the Incorrect statement:

- (a) FDI is made with an intention of exercising control over an enterprise.
- (b) FDI is called Portfolio Investment.
- (c) FDI is a long run Investment.
- (d) FDI helps in upgradation of technology.

17. Which one is Not a function of RBI?

- (a) Monopoly of Note issue
- (b) Banker to the Government
- (c) Advancing loan to large business houses
- (d) Controller of Credit

18. Marketing mix includes 4 Ps and 4Cs. Match the following and prepare the proper combinations:

| 4 P's | 4 C's |
|--------------|-------------------------|
| Product | Convenience |
| Price | Communication |
| Promotion | Cost |
| Place | Customers' satisfaction |

- (a) Product-Communication, Price-Cost, Promotion- Customers' satisfaction, Place-Convenience
- (b) Product-Customer's satisfaction, Price-Cost, Promotion- Convenience, Place- Communication

- (c) Product- Convenience, Price-Cost, Promotion-Communication, Place- Customer's satisfaction
- (d) Product-Customer's satisfaction, Price-Cost, Promotion-Communication, Place-Convenience
19. Find out the incorrect:
- (a) Economic Activities are drive by nationality.
- (b) Economic Activities are guided by self-interest.
- (c) Non-Economic Activities are driven by emotional or sentimental force.
- (d) Non-Economic Activities are not at all important in life.
20. SWOT refers to:
- (a) Strength, Worry, Option, Threat
- (b) Strength, Weakness, Opportunity, Threat
- (c) Strong, Weak, Option, Threat
- (d) Strong, Weakness, Opportunity, Think
21. Which one of the following is NOT a FMCG company?
- (a) ITC
- (b) Dabour
- (c) HUL
- (d) Maruti
22. Mark incorrect as Globalization refers to:
- (a) Encouraging regional economic cooperation.
- (b) Integrating the world into one economic global village.
- (c) It pares the way for higher factor mobility.
- (d) Drawing countries out of their insulation.
23. Which of the following is NOT a function of RBI?
- (a) Monopoly of Note issue
- (b) Banker to the Government
- (c) Advancing loan to large business houses
- (d) Controller of Credit
24. Which of the following is incorrect?
- (a) Arbitrage is simultaneous purchase and sale of a commodity.
- (b) Current assets are those which can be turned into cash within a year.
- (c) Intangible assets are those which do not have physical form. They are in the form of rights.
- (d) Break-even point is also called an optimum point of a firm.
25. The maximum number of members of a public company is:
- (a) 07

- (b) 50
 - (c) No limit
 - (d) 200
26. What is the single word that can best describe today's business?
- (a) Technology
 - (b) Change
 - (c) Persistence
 - (d) Profit making
27. Who was the co-founder of Microsoft with Bill Gates?
- (a) Paul Allen
 - (b) Melinda Gates
 - (c) Satya Nadella
 - (d) Lucci Hood
28. BRICS stands for:
- (a) Belgium, Russia, Indonesia, China and Saudi Arabia
 - (b) Belgium, Russia, India, Cambodia and Saudi Arabia
 - (c) Brazil, Russia, India, China and South Africa
 - (d) Brazil, Romania, India, Cambodia and South Africa
29. Which one of the following is an Indian Regulatory Body that facilitates business organizations?
- (a) EXIM Bank
 - (b) NABARD
 - (c) IRDA
 - (d) IFCI
30. When two or more companies come together to expand their business operations in a newly created entity.
- (a) Joint venture
 - (b) Acquisition
 - (c) Partnership
 - (d) Merger
31. Mark the Correct:
- (a) Hindu Succession Act, 1956 is applicable in HUF.
 - (b) LLP firm may be constituted on basis of LLP Act 2009.
 - (c) A dormant company registered under Companies Act, 2013.
 - (d) All are correct.

32. PESTLE refers to:
- (a) Political, Economic, Social, Technological, Legal & Environmental factors affecting business.
 - (b) All these are external factors.
 - (c) All these constitute macro environment.
 - (d) All of the above.
33. Which company ranked 3rd on Forbes World's Best Employer's List 2018?
- (a) Google
 - (b) Walmart
 - (c) Microsoft
 - (d) Apple
34. Identify the one which may be considered as a public policy:
- (a) A decision by a central government to purchase a fleet of cars.
 - (b) An old building to be demolished by a municipal corporation.
 - (c) All citizens are to be provided with biometric Aadhar card.
 - (d) Government passes a special resolution to change the name of a park.
35. Who was the regulatory body for controlling financial affairs in India before SEBI?
- (a) Controller of Capital Issues
 - (b) Reserve Bank of India
 - (c) Insurance Regulatory and Development Authority of India
 - (d) Government of India
36. What is consolidation?
- (a) It is an expense that is supposed to reflect the loss in value of a fixed asset.
 - (b) combination of two or more entities that occurs when the entities transfer all their net assets to a new entity created for that purpose.
 - (c) Potential liability arising from a past transaction or a subsequent event.
 - (d) Costs that can be attributed clearly to the activity you are considering.
37. Which of the following statements distinguishes business from entrepreneurship?
- (a) Entrepreneurs are the business owners too
 - (b) All business owners are entrepreneurs too
 - (c) Entrepreneurs seek out new opportunities and pursue innovative business ideas
 - (d) (a) and (b)
38. Business and technology are:
- (a) Interrelated
 - (b) Interdependent
 - (c) Interrelated & Interdependent

- (d) None of the above
39. Which pharmaceutical company has the slogan 'caring for life'?
- (a) Dr. Reddy's
 - (b) Lupin Ltd.
 - (c) Cipla Ltd.
 - (d) Sun Pharmaceutical Industries Ltd.
40. Public policies are of three types:
- (a) Restrictive, Regulatory, Participative
 - (b) Restrictive, Regulatory, Facilitating
 - (c) Voluntarily, Participative, Facilitating
 - (d) Regulatory, Voluntarily, Continuous

**FOUNDATION COURSE
MOCK TEST PAPER 2
PAPER – 4: PART I : BUSINESS ECONOMICS**

ANSWERS

| | | | | | | | | | | | |
|----|---|----|---|----|---|----|---|----|---|----|---|
| 1 | d | 11 | a | 21 | c | 31 | a | 41 | a | 51 | c |
| 2 | c | 12 | a | 22 | b | 32 | a | 42 | a | 52 | a |
| 3 | d | 13 | b | 23 | b | 33 | b | 43 | d | 53 | a |
| 4 | c | 14 | d | 24 | c | 34 | d | 44 | c | 54 | c |
| 5 | a | 15 | b | 25 | d | 35 | a | 45 | b | 55 | a |
| 6 | d | 16 | c | 26 | a | 36 | b | 46 | c | 56 | c |
| 7 | a | 17 | b | 27 | d | 37 | b | 47 | d | 57 | b |
| 8 | d | 18 | b | 28 | a | 38 | a | 48 | b | 58 | d |
| 9 | b | 19 | b | 29 | c | 39 | c | 49 | b | 59 | c |
| 10 | d | 20 | d | 30 | b | 40 | b | 50 | a | 60 | b |

PAPER – 4 PART II: BUSINESS AND COMMERCIAL KNOWLEDGE

ANSWERS

| | | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| (b) | (b) | (a) | (c) | (c) | (b) | (d) | (c) | (a) | (d) |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| (a) | (a) | (a) | (b) | (b) | (b) | (c) | (d) | (d) | (b) |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| (d) | (a) | (c) | (d) | (c) | (b) | (a) | (c) | (c) | (d) |
| 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 |
| (d) | (d) | (d) | (c) | (a) | (b) | (c) | (c) | (c) | (b) |