

CA Foundation Course

DATE: 08.12.2024

(Mock Test Paper – Series: 1)

MAXIMUM MARKS: 100

TIMING: 2 Hours

PAPER 4 : BUSINESS ECONOMICS**All Questions is compulsory.**

1. Ans. d
Explanation:
Monotonic preferences means consumer always wants maximum satisfaction from one good and without sacrifices of second good.
2. Ans. c
Explanation:
At saturation point MU is Zero and TU is maximum so slope of TU curve is Zero.
3. Ans. b
Explanation:
Budget line or price line is downward sloping because if a consumer wants to buy more of one good, he has to buy less of other good at given money income.
4. Ans. b
Explanation:
Supply and stock are different concept because supply means available for sale & stock means total availability.
5. Ans. c
Explanation:
AFC curve is rectangular hyperbola in shape.
6. Ans. c
Explanation:

$$MR = AR \times \frac{e-1}{e}$$

$$20 \times \frac{0.25 - 1}{0.25}$$

$$20 \times \frac{-0.75}{0.25}$$

$$20 \times -3 = -60$$
7. Ans. a
Explanation:

$$MR = AR \times \frac{e-1}{e}$$

If demand is elastic means it will be greater than 1 so assume that elasticity is 2.

$$5 \times \frac{2-1}{2}$$

$$5 \times \frac{1}{2} = 2.5$$

So answer is positive.

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8. Ans. a
 Explanation:
 Monopoly equilibrium can be reached when marginal cost is rising.
9. Ans. a
 Explanation:
 Marginal revenue along with marginal cost helps to determine profit maximizing output because condition for profit maximization is $MR = MC$.
10. Ans. b
 Explanation:
 Monopolistic competition has features of monopoly and competition with features of competition predominating.
11. Ans. d
 Explanation:
 $TR = TC$ is break even point.
12. Ans. a
 Explanation:
 During an upturn in the business cycle the negative output gap does not become much more negative than it was. This is because of the fact that capacity increases because of the rise in investment.
13. Ans. a
 Explanation:
 According to British economist J.M. Keynes lower aggregate expenditure in the economy was the main cause of massive decline in income and employment during Great Depression of 1930.
14. Ans. b
 Explanation:
 Post war reconstruction will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.
15. Ans. b
 Explanation:
 Since when AP is falling ($AP > MP$).
16. Ans. c
 Explanation:
 Since unregulated market is also called free market.
17. Ans. c
 Explanation:
 In case of inferior goods relation between income and demand is inverse and all giffen goods are inferior.
18. Ans. b
 Explanation:
 When the firm is at a equilibrium then $MR = MC$ and MC Curve cuts the MR curve from below.

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19. Ans. c
 Explanation:
 Kinked demand curve is Highly elastic at above the prevailing price, Inelastic at below the prevailing price.
20. Ans. c
 Explanation:
 Market consists of Buyer and seller, One Price for one product at a given time.
21. Ans. b
 Explanation:
 Accounting cost will be less than economic cost. Because in economic cost, implicit cost and O.C. cost are also included.
22. Ans. b
 Explanation:
 If Average cost of a firm is minimum, then Marginal cost will be Equal to average cost.
23. Ans. d
 Explanation:
 In the first stage of law of variable proportions, total product increases at the Decreasing rate Increasing rate.
24. Ans. a
 Explanation:
 In the long run any firm will eventually leave the industry if Price does not at least cover average total cost.
25. Ans. b
 Explanation:
 In perfect competition there are so many buyers and sellers in the market that any individual firm cannot affect the market..
26. Ans. c
 Explanation:
 Pure competition have only three features. They are large number of buyer and seller, free entry and exist homogenous product
27. Ans. c
 Explanation:
 The trough of a business cycle occurs when Aggregate economic activity hits its lowest point.
28. Ans. b
 Explanation:
 A decrease in government spending would cause the aggregate demand curve to shift to the left.
29. Ans. b
 Explanation:
 An upward shift in marginal cost reduces output and an upward shift in marginal revenue increases output.

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30. Ans. c
 Explanation:
 The responsiveness of a good's demand to changes in the Firm's spending on advertising is called Advertisement elasticity.
31. Ans. d
 Explanation:
 The market state that satisfy all the essential features of a perfect competitive market except identity of product is known as monopolistic competition.
32. Ans. b
 Explanation:
 In the short run if the price is above the average total cost in a monopolistic competitive market, the firm makes profits and no entry to new firms.
33. Ans. d
 Explanation:
 Capitalist system offer incentives for Efficient economic decisions.
34. Ans. d
 Explanation:
 Whether to accept foreign direct investment in the economy is not a basic problem of an economy.
35. Ans. d
 Explanation:
 The basic problem of scarcity give rise to Economic Problems.
36. Ans. d
 Explanation:
 Consumers' sovereignty is a typical feature of Capitalist economy.
37. Ans. a
 Explanation:
 Analysis of impact of Covid-19 on the Indian economy is a subject matter of Macroeconomics.
38. Ans. c
 Explanation:

$$\frac{q_1 - q_2}{q_1 + q_2} \times \frac{p_1 + p_2}{p_1 - p_2}$$

$$\frac{10 - 20}{10 + 20} \times \frac{2,00,000 + 3,00,000}{2,00,000 - 3,00,000}$$

$$\frac{-10}{30} \times \frac{5,00,000}{-1,00,000} = \frac{5}{3} = 1.66$$
39. Ans. d
 Explanation:
 This formula is related to point elasticity method.

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40. Ans. d

Explanation:

$$\frac{\Delta Q}{Q} \times \frac{P}{\Delta P}$$

$$\frac{-5}{25} \times \frac{40}{10} =$$

$$\frac{-20}{25} = -0.8$$

41. Ans. b

Explanation:

$$\frac{q1 - q2}{q1 + q2} \times \frac{p1 + p2}{p1 - p2}$$

$$\frac{1500 - 2000}{1500 + 2000} \times \frac{60,000 + 50,000}{60,000 - 50,000}$$

$$\frac{500}{3500} \times \frac{1,10,000}{10,000} = 1.57$$

42. Ans. c

Explanation:

Decreasing marginal return means increasing marginal cost.

43. Ans. d

Explanation:

Since the economist who gave cobb - douglas production function was an American.

44. Ans. a

Explanation:

National Income Accounting, pioneered by the Nobel prize-winning economists Simon Kuznets and Richard Stone

45. Ans. b

Explanation:

GDP at current price is called Nominal GDP

46. Ans. a

Explanation:

$$\text{Real GDP} = \text{Nominal GDP} \times \frac{100}{\text{Price Index}}$$

$$= 1200 \times \frac{100}{110} = 1090.9 \text{ Crores}$$

Net Domestic Product.

47. Ans. b

Explanation:

Given

$\text{GDP}_{\text{MP}} = 1100 \text{ Crores}$, $\text{NFIA} = 100 \text{ Crores}$, $\text{NIT} = 150 \text{ Crores}$, $\text{NNP}_{\text{FC}} = 850 \text{ Crores}$

$\therefore \text{GDP}_{\text{FC}} = \text{GDP}_{\text{MP}} - \text{NIT} = 1100 - 150 = 950$

$\text{GNP}_{\text{FC}} = \text{GDP}_{\text{FC}} + \text{NFIA} = 950 + 100 = 1050$

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$NNP_{FC} = GNP_{FC} - \text{Depreciation}$
 $850 = 1050 - \text{Depreciation}$
 $\text{Depreciation} = 1050 - 850 = 200 \text{ Crores.}$

48. Ans. b
 Explanation:
 Expenditure Method is called Income Disposal Approach.
49. Ans. b
 Explanation:
 Defence and Police Protection are production that only prevents us from becoming worse off.
50. Ans. c
 Explanation:
 Eliminate Fiscal Deficit was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003.
51. Ans. b
 Explanation:
 Contractionary fiscal policy can involve decreasing government spending and increasing taxes.
52. Ans. b
 Explanation:
 Richard Musgrave gave 'The Theory of Public Finance (1959).
53. Ans. a
 Explanation:
 The prices of products responsible for pollution are too high is NOT a conclusion about market allocations of commodities causing pollution externalities.
54. Ans. a
 Explanation:
 Participants in the market have little or no control over outcome in the market is true of an imperfect market structure.
55. Ans. a
 Explanation:
 If the central bank conducts an open market purchase of government securities then money supply increases.
56. Ans. a
 Explanation:
 To limit the quantity of exports is the purpose of a voluntary export restraint (VER).
57. Ans. d
 Explanation:
 Unemployment benefits is an example of an automatic stabilizer in the budget.
58. Ans. b
 Explanation:
 Monetary policy is typically used by central banks to manage the business cycle.

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59. Ans. c
 Explanation:
 A central bank that wants to stabilize the economy in the short run should try to affect aggregate demand through open market operations.
60. Ans. d
 Explanation:
 The quantity of dollars supplied will decrease if fewer U.S. residents travel abroad.
61. Ans. b
 Explanation:
 Theory of Mercantilism propagates encourage exports and discourage imports.
62. Ans. b
 Explanation:
 $GDP = Consumption + Investment + Government Spending + Net Exports$ is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach.
63. Ans. a
 Explanation:
 National debt represents the total amount of money the government owes to external creditors and domestic lenders.
64. Ans. b
 Explanation:
 FPI is more sensitive to short-term changes in economic conditions.
65. Ans. b
 Explanation:
 The concept of the "multiplier effect" in Keynesian economics refers to the magnification of an initial change in spending throughout the economy.
66. Ans. b
 Explanation:
 A situation where interest rates are very low, and savings are hoarded is the "liquidity trap" in Keynesian theory.
67. Ans. c
 Explanation:
 World Trade Organization (WTO) is responsible for facilitating trade negotiations and resolving trade disputes among member countries.
68. Ans. a
 Explanation:
 TFC at $Q = 2000$.
69. Ans. b
 Explanation:
 Stabilizing the economy during economic downturns is the primary goal of countercyclical fiscal policy in budgeting.
70. Ans. b

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- Explanation:
 According to Keynes insufficient aggregate demand can cause involuntary unemployment in an economy.
71. Ans. d
 Explanation:
 Public goods are characterized by non-excludability and non-rivalry.
72. Ans. c
 Explanation:
 The difference between real and nominal GDP is nominal GDP uses actual price-levels.
73. Ans. c
 Explanation:
 Non-tax revenue consist of interest, dividend, fees and other receipts for services of the government.
74. Ans. a
 Explanation:
 A good taxation system should be used to finance public services.
75. Ans. a
 Explanation:
 Primary deficit is obtained by deducting interest payments from the fiscal deficit.
76. Ans. a
 Explanation:
 According to Cambridge equation, the value of money depends upon demand for money.
77. Ans. b
 Explanation:
 The quantity demanded of money rises as the repo rate falls.
78. Ans. b
 Explanation:
 Open market operation is not an instrument of selective credit control.
79. Ans. a
 Explanation:
 A lumps sum tax per unit on imports is known as a specific tariff.
80. Ans. a
 Explanation:
 A key effect of devaluation is that it Makes the domestic currency cheaper relative to other currencies.
81. Ans. c
 Explanation:
 The amount of after-tax income received by households is measured by disposable income.

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82. Ans. a
 Explanation:
 Mr Amit, a stock market trader through inside information, comes to know that share price of X Ltd is likely to go up in future, so he purchases the shares to make a gain by selling them later at higher price. It is a case of Moral Hazard.
83. Ans. b
 Explanation:

$$\frac{1}{RR} \times 100$$

$$\frac{1}{50} \times 100 = 2$$
84. Ans. d
 Explanation:
 Embargos involve total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period.
85. Ans. c
 Explanation:
 E – NAM is a pan -India electronic trading portal which networks the existing APMC mandis & with the objective of creating a unified national market for agricultural commodities.
86. Ans. c
 Explanation:
 India's Rank in Ease of Doing Business is 63.
87. Ans. d
 Explanation:
 All options are objectives of Niti Aayog.
88. Ans. c
 Explanation:
 SEBI was given statutory recognition in 1992.
89. Ans. c
 Explanation:
 The WTO comprises majorly developing countries.
90. Ans. d
 Explanation:
 Break even points occurs when $S=0$ and $Y=C$.
91. Ans. a
 Explanation:
 Dirty Floating is related to flexible system of exchange rate.
92. Ans. b
 Explanation:

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Savings deposits of post office is included in M2.

93. Ans. d
 Explanation:
 The process of selling of the products at a price less than on going price in the market is known as Dumping.
94. Ans. b
 Explanation:
 Terms of trade in developing countries are generally unfavorable because they export primary products.
95. Ans. c
 Explanation:
 Most tariffs have both protective and revenue effects.
96. Ans. d
 Explanation:
 These all are sign of modern Indian agriculture.
97. Ans. b
 Explanation:
 Applied tariff is charged on imports on most-favoured nation (MFN) basis.
98. Ans. a
 Explanation:
 Money cost is considered by Modern theory of trade.
99. Ans. a
 Explanation:
 On 1st January 2015 the apex policy-making body namely planning commission, was replaced by the National Institution for Transforming India (NITI) Aayog.
100. Ans. b
 Explanation:
 According to the latest estimates, 47 Percent of India's population is directly dependent on agriculture for living.

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