

**BUSINESS ECONOMICS**

All Questions are compulsory

Solve Question 1 to 4 with the help of this table :

No. of Workers	Total Output	Total Cost
1	10	30
2	22	60
3	31	90
4	40	120
5	47	150
6	52	180
7	56	210
8	58	240
9	60	270
10	61	300

- Find MP of the 7th Worker.
  - 4
  - 8
  - 2
  - 6
- Find AC of the 40th Unit.
  - 2
  - 3
  - 10
  - 20
- Find AP of the 7th Worker.
  - 4
  - 5
  - 8
  - 10
- Find MC of 60th Unit.
  - 3.24
  - 2
  - 8.55
  - 15
- Which of the following is a objective of entrepreneur.
  - Economic objective
  - Social objective
  - National objective
  - All of the above
- What is not production in economics :
  - Addition of Utility
  - Creation of Utility
  - Creation of Utility in matter
  - None of the above

7. An upward shift in marginal cost \_\_\_\_\_ output and an upward shift in marginal revenue \_\_\_\_\_ output.
- Reduces, reduces
  - Reduces, increases
  - Increases, increases
  - Increases, reduces

8. **You are given the following data:**

Table 1	
Output	Marginal Production
0	0
1	15
2	20
3	25
4	30
5	45

The above data is an example of:

- Decreasing returns to scale
  - Constant returns to scale
  - Increasing returns to scale
  - Positive fixed cost
9. Which of the following statements is false?
- Economic costs include the opportunity costs of the resources owned by the firm.
  - Accounting costs include only explicit costs.
  - Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs.
  - Accounting profit is equal to total revenue less implicit costs.

**Read the following paragraph and answer questions 10-11.**

Priyanka owns a small pen factory. She can make 1,000 pieces of pen per year and sell them for Rs. 400 each. It cost Priyanka Rs. 35,000 for the raw materials to produce the 1,000 pieces of pen. She has invested Rs. 2,00,000 in her factory and equipment : Rs. 1,50,000 from her savings and Rs 50,000 borrowed at 10 percent. (Assume that she could have loaned her money out at 30 percent, too.) Priyanka can work at a competing pen factory for Rs. 80,000 per year.

10. The accounting profit at Priyanka's pen factory is:
- Rs. 3,00,000
  - Rs. 4,60,000
  - Rs. 3,60,000
  - Rs. 3,75,000
11. The economic profit at Priyanka's factory is:
- Rs. 3,50,000
  - Rs. 2,50,000
  - Rs. 2,35,000
  - Rs. 2,40,000

12. In which stage of production a rational producer would like to operate?  
 (a) Where MP is maximum  
 (b) Where Both MP & AP decrease but positively  
 (c) Where MP is negative  
 (d) (b) & (c) both
13. Isoquant word is made up of two words i.e., Iso & Quant. Where quant means quantity or output then Iso means-  
 (a) Maximum  
 (b) Equal  
 (c) Minimum  
 (d) None of these
14. If Stage I = Increasing Returns, Stage II = Diminishing Returns, And Stage III = Negative Marginal Returns, then A Rational Producer will operate in –  
 (a) Stage I  
 (b) Stage II  
 (c) Stage III  
 (d) All of the above
15. Accounting cost will be \_\_\_\_\_ economic cost.  
 (a) Greater than  
 (b) Less than  
 (c) Equal to  
 (d) None of these
16. If Average cost of a firm is minimum, then Marginal cost will be \_\_\_\_\_  
 (a) Greater than average cost  
 (b) Equal to average cost  
 (c) Less than average cost  
 (d) None of these
17. Which stage of production is called 'economic non-sense'?  
 (a) First Stage  
 (b) Second Stage  
 (c) Third Stage  
 (d) First and Third Stage

**Answer the following Questions: (Q. 18 to 21)**

Quantity	AVC	TVC	TC	MC	AFC
1	20				
2	18				
3				18	
4	20				
5			150		8

18. Find TVC of 5<sup>th</sup> Unit.  
 (a) 110  
 (b) 150  
 (c) 120  
 (d) 80

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19. Find MC of 5<sup>th</sup> Unit:  
(a) 10  
(b) 20  
(c) 30  
(d) 40
20. Find AVC of 3<sup>rd</sup> Unit:  
(a) 18  
(b) 20  
(c) 54  
(d) 36
21. Find TC of 2<sup>nd</sup> Unit:  
(a) 60  
(b) 76  
(c) 36  
(d) 18
22. 'X' is working in Birla Cement for Rs. 20,000, he is proposed to work in Shree Cement for Rs. 50,000 if he accepts the proposal then opportunity cost is –  
(a) Rs. 20,000  
(b) Rs. 50,000  
(c) Rs. 30,000  
(d) No opportunity Cost

**Read the following paragraph and answer question 23-25.**

Suppose that a sole proprietorship is earning total revenues of Rs. 10,00,000 and is incurring explicit costs of Rs. 7,50,000. The owner could work for another company for Rs. 3,00,000 a year.

23. What will be the opportunity cost of the firm?  
(a) Rs. 3,00,000  
(b) Rs. 2,50,000  
(c) Rs. 7,50,000  
(d) Insufficient data
24. The above mentioned firm is earning:  
(a) Accounting profit of Rs. 2,50,000  
(b) Economic loss of Rs. 50,000  
(c) Both a and b are correct  
(d) None of the above is correct
25. Suppose in the above mentioned question, the owner had invested Rs. 5,00,000 by withdrawing from his saving accounts on which he was earning 5% interest per annum, the economic profit or loss is  
(a) economic profit of Rs. 75,000  
(b) economic loss of Rs. 75,000  
(c) economic profit of Rs. 2,50,000  
(d) economic loss of Rs. 2,50,000

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26. Which of the following is a variable cost in the short run?
- Wages paid to factory labor
  - Payment on the lease for factory equipment
  - Rent on the factory
  - Interest payments on borrowed financial capital
27. Suppose you find Rs. 100. If you choose to use Rs. 100 to go to a football match, your opportunity cost of going to the game is\_\_\_\_\_.
- nothing, because you found the money.
  - Rs. 100 (because you could have used Rs. 100 to buy other things) plus the value of your time spent at the game.
  - Rs. 100 (because you could have used the Rs. 100 to buy other things) plus the value of your time spent at the game, plus the cost of the dinner you purchased at the game.
  - Rs. 100 (because you could have used the Rs. 100 to buy other things).
28. In the long run which factor of production is fixed?
- Labour
  - Capital
  - Building
  - None of these
29. Law of diminishing returns to scale is relevant to\_\_\_\_\_
- Short period
  - Long period
  - Market period
  - None of these
30. If all inputs are increased in the same proportion, then it is the case of
- Short run production function
  - Long run production function
  - Law of Variable Proportion
  - Law of Returns to Scale
- 1 & 2 only
  - 2 & 3 only
  - 1 & 4 only
  - 2 & 4 only
31. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports
- Capitalism
  - Socialism
  - Mercantilism
  - Laissez faire
32. According to the theory of comparative advantage
- trade is a zero-sum game so that the net change in wealth or benefits among the participants is zero.
  - trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive
  - nothing definite can be said about the gains from trade
  - gains from trade depends upon factor endowment and utilization

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33. Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

- (a) Bangladesh has a comparative advantage in mats  
 (b) India has a comparative advantage in tables  
 (c) Bangladesh has an absolute advantage in mats  
 (d) All the above are true
34. Economies of scale and network effects resulting in exports of goods is related to  
 (a) New Trade theory  
 (b) Factor equalization theorem  
 (c) Comparative cost advantage theory  
 (d) The Heckscher-Ohlin theory
35. Escalated tariff refers to  
 (a) nominal tariff rates on raw materials which are greater than tariffs on manufactured products  
 (b) nominal tariff rates on manufactured products which are greater than tariffs on raw materials  
 (c) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries  
 (d) none of the above
36. Voluntary export restraints involve:  
 (a) an importing country voluntarily restraining the quantity of goods that can be exported into the country during a specified period of time  
 (b) domestic firms agreeing to limit the quantity foreign products sold in their domestic markets  
 (c) an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time  
 (d) quantitative restrictions imposed by the importing country's government.
37. Anti-dumping duties are  
 (a) additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.  
 (b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government  
 (c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market  
 (d) Both (a) and (c) above
38. Which of the following is an outcome of tariff?  
 (a) create obstacles to trade and increase the volume of imports and exports  
 (b) domestic consumers enjoy consumer surplus because consumers must now pay only a lower price for the good  
 (c) discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes  
 (d) increase government revenues of the importing country by more than value of the total tariff it charges

39. The 'National treatment' principle stands for
- the procedures within the WTO for resolving disagreements about trade policy among countries
  - the principle that imported products are to be treated no worse in the domestic market than the local ones
  - exported products are to be treated no worse in the domestic market than the local ones
  - imported products should have the same tariff, no matter where they are imported from
40. 'Bound tariff' refers to
- clubbing of tariffs of different commodities into one common measure
  - the lower limit of the tariff below which a nation cannot be taxing its imports
  - the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.
  - the limit within which the country's export duty should fall so that there are cheaper exports
41. The essence of 'MFN principle' is
- equality of treatment of all member countries of WTO in respect of matters related to trade
  - favour one, country, you need to favour all in the same manner
  - every WTO member will treat all its trading partners equally without any prejudice and discrimination
  - all the above
42. The Agreement on Textiles and Clothing
- provides that textile trade should be deregulated gradually and the tariffs should be increased
  - replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974
  - granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries
  - stipulated that tariffs in all countries should be the same
43. Choose the correct statement
- An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency
  - the fixed exchange rate regime is said to be efficient and highly transparent.
  - A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency
  - Exchange rates are generally fixed by the central bank of the country
44. An increase in the supply of foreign exchange
- shifts the supply curve to the right and as a consequence, the exchange rate declines
  - shifts the supply curve to the right and as a consequence, the exchange rate increases
  - more units of domestic currency are required to buy a unit of foreign exchange
  - the domestic currency depreciates and the foreign currency appreciates

45. Currency devaluation
- (a) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries
  - (b) may reduce export prices and increase the international competitiveness of domestic industries
  - (c) may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services
  - (d) (a) and (c) above
46. Price of one currency in relation to other currencies in the international exchange market is known as:
- (a) equilibrium rate
  - (b) fixed exchange rate
  - (c) exchange rate
  - (d) flexible exchange rate
47. Which of the following statements is incorrect?
- (a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.
  - (b) Foreign portfolio investments involve flow of 'financial capital'.
  - (c) Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services.
  - (d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.
48. Which of the following would be an example of foreign direct investment from Country X?
- (a) A firm in Country X buys bonds issued by a Chinese computer manufacturer.
  - (b) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors
  - (c) Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm
  - (d) None of the above
49. FII is a which kind of investment?
- (a) Long term
  - (b) Short term
  - (c) Medium term
  - (d) Both A & B
50. When the FDI is allowed without prior approval by Government or Reserve Bank of India, it is known as \_\_\_\_\_?
- (a) Automatic Route
  - (b) Involuntary Route
  - (c) Reflex Route
  - (d) Approval Route

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