CA Foundation Course **(Mock Test Paper – Series : 1)**
DATE: 23.08.2024 **MAXIMUM MARKS: 100** **TIMING: 2 Hours**

BUSINESS ECONOMICS

All Questions is compulsory.

1. Ans. c
Explanation:
Factor endowments theory of international trade is also known as Hecksher Ohlin Theory.

2. Ans. c
Explanation:
Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of changes in the supply of money and interest rates.

3. Ans. d
Explanation:
According to 'New Trade Theory' a firm acquires export competitiveness due to Specialization and economies of scale, Being the first mover in the market and due to Government support.

4. Ans. d
Explanation:
RBI, Commercial Bank and the Government supplies money in India.

5. Ans. d
Explanation:
SLR requires the commercial banks to build their liquid assets by way of reserves of cash, reserves of gold and reserves of securities.

6. Ans. b
Explanation:
In NITI Aayog, NITI stands for National Institution for Transforming India.

7. Ans. a
Explanation:
An expansionary fiscal policy, taking everything else constant, would in the short-run have the effect of a relative large increase in GDP and a smaller increase in price.

8. Ans. b
Explanation:
Under tariff rate quota a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate.

9. Ans. a
Explanation:
Gross National Product at market prices GNP_{MP} is GDP_{MP} + Net Factor Income from Abroad.

10. Ans. b
Explanation:

Dumping refers to Sale of goods abroad at a lower price, below their cost and price in their home market.

11. Ans. b
Explanation:
Finance commission recommends distribution of taxes between the centre and states.

12. Ans. b
Explanation:
In Keynesian Theory the market value of bonds and the market rate of interest are Inversely Related.

13. Ans. c
Explanation:
Minimum reserve system is followed by Reserve Bank of India for issuing currency.

14. Ans. c
Explanation:
In December 1993 in the Uruguay Round, 123 countries participated.

15. Ans. c
Explanation:
Mixed income of the self -employed means combined factor payments which are not distinguishable.

16. Ans. a
Explanation:
Agriculture was the major contributor to GDP of the country as well as the biggest employer on the eve of independence.

17. Ans. d
Explanation:
Industrial sector reforms under the New Economic Policy (NEP) comprised with Abolition of industrial licensing, De-reservation of production areas & Contraction of public sector.

18. Ans. c
Explanation:
The impact of an externality is either positive or negative.

19. Ans. d
Explanation:
All the above statements are right.

20. Ans. b
Explanation:
Dirty floating is related to flexible system of exchange rate.

21. Ans. d
Explanation:
Landholdings at the time of independence were fragmented & small.

22. Ans. c
Explanation:
If MPC = MPS, the value of multiplier will be 2.

23. Ans. b
Explanation:
FIPB stands for Foreign Investment Promotion Board.

24. Ans. c
Explanation:
Demand has reference to a given price and particular time.

25. Ans. d
Explanation:
The law of demand is the one which is of fundamental importance and leads to broad conclusions.

26. Ans. b
Explanation:
Point Method is used when there are small changes in price.

27. Ans. c
Explanation:
Since TU ↓ than MU is negative.

28. Ans. a
Explanation:
Since excess supply reduces equilibrium price.

29. Ans. c
Explanation:
Since private cost can be both explicit and implicit in nature.

30. Ans. b
Explanation:
Since in monopoly elasticity is $e < 1$.

31. Ans. a
Explanation:
Since elasticity of supply of industrial products is highly elastic.

32. Ans. c
Explanation:
Purchasing Power refers to Ability to buy the product.

33. Ans. a
Explanation:

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

$$\frac{30{,}000 - 20{,}000}{30{,}000 + 20{,}000} \times \frac{300 + 400}{300 - 400}$$

$$\frac{10{,}000}{50{,}000}\times\frac{700}{100}=\frac{7}{5}=1.4$$

34. Ans. d
Explanation:
ATC × Q = TC
600×10 = 6000
640×11 = 7040
MC = $\frac{\Delta TC}{\Delta Q}\frac{1040}{1}=1040$

35. Ans. b
Explanation:
Under Total Outlay Method, if as a result of the decrease in price of a product, the total expenditure on the product rises, we say that Price Elasticity of Demand is Greater than unity

36. Ans. c
Explanation:
Depression is the phase of business cycle in which growth rate becomes negative.

37. Ans. d
Explanation:
According to Keynes Trade cycles occur as a result of the mismatch between the aggregate demand function and aggregate supply function.

38. Ans. d
Explanation:
In expansion phase unemployment decreases.

39. Ans. d
Explanation:
Washing powder is not an example of cyclical business.

40. Ans. d
Explanation:
Recent example of the Business cycle is the housing bubble of the US economy bubble got bust in 2007.

41. Ans. c
Explanation:
Since $MP_n = TP_n - TP_{n-1}$.

42. Ans. c
Explanation:
Dumping is related to which market monopoly.

43. Ans. b
Explanation:
The profit maximizing condition for monopolist in two market, A and B is $MC = MR_a = MR_b$.

44. Ans. c
Explanation:
In the case of monopoly the short run supply curve cannot be defined.

45. Ans. c
Explanation:
The demand curve facing an industrial firm under monopoly is downward sloping curve.

46. Ans. b
Explanation:
In perfect competition the firm's marginal cost curve above AVC has the identical shape of the firm's supply curve.

47. Ans. d
Explanation:
A non discriminating monopolist will find that marginal revenue is less than average revenue or price.

48. Ans. d
Explanation:
A perfectly competitive firm has control on only production.

49. Ans. d
Explanation:
Price discrimination is not possible under perfect competition.

50. Ans. a
Explanation:
At the point of infixion, TP will generally Show increases trend.

51. Ans. d
Explanation:
Excess of normal profit is super normal profit.

52. Ans. a
Explanation:
Cardinal Approach helps to explain the law of demand.

53. Ans. b
Explanation:
The total area under the demand curve of a product measures total utility.

54. Ans. b
Explanation:
Scarcity in Economics is an relative concept.

55. Ans. a
Explanation:
Demand influence most the price level in the very short-run period.

56. Ans. b
Explanation:

Because reduction in tax is a economies of scale.

57. Ans. d
Explanation:
All options are wrong.

58. Ans. a
Explanation:
Charging different prices from different consumers for same product is first degree price discrimination.

59. Ans. b
Explanation:
Equilibrium is defined as a situation in Neither buyers nor sellers want to change their behaviour.

60. Ans. a
Explanation:
If firms can neither enter nor leave an industry, the relevant time period is Short run.

61. Ans. b
Explanation:
Economic is classified into Micro & Macro.

62. Ans. a
Explanation:
Scarcity of resources is the central problem of economy.

63. Ans. a
Explanation:
Economic System refers to the sum total of arrangements for the product and distribution of goods and services in society.

64. Ans. d
Explanation:
Rapid growth and balanced economic development is one of the merits of socialism.

65. Ans. c
Explanation:
Producer surplus arises when the price of a product is greater than the minimum price at which they would be prepared to supply the product.

66. Ans. b
Explanation:
Opportunity cost is sacrificed alternative.

67. Ans. c
Explanation:
ATC - AFC = AVC
250 - 125 =125

68. Ans. b
Explanation:
TFC is only related with short run not apply in long run.

69. Ans. a
Explanation:
Nominal GDP = Rs. 3000 Crores
Real GDP = Rs. 4700 Crores

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

$$\frac{3000}{4700} \times 100 = 63.83$$

The price level has fallen since GDP deflator is less than 100 at 63.83.

70. Ans. b
Explanation:
GVA_{MP} = Gross Value $Output_{MP}$ – Intermediate consumption
= (Sales + change in stock) – Intermediate consumption
= 4000-600 = 3400
GDP_{MP} = GVA_{MP} = 3400 Crores
NDP_{MP} = GDP_{MP} – consumption of fixed capital
= 3400 – 200
= 3200 Crores
NDP_{FC} = NDP_{MP} – NIT
= 3200 – 500 = 2700 Crores
NDP_{FC} = Compensation of employees + Operating surplus + Mixed income
2700 = 800 + Operating Surplus + 400
Operating surplus = 1500 Crores

71. Ans. c
Explanation:
Y= C + I= 20+ 0.6 Y + 10+ 0.2 Y
Y = 30+ 0.8 Y
Y- 0.8 Y = 30
Y= 150

72. Ans. b
Explanation:

$$\text{Multiplier} = k = \frac{1}{1 - MPC_k} = \frac{1}{-.6} = 2.5$$

Substituting the value of k and ΔI value in ΔY= kΔI
ΔY= 2.5 x 100= Rs. 250Crores
Thus, increase in investment by Rs. 100 Crores will cause equilibrium income to rise by Rs. 250 Crores.

73. Ans. c
Explanation:
Y= C + I+ G

$Y = 100 + 0.75\ Yd + 200 + 100$
$Y = 100 + 0.75(Y - 100 + 50) + 200 + 100$
$Y = 100 + 0.75Y - 75 + 37.5 + 200 + 100$
$Y = 1450$

74. Ans. d
Explanation:
$C = 40 + 0.8Y_d$
$C = 40 + 0.8\ (Y - 0.1Y)$
$Y = C + I + G + (X - M) Y = 40 + 0.8(Y - 0.1Y) + 60 + 40 + (58 - 0.05Y)$
$Y = 40 + 0.8(0.9Y) + 60 + 40 + 58 - 0.05Y$
$Y - 0.72Y + 0.05Y = 198$
$Y(1 - 0.72 + 0.05) = 198$
$Y(0.33) = 198$
$Y = 198/0.33 = 600$ Crores

75. Ans. b
Explanation:
Those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value is not a economic activity.

76. Ans. a
Explanation:
The Cambridge approach to quantity theory is also known as Cash balance approach.

77. Ans. b
Explanation:
The first wave of liberalization starts in India In 1980's.

78. Ans. a
Explanation:
$GDP_{MP} + NFIA = GNP_{MP}$

79. Ans. d
Explanation:
Repo is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.

80. Ans. b
Explanation:
FAME-India Scheme aims to promote manufacturing of electric and hybrid vehicle technology.

81. Ans. d
Explanation:
Break-even point occurs when $S = 0$ and $Y = C$.

82. Ans. d
Explanation:
The production and consumption of demerit goods are likely to be more than optimal under free markets & likely to be subjected to price intervention by government.

83. Ans. d
Explanation:
All of the above is an example of transfer payment.

84. Ans. a
Explanation:
During deflation the RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy.

85. Ans. d
Explanation:
If entire additional income is converted into additional consumption, the value of multiplier will be ∞.

86. Ans. c
Explanation:
India generated large export surplus during the British rule.

87. Ans. a
Explanation:
The precautionary money balances people want to hold as income elastic and not very sensitive to rate of interest.

88. Ans. b
Explanation:
R A Musgrave is the author of the book "The Theory of Public Finance".

89. Ans. b
Explanation:
Hedging is possible in forward market.

90. Ans. a
Explanation:
M1 is the sum of currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.

91. Ans. b
Explanation:

$$\text{GDP Deflator} = \frac{\text{Nominal Income}}{\text{Real Income}} \times 100$$

92. Ans. c
Explanation:
Handicraft industry of India got severely affected under the colonial rule.

93. Ans. c
Explanation:
Revenue Expenditure - Revenue Receipt = Revenue Deficit
24,500 - 20,000 = 4,500.

94. Ans. b
Explanation:

Total Expenditure - Total Receipt (Other then Borrowing) = Fiscal Deficit
50,500 - 26,500 = 24,000.

95. Ans. c
Explanation:
Fiscal Deficit - Interest Payment = Primary Deficit
24,000 - 2,000 = 22,000.

96. Ans. b
Explanation:
An argument in favour of direct foreign investment is that it tends to increase access to modern technology.

97. Ans. b
Explanation:
The government may cut taxes to increase aggregate demand is fiscal remedy when an economy is facing recession.

98. Ans. b
Explanation:
The post independence economic policy was rooted in social and economic redistribution and industrialization directed by the state.

99. Ans. c
Explanation:
If commercial banks reduce their holdings of excess reserves then the money supply increases.

100. Ans. c
Explanation:
FPI is a short-term investment.

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