

PAPER 4 : BUSINESS ECONOMICS

All Questions is compulsory.

1. Ans. d
Explanation:
Business Cycles levels of investment & employment falls in contraction.
2. Ans. d
Explanation:
Personal income is not an example of lagging indicator.
3. Ans. d
Explanation:
Post war reconstruction is not an internal factor.
4. Ans. b
Explanation:
Those variables that change before the real output changes prior to large economic adjustments are called as Leading indicator.
5. Ans. b
Explanation:
Consumer price index number belongs to Lagging Indicator.
6. Ans. b
Explanation:
In production function, production is a function of Factors of Production.
7. Ans. c
Explanation:
Long-run production function is related to Laws of Returns to Scale.
8. Ans. c
Explanation:
Supply curve of labour is backward bending.
9. Ans. d
Explanation:
Stage 1 & 3 of production is called 'economic absurdity'.
10. Ans. d
Explanation:
Isoquants are also called Equal-product curve, Production indifference curve and Iso-product curve.
11. Ans. a
Explanation:
Arthashastra is called handbook for King Chandragupta Maurya.

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12. Ans. a
Explanation:
East India company ruled in India from 1757 to 1858.
13. Ans. c
Explanation:
Heavy industries such as the iron industry were also established as early as 1814 by British Capital.
14. Ans. b
Explanation:
Life expectancy in 1951 in India was 32 years.
15. Ans. b
Explanation:
Prime minister Nehru's visualization to build a socialistic society with emphasis on heavy industry.
16. Ans. a
Explanation:
Presently two industries are reserved in public sector.
17. Ans. c
Explanation:
NITI Aayog serve as 'Think Tank' of the government.
18. Ans. a
Explanation:
Paramparagat Krishi Vikas Yojana support and promote organic farming.
19. Ans. b
Explanation:
The 'New Industrial Policy' announced by the government on 24th July, 1991.
20. Ans. c
Explanation:
The World Investment Report 2022 of UNCTAD places India as the seventh largest recipient of FDI in the top 20 host countries in 2021.
21. Ans. d
Explanation:
All options are not related to GDP because GDP is value of all final goods and services produced in a country in one accounting year.
22. Ans. b
Explanation:
The consumption function is a relation between income and consumption accurately describes the consumption function.
23. Ans. b
Explanation:
It denotes the ratio of the consumption to income is an accurate description of propensity to consume.

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24. Ans. b
 Explanation:
 The resources are fully utilised in an efficient manner is not true in the case of underemployment equilibrium.
25. Ans. d
 Explanation:
 Excess demand does not affect employment but leads to a rise in the price level is true about excess demand.
26. Ans. d
 Explanation:
 Decreasing price of product would cause a change in the quantity demanded for a product.
27. Ans. d
 Explanation:
 All of these are reason for increase in demand because increase in demand is related to change in demand due to other factors.
28. Ans. b
 Explanation:

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

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

$$\frac{550}{350} = 1.57$$
29. Ans. b
 Explanation:
 Income elasticity is negative so goods are inferior.
30. Ans. a
 Explanation:

$$\frac{\Delta Q/Q}{\Delta P/P} = \frac{6/10}{10/20} = \frac{6}{10} \times \frac{20}{10} = 1.2$$
31. Ans. d
 Explanation:
 One country is more efficient in both products is not an assumption of Absolute Advantage Theory.
32. Ans. b
 Explanation:
 Modern Theory is considered that International trade is only a special case of inter-regional trade.

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33. Ans. a
 Explanation:
 Compound Duty is a combination of an ad valorem and a specific tariff.
34. Ans. a
 Explanation:
 Tariffs as response to trade distortions is called trigger-price mechanisms.
35. Ans. a
 Explanation:
 The WTO's top-level decision-making body is the Ministerial Conference.
36. Ans. a
 Explanation:
 $1\$ = 85\text{₹}$ is a direct quote.
37. Ans. b
 Explanation:
 In indirect quotation, domestic currency is a Base currency.
38. Ans. a
 Explanation:
 Managed Floating System is related to Floating exchange rate.
39. Ans. b
 Explanation:
 An automobile manufacturing company may acquire an interest in a foreign company that supplies parts or raw materials required for the company is an example of vertical investment.
40. Ans. d
 Explanation:
 FPI and FII investments are speculative in nature.
41. Ans. b
 Explanation:
 Money not paid out to the owners of the firm for self-owned factors employed in a business and therefore not entered in the books of accounts is considered as Implicit cost
42. Ans. c
 Explanation:
 Economic profit includes opportunity cost related with self-owned factors.
43. Ans. c
 Explanation:
 $AFC + AVC = ATC$
 $0.5 + 2.5 = 3$
 and $TFC = 300$ so quantity is 600.
44. Ans. a
 Explanation:
 MC Curve intersects AC and AVC curve at its minimum point.

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45. Ans. a
 Explanation:
 TFC curve is never U-shaped.
46. Ans. a
 Explanation:
 When both demand and supply decreases in the same proportion, then equilibrium price will Remain the same.
47. Ans. d
 Explanation:
 Under Monopolistic Competition market, there are many varieties of product for the consumers.
48. Ans. b
 Explanation:
 The price leadership exists in Partial Oligopoly.
49. Ans. a
 Explanation:
 Under Perfect Competition, in the long-run, a Firm Earns normal profit.
50. Ans. d
 Explanation:
 Cross Elasticity of Demand for Monopolist's Product is Zero.
51. Ans. b
 Explanation:
 According to Keynes, the market value of bonds and the market rate of interest are inversely related.
52. Ans. a
 Explanation:
 Risk avoiding theory was given by James Tobin.
53. Ans. a
 Explanation:
 $C + DD + OD + FD = M3$
 But net time deposits with post office saving accounts is not included because time deposit of commercial banks will be included in M3.
54. Ans. b
 Explanation:
 $C + DD + OD + \text{Post Office Savings} = M2$.
55. Ans. a
 Explanation:
 The term 'public' is defined to include all economic units (households, firms and institutions).
56. Ans. b
 Explanation:
 $M_2 = M_1 + \text{savings deposit with the post office saving bank.}$

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57. Ans. c
 Explanation:
 Banks are required to keep aside a set percentage of cash reserves or RBI approved assets are called Reserve Ratio.
58. Ans. a
 Explanation:
 The interest rate at which RBI lends long term funds to banks is referred to as Bank rate.
59. Ans. c
 Explanation:
 The Reserve Bank of India (RBI) Act, 1934 was amended on 27th June, 2016.
60. Ans. a
 Explanation:
 Margin requirement is a Qualitative tools.
61. Ans. a
 Explanation:
 As per Kinked Demand Curve Theory of Oligopoly, the Kink is formed at Prevailing Price.
62. Ans. b
 Explanation:
 Monopsony means there is a single buyer.
63. Ans. d
 Explanation:
 Perfect Competition market situation is known as a 'myth in the market'.
64. Ans. b
 Explanation:
 If in a short run perfect competition earn super normal profit condition satisfies $ATC < MC$ because in perfect competition $P = MR = AR$ & first order condition is $MR = MC$. So ultimately $MC = AR$ & $AR > AC$ is condition for profit.
65. Ans. b
 Explanation:
 Extreme Product differentiation is found in Monopoly market.
66. Ans. a
 Explanation:
 Monopoly firm faces Downward Sloping demand curve.
67. Ans. c
 Explanation:
 The interaction between long run supply and demand determines Long run equilibrium price and Normal price.
68. Ans. b
 Explanation:
 Weekly markets (Haat Bazaar) are example of unregulated market.

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69. Ans. c
Explanation:
Markets are generally classified into Product market and factor market and Goods market and service market.
70. Ans. c
Explanation:
Total revenue will be maximum where elasticity is equal to one.
71. Ans. a
Explanation:
The competition policies, merger policies etc. affect the structure of industry and commerce are example of resource allocation.
72. Ans. b
Explanation:
A firm which offers training to its employees for increasing their skills is an example of positive production externality.
73. Ans. d
Explanation:
The act of undisciplined students talking and creating disturbance in a class preventing teachers from making effective instruction is an example of negative consumption externality.
74. Ans. b
Explanation:
An imbalance in information between the buyer and the seller is called Asymmetric Information.
75. Ans. a
Explanation:
Minimum Support Price is an example of Price Floor.
76. Ans. b
Explanation:
Those receipts which neither create any liability nor cause any reduction in the assets of the government is called revenue receipt.
77. Ans. d
Explanation:
The speaker of Lok Sabha puts all the outstanding demands for grants, whether discussed or not, to the vote of the house. This process is popularly known as Guillotine.
78. Ans. a
Explanation:
A combination of increase in government spending and decrease in personal income taxes and/or business taxes is called Expansionary fiscal policy.
79. Ans. c
Explanation:
When the government collects more than what it spends is called Surplus budget.

80. Ans. d
 Explanation:
 Impact lag occurs when the outcomes of a policy are not visible for sometime.
81. Ans. a
 Explanation:

$$\frac{20}{80} \times 100 = 25\% = \frac{25}{10} = 2.5$$
82. Ans. a
 Explanation:
 Utility is generally related to Satisfaction.
83. Ans. a
 Explanation:
 The term 'marginal' in economics means Additional.
84. Ans. b
 Explanation:
 A consumer's spending is restricted due to the budget constraint.
85. Ans. d
 Explanation:
 A new technique of production reduces the marginal cost of producing paper. This will affect the supply curve of writing material like notebook, register & notepad etc. by rightward shift in supply curve.
86. Ans. d
 Explanation:
 Public sector is not primarily profit oriented but are set by state for the welfare of the community.
87. Ans. b
 Explanation:
 'The Communist Manifesto' published in 1848 by Karl Max and Fredric Engles propounded the concept of Socialist economy.
88. Ans. b
 Explanation:
 Resources are Relatively Scare in economy.
89. Ans. c
 Explanation:
 Adam smith wrote "An inquiry into the nature and causes of wealth of nations".
90. Ans. b
 Explanation:
 The India's Employment rate has increased in March 2023 as compared to March 2022. The study of this aspect comes under Macro Economics.

91. Ans. b
Explanation:
NI + income received but not earned - income earned but not received = Personal income.
92. Ans. c
Explanation:
Sales + change in stock - Intermediate consumption = GDP (MP)
 $x + 300 - 1500 = 2170$
 $x = 3370$
93. Ans. b
Explanation:
 $C = \bar{C} + by$
 $C = 1,000 + 0.8 \times 10,000$
 $C = 9,000$
94. Ans. c
Explanation:
 $C = \bar{C} + by$
 $C = 450 + 0.70 \times 3500$
 $C = 450 + 2450$
 $C = 2900$
95. Ans. c
Explanation:
 $Y = \bar{C} + by + I$
 $Y = 200 + 0.8Y + 1200$
 $Y = 1400 + 0.8Y$
 $Y - 0.8Y = 1400$
 $0.2Y = 1400$
 $Y = 7000$
96. Ans. c
Explanation:
Mixed income of self-employed includes all those income which are difficult to separate.
97. Ans. c
Explanation:
Transfer payments refer to the payments made without any exchange of goods and services.
98. Ans. c
Explanation:
The difference between the National Income and the Net National Product at market price is known as Net indirect taxes.

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99. Ans. c
Explanation:
The interest amount on the unproductive national debt is not a part of the National Income.
100. Ans. a
Explanation:
The consumption of Fixed Capital known is as Depreciation.

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