PAPER – 4:
BUSINESS ECONOMICS



QUESTIONS

1. The indifference curve of two substitute will be:
   (a) Straight line
   (b) U- Shaped
   (c) C Shaped
   (d) L shaped
2. Which is not the External Causes of business cycle:
   (a) Post War Reconstruction
   (b) Technology Shocks
   (c) Population Growth
   (d) Money Supply
3. Under which market form, the demand curve is steeper as compared to monopolistic competition?
   (a) Monopoly
   (b) Oligopoly
   (c) Perfect Competition
   (d) None of these
4. Marginal Product is the slope of:
   (a) Marginal product Curve
   (b) Average Product Curve

(c) Total Product Curve

(d) Implicit Product Curve

5. The opportunity cost of a good is:

(a) The loss of interest in using savings

(b) The time lost in finding it.

(c) The quality of other goods sacrificed to get another unit of that good.

(d) None of these

6. Under which market form price discrimination cannot persist:

(a) Oligopoly

(b) Monopolistic Competition

(c) Monopoly

(d) Perfect competition.

7. Certain Benefit an Industry gets when it expands its scale of production is Known as:

(a) Internal Economies

(b) Diseconomies

(c) External economies

(d) Profit

8. Suppose we are drawing a supply curve of a farmer which of the following will be held constant:

(a) Price of Inputs

(b) Weather Conditions

(c) Technology

(d) The price of the Commodity under consideration

9. The substitution effect will be stronger when:

(a) The goods are closer substitutes

(b) There is lower cost of switching to the substitute good

(c) There is lower inconvenience while switching to the substitute good.

(d) All of these

10. Globalization indicate rapid ___ between countries:

(a) Competition

(b) Investment

(c) Integration

(d) None of these

11. In order to influence spending on the goods and services in the short run, _____ is directed at directly influencing interest rate:

(a) Fiscal policy

(b) Budgetary policy

(c) Monetary policy

(d) Economic policy

12. The law of consumer surplus is based on:

(a) Indifference curve analysis

(b) Revealed preference theory

(c) Law of substitution

(d) The law of diminishing marginal utility

13. 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.

14. Information Technology bubble burst of 2000 is an example of:

(a) Business Cycle

(b) Consumer Sovereignty

(c) Freedom of choice

(d) None of these

15. The difference between gross domestic investment and net domestic investment is equal to:

(a) Unwanted inventory changes

(b) The difference between NDP and national income

(c) The difference between GDP and NDP

(d) None of the above

16. Assume you deplete your savings to buy a new sofa and some government bonds and then take a vacation in a foreign country. Which of the following is true?

(a) Consumption will increase

(b) Net exports will increase

(c) Government purchases will increase

(d) Investment will increase

17. What is the similarity between the Subprime Crisis and Greece Crisis?

(a) High Financial Leverage

(b) Low-Interest Rate

(c) Credit Expansion

(d) All of the above

18. Among the following canons of taxation which one has been given by Adam Smith?

(a) Canon of Uniformity

(b) Canon of productivity

(c) Canon of diversity

(d) Canon of equity

19. The substitution effect works to encourage a consumer to purchase more of a product when the price of that product is falling because:

    (a) The consumer's real income has increased.

    (b) The consumer's real income has decreased.

    (c) The product is now relatively less expensive than before.

    (d) Other products are now less expensive than before.

20. If the market demand curve for a commodity has a negative slope, then the market structure must be:

    (a) Perfect competition

    (b) Monopoly

    (c) Imperfect competition

    (d) The market structure cannot be determined as the information is insufficient

21. In economics, generally the classification of the markets is made on the basis of:

    (a) Time

    (b) Geographic area

    (c) Volume of business

    (d) All of these

22. Which characteristic of money refers to its ability to hold value over time?

    (a) Divisibility

    (b) Durability

    (c) Portability

    (d) Store of value

23. Which of the following is included in M2, a broader measure of money supply compared to M1?

    (a) Currency in circulation

(b) Savings deposits

(c) Demand deposits

(d) Traveler's checks

24. What is the primary purpose of an import quota?

(a) To encourage domestic production.

(b) To reduce government spending.

(c) To limit the quantity of imports.

(d) To increase the trade deficit.

25. Which exchange rate regime is adopted by highest no of IMF members

(a) Hard Peg

(b) Floting

(c) Free Floating

(d) Soft Peg



SUGGESTED ANSWERS/HINTS

1.	**(a)**	2.	**(d)**	3.	**(a)**	4.	**(c)**	5.	**(c)**
6.	**(d)**	7.	**(a)**	8.	**(d)**	9.	**(d)**	10.	**(c)**
11.	**(c)**	12.	**(d)**	13.	**(c)**	14.	**(a)**	15.	**(c)**
16.	**(a)**	17.	**(d)**	18.	**(d)**	19.	**(c)**	20.	**(d)**
21.	**(d)**	22.	**(d)**	23.	**(b)**	24.	**(c)**	25.	**(d)**

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QUESTIONS

1. In explaining the level of unemployment, Keynes emphasized:
   (a) Change in Technology
   (b) Aggregate demand
   (c) Inflationary expectations
   (d) Lending by financial institutions
2. When total demand for a commodity whose price has fallen increases it is due to:
   (a) Price effect
   (b) Income effect
   (c) Substitution effect
   (d) Complementary effect
3. Envelope curve is also called:
   (a) Long Run Average Cost curve
   (b) Short Run Average Cost curve
   (c) Average Fixed Cost
   (d) None of these
4. Electricity Companies sells electricity at a cheaper rate in rural areas than for industrial use due to:
   (a) Price Discrimination

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(b) Perfect Competition

(c) Monopolistic Competition

(d) None of these

5. Coincident indicator is not indicated as:

(a) Inflation

(b) Industrial Production

(c) Retail Sales

(d) New order for plant and equipment

6. The shape of the Cost curve depends upon:

(a) Cost function

(b) Factor of Production

(c) Outlay

(d) None of these

7. In Oligopoly the firms may collude in order to:

(a) Increase Competition

(b) Prisoner dilemma for buyers

(c) To raise the price of the good they offer

(d) None of these

8. How to Produce is related to:

(a) Product's Choice

(b) Choice of technique

(c) Either (a) or (b)

(d) None of these

9. Snob effect is explained as:

(a) It is a function of consumption of others

(b) It is a function of price

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(c) Both (a) and (b)

(d) None of these

10. To influence spending the monetary policy is directed at directly influencing in the short run:

(a) Interest Rate

(b) Unemployment

(c) Inflation Rate

(d) Growth Rate

11. A firm normal profit earned are included in ___

(a) Explicit Cost

(b) Implicit Cost

(c) Variable Cost

(d) Fixed Cost

12. Isoquant in the relevant range are:

(a) Convex to the Origin

(b) Negatively Sloped

(c) Cannot cross

(d) All of the Above

13. When Investment in an economy increases from ₹ 10000 crores to ₹ 14000 crores and as a result of this national income rises ₹ 80000 to ₹ 92000 crores, compute Investment Multiplier.

(a) 3

(b) 4

(c) 5

(d) None of these

14. Which of the following is an example of market failure?

(a) Externalities

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(b) Low prices

(c) Excess supply

(d) Excludable and rival goods

15. Which of the following is included in M2, a broader measure of money supply compared to M1?

(a) Currency in circulation

(b) Savings deposits

(c) Demand deposits

(d) Traveler's checks

16. Which of the following is an example of an automatic stabilizer in the budget?

(a) Discretionary spending

(b) Progressive taxation

(c) Infrastructure investment

(d) Unemployment benefits

17. FDI in telecom sector is raised to:

(a) 49%

(b) 51%

(c) 100%

(d) None of these

18. E-NAM is:

(a) An electronic name card given to citizens of India

(b) National Agriculture Market with the objective of creating a unified national market for agricultural commodities.

(c) a pan-India electronic trading portal which networks the existing APMC mandis

(d) (b) and (c) above

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19. The new economic policy of 1991 manifest in:

(a) State led industrialization and import substitution

(b) Rethinking the role of markets versus the state

(c) Emphasized the role of good governance

(d) None of these

20. Dumping refers to:

(a) Reducing tariffs

(b) Sale of goods abroad at a lower price, below their cost and price in their home market

(c) Buying goods at low prices abroad and selling at higher prices locally

(d) None of these

21. The WTO was established to implement the final act of Uruguay round agreement of:

(a) MFA

(b) GATT

(c) TRIP

(d) MNC

22. _____are also known as International Bank for Reconstruction and Development.

(a) IMF

(b) ADB

(c) World Bank

(d) ECM

23. An important money market is instrument by the government to bridge the deficit between the revenue and expenditure in the budget.

(a) T-bills

(b) Bonds

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(c) CDs

(d) CPs

24. Which of the statements gives a true picture of the effect of lowering the cash reserve ratio by the central bank of a country?

(a) The lending capacity of commercial banks will increase

(b) The lending capacity of commercial banks will decrease

(c) The lending capacity of commercial banks may increase or decrease

(d) None of these

25. Which agency regulates the money supply in India?

(a) The Government of India

(b) Commercial banks

(c) Reserve Bank of India

(d) None of the above

SUGGESTED ANSWERS/HINTS

1.	**(b)**	2.	**(a)**	3.	**(a)**	4.	**(a)**	5.	**(d)**
6.	**(a)**	7.	**(c)**	8.	**(b)**	9.	**(a)**	10.	**(a)**
11.	**(c)**	12.	**(d)**	13.	**(a)**	14.	**(a)**	15.	**(b)**
16.	**(d)**	17.	**(c)**	18.	**(d)**	19.	**(b)**	20.	**(b)**
21.	**(b)**	22.	**(c)**	23.	**(a)**	24.	**(a)**	25.	**(c)**

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QUESTIONS

1. Fiscal federalism primarily deals with:
   (a) Distribution of financial resources among different levels of government
   (b) Distribution of power between Legislature and Executive
   (c) Relationship between Judiciary and Legislature
   (d) Conduct of elections in a federal country
2. Under Article 112, the Annual Financial Statement is presented in which house of Parliament first?
   (a) Lok Sabha
   (b) Rajya Sabha
   (c) Joint Session of Parliament
   (d) Finance Committee
3. Which of the following is NOT a function of NITI Aayog?
   (a) Policy formulation and coordination
   (b) Allocation of financial resources to states
   (c) Promoting cooperative federalism
   (d) Serving as a think tank for the government

4. The Government offer minimum assured price to the farmers to purchase their Output is called

   (a) Market Price

   (b) Support Price

   (c) Equilibrium Price

   (d) Ceiling Price

5. The Price in Collusive Oligopoly is decided by :

   (a) The Firm

   (b) Price leader

   (c) The Industry

   (d) None of these

6. The Distinction between Selling Cost and Production cost was made by :

   (a) Chamberlin

   (b) Sweezy

   (c) Mrs. Joan Robinson

   (d) None of these

7. Which one of the following is not an internal economies of scale?

   (a) Technical economies

   (b) Financial economies

   (c) Economies due to localization of industries

   (d) Marketing economies

8. The share of the tax borne by seller will be larger

   (a) If the demand for the product is less elastic.

   (b) If the demand for the product is inelastic.

   (c) If the demand for the product has greater elasticity.

   (d) If the elasticity of supply of the product is larger.

9. _____ is concerned with welfare proposition.
   (a) Normative Economics
   (b) Positive Economics
   (c) Both (a) and (b)
   (d) None of these
10. Excess capacity is not found under ____
   (a) Monopoly
   (b) Monopolistic competition
   (c) Perfect competition.
   (d) Oligopoly
11. Information Technology bubble burst of 2000 is an example of :
   (a) Business Cycle
   (b) Consumer Sovereignty
   (c) Freedom of choice
   (d) None of these
12. What is the limitation of Consumer Surplus:
   (a) Consumer surplus cannot be measured precisely
   (b) The Consumer surplus derived from a commodity is affected by availability of substitute
   (c) Both (a) & (b)
   (d) None of these
13. Example of Third-Degree Price Discrimination:
   (a) Dumping
   (b) Charging different prices for domestic and commercial uses
   (c) Lower prices in railways for senior citizen
   (d) All of the above

14. What activity is termed as activity of tertiary sector?
    (a) Wheat production
    (b) Mobile production
    (c) Construction of a dam
    (d) Fishing
15. FII helps to improve:
    (a) Capital market
    (b) How of equity capital
    (c) Financial innovation and development
    (d) All the above
16. Devaluation of Indian Rupee in terms of US Dollar was in the year.
    (a) 2019
    (b) 2000
    (c) 1981
    (d) 1991
17. Which of the following statements is true about the Indian monetary system?
    (a) The Indian monetary system is based on the gold standard
    (b) The Indian monetary system is based on the credit money standard
    (c) The Indian monetary system is based on the paper standard
    (a) None of these
18. Which of the following statements is true about the money supply?
    (a) It is the total volume of money that is held by the government of a country
    (b) It is the total volume of money that is held by the general public of a country over a time period

(c) It is the total volume of money that is held by the general public of a country at a particular point in time

(d) All of the above

19. Which of the following statements is true about credit creation by banks?

(a) Banks create credit on the basis of their total assets

(b) Banks create credit on the basis of their total deposits

(c) Banks create credit on the basis of their total securities

(d) None of these

20. The quantity demanded of money rises:

(a) As the interest rises

(b) As the interest falls

(c) As the supply of money falls

(d) As the number of banks rises

21. Open market operation will become successful if there is a:

(a) free-market economy

(b) developing economy

(c) well-developed bill and security market

(d) All of the above

22. According to Keynes, inflationary gap is caused by

(a) excess supply

b) excess demand

(c) deficiency of demand

(d) deficiency of supply

23. The effects of inflation on the price competitiveness of a country's products may be offset by:

(a) An appreciation of the currency

(b) A revaluation of the currency

(c) A depreciation of the currency

(d) None of the above

24. What is Currency Deposit Ratio (CDR)?

(a) Ratio of money held by the public in currency to that of money held in bank deposits

(b) Ratio of money held by the public in bank deposits to that of money held by public in currency

(c) Ratio of money held in demand drafts to that of money held in treasury bonds

(d) None of the above

25. Find nominal GDP if real GDP = 450 and price index = 120

(a) 500

(b) 450

(c) 540

(d) None of these



SUGGESTED ANSWERS/HINTS

1.	**(a)**	2.	**(a)**	3.	**(b)**	4.	**(b)**	5.	**(b)**
6.	**(a)**	7.	**(c)**	8.	**(c)**	9.	**(a)**	10.	**(c)**
11.	**(a)**	12.	**(c)**	13.	**(d)**	14.	**(c)**	15.	**(d)**
16.	**(d)**	17.	**(c)**	18.	**(c)**	19.	**(b)**	20.	**(b)**
21.	**(c)**	22.	**(b)**	23.	**(c)**	24.	**(a)**	25.	**(c)**

PAPER – 4: BUSINESS ECONOMICS

QUESTIONS

1. The introduction of the Goods and Services Tax (GST) in India primarily aimed to:
   (a) Replace direct taxes with indirect taxes
   (b) Unify various indirect taxes into a single system
   (c) Increase the tax burden on lower-income groups
   (d) Eliminate the taxation of services
2. Microeconomic theory studies how a free-enterprise economy determines:
   (a) the price of goods
   (b) the price of services
   (c) the price of economic resources
   (d) all of the above.
3. Within the relevant range, isoquants
   (a) are negatively sloped
   (b) are convex to the origin
   (c) cannot cross
   (d) are all of the above.
4. Which of the following is incorrect formula?
   (a) $TC = AC \times Q$
   (b) $\sum MC = TC$

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(c) ∑MC = TVC

(d) ∑MC + TFC = TC

5. The Substitution effect will be stronger when

(a) The goods are closer substitution

(b) There is lower cost of switching to the substitute goods

(c) There is lower Inconvenience while switching to the substitute good

(d) All the above

6. Price discrimination to be profitable elasticity of demand in different submarket will be _____

(a) Different

(b) Uniform

(c) Zero

(d) None of these

7. According to Hicks and Allen the demand curve slope downwards due to _____

(a) Law of diminishing marginal utility

(b) Income effect and substitution effect

(c) Either (a) or (b)

(d) None of these

8. Full Capacity is utilized in the which market condition_____

(a) Perfect Competition

(b) Monopoly

(c) Oligopoly

(d) None of these

9. Envelope curve is also called:

(a) Long Run Average Cost curve

(b) Short Run Average Cost curve

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(c) Average Fixed Cost

(d) None of these

10. Coincident indicator is not indicated as:

(a) Inflation

(b) Industrial Production

(c) Retail Sales

(d) New order for Plant and equipment

11. Which of the following is NOT typically used as a fiscal policy measure to control inflation?

(a) Increasing government expenditure

(b) Raising taxes

(c) Reducing public sector investments

(d) Increasing interest rates

12. In an economy, a change in the reserve ratio will directly affect the:

(a) Level of interest rates in the market

(b) Supply of money in circulation

(c) Demand for money at different income levels

(d) Government's budgetary balance

13. Which of the following is NOT a key assumption of Ricardo's theory of comparative advantage?

(a) Two countries, each specializing in the good it can produce most efficiently, will both gain from trade.

(b) Resources are immobile between countries but mobile within a country.

(c) Trade occurs only due to differences in technology between countries.

(d) Both countries in trade can benefit even if one country is less efficient in producing both goods.

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14. If a country's currency is depreciating, it means that:

(a) The domestic currency is increasing in value relative to foreign currencies.

(b) The country's exports will become more expensive to foreign buyers.

(c) The country's exports become cheaper for foreign buyers, potentially boosting trade.

(d) The central bank is actively increasing the supply of money.

15. Which of the following is a primary objective of India's Five-Year Plans?

(a) To regulate and control foreign trade

(b) To promote balanced economic growth across all regions

(c) To discourage the private sector in favour of public enterprises

(d) To ensure foreign aid and capital inflows into the country

16. The current account deficit (CAD) in India refers to the excess of:

(a) Imports over exports

(b) Exports over imports

(c) Total investment over savings

(d) Government expenditure over revenue

17. Which of the following is a primary objective of India's monetary policy?

(a) To reduce the overall level of taxation in the economy

(b) To control the money supply and curb inflation

(c) To promote export-led growth through currency devaluation

(d) To ensure a balanced budget for the government

18. Which of the following refers to the study of the total or aggregate level of output, income, employment, consumption, investment, and prices for the economy viewed as a whole?

(a) Managerial economics

(b) Microeconomics

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(c) Macroeconomics

(d) Econometrics

19. Firms in an industry that produces a differentiated product:

(a) are either monopolists or oligopolists.

(b) are either monopolistically competitive or perfectly competitive.

(c) are either monopolistically competitive or oligopolists.

(d) are either perfectly competitive or oligopolists.

20. The concept of the "multiplier effect" in Keynesian economics refers to:

(a) The impact of interest rates on investment

(b) The magnification of an initial change in spending throughout the economy

(c) The impact of taxes on consumer spending

(d) The role of exports in economic growth

21. What is the primary method for calculating National Income using the income approach?

(a) Adding up all expenditures in the economy

(b) Summing up all factor incomes earned by households and firms

(c) Measuring the value added at each stage of production

(d) Calculating the difference between exports and imports

22. Which of the following is considered a component of M1, the narrowest definition of money supply?

(a) Time deposits

(b) Currency in circulation

(c) Treasury bills

(d) Corporate bonds

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23. Which of the following is included in M2, a broader measure of money supply compared to M1?

(a) Currency in circulation

(b) Savings deposits

(c) Demand deposits

(d) Traveler's checks

24. Which of the following is a factor income?

(a) Profits

(b) Transfer payments

(c) Subsidies

(d) Indirect taxes

25. Which of the following is a common solution to the problem of common resources being overused?

(a) Government regulation

(b) Privatization

(c) Subsidies

(d) Free-market competition

SUGGESTED ANSWERS/HINTS

1.	**(b)**	2.	**(d)**	3.	**(d)**	4.	**(b)**	5.	**(a)**
6.	**(a)**	7.	**(b)**	8.	**(a)**	9.	**(a)**	10.	**(d)**
11.	**(d)**	12.	**(b)**	13.	**(c)**	14.	**(c)**	15.	**(b)**
16.	**(a)**	17.	**(b)**	18.	**(c)**	19.	**(c)**	20.	**(b)**
21.	**(b)**	22.	**(b)**	23.	**(b)**	24.	**(a)**	25.	**(a)**

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QUESTIONS

1. Which of the following refers to the study of the economic behaviour of individual decision-making units, such as individual consumers, resource owners, and business firms, in a free enterprise system?

   (A) Business economics

   (B) Microeconomics

   (C) Macroeconomic

   (D) Econometrics

2. Which of the following refers to the study of the total or aggregate level of output, income, employment, consumption, investment, and prices for the economy viewed as a whole?

   (A) Managerial economics

   (B) Microeconomics

   (C) Macroeconomics

   (D) Econometrics

3. Implicit cost is equal to:

   (A) business profit minus economic profit.

   (B) business profit plus economic profit.

   (C) economic profit minus business profit

(D) economic profit minus explicit cost

4. If the demand curve for a firm's output is perfectly elastic, then the firm:

(A) a monopolist.

(B) perfectly competitive.

(C) an oligopolist.

(D) monopolistically competitive.

5. Firms in an industry that produces a differentiated product:

(A) are either monopolists or oligopolists.

(B) are either monopolistically competitive or perfectly competitive.

(C) are either monopolistically competitive or oligopolists.

(D) are either perfectly competitive or oligopolists.

5. The type of industry organization that is characterized by recognized interdependence and nonprice competition among firms is called:

(A) monopoly.

(B) perfect competition.

(C) oligopoly.

(D) monopolistic competition.

6. Which of the following short-run cost curves declines continuously?

(A) Average total cost

(B) Marginal cost

(C) Average fixed cost

(D) Average variable cost

7. The restaurant industry has a market structure that comes closest to:

(A) monopolistic competition

(B) oligopoly.

(C) perfect competition.

(D) monopoly.

8. Economic indicator of contraction and expansionary phase by measuring real GDP is:

(A) Business cycle

(B) Technical indicator

(C) Leading indicator

(D) Lagging indicator

9. National income accountants can avoid multiple counting by:

(A) Counting both intermediate and final goods.

(B) Only counting final goods.

(C) Only counting intermediate goods.

(D) Including transfers in their calculations.

10. What does Article 246 of the Indian Constitution deal with?

(A) The distribution of revenue between the Centre and States

(B) The division of legislative powers between the Centre and States

(C) The establishment of Panchayati Raj institutions

(D) The powers of the President to make laws

11. Excessive and unplanned public expenditure may lead to:

(A) Economic stability

(B) Fiscal crisis and debt burden

(C) Reduction in money supply

(D) A decrease in inflation

12. Which of the following situations best demonstrates a market failure due to asymmetric information?

    (A) A monopolist exploiting market power by reducing supply

    (B) Consumers buying substandard products because they lack information about quality

    (C) The government providing public goods like street lighting

    (D) A natural monopoly were economies of scale drive market concentration

13. Which of the following is NOT a part of the money supply in an economy?

    (A) Currency held by the central bank

    (B) Demand deposits in commercial banks

    (C) Saving accounts in commercial banks

    (D) Time deposits in commercial banks

14. Which of the following is NOT a typical tool of monetary policy used by a central bank?

    (A) Open market operations

    (B) Changing the reserve requirements of commercial banks

    (C) Adjusting the tax rates in the economy

    (D) Changing the discount rate

15. According to the Heckscher-Ohlin theory, a country will have a comparative advantage in the production of goods that:

    (A) Require labour-intensive techniques if the country has a surplus of capital.

    (B) Utilize abundant factors of production that the country has in large supply.

    (C) Require advanced technology in which the country is technologically superior.

(D) Require high labour costs in a country with low wages.

16. In international trade negotiations, which of the following is the most common objective for countries involved in multilateral trade talks?

(A) To increase tariffs and protect domestic industries

(B) To reduce trade barriers and promote free trade

(C) To restrict foreign competition through quotas

(D) To enhance domestic subsidies for agricultural sectors

17. Which of the following is a primary objective of India's Five-Year Plans?

(A) To regulate and control foreign trade

(B) To promote balanced economic growth across all regions

(C) To discourage the private sector in favour of public enterprises

(D) To ensure foreign aid and capital inflows into the country

18. Which of the following is the most important source of India's foreign exchange earnings?

(A) Industrial exports

(B) Remittances from Indians working abroad

(C) Tourism

(D) Services exports, especially IT and software

19. The Green Revolution in India focused primarily on increasing the production of:

(A) Oilseeds

(B) Food grains, especially wheat and rice

(C) Fruits and vegetables

(D) Cash crops like cotton and sugarcane

20. According to the Quantity Theory of Money, if the money supply increases while the velocity of money and output remain constant, the general price level will:

    (A) Decrease

    (B) Increase proportionately

    (C) Stay the same

    (D) Increase, but unpredictably

21. Which of the following would be an example of a counter-cyclical fiscal policy during a period of recession?

    (A) Increasing taxes and reducing government spending

    (B) Cutting taxes and increasing government expenditure

    (C) Reducing the public debt by increasing savings

    (D) Avoiding changes in taxes and government spending

22. If a country's currency is depreciating, it means that:

    (A) The domestic currency is increasing in value relative to foreign currencies.

    (B) The country's exports will become more expensive to foreign buyers.

    (C) The country's exports become cheaper for foreign buyers, potentially boosting trade.

    (D) The central bank is actively increasing the supply of money.

23. Diminishing marginal utility implies that the:

    (A) marginal utility of a good diminishes over time.

    (B) total utility is negative.

    (C) last unit of a good consumed will contribute most to the consumer's satisfaction.

(D) first unit of a good consumed will contribute most to the consumer's satisfaction.

24. Which one of the following is not an internal economy of scale?

(A) Technical economies

(B) Financial economies

(C) Economies due to localization of industries

(D) Marketing economies

25. If a firm's total revenue is not enough to make good even the _____, it is better for firm to shut down.

(A) Total fixed cost

(B) Marginal cost

(C) Average fixed cost

(D) Total variable cost



SUGGESTED ANSWERS/HINTS

1.	**(A)**	2.	**(C)**	3.	**(D)**	4.	**(B)**	5.	**(C)**
6.	**(C)**	7.	**(B)**	8.	**(A)**	9.	**(B)**	10.	**(B)**
11.	**(B)**	12.	**(B)**	13.	**(A)**	14.	**(C)**	15.	**(B)**
16.	**(B)**	17.	**(B)**	18.	**(D)**	19.	**(B)**	20.	**(B)**
21.	**(B)**	22.	**(C)**	23.	**(D)**	24.	**(C)**	25.	**(D)**

PAPER – 4:
BUSINESS ECONOMICS



QUESTIONS

1. Business Economics bridges the gap between:
   (A) Economics and Sociology
   (B) Theory and Practice
   (C) Micro and Macro Economics
   (D) Business and Law
2. The concern regarding changing health consciousness of consumers highlights which limitation of economic theory in real-world decision making?
   (A) Static nature of demand analysis
   (B) Excessive reliance on normative assumptions
   (C) Unrealistic ceteris paribus assumption
   (D) Absence of marginal analysis
3. The concept of 'Consumer Sovereignty' means that:
   (A) Government controls what consumers can buy
   (B) Consumers ultimately determine which goods will be produced through their purchases
   (C) Producers decide what consumers should buy
   (D) Only wealthy consumers have purchasing power

4. Arc elasticity of demand is used when:

(A) Price change is infinitesimal

(B) Price change is large

(C) Demand curve is vertical

(D) Demand is perfectly elastic

5. Which of the following is an example of circulating capital?

(A) Machinery

(B) Factory building

(C) Raw material

(D) Tools

6. Match the Pairs

Column A	Column B
a. Implicit Cost	1. Cost already incurred
b. Sunk Cost	2. Foregone alternative
c. Opportunity Cost	3. Cost of self-owned factors
d. Explicit Cost	4. Cash payment

(A) a–3, b–1, c–2, d–4

(B) a–2, b–1, c–3, d–4

(C) a–1, b–2, c–3, d–4

(D) a–4, b–1, c–2, d–3

7. Exchange value of a commodity refers to:

(A) Its usefulness

(B) Its sentimental worth

(C) Its command over other goods

(D) Cost of production

8. Which market structure is characterized by extreme product differentiation?

   (A) Perfect competition

   (B) Monopolistic competition

   (C) Oligopoly

   (D) Monopoly

9. Which of the following situations would definitely result in a stable equilibrium being achieved through market mechanism alone?

   (A) Price ceiling below equilibrium price

   (B) Price floor above equilibrium price

   (C) Initial price above equilibrium with no external intervention

   (D) Government-fixed procurement price

10. A phase where unemployment is mainly frictional and structural is known as:

   (A) Trough

   (B) Peak

   (C) Expansion

   (D) Contraction

11. The concept of 'deflationary gap' in Keynesian economics specifically refers to:

   (A) The excess of actual output over potential GDP at full employment

   (B) The shortfall in aggregate demand required to achieve full employment equilibrium

   (C) The reduction in price levels due to contractionary monetary policy

   (D) The difference between actual inflation and target inflation rates

12. The Net Divisible Pool (NDP) consists of:

   (A) Gross tax revenue including cesses

(B) Only direct taxes

(C) All union taxes excluding cesses and surcharges

(D) Only GST revenues

13. Which situation best illustrates adverse selection?

(A) Insured driver drives rashly

(B) Seller hides product defects before sale

(C) Consumer overuses subsidized healthcare

(D) Government fixes minimum prices

14. Which of the following expenditures is not subject to voting by Parliament?

(A) Defense expenditure

(B) Interest on public debt

(C) Education expenditure

(D) Health expenditure

15. Credit multiplier differs from money multiplier mainly because credit multiplier assumes:

(A) No time deposits

(B) No excess reserves and no currency leakages

(C) Perfect capital mobility

(D) Fixed interest rates

16. The Heckscher–Ohlin theory fails to explain extensive intra-industry trade primarily because it:

(A) Ignores opportunity costs

(B) Assumes constant returns to scale

(C) Relies on factor price equalization

(D) Treats products as homogeneous

17. A tariff-rate quota (TRQ) combines:

(A) Export subsidy with import licensing

(B) Import quota with ad valorem tariff

(C) Preferential tariff with MFN tariff

(D) Quantity restriction with differential tariff rates

18. Under a managed floating exchange rate regime, central bank intervention is most effective when it primarily influences:

(A) Trade volumes directly

(B) Inflation expectations alone

(C) Market expectations about future exchange rate movements

(D) Long-term capital formation

19. What was the primary reason for the "Crisis of Confidence" in 1991 that triggered the New Economic Policy?

(A) Failure of the monsoon for three consecutive years.

(B) Foreign exchange reserves falling to $1.2 billion, sufficient for only two weeks of imports.

(C) A total collapse of the banking sector due to high NPAs.

(D) The sudden withdrawal of all US food aid under PL 480.

20. Which specific NITI Aayog initiative is aimed at reducing India's oil import bill and converting coal reserves into cleaner fuel?

(A) Shoonya

(B) E-Amrit

(C) Methanol Economy

(D) Life

21. The "Hindu growth rate," referring to the modest 3.5% average annual GDP growth, occurred during which period?

(A) 1947–1964

(B) 1950–1980

(C) 1965–1981

(D) 1981–1991

22. Under the Monetary Policy Framework Agreement, RBI is deemed to have failed if inflation:

(A) Deviates from target even once

(B) Breaches tolerance limits for two consecutive quarters

(C) Exceeds upper or lower tolerance limits for three consecutive quarters

(D) Deviates from WPI targets

23. Which of the following limits the effectiveness of fiscal policy?

(A) Flexible prices

(B) Time lags in implementation

(C) High tax compliance

(D) Balanced budget

24. Consumer surplus can be graphically represented as:

(A) The area above the demand curve and below the price line

(B) The triangular area below the demand curve and above the price line

(C) The total area under the demand curve

(D) The rectangular area formed by price and quantity

25. The 'bandwagon effect' on consumer behavior leads to:

(A) Decrease in demand when others start consuming the product

(B) No change in demand pattern

(C) Increase in demand because others are also consuming the same commodity

(D) Perfectly inelastic demand

SUGGESTED ANSWERS/HINTS

1.	**(B)**	2.	**(C)**	3.	**(B)**	4.	**(B)**	5.	**(C)**
6.	**(A)**	7.	**(C)**	8.	**(D)**	9.	**(C)**	10.	**(C)**
11.	**(B)**	12.	**(C)**	13.	**(B)**	14.	**(B)**	15.	**(B)**
16.	**(B)**	17.	**(D)**	18.	**(C)**	19.	**(B)**	20.	**(C)**
21.	**(B)**	22.	**(C)**	23.	**(B)**	24.	**(B)**	25.	**(C)**

PAPER – 4:
BUSINESS ECONOMICS

QUESTIONS

1. A key objective of Business Economics is to help managers:
   (A) Eliminate competition
   (B) Apply economic theory and analysis to real business problems
   (C) Only measure profits
   (D) Focus purely on macro-objectives
2. Business Economics is described as normative because it:
   (A) Only describes what is
   (B) Rejects economic theory
   (C) Avoids value judgments
   (D) Suggests what ought to be done
3. If two goods X and Y have a positive cross elasticity, these goods are:
   (A) Unrelated
   (B) Substitutes
   (C) Complements
   (D) Inferior goods
4. A key limitation of the Law of Diminishing MU is that it assumes utility is:
   (A) Cardinally measurable
   (B) Ordinal

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(C) Constant

(D) Total

5. The consumer surplus concept supports pricing strategy because:

(A) It measures producer costs only

(B) It identifies hidden value consumers derive compared to what they pay

(C) It shows price increases raise surplus

(D) It ignores demand curves

6. For a discriminating monopolist, price discrimination depends mainly on:

(A) Cost of production

(B) Size of market

(C) Elasticity of demand

(D) Government regulation

7. If technological advancement occurs, supply curve will:

(A) Shift leftward

(B) Shift rightward

(C) Stay same

(D) Become vertical

8. Price determination differs across markets mainly due to:

(A) Equal market power

(B) Varying competition and barriers

(C) Fixed output only

(D) Government controls always

9. Which phase of the business cycle is characterized by rising GDP, increasing employment, and expanding investments?

(A) Peak

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(B) Contraction

(C) Expansion

(D) Trough

10. Which of the following is an external cause of business cycles fluctuations?

(A) Monetary policy changes

(B) Changes in money supply

(C) Natural disasters

(D) Effective demand shifts

11. In the four-sector Keynesian model, the equilibrium income condition is:

(A) $Y = C + I$

(B) $Y = C + I + G$

(C) $Y = C + I + G + (X - M)$

(D) $Y = C + S + T$

12. Maximum price ceilings imposed on essential commodities aim to:

(A) Protect producers

(B) Increase exports

(C) Protect consumers

(D) Increase profits

13. Money demand is said to be 'derived' because:

(A) It is decided by the government

(B) People hold money because it earns interest

(C) People demand money to facilitate expenditure

(D) Money supply controls demand

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14. Monetary policy primarily aims to regulate:

(A) Tax rates

(B) Money supply and credit conditions

(C) Government expenditure

(D) Export levels

15. Which policy action is most likely to reduce inflation?

(A) Expansionary monetary policy

(B) Contractionary monetary policy

(C) Lower reserve ratio

(D) Higher government spending

16. The Heckscher-Ohlin model predicts that a country will export goods that:

(A) Use its scarce factors intensely

(B) Use its abundant factors intensely

(C) It cannot produce efficiently

(D) Are cheap in the world market

17. A specific tariff is different from an ad valorem tariff because it is:

(A) A percentage of trade value

(B) A fixed amount per unit of imported goods

(C) Applied only to exports

(D) Used only under GATT

18. Non-tariff measures (NTMs) include all *except*:

(A) Import quotas

(B) Export subsidies

(C) Sanitary and phytosanitary (SPS) measures

(D) Floating exchange rates

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19. Foreign Direct Investment (FDI) is best distinguished from Foreign Portfolio Investment (FPI) by its:

(A) Ownership of foreign currency

(B) Intent to gain management control in foreign enterprises

(C) Duration of investment only

(D) Government backing

20. Real exchange rate increases if:

(A) Domestic prices rise faster than foreign prices

(B) Foreign prices rise relative to domestic prices

(C) Nominal exchange rate is fixed

(D) Trade barriers increase only

21. An important principle of GATT and WTO is the Most-Favoured-Nation (MFN) treatment, which means:

(A) Preferential tariffs for select partners only

(B) Equal trade advantages given to all members

(C) National treatment for domestic goods only

(D) Exclusive bilateral treaties outside WTO

22. One of the early steps in 1991 reforms was:

(A) Rupee devaluation

(B) Nationalisation of banks

(C) Abolition of tax reforms

(D) Trade protection

23. Post-reform export growth led to:

(A) Decline in forex reserves

(B) Increase in foreign exchange reserves

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(C) Reduced trade volume

(D) Collapse in services exports

24. Reforms in the capital market after 1991 strengthened through:

(A) RBI takeover of markets

(B) Establishment of SEBI autonomy

(C) Complete ban on foreign investment

(D) Closing stock exchanges

25. Structural reforms differ from stabilization policies because they:

(A) Address long-term efficiency issues

(B) Focus only on inflation

(C) Control exchange rates

(D) Increase tariffs

SUGGESTED ANSWERS

1.	**(B)**	2.	**(D)**	3.	**(B)**	4.	**(A)**	5.	**(B)**
6.	**(C)**	7.	**(B)**	8.	**(B)**	9.	**(C)**	10.	**(C)**
11.	**(C)**	12.	**(C)**	13.	**(C)**	14.	**(B)**	15.	**(B)**
16.	**(B)**	17.	**(B)**	18.	**(D)**	19.	**(B)**	20.	**(B)**
21.	**(B)**	22.	**(A)**	23.	**(B)**	24.	**(B)**	25.	**(A)**

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