Skillshort

Self-Study Preparation Pack

CA FOUNDATION

Paper 4: Business Economics

Mock Test 2 – 100 MCQs with Answer Key & Explanations

Exam pattern: 100 MCQs · 1 mark each · 2 hours · Negative marking 0.25 per wrong answer VERIFY · Original Skillshort questions in the ICAI weightage mix

Chapters in ICAI weightage: I 5 · II 10 · III 10 · IV 15 · V 15 · VI 5 · VII 10 · VIII 10 · IX 10 · X 10

Answer key with explanations at the end

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This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

3 Past papers: trends & links

4 Mock tests + solutions

5 Chapter practice questions

6 Last-week plan & strategy

Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Instructions

All 100 questions are compulsory and carry 1 mark each. **0.25 mark is deducted for each wrong answer** VERIFY. Time allowed: **2 hours** – about 70 seconds per question. Attempt the theory questions in one quick pass first, mark the numericals and return to them. Score guide: 70+ excellent · 55–69 safe · 40–54 borderline · below 40 – revise from file 01 and redo the chapter sets in file 05.

Chapter 1: Introduction to Business Economics (Q1–5)

1. A mixed economy is one in which

(a) there is no price mechanism
(b) only private enterprise operates
(c) both public and private sectors co-exist
(d) only the government owns resources

2. Which one is a positive statement?

(a) Prices should be stable
(b) Government should reduce unemployment
(c) The unemployment rate in India rose last year
(d) Rich people ought to pay more tax

3. The term "invisible hand" is associated with

(a) Adam Smith
(b) J.M. Keynes
(c) Ricardo
(d) Karl Marx

4. The problem "how to produce" relates to

(a) what goods to produce
(b) choice of technique of production
(c) full employment
(d) distribution of income

5. Which of the following is a macroeconomic issue within the scope of business economics?

(a) Cost analysis of a firm
(b) Pricing of a product
(c) Demand forecasting of a firm
(d) Business cycles and inflation

Chapter 2: Theory of Demand and Supply (Q6–15)

6. Giffen goods are

(a) inferior goods with a strong income effect that outweighs the substitution effect
(b) normal goods with negative income elasticity
(c) luxury goods
(d) goods of conspicuous consumption

7. Consumer surplus is the difference between

(a) total and marginal utility
(b) what the consumer is willing to pay and what he actually pays
(c) price and cost
(d) income and expenditure

8. The slope of the budget line is

(a) −Px/Py
(b) −Py/Px
(c) MUx/MUy
(d) income/price

9. A change in the price of the good itself causes

(a) a change in demand
(b) a movement along the demand curve
(c) a shift of the demand curve
(d) no change in quantity demanded

10. The indifference curve approach was developed by

(a) Hicks and Allen
(b) Pigou
(c) Marshall
(d) Keynes

11. Price falls from ₹20 to ₹15 and quantity demanded rises from 200 to 220 units. By the total outlay method, demand is:

(a) Inelastic (e < 1)
(b) Perfectly inelastic (e = 0)
(c) Unitary elastic (e = 1)
(d) Elastic (e > 1)

12. A 10% rise in the price of good Y changes the quantity demanded of good X by -15%. Cross elasticity and relationship are:

(a) -1.5; complements
(b) 1.5; complements
(c) -1.5; substitutes
(d) -0.67; unrelated goods

13. When the price of a good falls from ₹10 to ₹7.5, its quantity demanded rises from 200 to 300 units. Price elasticity of demand (proportionate method) is:

(a) 1
(b) 0.5
(c) 2
(d) 4

14. Elasticity of supply is greater in the

(a) long run
(b) market period
(c) short run
(d) very short period

15. If demand increases and supply remains constant, equilibrium price

(a) rises and quantity falls
(b) falls and quantity rises
(c) remains unchanged
(d) rises and quantity rises

Chapter 3: Theory of Production and Cost (Q16–25)

16. Which cost remains constant whatever the output level?

(a) Average total cost
(b) Marginal cost
(c) Total fixed cost
(d) Total variable cost

17. For the production function Q = 10 L^0.6 K^0.4, the firm experiences:

(a) Diminishing returns to a factor only
(b) Decreasing returns to scale
(c) Increasing returns to scale
(d) Constant returns to scale

18. Producer's equilibrium (least-cost combination) is where

(a) AP is maximum
(b) MP_L = MP_K
(c) w = r
(d) MRTS_LK = w/r

19. Which of the following is an internal economy of scale?

(a) Better roads in the region
(b) Technical economies from large machines
(c) Development of the industry's infrastructure
(d) Growth of ancillary industries

20. Explicit costs are

(a) payments made to outside factor owners
(b) opportunity costs only
(c) imputed costs of own resources
(d) sunk costs

21. The law of variable proportions operates in the

(a) market period
(b) short run
(c) long run
(d) very long run

22. The long-run AC curve is U-shaped due to

(a) price changes
(b) law of variable proportions
(c) economies and diseconomies of scale
(d) fixed costs

23. If all inputs are doubled and output more than doubles, the firm faces

(a) constant returns to scale
(b) increasing returns to scale
(c) decreasing returns to scale
(d) diminishing returns to a factor

24. The slope of an isoquant is called

(a) marginal product
(b) marginal rate of substitution
(c) price ratio
(d) marginal rate of technical substitution

25. A firm's total fixed cost is ₹300 and total variable cost is – 1 unit: ₹50 · 2 units: ₹90 · 3 units: ₹120 · 4 units: ₹160. The MC of producing 4 units is:

(a) ₹40
(b) ₹75
(c) ₹460
(d) ₹115

Chapter 4: Price Determination in Different Markets (Q26–40)

26. Barometric price leadership means

(a) a firm that best reads market conditions announces price changes
(b) the lowest-cost firm leads
(c) the largest firm leads
(d) government fixes the price

27. The degree of monopoly power is measured by Lerner's index as

(a) P/MC
(b) (P − AC)/P
(c) (P − MC)/P
(d) MC/P

28. A monopolist will never produce on the
(a) inelastic portion of the demand curve
(b) upper half
(c) unitary point
(d) elastic portion

29. If average revenue is ₹12 and price elasticity of demand is 1.5, marginal revenue is:
(a) ₹8
(b) ₹4
(c) ₹18
(d) ₹20

30. A monopolist in the short run
(a) always earns losses
(b) earns only normal profit
(c) may earn supernormal profit, normal profit or losses
(d) always earns supernormal profit

31. A market with a single buyer is called
(a) monopoly
(b) duopoly
(c) oligopsony
(d) monopsony

32. OPEC is an example of
(a) a cartel
(b) perfect competition
(c) monopolistic competition
(d) a natural monopoly

33. If AR = ₹20 and elasticity of demand = 2, MR is
(a) ₹20
(b) ₹40
(c) ₹10
(d) ₹5

34. In the long run, a firm under monopolistic competition operates with
(a) zero capacity
(b) optimum capacity
(c) excess capacity
(d) supernormal profit

35. Price discrimination is possible when
(a) resale between markets is easy
(b) elasticities are equal
(c) the market is perfectly competitive
(d) markets can be separated and elasticities differ

36. Long-run equilibrium of a competitive firm occurs where
(a) P = AFC
(b) MR > MC
(c) P > AC
(d) P = MR = MC = minimum LAC

37. Selling costs are a feature of
(a) none of the market forms
(b) pure monopoly only
(c) monopolistic competition
(d) perfect competition

38. A natural monopoly arises when
(a) firms collude
(b) economies of scale are so large that one firm can supply the market at least cost
(c) government grants a licence
(d) there are many small firms

39. A monopolist sells at ₹200 and its marginal cost is ₹160. Lerner's index of monopoly power is:

(a) 0.2
(b) 1.25
(c) 0.25
(d) 0.8

40. Under third-degree price discrimination, a higher price is charged in the market with

(a) less elastic demand
(b) unitary elasticity
(c) more elastic demand
(d) larger quantity

Chapter 5: Determination of National Income (Q41–55)

41. The higher the MPC,

(a) multiplier is unaffected
(b) the larger the multiplier
(c) multiplier becomes zero
(d) the smaller the multiplier

42. If MPC = 0.75, the investment multiplier is

(a) 0.25
(b) 3
(c) 1.33
(d) 4

43. Deflationary gap exists when

(a) S = I at full employment
(b) government budget is balanced
(c) AD exceeds full-employment output
(d) aggregate demand falls short of the level needed for full employment

44. Net factor income from abroad is negative when

(a) factor income paid to the rest of the world exceeds that received
(b) GDP exceeds NNP
(c) exports exceed imports
(d) depreciation is high

45. Green GDP adjusts conventional GDP for

(a) environmental degradation and resource depletion
(b) population
(c) informal sector
(d) price changes

46. The tax multiplier (lump-sum tax) is

(a) −MPC/(1 − MPC)
(b) −1/MPC
(c) 1
(d) 1/(1 − MPC)

47. Autonomous investment is

(a) independent of the level of income
(b) induced by profits
(c) equal to savings
(d) a function of income

48. GDP at market prices is ₹4,000 crore, depreciation ₹100 crore, net indirect taxes ₹80 crore and net factor income from abroad ₹50 crore. National income (NNP at factor cost) is:

(a) ₹3,950 crore
(b) ₹3,870 crore
(c) ₹3,820 crore
(d) ₹4,070 crore

49. Government increases its spending by ₹200 crore and finances it fully by an equal lump-sum tax. With MPC = 0.8, national income rises by:

(a) ₹200 crore
(b) ₹800 crore
(c) ₹0
(d) ₹1,000 crore

50. The concept of the accelerator relates

(a) induced investment to changes in income/output
(b) money supply to price
(c) savings to interest
(d) consumption to income

51. If MPC = 0.9 and lump-sum taxes are raised by ₹200 crore, the change in national income is:

(a) −₹200 crore
(b) −₹2,000 crore
(c) −₹1,800 crore
(d) ₹1,800 crore

52. The value-added method is also called the

(a) expenditure method
(b) product method
(c) commodity flow only
(d) income method

53. In an open economy C = 100 + 0.8Y, I = 200, G = 0, X = 50 and M = 20 + 0.05Y. Equilibrium national income is:

(a) 1,100
(b) 1,320
(c) 1,480
(d) 1,650

54. Real GDP is

(a) GDP at current prices
(b) GDP per capita
(c) GDP measured at constant (base-year) prices
(d) GDP minus inflation rate

55. To avoid double counting in the product method, we take

(a) value added at each stage or final goods only
(b) intermediate goods
(c) all goods sold
(d) sales of all firms

Chapter 6: Business Cycles (Q56–60)

56. Business cycles refer to

(a) government budget cycles
(b) seasonal changes in prices of one good
(c) long-term growth trend only
(d) recurrent fluctuations in aggregate economic activity

57. Which is a lagging indicator?

(a) Unemployment rate
(b) Stock prices
(c) Building permits
(d) New orders

58. Stagflation is a situation of

(a) deflation with full employment
(b) high inflation together with stagnant output and high unemployment
(c) high growth with low inflation
(d) boom with falling prices

59. Over-investment theory of business cycles is associated with

(a) Hayek
(b) Hawtrey
(c) Jevons
(d) Keynes

60. Which is a leading indicator?

(a) Interest rates on loans
(b) Inventory levels
(c) Stock market prices
(d) Unemployment rate

Chapter 7: Public Finance (Q61–70)

61. The Coase theorem suggests externalities can be solved by

(a) private bargaining when property rights are well defined and transaction costs are low
(b) price ceilings
(c) subsidies only
(d) government ownership

62. Merit goods are goods that

(a) are harmful to consumers
(b) have negative externalities
(c) are always public goods
(d) are under-consumed if left to the market, such as education and health

63. A minimum support price fixed above equilibrium leads to

(a) no effect
(b) lower supply
(c) surplus
(d) shortage

64. Automatic (built-in) stabilisers include

(a) devaluation
(b) progressive income taxes and unemployment benefits
(c) open market operations
(d) repo rate changes

65. Direct taxes include

(a) excise duty
(b) income tax and corporation tax
(c) customs duty
(d) GST

66. Crowding-out refers to

(a) increase in private investment
(b) fall in government spending
(c) fall in imports
(d) reduction in private investment due to higher government borrowing

67. Progressive taxation and transfer payments are tools of the

(a) allocation function
(b) regulation function
(c) distribution function
(d) stabilisation function

68. Expansionary fiscal policy involves
(a) reducing government expenditure
(b) increasing government expenditure and/or reducing taxes
(c) increasing the repo rate
(d) increasing taxes

69. Revenue deficit equals
(a) total expenditure − borrowings
(b) capital expenditure − capital receipts
(c) revenue expenditure − revenue receipts
(d) fiscal deficit − interest

70. Fiscal deficit equals
(a) revenue expenditure − revenue receipts
(b) total expenditure − (revenue receipts + non-debt capital receipts)
(c) fiscal deficit − interest
(d) total expenditure − total receipts

Chapter 8: Money Market (Q71–80)

71. According to the quantity theory of money, if money supply doubles,
(a) the price level doubles (V and T constant)
(b) price level halves
(c) velocity doubles
(d) output doubles

72. Friedman's restatement of the quantity theory treats money as
(a) only a medium of exchange
(b) an asset whose demand depends on permanent income and returns on other assets
(c) a pure public good
(d) irrelevant to prices

73. A bank receives a fresh deposit of ₹10,000. With a reserve ratio of 5%, the maximum total deposits the banking system can create are:
(a) ₹1,90,000
(b) ₹10,500
(c) ₹2,00,000
(d) ₹500

74. The inventory-theoretic approach to transactions demand for money was given by
(a) Baumol
(b) Tobin
(c) Friedman
(d) Fisher

75. Broad money M3 equals
(a) M1 + net time deposits with banks
(b) M0 + demand deposits
(c) M1 + post office savings
(d) currency + reserves

76. Using Fisher's equation, if M = ₹1,000 crore, V = 6 and T = 2,000 units, the price level is:
(a) ₹6
(b) ₹0.08
(c) ₹0.33
(d) ₹3

77. India's central bank digital currency is called

(a) Bitcoin
(b) e₹ (Digital Rupee)
(c) RuPay
(d) UPI

78. Open market operations refer to

(a) foreign exchange trading by firms
(b) lending by banks to public
(c) issue of new currency
(d) purchase and sale of government securities by the central bank

79. Money multiplier, with currency–deposit ratio c and reserve ratio r, is

(a) 1/(c + r)
(b) (c + r)/(1 + c)
(c) (1 + c)/(c + r)
(d) 1/r × c

80. The inflation target set for RBI is CPI inflation of

(a) 2% with band ±1%
(b) 6% with band ±2%
(c) 5% with band ±1%
(d) 4% with a band of ±2%

Chapter 9: International Trade (Q81–90)

81. Dumping means

(a) selling goods abroad at a price lower than in the home market
(b) importing waste
(c) restricting exports
(d) selling at higher prices abroad

82. Anti-dumping duty is imposed to

(a) promote exports
(b) counter imports sold below their normal value
(c) reduce quotas
(d) raise domestic consumption

83. The Most Favoured Nation principle of WTO means

(a) non-discrimination among trading partners
(b) imported goods taxed more
(c) subsidies to exports
(d) special favours to one country

84. New trade theory, emphasising economies of scale and network effects, is associated with

(a) Leontief
(b) Ricardo
(c) Adam Smith
(d) Paul Krugman

85. The WTO came into existence on

(a) 15 April 1994
(b) 1 January 1948
(c) 1 January 1995
(d) 1 July 1991

86. A customs union differs from a free trade area because members

(a) have a common currency
(b) adopt a common external tariff
(c) remove all tariffs among themselves only
(d) have free factor movement

87. FDI differs from FPI in that FDI involves
(a) only bonds
(b) lasting interest and management control
(c) no ownership
(d) only short-term investment

88. According to comparative advantage, a country should specialise in the good in which it has
(a) higher opportunity cost
(b) higher absolute cost
(c) no advantage
(d) lower opportunity cost

89. A specific tariff is
(a) a fixed amount per physical unit imported
(b) an export subsidy
(c) a combination of two
(d) a percentage of value

90. The theory of comparative advantage was propounded by
(a) Ohlin
(b) J.S. Mill
(c) David Ricardo
(d) Adam Smith

Chapter 10: Indian Economy (Q91–100)

91. Atmanirbhar Bharat Abhiyan was announced in
(a) 2015
(b) 2017
(c) 2022
(d) 2020

92. Disinvestment means
(a) foreign aid
(b) sale of government's equity in public sector enterprises
(c) increasing government investment
(d) nationalisation

93. The sector that employs the largest share of India's workforce is
(a) services
(b) manufacturing
(c) agriculture
(d) construction

94. Under the 1991 reforms the number of industries reserved for the public sector was
(a) abolished entirely from the start
(b) increased
(c) reduced drastically (now only atomic energy and railway operations)
(d) kept unchanged

95. Demonetisation of ₹500 and ₹1,000 notes was announced on
(a) 15 August 2016
(b) 1 July 2017
(c) 26 January 2016
(d) 8 November 2016

96. FERA was replaced by FEMA in
(a) 1991
(b) 2002
(c) 1999
(d) 1973

97. Which of the following was a feature of the Indian economy at independence?

(a) Large export surplus of manufactures
(b) High literacy
(c) Highly industrialised economy
(d) Low per capita income and backward agriculture

98. Production Linked Incentive (PLI) schemes were launched in

(a) 2016
(b) 2014
(c) 2010
(d) 2020

99. The Green Revolution in India began in the

(a) mid-1960s
(b) 1980s
(c) 1990s
(d) 1950s

100. UPI was launched by

(a) NPCI
(b) NITI Aayog
(c) RBI directly
(d) SEBI

Answer Key with Explanations

EXAM TIP Scoring

Score = correct − 0.25 × wrong VERIFY. Log every wrong answer with its chapter number; re-read that topic in file 01 and redo its set in file 05 before the next mock.

Answer key – Mock Test 2

Q	Ans	Explanation / working
1	(c)	India is the standard example.
2	(c)	Positive statements describe what is and can be tested; normative ones say what ought to be.
3	(a)	Smith used it for the market price mechanism.
4	(b)	How to produce = labour-intensive or capital-intensive technique.
5	(d)	Business cycles, national income, inflation are macro; the rest are micro.
6	(a)	For Giffen goods the demand curve slopes upward.
7	(b)	Marshall's concept.
8	(a)	Price ratio of the two goods.
9	(b)	Own-price changes = extension/contraction along the curve.
10	(a)	Ordinal utility (1934).
11	(a)	Outlay before = 4,000; after = 3,300. Outlay falls with a price fall → inelastic (e < 1).
12	(a)	e_{xy} = -15/10 = -1.5; negative cross elasticity → complements.
13	(c)	$e_p = (\Delta Q/Q) \div (\Delta P/P) = (100/200) \div (2.5/10) = 0.5 \div 0.25 = 2$.
14	(a)	More time lets producers adjust output.
15	(d)	Rightward demand shift.
16	(c)	TFC is horizontal.
17	(d)	a + b = 1 → constant returns to scale.
18	(d)	Isoquant tangent to isocost.
19	(b)	External economies arise outside the firm.
20	(a)	Implicit costs are for self-owned factors.
21	(b)	One factor variable, others fixed.
22	(c)	Returns to scale in the long run.
23	(b)	Returns to scale – long run.
24	(d)	MRTS_LK = MP_L/MP_K.
25	(a)	TC = TFC + TVC → 350, 390, 420, 460. MC at 4 units = 40.
26	(a)	Others follow the barometric firm.
27	(c)	Zero under perfect competition.
28	(a)	MR is negative when e < 1.
29	(b)	MR = AR(1 − 1/e) = 12(1 − 1/1.5) = 4.
30	(c)	Depends on AR relative to AC.
31	(d)	Oligopsony = few buyers.
32	(a)	Formal collusion to fix output and price.
33	(c)	MR = AR(1 − 1/e) = 20 × 0.5.
34	(c)	Tangency to falling part of LAC.
35	(d)	Classic conditions.
36	(d)	Firm produces at optimum scale.
37	(c)	Advertising to differentiate products.

Q	Ans	Explanation / working
38	(b)	E.g., railways, power distribution.
39	(a)	L = (P − MC)/P = (200 − 160)/200 = 0.2.
40	(a)	MR equalisation across markets.
41	(b)	Smaller leakage into saving.
42	(d)	k = 1/(1 − 0.75).
43	(d)	Causes unemployment.
44	(a)	Then GNP < GDP.
45	(a)	Sustainable measure.
46	(a)	Taxes affect Y via consumption.
47	(a)	Induced investment rises with income.
48	(b)	NNP_FC = GDP_MP − depreciation + NFIA − NIT = 4,000 − 100 + (50) − 80 = 3,870.
49	(a)	Balanced-budget multiplier = 1 → ΔY = ΔG = 200. (Spending multiplier 5, tax multiplier −4.)
50	(a)	Investment depends on change in demand.
51	(c)	Tax multiplier = −b/(1 − b) = −9; ΔY = -1800.
52	(b)	Sum of value added = GDP.
53	(b)	$Y = (a + I + G + X - M_o)/(1 - b + m) = 330/0.25 = 1320$.
54	(c)	Removes effect of price changes.
55	(a)	Intermediate consumption is deducted.
56	(d)	Expansion and contraction of overall activity.
57	(a)	Changes after the economy changes.
58	(b)	E.g., 1970s oil shocks.
59	(a)	Monetary over-investment.
60	(c)	Moves before the economy turns.
61	(a)	Ronald Coase.
62	(d)	Government encourages them.
63	(c)	Qs > Qd; government procurement.
64	(b)	Work without new decisions.
65	(b)	Burden cannot be shifted.
66	(d)	Higher interest rates crowd out private spending.
67	(c)	Reduce inequality.
68	(b)	Used during recession.
69	(c)	Government borrowing for consumption.
70	(b)	It shows total borrowing requirement.
71	(a)	Proportional relation.
72	(b)	Modern quantity theory.
73	(c)	Total deposits = D × 1/r = 10,000 × 20 = 2,00,000 (credit created = 1,90,000).
74	(a)	Square-root rule with brokerage cost.
75	(a)	Most used measure.
76	(d)	P = MV/T = 1,000×6/2,000 = 3.
77	(b)	Pilots began in 2022.
78	(d)	OMO purchases inject liquidity.
79	(c)	Higher c or r → smaller multiplier.
80	(d)	Flexible inflation targeting VERIFY for current period.
81	(a)	Price discrimination internationally.
82	(b)	Protects domestic industry from dumping.

Q	Ans	Explanation / working
83	(a)	Concession to one = concession to all members.
84	(d)	Explains intra-industry trade.
85	(c)	Replaced GATT (Marrakesh Agreement signed 15 April 1994).
86	(b)	FTA lacks common external tariff.
87	(b)	FPI is portfolio without control.
88	(d)	Gains even without absolute advantage.
89	(a)	E.g., ₹500 per tonne.
90	(c)	Principles (1817).
91	(d)	Self-reliant India package during COVID-19.
92	(b)	Part of privatisation.
93	(c)	Around 45% of workers VERIFY.
94	(c)	Initially 8 reserved, now 2.
95	(d)	Specified bank notes withdrawn.
96	(c)	Foreign Exchange Management Act.
97	(d)	Legacy of colonial rule.
98	(d)	Incentives on incremental sales of domestic manufacturing.
99	(a)	HYV seeds of wheat (and rice).
100	(a)	National Payments Corporation of India, 2016.