Skillshort

Self-Study Preparation Pack

CA FOUNDATION

Paper 4: Business Economics

Mock Test 1 – 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. Business economics is essentially

(a) purely positive
(b) normative and pragmatic
(c) unrelated to decision-making
(d) purely macroeconomic

2. "Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." This definition was given by

(a) Alfred Marshall
(b) Lionel Robbins
(c) Paul Samuelson
(d) Adam Smith

3. "Growth-oriented definition" of economics emphasising the use of scarce resources over time was given by

(a) Paul Samuelson
(b) Lionel Robbins
(c) Adam Smith
(d) Alfred Marshall

4. The welfare definition of economics was given by

(a) Lionel Robbins
(b) J.S. Mill
(c) Alfred Marshall
(d) Adam Smith

5. In a capitalist economy the basic economic problems are solved by

(a) the price mechanism
(b) traditions
(c) a central planning authority
(d) the government alone

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

6. At competitive equilibrium total surplus (consumer + producer) is

(a) equal to deadweight loss
(b) minimum
(c) zero
(d) maximum

7. Two indifference curves cannot intersect because

(a) they are parallel
(b) income is constant
(c) they have different slopes
(d) it would violate transitivity and non-satiation

8. An increase in the consumer's income, prices constant, causes the budget line to

(a) become steeper
(b) shift parallel outward
(c) rotate inward
(d) remain unchanged

9. A consumer's income rises by 10% and the quantity demanded of a good changes by 6%. Income elasticity and the nature of the good are:

(a) -0.6; inferior good
(b) 0.6; luxury
(c) 1.67; necessity
(d) 0.6; necessity

10. An increase in the price of tea will cause the demand curve for coffee to

(a) shift to the right
(b) shift to the left
(c) become vertical
(d) remain unchanged

11. Demand Qd = 120 − 5P and supply Qs = 40 + 3P. Equilibrium price and quantity are:

(a) P = 10, Q = 70
(b) P = 70, Q = 10
(c) P = 12, Q = 60
(d) P = 10, Q = 80

12. If supply increases and demand is unchanged, equilibrium price

(a) falls and quantity falls
(b) rises and quantity rises
(c) falls and quantity rises
(d) stays same

13. The law of demand states that, other things being equal,

(a) quantity demanded varies inversely with price
(b) demand rises with income
(c) quantity demanded varies directly with price
(d) supply rises with price

14. Supply of a good will increase (curve shifts right) when

(a) cost of production falls due to better technology
(b) price of the good rises
(c) tax on the good rises
(d) input prices rise

15. A 20% rise in the price of good Y changes the quantity demanded of good X by 30%. Cross elasticity and relationship are:

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

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

16. Short-run AC curve is U-shaped because of

(a) returns to scale
(b) the law of variable proportions
(c) external economies only
(d) fixed prices

17. Long-run average cost curve is also called the

(a) isocost curve
(b) envelope curve
(c) kinked curve
(d) planning curve of revenue

18. In the Cobb–Douglas production function Q = AL^a K^b, constant returns to scale require

(a) a + b > 1
(b) a + b = 1
(c) a + b < 1
(d) a = b

19. When marginal product is zero, total product is

(a) zero
(b) minimum
(c) maximum
(d) falling

20. When AR = MR at all levels, the firm is a

(a) monopolistic competitor
(b) perfectly competitive firm
(c) monopolist
(d) oligopolist

21. The short run is a period in which

(a) all factors are variable
(b) at least one factor of production is fixed
(c) all factors are fixed
(d) only technology changes

22. A firm's total fixed cost is ₹300 and total variable cost is – 1 unit: ₹60 · 2 units: ₹80 · 3 units: ₹130 · 4 units: ₹160. The MC of producing 2 units is:

(a) ₹40
(b) ₹190
(c) ₹20
(d) ₹150

23. Sunk cost is a cost that

(a) varies with output
(b) will be incurred in future
(c) is the opportunity cost
(d) has already been incurred and cannot be recovered

24. For the production function Q = 10 L^0.7 K^0.5, the firm experiences:

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

25. A rational producer operates in

(a) Stage II
(b) Stage III
(c) Stage I
(d) any stage

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

26. In the long run, a perfectly competitive firm earns

(a) supernormal profit
(b) losses
(c) only normal profit
(d) monopoly profit

27. A firm sells 100 units at ₹20 each; average cost at that output is ₹14. Its total profit (loss) is:

(a) −₹600
(b) ₹600
(c) ₹2,000
(d) ₹1,400

28. The short-run supply curve of a competitive firm is

(a) the AVC curve
(b) the MR curve
(c) the ATC curve
(d) the portion of MC above minimum AVC

29. If average revenue is ₹20 and price elasticity of demand is 4, marginal revenue is:

(a) ₹25
(b) ₹15
(c) ₹5
(d) ₹80

30. The kinked demand curve model was developed by

(a) Chamberlin
(b) Edgeworth
(c) Cournot
(d) Paul Sweezy

31. A dominant strategy is one that
(a) gives equal payoffs
(b) depends on the rival's choice
(c) is best for a player whatever the rival does
(d) is never chosen

32. A firm is earning supernormal profits when
(a) AR < AVC
(b) MR = 0
(c) AR > AC
(d) AR = AC

33. Which market form has a perfectly inelastic supply curve?
(a) Long run
(b) Market period (very short run)
(c) Secular period
(d) Short run

34. Interdependence among firms is the main feature of
(a) monopoly
(b) oligopoly
(c) monopolistic competition
(d) perfect competition

35. The kinked demand curve model explains
(a) long-run equilibrium in perfect competition
(b) collusion
(c) price discrimination
(d) price rigidity in oligopoly

36. Under perfect competition, the industry is in equilibrium when
(a) price exceeds AC
(b) MR exceeds MC
(c) each firm earns supernormal profit
(d) demand equals supply and firms earn normal profit

37. The prisoners' dilemma shows that
(a) individually rational choices can lead to an outcome worse for both
(b) price wars never happen
(c) cooperation is always stable
(d) cartels are always successful

38. Monopolistic competition was developed by
(a) Edward Chamberlin
(b) Cournot
(c) Joan Robinson only
(d) Paul Sweezy

39. Equilibrium of a firm requires
(a) MC = MR and MC cutting MR from below
(b) MR = 0
(c) AR = AC
(d) MC = AC

40. The key feature of monopolistic competition is
(a) product differentiation
(b) homogeneous products
(c) interdependence of few firms
(d) a single seller

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

41. The investment multiplier is

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

42. Which of the following is a stock concept?

(a) National income
(b) Consumption
(c) Investment
(d) Wealth

43. In a two-sector economy C = 100 + 0.8Y and investment I = 100. Equilibrium income is:

(a) 1,000
(b) 200
(c) 250
(d) 800

44. Imports are a ___ and exports are an ___ in the circular flow.

(a) leakage; injection
(b) leakage; leakage
(c) injection; injection
(d) injection; leakage

45. GDP at market prices is ₹2,500 crore, depreciation ₹150 crore, net indirect taxes ₹150 crore and net factor income from abroad ₹-20 crore. National income (NNP at factor cost) is:

(a) ₹2,200 crore
(b) ₹2,180 crore
(c) ₹2,330 crore
(d) ₹2,480 crore

46. GNP = GDP +

(a) subsidies
(b) depreciation
(c) net factor income from abroad
(d) net indirect taxes

47. National income in India is measured as

(a) GNP at market prices
(b) NNP at factor cost
(c) GDP at market prices
(d) NDP at market prices

48. If MPC = 0.75 and lump-sum taxes are raised by ₹100 crore, the change in national income is:

(a) −₹300 crore
(b) −₹400 crore
(c) ₹300 crore
(d) −₹100 crore

49. MPC + MPS =

(a) 1
(b) MPC × MPS
(c) 0
(d) APC

50. If MPC = 0.9 and investment increases by ₹500 crore, the increase in national income is:

(a) ₹450 crore
(b) ₹4,500 crore
(c) ₹5,000 crore
(d) ₹555.56 crore

51. GDP deflator is

(a) nominal GDP ÷ real GDP × 100
(b) real GDP ÷ nominal GDP × 100
(c) WPI ÷ CPI
(d) CPI × 100

52. Inflationary gap is the excess of

(a) exports over imports
(b) supply over demand
(c) savings over investment
(d) aggregate demand over aggregate supply at full employment

53. In the Keynesian cross, equilibrium income is where

(a) C = Y
(b) AD = AS (C + I = Y)
(c) S > I
(d) I = 0

54. Personal disposable income equals

(a) personal income + transfers
(b) GDP – depreciation
(c) national income – savings
(d) personal income – personal direct taxes – miscellaneous fees

55. Sale of second-hand goods is

(a) included in national income
(b) included at market value
(c) included as investment
(d) excluded from current national income

Chapter 6: Business Cycles (Q56–60)

56. Business cycles are

(a) confined to one sector
(b) perfectly regular
(c) limited to one country always
(d) periodic but irregular in length and intensity

57. A sustained fall in prices during contraction is called

(a) disinflation
(b) reflation
(c) deflation
(d) stagflation

58. Which is a coincident indicator?

(a) Stock prices
(b) Building permits
(c) Industrial production
(d) Unemployment duration

59. During depression,

(a) unemployment is high and there is excess capacity
(b) interest rates are high
(c) prices are rising fast
(d) investment is booming

60. The lowest point of a business cycle is called

(a) expansion
(b) peak
(c) trough
(d) boom

Chapter 7: Public Finance (Q61–70)

61. Tradable emission permits are a

(a) price ceiling
(b) tax on income
(c) subsidy for production
(d) market-based instrument to control pollution

62. A public good is

(a) non-rival and non-excludable
(b) rival and excludable
(c) rival and non-excludable
(d) non-rival and excludable

63. Education and vaccination generate

(a) positive externalities
(b) public bads
(c) no externalities
(d) negative externalities

64. GST in India is a

(a) direct tax
(b) tax on income
(c) destination-based consumption tax
(d) origin-based tax

65. Common-pool resources are

(a) rival and excludable
(b) rival but non-excludable
(c) non-rival but excludable
(d) non-rival and non-excludable

66. In the presence of a negative externality, the market produces

(a) zero output
(b) more than the socially optimal quantity
(c) the socially optimal quantity
(d) less than the socially optimal quantity

67. Adverse selection arises

(a) before a transaction, due to hidden information
(b) only in public goods
(c) from externalities
(d) after a transaction due to hidden action

68. Moral hazard refers to

(a) free-riding on public goods
(b) monopoly pricing
(c) a change in behaviour after a contract because one party is protected from risk
(d) hidden quality of goods before sale

69. Market failure occurs when

(a) government imposes taxes
(b) prices rise
(c) the market fails to allocate resources efficiently
(d) a firm makes losses

70. The allocation function of government refers to

(a) providing public goods and correcting market failures
(b) reducing inequality
(c) controlling inflation
(d) issuing currency

Chapter 8: Money Market (Q71–80)

71. The Cambridge cash-balance equation is

(a) MV = PT
(b) P = MV/k
(c) M = PY + V
(d) M = kPY

72. To control inflation, RBI would

(a) buy government securities
(b) reduce CRR
(c) reduce SLR
(d) raise the repo rate

73. An increase in the cash reserve ratio will

(a) reduce the money supply
(b) not affect money supply
(c) increase bank lending
(d) increase the money supply

74. The floor of the LAF corridor at present is the

(a) repo rate
(b) Standing Deposit Facility rate
(c) MSF rate
(d) bank rate

75. A bank receives a fresh deposit of ₹1,00,000. With a reserve ratio of 25%, the maximum total deposits the banking system can create are:

(a) ₹25,000
(b) ₹4,00,000
(c) ₹1,25,000
(d) ₹3,00,000

76. Reserve money (M0) is also called

(a) narrow money
(b) broad money
(c) high-powered money
(d) near money

77. The portfolio (risk-aversion) approach to speculative demand for money was given by

(a) James Tobin
(b) Baumol
(c) Fisher
(d) Marshall

78. If c = 0.25 and r = 0.15, the money multiplier is

(a) 6.67
(b) 4
(c) 2.5
(d) 3.125

79. If the currency–deposit ratio is 0.2 and the reserve–deposit ratio is 0.05, the money multiplier is:

(a) 4.8
(b) 0.21
(c) 4
(d) 20

80. Velocity of money refers to

(a) the average number of times a unit of money changes hands in a period
(b) growth rate of money supply
(c) interest rate
(d) the speed of printing currency

Chapter 9: International Trade (Q81–90)

81. Devaluation refers to

(a) rise in value
(b) an official reduction in the value of the currency under a fixed system
(c) market-driven fall in value
(d) change in interest rate

82. A direct quote of exchange rate expresses
(a) cross rate
(b) domestic currency per unit of foreign currency
(c) foreign currency per unit of domestic currency
(d) real rate

83. If the exchange rate changes from ₹83/$ to ₹86/$, the rupee has
(a) remained stable
(b) depreciated
(c) been revalued
(d) appreciated

84. Voluntary export restraint is
(a) an agreement by an exporting country to limit its exports
(b) a tax on imports
(c) a subsidy
(d) a free trade agreement

85. Mercantilists believed that a nation's wealth depends on
(a) free trade
(b) accumulation of gold and silver through export surplus
(c) factor endowments
(d) labour productivity

86. FPI is often called "hot money" because it
(a) is permanent
(b) is invested in hot regions
(c) is used for energy
(d) can move in and out quickly

87. Countervailing duty is imposed to offset
(a) exchange rate changes
(b) transport cost
(c) dumping only
(d) subsidies given by the exporting country

88. National treatment principle means
(a) imported goods are treated no less favourably than domestic goods once they enter the market
(b) exports are tax-free
(c) nationals get subsidies
(d) all countries get equal tariffs

89. GATS deals with
(a) investment
(b) trade in services
(c) intellectual property
(d) trade in goods

90. Import quota is a
(a) tax on imports
(b) duty on exports
(c) subsidy to exports
(d) quantitative limit on imports

Chapter 10: Indian Economy (Q91–100)

91. The JAM trinity refers to

(a) Jan Dhan, Aadhaar and Mobile
(b) Jobs, Agriculture and Manufacturing
(c) Japan, America and Malaysia
(d) Justice, Administration and Markets

92. The largest contributor to India's GVA is the

(a) services sector
(b) agriculture sector
(c) mining sector
(d) industry sector

93. The first phase of bank nationalisation took place in

(a) 1980
(b) 1969
(c) 1955
(d) 1991

94. MRTP Act 1969 was replaced by the

(a) Competition Act, 2002
(b) Companies Act 2013
(c) IBC 2016
(d) FEMA 1999

95. "Drain of wealth" theory was propounded by

(a) Dadabhai Naoroji
(b) Mahatma Gandhi
(c) Jawaharlal Nehru
(d) R.C. Dutt alone

96. The chairperson of NITI Aayog is the

(a) Finance Minister
(b) President
(c) RBI Governor
(d) Prime Minister

97. In the pre-independence period, the occupational structure of India showed

(a) predominance of services
(b) predominance of agriculture (about 70% of workforce)
(c) predominance of industry
(d) balanced distribution

98. GST was introduced in India from

(a) 1 January 2018
(b) 1 April 2017
(c) 8 November 2016
(d) 1 July 2017

99. Railways in colonial India were mainly developed to

(a) facilitate export of raw materials and import of British goods
(b) promote Indian industry
(c) support tourism
(d) reduce famines only

100. The New Economic Policy of 1991 is known as

(a) LPG – liberalisation, privatisation and globalisation
(b) import substitution
(c) green revolution
(d) nationalisation policy

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 1

Q	Ans	Explanation / working
1	(b)	It prescribes decisions (normative) and is practical (pragmatic).
2	(b)	Robbins' scarcity definition (1932).
3	(a)	Samuelson's definition adds growth and time.
4	(c)	Marshall's Principles of Economics (1890).
5	(a)	Market forces (invisible hand) solve the problems.
6	(d)	Market equilibrium is allocatively efficient.
7	(d)	Intersection gives contradictory satisfaction levels.
8	(b)	Both intercepts rise proportionately.
9	(d)	e_y = %ΔQ ÷ %ΔY = 6/10 = 0.6 → necessity (negative: inferior; 0–1: necessity; >1: luxury).
10	(a)	Tea and coffee are substitutes.
11	(a)	120 − 5P = 40 + 3P → 8P = 80 → P = 10; Q = 120 − 5×10 = 70.
12	(c)	Rightward supply shift.
13	(a)	Inverse price–quantity relationship, ceteris paribus.
14	(a)	Shift factors other than own price.
15	(d)	e_{xy} = 30/20 = 1.5; positive cross elasticity → substitutes.
16	(b)	Increasing then diminishing returns.
17	(b)	LAC envelopes the SACs; also called planning curve.
18	(b)	Sum of exponents decides returns to scale.
19	(c)	TP peaks where MP = 0.
20	(b)	Horizontal demand curve.
21	(b)	Long run: all factors variable.
22	(c)	TC = TFC + TVC → 360, 380, 430, 460. MC at 2 units = 20.
23	(d)	Irrelevant for future decisions.
24	(b)	a + b = 1.2 → increasing returns to scale.
25	(a)	Stage I under-uses the fixed factor; Stage III has negative MP.
26	(c)	Free entry and exit.
27	(b)	Profit = (AR − AC) × Q = (20 − 14) × 100 = 600.
28	(d)	Shut-down point marks its start.
29	(b)	MR = AR(1 − 1/e) = 20(1 − 1/4) = 15.
30	(d)	Explains price rigidity in oligopoly.
31	(c)	Game theory.
32	(c)	Profit per unit = AR − AC.
33	(b)	Supply cannot be changed.
34	(b)	Few sellers – each reacts to rivals.
35	(d)	MR has a vertical gap at the kink.
36	(d)	Long-run industry equilibrium.
37	(a)	Explains cartel instability.

Q	Ans	Explanation / working
38	(a)	Chamberlin (1933) – Theory of Monopolistic Competition.
39	(a)	Second-order condition: MC rising.
40	(a)	Close but not perfect substitutes.
41	(d)	k = 1/(1 − MPC).
42	(d)	Stock is at a point of time.
43	(a)	Y = (a + I)/(1 − b) = (100 + 100)/0.2 = 1000.
44	(a)	Exports bring income in.
45	(b)	NNP_FC = GDP_MP − depreciation + NFIA − NIT = 2,500 − 150 + (-20) − 150 = 2,180.
46	(c)	NFIA links domestic and national.
47	(b)	Traditional definition: NNP_FC.
48	(a)	Tax multiplier = −b/(1 − b) = −3; ΔY = -300.
49	(a)	Every extra rupee is consumed or saved.
50	(c)	k = 1/(1 − 0.9) = 10; ΔY = 10 × 500 = 5000.
51	(a)	Broadest price index.
52	(d)	Leads to rising prices.
53	(b)	Or S = I.
54	(d)	Spendable income.
55	(d)	Already counted when produced (only brokerage counts).
56	(d)	They vary in duration and amplitude.
57	(c)	Disinflation = slower rate of inflation.
58	(c)	Moves with the cycle.
59	(a)	Lowest economic activity.
60	(c)	Lower turning point.
61	(d)	Cap and trade.
62	(a)	Example: national defence.
63	(a)	MSB > MPB → under-provision.
64	(c)	Introduced 1 July 2017.
65	(b)	Fisheries, groundwater – "tragedy of the commons".
66	(b)	MSC > MPC.
67	(a)	Market for lemons (Akerlof).
68	(c)	E.g., insured person becomes careless.
69	(c)	Causes: market power, externalities, public goods, information failure.
70	(a)	Reallocating resources to social uses.
71	(d)	k = proportion of income held as money.
72	(d)	Contractionary (dear money) policy.
73	(a)	Banks have less to lend.
74	(b)	SDF introduced April 2022.
75	(b)	Total deposits = D × 1/r = 1,00,000 × 4 = 4,00,000 (credit created = 3,00,000).
76	(c)	Base of money creation.
77	(a)	Diversification between money and bonds.
78	(d)	(1.25)/(0.40).
79	(a)	m = (1 + c)/(c + r) = 1.2/0.25 = 4.8.
80	(a)	V = PT/M.
81	(b)	Depreciation is market-driven.
82	(b)	E.g., ₹86 per US$.

Q	Ans	Explanation / working
83	(b)	More rupees per dollar.
84	(a)	Non-tariff measure.
85	(b)	Zero-sum view of trade.
86	(d)	Volatile capital flows.
87	(d)	Neutralises export subsidy.
88	(a)	Applies after goods clear customs.
89	(b)	General Agreement on Trade in Services.
90	(d)	Non-tariff barrier.
91	(a)	Basis of direct benefit transfer.
92	(a)	Over half of GVA.
93	(b)	14 major banks.
94	(a)	CCI enforces it.
95	(a)	Poverty and Un-British Rule in India.
96	(d)	Vice-Chairperson is appointed by PM.
97	(b)	Stagnant structure.
98	(d)	101st Constitutional Amendment.
99	(a)	Commercial and administrative interests.
100	(a)	Introduced by Narasimha Rao–Manmohan Singh government.