Skillshort

Self-Study Preparation Pack

CA FOUNDATION

Paper 4: Business Economics

Chapter-wise Practice Questions with Answers

All 10 chapters · original Skillshort MCQs (separate from the two mocks) · numericals computed by program · key with explanation after each chapter

139 MCQs | Explanation for every answer | Target: 80% per chapter

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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.

How to practise

Attempt each chapter set at exam speed (about **70 seconds a question**) right after revising that chapter in file 01. Check with the key below the set. Below 70% → re-read the chapter and redo the set after two days. These questions do not repeat the mocks.

Chapter 1: Introduction to Business Economics

1. Adam Smith's definition of economics is known as the

(a) scarcity definition
(b) wealth definition
(c) welfare definition
(d) growth definition

2. An outward shift of the PPC shows

(a) inflation
(b) unemployment
(c) economic growth
(d) scarcity of resources increasing

3. Which is NOT a feature of a socialist economy?

(a) Consumer sovereignty
(b) Central planning
(c) Absence of profit motive as the main driver
(d) Collective ownership of resources

4. Production possibility curve is concave to the origin because of

(a) constant opportunity cost
(b) unemployment of resources
(c) increasing opportunity cost
(d) decreasing opportunity cost

5. Micro-economics deals with

(a) national income
(b) individual units such as a consumer or a firm
(c) general price level
(d) aggregate employment

6. Consumer sovereignty is a feature of

(a) a socialist economy
(b) a command economy
(c) a capitalist economy
(d) a traditional economy

7. Opportunity cost of a choice is

(a) the total cost of all alternatives
(b) the money cost of the good
(c) the value of the next best alternative forgone
(d) the cost of production

8. A point inside the production possibility curve indicates

(a) unemployment or inefficient use of resources
(b) economic growth
(c) an unattainable combination
(d) full employment

9. The central problem of every economy arises because

(a) resources are unlimited
(b) resources are scarce relative to unlimited wants
(c) money is scarce
(d) wants are limited

10. The problem "for whom to produce" relates to

(a) allocation of resources among goods
(b) choice of technique
(c) growth of the economy
(d) distribution of the national product

Answer key – Chapter 1

Q	Ans	Explanation / working
1	(b)	Wealth of Nations, 1776 – economics as a science of wealth.
2	(c)	Better technology or more resources shift the PPC outward.
3	(a)	Consumer sovereignty belongs to the capitalist system.
4	(c)	Resources are not equally suited to all goods → increasing marginal opportunity cost.
5	(b)	Micro = individual units; macro = aggregates.
6	(c)	In a market economy consumers' choices decide production.
7	(c)	Opportunity cost = next best alternative sacrificed.
8	(a)	Inside the PPC = under-utilisation.
9	(b)	Scarcity of resources with alternative uses against unlimited wants creates the problem of choice.
10	(d)	For whom = how output is distributed among people.

Chapter 2: Theory of Demand and Supply

1. A supply curve passing through the origin has elasticity of supply

(a) less than one
(b) zero
(c) greater than one
(d) equal to one

2. Cross elasticity of demand between two complementary goods is

(a) positive
(b) infinite
(c) zero
(d) negative

3. If the demand for a good is perfectly inelastic, the demand curve is

(a) horizontal
(b) downward sloping straight line
(c) a rectangular hyperbola
(d) vertical

4. Demand for necessities is generally

(a) elastic
(b) unitary elastic
(c) inelastic
(d) perfectly elastic

5. A rectangular hyperbola demand curve has price elasticity equal to

(a) infinity
(b) one at every point
(c) zero
(d) greater than one

6. Income elasticity of demand for an inferior good is

(a) between zero and one
(b) zero
(c) positive and greater than one
(d) negative

7. Marginal utility is negative when

(a) marginal utility is constant
(b) total utility is falling
(c) total utility is rising
(d) total utility is maximum

8. An indifference curve shows combinations of two goods that give

(a) maximum output
(b) equal satisfaction to the consumer
(c) equal quantities
(d) equal expenditure

9. If a fall in price leads to no change in total expenditure, demand is

(a) unitary elastic
(b) elastic
(c) perfectly inelastic
(d) inelastic

10. Consumer's equilibrium in indifference curve analysis occurs where

(a) the budget line cuts the indifference curve
(b) total utility is maximum regardless of price
(c) the budget line is tangent to the highest attainable indifference curve
(d) MU of money is zero

11. Goods bought for prestige, whose demand rises with price, are called

(a) complementary goods
(b) Veblen goods
(c) inferior goods
(d) Giffen goods

12. Which factor does NOT shift the demand curve of a good?

(a) Price of the good itself
(b) Tastes and preferences
(c) Consumer's income
(d) Prices of related goods

13. The law of equi-marginal utility says the consumer is in equilibrium when

(a) MUx = MUy
(b) MUx/Px = MUy/Py = MU of money
(c) TUx = TUy
(d) Px = Py

14. When both demand and supply increase by the same amount, equilibrium

(a) price falls and quantity falls
(b) both fall
(c) price rises and quantity unchanged
(d) quantity rises and price is unchanged

15. When the price of a good falls from ₹25 to ₹22.5, its quantity demanded rises from 100 to 114 units. Price elasticity of demand (proportionate method) is:

(a) 0.75
(b) 0.67
(c) 3
(d) 1.5

16. A 25% rise in the price of good Y changes the quantity demanded of good X by 30%. Cross elasticity and relationship are:

(a) 0.83; unrelated goods
(b) 1.2; complements
(c) -1.2; substitutes
(d) 1.2; substitutes

17. A consumer's income rises by 5% and the quantity demanded of a good changes by 15%. Income elasticity and the nature of the good are:

(a) 3; necessity
(b) 0.33; luxury
(c) 3; luxury
(d) -3; inferior good

18. On a straight-line demand curve, at the mid-point price elasticity is

(a) equal to 1
(b) infinite
(c) less than 1
(d) zero

19. Price falls from ₹10 to ₹8 and quantity demanded rises from 200 to 250 units. By the total outlay method, demand is:

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

20. Indifference curves are convex to the origin because of

(a) the law of demand
(b) increasing marginal utility
(c) constant MRS
(d) diminishing marginal rate of substitution

Answer key – Chapter 2

Q	Ans	Explanation / working
1	(d)	Any straight-line supply curve from the origin has es = 1.
2	(d)	Price of one rises → demand for other falls.
3	(d)	e = 0 – same quantity at all prices.
4	(c)	Few substitutes and essential nature make demand inelastic.
5	(b)	Total outlay stays constant → unitary elasticity.
6	(d)	Demand falls as income rises.
7	(b)	TU falls once MU becomes negative.
8	(b)	Iso-utility curve.
9	(a)	Total outlay method.
10	(c)	MRSxy = Px/Py with convexity.
11	(b)	Conspicuous consumption – Veblen effect.
12	(a)	Own price causes movement, not a shift.
13	(b)	Gossen's second law.
14	(d)	Equal shifts leave price unchanged.
15	(d)	e_p = (ΔQ/Q) ÷ (ΔP/P) = (14/100) ÷ (2.5/25) = 0.15 ÷ 0.1 = 1.5.
16	(d)	e_{xy} = 30/25 = 1.2; positive cross elasticity → substitutes.
17	(c)	e_y = %ΔQ ÷ %ΔY = 15/5 = 3 → luxury (negative: inferior; 0–1: necessity; >1: luxury).
18	(a)	Lower segment = upper segment → e = 1.
19	(d)	Outlay before = 2,000; after = 2,000. Outlay unchanged with a price fall → unitary elastic (e = 1).
20	(d)	MRS of X for Y falls as more X is consumed.

Chapter 3: Theory of Production and Cost

1. Total product for 1–4 workers is: 1 → 15, 2 → 27, 3 → 37, 4 → 43. The MP of the 4th worker is:

(a) 10.75
(b) 37
(c) 6
(d) 43

2. Total revenue is maximum when

(a) MR = 0
(b) AR = 0
(c) MR = AR
(d) MR is maximum

3. Normal profit is

(a) total revenue
(b) supernormal profit
(c) zero accounting profit
(d) the minimum profit needed to keep the firm in the industry

4. Average fixed cost curve is a

(a) vertical line
(b) U-shaped curve
(c) horizontal line
(d) rectangular hyperbola

5. Economic profit equals

(a) total revenue – fixed cost
(b) price – marginal cost
(c) total revenue – (explicit + implicit costs)
(d) total revenue – explicit costs

6. When AP is at its maximum,

(a) MP > AP
(b) MP < AP
(c) MP = AP
(d) MP = 0

7. A firm's total fixed cost is ₹100 and total variable cost is – 1 unit: ₹50 · 2 units: ₹90 · 3 units: ₹110 · 4 units: ₹130. The ATC of producing 2 units is:

(a) ₹95
(b) ₹50
(c) ₹45
(d) ₹40

8. The marginal cost curve cuts the AVC and ATC curves at their

(a) minimum points
(b) mid-points
(c) origin
(d) maximum points

9. For the production function Q = 10 L^0.3 K^0.5, the firm experiences:

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

10. A firm's total fixed cost is ₹200 and total variable cost is – 1 unit: ₹60 · 2 units: ₹90 · 3 units: ₹130 · 4 units: ₹150. The AVC of producing 3 units is:

(a) ₹66.67
(b) ₹40
(c) ₹110
(d) ₹43.33

11. In Stage II of the law of variable proportions

(a) TP is falling
(b) TP rises at a diminishing rate and MP is positive but falling
(c) AP is rising
(d) MP is negative

12. An isoquant shows

(a) combinations of two goods giving equal satisfaction
(b) different combinations of two inputs producing the same output
(c) output at different prices
(d) combinations with the same cost

Answer key – Chapter 3

Q	Ans	Explanation / working
1	(c)	MP = $TP_n - TP_{n-1}$; AP = TP/n. Here MP = 6.
2	(a)	At unitary elasticity MR = 0.
3	(d)	It is included in the economic cost.
4	(d)	AFC × Q = TFC (constant).
5	(c)	Accounting profit ignores implicit cost.
6	(c)	MP cuts AP from above at AP's peak.
7	(a)	TC = TFC + TVC → 150, 190, 210, 230. ATC at 2 units = 95.
8	(a)	MC passes through the minimum of AVC and ATC.
9	(a)	a + b = 0.8 → decreasing returns to scale.
10	(d)	TC = TFC + TVC → 260, 290, 330, 350. AVC at 3 units = 43.33.
11	(b)	Rational stage of production.
12	(b)	Equal-product curve.

Chapter 4: Price Determination in Different Markets

1. In long-run equilibrium under monopolistic competition, the demand (AR) curve is

(a) below LAC
(b) above LAC
(c) tangent at minimum LAC
(d) tangent to the LAC curve on its falling portion

2. In the market period, price is determined mainly by

(a) demand, as supply is fixed
(b) supply only
(c) government
(d) cost of production

3. If average revenue is ₹10 and price elasticity of demand is 4, marginal revenue is:

(a) ₹2.5
(b) ₹40
(c) ₹12.5
(d) ₹7.5

4. Nash equilibrium is a situation where

(a) no player can gain by changing strategy unilaterally
(b) players cooperate fully
(c) one player wins everything
(d) all players get maximum possible payoffs

5. If average revenue is ₹40 and price elasticity of demand is 1.5, marginal revenue is:

(a) ₹13.33
(b) ₹26.67
(c) ₹60
(d) ₹66.67

6. A firm sells 100 units at ₹30 each; average cost at that output is ₹24. Its total profit (loss) is:

(a) ₹600
(b) ₹3,000
(c) ₹2,400
(d) −₹600

7. A monopolist sells at ₹50 and its marginal cost is ₹25. Lerner's index of monopoly power is:

(a) 0.5
(b) 2
(c) 1
(d) 0.6

8. The demand curve facing a perfectly competitive firm is

(a) downward sloping
(b) kinked
(c) perfectly inelastic
(d) perfectly elastic (horizontal)

9. First-degree price discrimination means

(a) charging by blocks of quantity
(b) charging different prices in different markets
(c) uniform pricing
(d) charging each consumer the maximum he is willing to pay

10. A duopoly is a market with

(a) two sellers
(b) many sellers
(c) two buyers
(d) one seller

11. For a linear demand curve, the MR curve has

(a) zero slope
(b) twice the slope of the AR curve
(c) half the slope
(d) the same slope

12. In perfect competition the firm is a

(a) price maker
(b) price discriminator
(c) price leader
(d) price taker

13. A monopolist's MR curve lies

(a) below the AR curve
(b) above the AR curve
(c) on the AR curve
(d) parallel to the x-axis

14. A competitive firm will shut down in the short run if price falls below

(a) marginal cost
(b) minimum average total cost
(c) average fixed cost
(d) minimum average variable cost

Answer key – Chapter 4

Q	Ans	Explanation / working
1	(d)	Normal profit with excess capacity.
2	(a)	Very short period – vertical supply.
3	(d)	MR = AR(1 − 1/e) = 10(1 − 1/4) = 7.5.
4	(a)	Each strategy is a best response.
5	(a)	MR = AR(1 − 1/e) = 40(1 − 1/1.5) = 13.33.
6	(a)	Profit = (AR − AC) × Q = (30 − 24) × 100 = 600.
7	(a)	L = (P − MC)/P = (50 − 25)/50 = 0.5.
8	(d)	P = AR = MR.
9	(d)	Perfect discrimination – takes all consumer surplus.
10	(a)	Special case of oligopoly.
11	(b)	MR bisects the horizontal distance.
12	(d)	Many sellers, homogeneous product.
13	(a)	For a downward-sloping AR, MR < AR.
14	(d)	It must at least cover variable cost.

Chapter 5: Determination of National Income

1. In a four-sector model, the multiplier with marginal propensity to import m is

(a) 1/(1 – b + m)
(b) 1/(1 – b)
(c) 1/m
(d) 1/(b + m)

2. Under the expenditure method GDP_MP equals

(a) wages + rent + interest + profit
(b) C + I + G + (X – M)
(c) C + S + T
(d) output – input

3. If MPC = 0.5 and investment increases by ₹1,000 crore, the increase in national income is:

(a) ₹1,000 crore
(b) ₹₹2,000 crore (1)
(c) ₹2,000 crore
(d) ₹500 crore

4. NDP = GDP –

(a) net indirect taxes
(b) NFIA
(c) subsidies
(d) depreciation (consumption of fixed capital)

5. National income statistics in India are compiled by

(a) RBI
(b) NITI Aayog
(c) Finance Commission
(d) the National Statistics Office (NSO)

6. According to Keynes, the level of employment is determined by

(a) supply of labour
(b) effective demand
(c) money wage rate
(d) savings

7. Mixed income of self-employed is part of national income in the

(a) value-added method only
(b) expenditure method
(c) income method
(d) none

8. In a two-sector economy C = 200 + 0.6Y and investment I = 300. Equilibrium income is:

(a) 1,250
(b) 750
(c) 500
(d) 833.33

9. If MPC = 0.9 and lump-sum taxes are raised by ₹50 crore, the change in national income is:

(a) −₹500 crore
(b) −₹450 crore
(c) ₹450 crore
(d) −₹50 crore

10. Paradox of thrift implies that

(a) an increase in desire to save may not increase total savings
(b) thrift always increases income
(c) savings always increase investment
(d) higher MPC reduces income

11. Say's law states that

(a) money is neutral
(b) supply creates its own demand
(c) demand creates its own supply
(d) savings equal investment always

12. The balanced-budget multiplier is

(a) 1/MPS
(b) MPC
(c) 0
(d) 1

13. Government increases its spending by ₹100 crore and finances it fully by an equal lump-sum tax. With MPC = 0.8, national income rises by:

(a) ₹400 crore
(b) ₹0
(c) ₹100 crore
(d) ₹500 crore

14. Factor cost = market price –

(a) depreciation
(b) NFIA
(c) transfer payments
(d) net indirect taxes (indirect taxes – subsidies)

15. APC falls as income rises in the short run because

(a) consumption is autonomous only
(b) MPC is less than APC
(c) savings fall
(d) MPC is greater than APC

16. Which is NOT included in national income?

(a) Profit
(b) Wages and salaries
(c) Transfer payments such as old-age pension
(d) Rent

Answer key – Chapter 5

Q	Ans	Explanation / working
1	(a)	Imports are an additional leakage.
2	(b)	Final expenditure.
3	(c)	k = 1/(1 − 0.5) = 2; ΔY = 2 × 1,000 = 2000.
4	(d)	Net = gross − depreciation.
5	(d)	Under MoSPI (earlier CSO).
6	(b)	Effective demand = AD at equilibrium with AS.
7	(c)	Income method: compensation of employees + operating surplus + mixed income.
8	(a)	Y = (a + I)/(1 − b) = (200 + 300)/0.4 = 1250.
9	(b)	Tax multiplier = −b/(1 − b) = −9; ΔY = -450.
10	(a)	Higher saving cuts AD and income.
11	(b)	Classical full-employment view.
12	(d)	Equal rise in G and lump-sum T raises Y by the same amount.
13	(c)	Balanced-budget multiplier = 1 → ΔY = ΔG = 100. (Spending multiplier 5, tax multiplier −4.)
14	(d)	NIT wedge.
15	(b)	Keynes' psychological law.
16	(c)	Transfers are not payments for current production.

Chapter 6: Business Cycles

1. The global recession of 2008 began with
(a) an oil-price fall
(b) the Great Depression
(c) COVID-19
(d) the US sub-prime housing and financial crisis

2. Keynes attributed business cycles mainly to
(a) sunspots
(b) bank credit alone
(c) fluctuations in aggregate effective demand
(d) innovations

3. Which sequence of phases is correct?
(a) Contraction – expansion – peak – trough
(b) Peak – expansion – trough – contraction
(c) Expansion – peak – contraction – trough
(d) Trough – peak – expansion – contraction

4. The Great Depression started in
(a) 1945
(b) 1929
(c) 1914
(d) 1971

5. The highest point of a business cycle is called
(a) peak
(b) recovery
(c) trough
(d) depression

6. Schumpeter's theory of business cycles is based on
(a) innovations
(b) psychology
(c) over-saving
(d) bank credit

7. Hawtrey's theory of trade cycles is a
(a) innovation theory
(b) psychological theory
(c) monetary theory based on bank credit
(d) sunspot theory

8. Which industries are most affected by business cycles?
(a) Essential medicines
(b) Perishable food items
(c) Capital goods and durable consumer goods industries
(d) Public utilities

9. The interaction of multiplier and accelerator as a cause of cycles was explained by
(a) Samuelson and Hicks
(b) Hawtrey
(c) Jevons
(d) Hayek

10. The sunspot theory of trade cycles is associated with
(a) Schumpeter
(b) Pigou
(c) W.S. Jevons
(d) Keynes

11. During the expansion phase,

(a) investment falls
(b) unemployment rises
(c) output, employment, prices and profits rise
(d) demand falls

12. An external cause of business cycles is

(a) variations in consumer demand
(b) bank credit expansion
(c) changes in investment
(d) war or natural calamity

13. Pigou explained trade cycles through

(a) psychological factors – waves of optimism and pessimism
(b) innovations
(c) sunspots
(d) monetary factors only

Answer key – Chapter 6

Q	Ans	Explanation / working
1	(d)	Collapse of Lehman Brothers, September 2008.
2	(c)	Especially volatile investment (MEC).
3	(c)	Standard order.
4	(b)	Wall Street crash, October 1929.
5	(a)	Upper turning point.
6	(a)	Clusters of innovation cause booms.
7	(c)	Credit expansion/contraction drives cycles.
8	(c)	Postponable purchases fluctuate more.
9	(a)	Multiplier–accelerator model.
10	(c)	Sunspots → weather → agriculture.
11	(c)	Cumulative upswing.
12	(d)	External = outside the economic system.
13	(a)	Psychological theory.

Chapter 7: Public Finance

1. A Pigouvian tax is a tax equal to

(a) the marginal external cost at the optimal output
(b) average cost
(c) the firm's total profit
(d) the price of the product

2. The free-rider problem is associated with

(a) public goods
(b) Giffen goods
(c) private goods
(d) inferior goods

3. Using fiscal policy to control inflation and unemployment is the

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

4. Pollution from a factory is an example of
(a) merit good
(b) positive consumption externality
(c) negative production externality
(d) public good

5. A club good (e.g., a cable TV service) is
(a) rival and non-excludable
(b) non-rival and non-excludable
(c) rival and excludable
(d) non-rival but excludable

6. Primary deficit equals
(a) total expenditure − revenue receipts
(b) fiscal deficit + interest
(c) revenue deficit − interest
(d) fiscal deficit − interest payments

7. Cigarettes and alcohol are examples of
(a) Giffen goods
(b) public goods
(c) demerit goods
(d) merit goods

8. A tax whose rate rises as income rises is
(a) degressive
(b) progressive
(c) regressive
(d) proportional

9. A price ceiling set below the equilibrium price leads to
(a) no effect
(b) shortage
(c) surplus
(d) lower demand

10. The Competition Act, 2002 is enforced by
(a) SEBI
(b) NITI Aayog
(c) the Competition Commission of India
(d) RBI

11. The three fiscal functions of government were classified by
(a) Adam Smith
(b) Keynes
(c) Richard Musgrave
(d) Pigou

Answer key – Chapter 7

Q	Ans	Explanation / working
1	(a)	Internalises the externality.
2	(a)	People consume without paying.
3	(d)	Macroeconomic stability.
4	(c)	Third parties bear the cost.
5	(d)	Excludable through subscription.
6	(d)	Shows current borrowing excluding past interest.
7	(c)	Over-consumed; taxed or regulated.
8	(b)	Promotes equity.
9	(b)	Qd > Qs; black markets may develop.
10	(c)	Correcting market power.
11	(c)	Allocation, distribution, stabilisation.

Chapter 8: Money Market

1. The Reserve Bank of India was established in

(a) 1947
(b) 1949
(c) 1969
(d) 1935

2. Transactions and precautionary demand for money mainly depend on

(a) the level of income
(b) the rate of interest
(c) bond prices
(d) exchange rate

3. A bank receives a fresh deposit of ₹50,000. With a reserve ratio of 10%, the maximum total deposits the banking system can create are:

(a) ₹4,50,000
(b) ₹5,00,000
(c) ₹55,000
(d) ₹5,000

4. Using Fisher's equation, if M = ₹1,000 crore, V = 4 and T = 1,000 units, the price level is:

(a) ₹4
(b) ₹8
(c) ₹0.25
(d) ₹4.8

5. If the currency–deposit ratio is 0.5 and the reserve–deposit ratio is 0.25, the money multiplier is:

(a) 1.33
(b) 4
(c) 2
(d) 0.5

6. M1 in India consists of

(a) currency only
(b) M1 + time deposits
(c) currency with the public + demand deposits with banks + other deposits with RBI
(d) reserve money

7. Which is NOT a function of money?

(a) Measure of value
(b) Creation of goods
(c) Medium of exchange
(d) Store of value

8. If the reserve ratio is 10% (no currency drain), the simple credit multiplier is

(a) 100
(b) 0.1
(c) 10
(d) 1

9. The Monetary Policy Committee in India has

(a) six members
(b) seven members
(c) four members
(d) five members

10. The Fisher equation of exchange is

(a) $MV = PY/k$
(b) $M = kPY$
(c) $M = PT/V^2$
(d) $MV = PT$

11. Selective credit controls are

(a) fiscal measures
(b) exchange controls
(c) qualitative instruments directing credit to or away from specific sectors
(d) quantitative tools like CRR

12. Liquidity trap is a situation where
(a) demand for money is zero
(b) interest rate is very high
(c) demand for money becomes perfectly elastic at a very low interest rate
(d) money supply is fixed

13. According to Keynes, the speculative demand for money is
(a) directly related to interest
(b) directly related to income
(c) independent of interest
(d) inversely related to the rate of interest

14. The policy rate of RBI at which it lends to banks overnight against government securities is the
(a) repo rate
(b) reverse repo rate
(c) SLR
(d) bank rate

15. A bank receives a fresh deposit of ₹50,000. With a reserve ratio of 5%, the maximum total deposits the banking system can create are:
(a) ₹2,500
(b) ₹52,500
(c) ₹10,00,000
(d) ₹9,50,000

16. Cryptocurrencies such as Bitcoin are
(a) issued by RBI
(b) private digital tokens that are not legal tender in India
(c) the same as CBDC
(d) backed by gold

Answer key – Chapter 8

Q	Ans	Explanation / working
1	(d)	Nationalised on 1 January 1949.
2	(a)	Keynes' liquidity preference.
3	(b)	Total deposits = D × 1/r = 50,000 × 10 = 5,00,000 (credit created = 4,50,000).
4	(a)	P = MV/T = 1,000×4/1,000 = 4.
5	(c)	m = (1 + c)/(c + r) = 1.5/0.75 = 2.
6	(c)	Narrow money.
7	(b)	Primary: medium of exchange, measure of value.
8	(c)	1/r.
9	(a)	Three RBI + three external; Governor has casting vote.
10	(d)	Transaction version of quantity theory.
11	(c)	Margin requirements, moral suasion.
12	(c)	Monetary policy becomes ineffective.
13	(d)	Bond prices and interest move inversely.
14	(a)	Key policy rate under LAF.
15	(c)	Total deposits = D × 1/r = 50,000 × 20 = 10,00,000 (credit created = 9,50,000).
16	(b)	CBDC (e₹) is RBI-issued legal tender.

Chapter 9: International Trade

1. The purchasing power parity theory states that exchange rates adjust to reflect
(a) interest rate differences only
(b) trade balances only
(c) government decisions
(d) relative price levels of the two countries

2. India follows a
(a) fixed exchange rate
(b) currency board
(c) managed floating exchange rate system
(d) gold standard

3. Sanitary and phytosanitary measures relate to
(a) intellectual property
(b) food safety and animal and plant health
(c) tariff rates
(d) exchange rates

4. The headquarters of the WTO is in
(a) Paris
(b) Geneva
(c) Washington DC
(d) New York

5. An ad valorem tariff is levied as
(a) a subsidy
(b) a fixed amount per unit
(c) a percentage of the value of the imported good
(d) a quota

6. The Heckscher–Ohlin theory explains trade on the basis of
(a) economies of scale
(b) differences in factor endowments
(c) differences in labour productivity only
(d) consumer tastes

7. TRIPS agreement of WTO deals with
(a) trade in services
(b) intellectual property rights
(c) investment measures
(d) agriculture

8. Depreciation of the domestic currency makes
(a) exports dearer and imports cheaper
(b) exports cheaper and imports dearer
(c) both cheaper
(d) both dearer

9. The theory of absolute advantage was given by
(a) David Ricardo
(b) Adam Smith
(c) Heckscher
(d) Krugman

10. The highest decision-making body of the WTO is the
(a) Secretariat
(b) Dispute Settlement Body
(c) General Council
(d) Ministerial Conference

11. Green-field investment means

(a) acquiring an existing firm
(b) portfolio investment
(c) purchase of bonds
(d) setting up a new facility from scratch in the host country

12. The balance of payments current account includes

(a) change in reserves only
(b) external commercial borrowings
(c) trade in goods and services, primary income and transfers
(d) FDI

13. Investment in equity of 10% or more of a listed Indian company by a foreign investor is treated as

(a) NRI deposit
(b) FDI
(c) FPI
(d) ECB

14. Leontief paradox refers to the finding that

(a) tariffs increase trade
(b) the USA exported labour-intensive goods despite being capital-abundant
(c) India exported capital-intensive goods
(d) trade reduces welfare

Answer key – Chapter 9

Q	Ans	Explanation / working
1	(d)	Gustav Cassel.
2	(c)	RBI intervenes to curb volatility.
3	(b)	Non-tariff measures.
4	(b)	Switzerland.
5	(c)	Specific tariff = per unit.
6	(b)	Countries export goods using their abundant factor intensively.
7	(b)	Trade-Related aspects of Intellectual Property Rights.
8	(b)	Improves trade balance (usually).
9	(b)	Wealth of Nations (1776).
10	(d)	Meets at least every two years.
11	(d)	Brown-field = merger/acquisition.
12	(c)	Capital/financial account records investment flows.
13	(b)	Indian threshold.
14	(b)	Contradicted H-O theory.

Chapter 10: Indian Economy

1. The Make in India initiative was launched in

(a) 2020
(b) 2010
(c) 2014
(d) 2017

2. The Second Five Year Plan was based on the

(a) Harrod–Domar model
(b) Gadgil formula
(c) Mahalanobis model
(d) Rao–Manmohan model

3. The Permanent Settlement (zamindari system) was introduced in 1793 by

(a) Lord Curzon
(b) Lord Wellesley
(c) Lord Cornwallis
(d) Lord Dalhousie

4. The Insolvency and Bankruptcy Code was enacted in

(a) 2013
(b) 2008
(c) 2019
(d) 2016

5. MSMEs in India are classified (from 2020) on the basis of

(a) turnover only
(b) number of employees only
(c) investment in plant and machinery/equipment and annual turnover
(d) investment only

6. The Industrial Policy Resolution 1956 classified industries into

(a) four categories
(b) five sectors
(c) two lists
(d) three schedules (A, B, C)

7. The Planning Commission was replaced by NITI Aayog on

(a) 1 January 2017
(b) 1 January 2015
(c) 15 August 2014
(d) 1 April 2014

8. Which is NOT one of the components of LPG reforms?

(a) Privatisation
(b) Reduction of import tariffs
(c) Delicensing of industries
(d) Nationalisation of banks

9. India's First Five Year Plan (1951–56) gave priority to

(a) exports
(b) heavy industry
(c) agriculture
(d) services

10. De-industrialisation during British rule refers to

(a) the Green Revolution
(b) growth of modern industry
(c) increase in exports of finished goods
(d) the decline of Indian handicrafts and traditional industries

11. Land revenue system in which the cultivator paid revenue directly to the State is the

(a) zamindari system
(b) ryotwari system
(c) mahalwari system
(d) jagirdari system

12. The "Hindu rate of growth" refers to

(a) growth based on religion
(b) population growth
(c) the low growth rate of about 3.5% before the 1980s
(d) high growth after 1991

13. One of the immediate causes of the 1991 crisis was

(a) high exports
(b) low fiscal deficit
(c) excess food production
(d) a severe balance of payments crisis with very low foreign exchange reserves

Answer key – Chapter 10

Q	Ans	Explanation / working
1	(c)	To boost manufacturing.
2	(c)	Emphasis on heavy industries.
3	(c)	In Bengal.
4	(d)	Time-bound resolution of insolvency.
5	(c)	Composite criteria.
6	(d)	Schedule A reserved for the State.
7	(b)	National Institution for Transforming India.
8	(d)	Nationalisation is the opposite.
9	(c)	Based on Harrod–Domar model.
10	(d)	Due to cheap machine-made British goods.
11	(b)	Mainly Madras and Bombay presidencies.
12	(c)	Term coined by Raj Krishna.
13	(d)	Reserves were enough for only about two weeks of imports.