Skillshort

Self-Study Preparation Pack

CMA FOUNDATION

Paper 4: Fundamentals of Business Economics and Management (FBEM)

# Mock Test 3 – 50 MCQs with Answer Key & Explanations

Exam pattern: 50 MCQs · 2 marks each · 1 hour · no negative marking · original Skillshort questions in the ICMAI module weightage

Module 1: 8 Qs · Module 2: 10 · Module 3: 10 · Module 4: 7 · Module 5: 15

Answer key with explanations at the end

## Contents


| | |
|---|---|
| Instructions | 2 |
| Section A – Fundamentals of Business Economics (Q1–35) | 2 |
| Section B – Fundamentals of Management (Q36–50) | 5 |
| Answer Key with Explanations | 7 |


## 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 50 questions are compulsory; each carries **2 marks**. There is **no negative marking**, so attempt every question. Time: **1 hour** (in the exam Papers 3 and 4 share one 2-hour session VERIFY) – Paper 4 is mostly theory, so aim for 40 minutes and give the rest to Paper 3. Score guide: 80+ excellent · 60–78 safe · 40–58 borderline.

## Section A – Fundamentals of Business Economics (Q1–35)

**1.** Demand Qd = 150 − 2P and supply Qs = 10 + 3P. Equilibrium price and quantity are:

(a) P = 28, Q = 104
(b) P = 94, Q = 28
(c) P = 30, Q = 90
(d) P = 28, Q = 94

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

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

**3.** On a straight-line demand curve, a point divides the curve so that the lower segment is 3 cm and the upper segment is 1 cm. Point elasticity at that point is:

(a) 4
(b) 0.33
(c) 3
(d) 0.75

**4.** Consumer surplus is the difference between

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

**5.** Which of the following is an internal economy of scale?

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

**6.** Cross elasticity of demand between two complementary goods is

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

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

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

**8.** Which one is a positive statement?

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

**9.** A monopolist sells at ₹100 and its marginal cost is ₹80. Lerner's index of monopoly power is:

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

**10.** A duopoly is a market with

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

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

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

**12.** A dominant strategy is one that

(a) is never chosen
(b) depends on the rival's choice
(c) is best for a player whatever the rival does
(d) gives equal payoffs

**13.** The kinked demand curve model was developed by

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

**14.** The prisoners' dilemma shows that

(a) cartels are always successful
(b) individually rational choices can lead to an outcome worse for both
(c) price wars never happen
(d) cooperation is always stable

**15.** The demand curve facing a perfectly competitive firm is

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

**16.** A natural monopoly arises when

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

**17.** If average revenue is ₹30 and price elasticity of demand is 3, marginal revenue is:

(a) ₹10 (b) ₹40
(c) ₹90 (d) ₹20

**18.** Nash equilibrium is a situation where

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

**19.** Treasury bills in India are issued for

(a) 1, 3 and 5 years (b) 10, 20 and 30 years
(c) 7, 14 and 21 days (d) 91, 182 and 364 days

**20.** Functions of money such as being the basis of credit and distribution of national income are called its

(a) contingent functions
(b) secondary functions
(c) static functions
(d) primary functions

**21.** Using Fisher's equation, if M = ₹2,000 crore, V = 6 and T = 2,000 units, the price level is:

(a) ₹7.2
(b) ₹12
(c) ₹0.17
(d) ₹6

**22.** The bank that acts as banker to the government and lender of last resort is the

(a) central bank
(b) co-operative bank
(c) regional rural bank
(d) commercial bank

**23.** Collecting cheques and paying insurance premiums on behalf of customers are ___ functions of a bank.

(a) agency
(b) central banking
(c) contingent
(d) primary

**24.** The first development financial institution set up in India (1948) was

(a) SIDBI
(b) IFCI
(c) ICICI
(d) IDBI

**25.** The Fisher equation of exchange is

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

**26.** The money market deals in funds for a period of

(a) exactly ten years
(b) up to one year
(c) an unlimited period
(d) more than five years

**27.** India's central bank digital currency is called

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

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

(a) $1/(c + r)$
(b) $1/r \times c$
(c) $(c + r)/(1 + c)$
(d) $(1 + c)/(c + r)$

**29.** Interest rates, inflation and exchange rates are ___ factors in PESTEL.

(a) political
(b) legal
(c) social
(d) economic

**30.** The COVID-19 pandemic is a typical example of

(a) stability
(b) monopoly power
(c) certainty
(d) unprecedentedness

**31.** A firm that outsources the manufacture of its components becomes dependent on the ___ part of its environment.

(a) competitor
(b) supplier
(c) legal
(d) demographic

**32.** In VUCAFU, the last "U" stands for

(a) Utility
(b) Unprecedentedness
(c) Uniformity
(d) Unemployment

**33.** A situation in which many interconnected factors affect a decision reflects

(a) stability
(b) complexity
(c) volatility
(d) ambiguity

**34.** The micro environment is also called the

(a) global environment
(b) task or operating environment
(c) general environment
(d) remote environment

**35.** Consumer protection and competition laws are ___ factors in PESTEL.

(a) economic
(b) social
(c) technological
(d) legal

## Section B – Fundamentals of Management (Q36–50)

**36.** The first step in the control process is

(a) measuring actual performance
(b) setting standards of performance
(c) comparing performance with standards
(d) taking corrective action

**37.** Planning is called the primary function of management because

(a) it needs no forecasting
(b) all other functions follow from it
(c) it is done after controlling
(d) it is done only by workers

**38.** Theory X and Theory Y were given by

(a) Frederick Herzberg
(b) Abraham Maslow
(c) Victor Vroom
(d) Douglas McGregor

**39.** Management as "a distinct process consisting of planning, organising, actuating and controlling" was defined by

(a) Mary Parker Follett
(b) George R. Terry
(c) Chester Barnard
(d) F.W. Taylor

**40.** Communication that flows from subordinates to superiors is

(a) downward communication
(b) grapevine only
(c) upward communication
(d) horizontal communication

**41.** A key success factor for collaboration is

(a) mutual trust and a shared goal
(b) one-way communication
(c) secrecy between partners
(d) unclear roles

**42.** Management as "the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims" was given by

(a) Follett
(b) Koontz and Weihrich
(c) Taylor
(d) Fayol

**43.** The first step in decision making is

(a) identifying the problem
(b) following up
(c) implementing the decision
(d) choosing the best alternative

**44.** Comparing actual results with standards after the activity is complete is

(a) preventive control
(b) feedback control
(c) concurrent control
(d) feedforward control

**45.** Planning and controlling are

(a) unrelated functions
(b) inseparable – planning sets standards and control checks them
(c) done by different organisations
(d) the same function

**46.** Management is described as an inexact or flexible science because

(a) it has no principles at all
(b) its principles are not as exact as those of physical sciences
(c) it cannot be learnt
(d) it deals only with machines

**47.** Gang plank in Fayol's scalar chain allows

(a) bypassing the chief executive permanently
(b) orders from two bosses
(c) direct communication between employees at the same level
(d) ignoring the hierarchy for all purposes

**48.** Filling and keeping filled the positions in the organisation structure is the function of

(a) coordinating
(b) staffing
(c) controlling
(d) directing

**49.** "To manage is to forecast and plan, to organise, to command, to co-ordinate and to control" – this definition was given by

(a) F.W. Taylor
(b) Henri Fayol
(c) Peter Drucker
(d) Elton Mayo

**50.** Routine, repetitive decisions handled by set procedures are

(a) policy decisions
(b) strategic decisions
(c) non-programmed decisions
(d) programmed decisions

# Answer Key with Explanations

**EXAM TIP Scoring**

Score = 2 × correct answers (no negative marking). Note the module of every wrong answer and re-read it in file 01.

## Answer key – Mock Test 3

| Q | Ans | Explanation / working |
|---|---|---|
| 1 | (d) | 150 − 2P = 10 + 3P → 5P = 140 → P = 28; Q = 150 − 2×28 = 94. |
| 2 | (d) | Equal shifts leave price unchanged. |
| 3 | (c) | e = lower segment ÷ upper segment = 3/1 = 3. |
| 4 | (c) | Marshall's concept. |
| 5 | (c) | External economies arise outside the firm. |
| 6 | (b) | Price of one rises → demand for other falls. |
| 7 | (b) | Inverse price–quantity relationship, ceteris paribus. |
| 8 | (d) | Positive statements describe what is and can be tested; normative ones say what ought to be. |
| 9 | (b) | L = (P − MC)/P = (100 − 80)/100 = 0.2. |
| 10 | (d) | Special case of oligopoly. |
| 11 | (d) | MR equalisation across markets. |
| 12 | (c) | Game theory. |
| 13 | (b) | Explains price rigidity in oligopoly. |
| 14 | (b) | Explains cartel instability. |
| 15 | (d) | P = AR = MR. |
| 16 | (d) | E.g., railways, power distribution. |
| 17 | (d) | MR = AR(1 − 1/e) = 30(1 − 1/3) = 20. |
| 18 | (b) | Each strategy is a best response. |
| 19 | (d) | T-bills are short-term money market instruments sold at a discount. |
| 20 | (a) | Contingent functions arise from the primary and secondary functions (Kinley's classification). |
| 21 | (d) | P = MV/T = 2000×6/2000 = 6. |
| 22 | (a) | The central bank (RBI in India) performs these functions. |
| 23 | (a) | The bank acts as an agent of the customer. |
| 24 | (b) | Industrial Finance Corporation of India, 1948. |
| 25 | (c) | Transaction version of quantity theory. |
| 26 | (b) | Long-term funds are dealt in the capital market. |
| 27 | (d) | Pilots began in 2022. |
| 28 | (d) | Higher c or r → smaller multiplier. |
| 29 | (d) | They describe the state of the economy. |
| 30 | (d) | An event without precedent in living memory. |
| 31 | (b) | Outsourcing increases reliance on suppliers. |
| 32 | (b) | Situations never faced before, such as a pandemic. |
| 33 | (b) | Complexity = many interlinked variables. |
| 34 | (b) | Forces close to the firm. |
| 35 | (d) | Laws and regulations. |
| 36 | (b) | Set standards → measure → compare → correct. |
| 37 | (b) | Planning precedes organising, staffing, directing and controlling. |

| Q | Ans | Explanation / working |
|---|---|---|
| 38 | (d) | McGregor (1960). |
| 39 | (b) | Terry's process definition. |
| 40 | (c) | Suggestions, reports and grievances flow upward. |
| 41 | (a) | Collaboration needs trust, shared vision and open communication. |
| 42 | (b) | Koontz & Weihrich's definition. |
| 43 | (a) | Diagnose the problem, then develop and evaluate alternatives. |
| 44 | (b) | Corrects future performance. |
| 45 | (b) | "Siamese twins" of management. |
| 46 | (b) | Human behaviour makes management principles flexible. |
| 47 | (c) | Horizontal contact with the superiors' permission. |
| 48 | (b) | Staffing covers recruitment, selection, training and appraisal. |
| 49 | (b) | Fayol's functional definition (1916). |
| 50 | (d) | Herbert Simon's classification. |