Skillshort

Self-Study Preparation Pack

CMA FOUNDATION

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

Module-wise Practice Questions with Answers

All 5 modules · original MCQs that do not repeat the mocks · key with explanation after each module

71 MCQs | Explanation for every answer | Target: 80% per module

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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

Do each module set at exam speed (**about 45 seconds a question** – Paper 4 is mostly theory) after revising that module in file 01. Check with the key below the set. Below 70% → revise and repeat after two days.

Module 1: Basic Concepts

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

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

2. Total product for 1–4 workers is: 1 → 10, 2 → 28, 3 → 36, 4 → 42. The AP of the 3rd workers (average product at 3 workers) is:

(a) 28
(b) 36
(c) 12
(d) 8

3. The slope of an isoquant is called

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

4. A rational producer operates in

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

5. The law of variable proportions operates in the

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

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

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

7. Sunk cost is a cost that

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

8. Income elasticity of demand for an inferior good is

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

9. A firm's total fixed cost is ₹200 and total variable cost is – 1 unit: ₹40 · 2 units: ₹80 · 3 units: ₹100 · 4 units: ₹140. The AVC of producing 4 units is:

(a) ₹50
(b) ₹35
(c) ₹40
(d) ₹85

10. Which cost remains constant whatever the output level?

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

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

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

12. A consumer's income rises by 5% and the quantity demanded of a good changes by 30%. Income elasticity and the nature of the good are:

(a) 0.17; luxury
(b) 6; luxury
(c) -6; inferior good
(d) 6; necessity

13. Indifference curves are convex to the origin because of

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

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

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

15. The welfare definition of economics was given by

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

Answer key – Module 1

Q	Ans	Explanation / working
1	(a)	MRSxy = Px/Py with convexity.
2	(c)	MP = $TP_n - TP_{n-1}$; AP = TP/n. Here AP = 12.
3	(a)	MRTS_LK = MP_L/MP_K.
4	(c)	Stage I under-uses the fixed factor; Stage III has negative MP.
5	(b)	One factor variable, others fixed.
6	(a)	Tea and coffee are substitutes.
7	(a)	Irrelevant for future decisions.
8	(b)	Demand falls as income rises.
9	(b)	TC = TFC + TVC → 240, 280, 300, 340. AVC at 4 units = 35.
10	(b)	TFC is horizontal.
11	(a)	Consumer sovereignty belongs to the capitalist system.
12	(b)	e_y = %ΔQ ÷ %ΔY = 30/5 = 6 → luxury (negative: inferior; 0–1: necessity; >1: luxury).
13	(b)	MRS of X for Y falls as more X is consumed.
14	(a)	Gossen's second law.
15	(a)	Marshall's Principles of Economics (1890).

Module 2: Forms of Market

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

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

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

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

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

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

4. Under perfect competition, the industry is in equilibrium when

(a) each firm earns supernormal profit
(b) demand equals supply and firms earn normal profit
(c) price exceeds AC
(d) MR exceeds MC

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

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

6. Barometric price leadership means

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

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

(a) ₹80
(b) ₹15
(c) ₹5
(d) ₹25

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

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

9. The kinked demand curve model explains

(a) long-run equilibrium in perfect competition
(b) price rigidity in oligopoly
(c) collusion
(d) price discrimination

10. If average revenue is ₹30 and price elasticity of demand is 1.5, marginal revenue is:

(a) ₹49
(b) ₹45
(c) ₹10
(d) ₹20

11. Price discrimination is possible when

(a) the market is perfectly competitive
(b) markets can be separated and elasticities differ
(c) elasticities are equal
(d) resale between markets is easy

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

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

13. A monopolist will never produce on the

(a) upper half
(b) inelastic portion of the demand curve
(c) unitary point
(d) elastic portion

14. A market with a single buyer is called

(a) monopsony
(b) oligopsony
(c) monopoly
(d) duopoly

15. Long-run equilibrium of a competitive firm occurs where

(a) MR > MC
(b) P = MR = MC = minimum LAC
(c) P = AFC
(d) P > AC

Answer key – Module 2

Q	Ans	Explanation / working
1	(b)	Normal profit with excess capacity.
2	(d)	Shut-down point marks its start.
3	(c)	Profit = (AR − AC) × Q = (20 − 14) × 100 = 600.
4	(b)	Long-run industry equilibrium.
5	(d)	Zero under perfect competition.
6	(c)	Others follow the barometric firm.
7	(b)	MR = AR(1 − 1/e) = 20(1 − 1/4) = 15.
8	(a)	Very short period – vertical supply.
9	(b)	MR has a vertical gap at the kink.
10	(c)	MR = AR(1 − 1/e) = 30(1 − 1/1.5) = 10.
11	(b)	Classic conditions.
12	(a)	It must at least cover variable cost.
13	(b)	MR is negative when e < 1.
14	(a)	Oligopsony = few buyers.
15	(b)	Firm produces at optimum scale.

Module 3: Money and Banking

1. Using Fisher's equation, if M = ₹5,000 crore, V = 6 and T = 500 units, the price level is:

(a) ₹60
(b) ₹1.67
(c) ₹0.02
(d) ₹120

2. The Monetary Policy Committee in India has

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

3. "Bad money drives good money out of circulation" is known as

(a) Gresham's law
(b) Fisher's law
(c) Say's law
(d) Engel's law

4. Inter-bank borrowing for one day (overnight) is called

(a) term money
(b) treasury money
(c) notice money
(d) call money

5. The policy rate of RBI at which it lends to banks overnight against government securities is the

(a) repo rate
(b) SLR
(c) reverse repo rate
(d) bank rate

6. 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) ₹10,00,000
(b) ₹52,500
(c) ₹9,50,000
(d) ₹2,500

7. Velocity of money refers to

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

8. Fixed deposits with a bank are

(a) current account balances
(b) repayable only after a fixed period
(c) repayable on demand by cheque
(d) non-interest bearing

9. Reserve money (M0) is also called

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

10. Transactions and precautionary demand for money mainly depend on

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

11. Very rapid inflation of hundreds or thousands of percent a year is

(a) creeping inflation
(b) disinflation
(c) walking inflation
(d) hyperinflation

12. High-powered money is ₹1,000 crore, currency–deposit ratio 0.5 and reserve ratio 0.25. Money supply is:

(a) ₹4,000 crore
(b) ₹2000 crore
(c) ₹1333.33 crore
(d) ₹1,500 crore

13. The principle of liquidity in banking means

(a) keeping enough cash to meet depositors' demands
(b) earning the highest return on loans
(c) maintaining secrecy of accounts
(d) lending only to the government

14. Accepting deposits and lending money are the ___ functions of a commercial bank.

(a) agency
(b) primary
(c) utility
(d) contingent

15. Broad money M3 equals

(a) M1 + net time deposits with banks
(b) M1 + post office savings
(c) currency + reserves
(d) M0 + demand deposits

16. Inflation caused by a rise in wages and raw-material prices is

(a) cost-push inflation
(b) demand-pull inflation
(c) stagflation only
(d) deflation

Answer key – Module 3

Q	Ans	Explanation / working
1	(a)	P = MV/T = 5,000×6/500 = 60.
2	(d)	Three RBI + three external; Governor has casting vote.
3	(a)	People hoard good (full-weight) coins and spend bad ones.
4	(d)	Notice money is 2–14 days; term money longer.
5	(a)	Key policy rate under LAF.
6	(a)	Total deposits = D × 1/r = 50,000 × 20 = 10,00,000 (credit created = 9,50,000).
7	(c)	V = PT/M.
8	(b)	Time deposits carry higher interest and are repaid on maturity.
9	(b)	Base of money creation.
10	(a)	Keynes' liquidity preference.
11	(d)	Also called galloping or runaway inflation at its extreme.
12	(b)	M = m × H = 2 × 1,000 = 2000.
13	(a)	Banks must pay deposits on demand.
14	(b)	Agency and utility services are secondary functions.
15	(a)	Most used measure.
16	(a)	Higher costs push prices up.

Module 4: Economic and Business Environment

1. A new data-protection law affecting how a firm stores customer data is a ___ factor.

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

2. The objectives, culture and resources of a firm form its

(a) global environment
(b) macro environment
(c) task environment
(d) internal environment

3. Population size, age structure and literacy are part of the

(a) technological environment
(b) legal environment
(c) political environment
(d) demographic (social) environment

4. PESTEL analysis helps a firm mainly to identify

(a) its break-even point
(b) its depreciation policy
(c) external opportunities and threats
(d) internal strengths and weaknesses

5. Scenario planning is a useful response to

(a) fixed costs
(b) a stable environment
(c) monopoly pricing
(d) uncertainty in the environment

6. Political, economic, social and technological factors are part of the

(a) internal environment
(b) micro environment
(c) macro (general) environment
(d) task environment

7. When the outcome of events cannot be predicted from past experience, the environment shows

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

8. In PESTEL, the second "E" stands for

(a) Economic
(b) Ethical
(c) Environmental
(d) Educational

9. A suitable response to volatility in the business environment is

(a) a clear vision
(b) reducing communication
(c) ignoring change
(d) rigid long-term contracts only

10. Climate change, pollution norms and waste disposal rules are ___ factors in PESTEL.

(a) economic
(b) environmental
(c) political
(d) technological

Answer key – Module 4

Q	Ans	Explanation / working
1	(b)	Laws are legal factors.
2	(d)	They are within the firm's control.
3	(d)	Demographic factors are part of the social environment.
4	(c)	External factors give O and T of SWOT.
5	(d)	It prepares the firm for several possible futures.
6	(c)	They affect all firms in the economy.
7	(a)	Uncertainty = lack of predictability.
8	(c)	The first E is Economic; the second is Environmental.
9	(a)	Vision counters volatility; understanding counters uncertainty.
10	(b)	Ecological/natural environment.

Module 5: Fundamentals of Management

1. "Management is the art of getting things done through people" was said by
(a) George R. Terry
(b) Henri Fayol
(c) Max Weber
(d) Mary Parker Follett

2. Planning premises are
(a) the final targets of a plan
(b) the budgets of past years
(c) assumptions about the future environment on which plans are based
(d) the buildings where planning is done

3. According to Herzberg, salary and working conditions are
(a) self-actualisation needs
(b) motivators
(c) hygiene factors
(d) esteem needs

4. The need for achievement, affiliation and power is the theory of
(a) Douglas McGregor
(b) Victor Vroom
(c) David McClelland
(d) Clayton Alderfer

5. Which is NOT one of Follett's principles of coordination?
(a) Unity of command
(b) Continuity
(c) Early stage
(d) Direct contact

6. "One head and one plan for a group of activities having the same objective" is Fayol's principle of
(a) esprit de corps
(b) scalar chain
(c) unity of direction
(d) unity of command

7. The oldest and simplest form of organisation, also called military or scalar organisation, is
(a) committee organisation
(b) line organisation
(c) functional organisation
(d) matrix organisation

8. Under agency theory, the shareholders are the
(a) agents
(b) stewards
(c) creditors only
(d) principals

9. Leadership exists only when there are
(a) written rules
(b) budgets
(c) machines
(d) followers

10. Control that takes place before an activity begins, by anticipating problems, is
(a) concurrent control
(b) feedback control
(c) post-action control
(d) feedforward control

11. Span of control refers to
(a) the time taken to make decisions
(b) the number of subordinates a manager can supervise effectively
(c) the length of the scalar chain
(d) the number of departments

12. The Hawthorne experiments, which started the human relations approach, are associated with
(a) Henri Fayol
(b) Elton Mayo
(c) F.W. Taylor
(d) Max Weber

13. Which level of management is mainly concerned with framing objectives and policies?

(a) Top level
(b) Supervisory level
(c) Operative level
(d) Middle level

14. Theory X assumes that the average worker

(a) needs no supervision
(b) is creative and self-directed
(c) enjoys work and seeks responsibility
(d) dislikes work and must be controlled

15. Continuously tracking actual performance against targets using KPIs is

(a) performance monitoring
(b) planning premises
(c) recruitment
(d) delegation

Answer key – Module 5

Q	Ans	Explanation / working
1	(d)	Follett's classic definition.
2	(c)	Forecasts of demand, prices and policies.
3	(c)	Hygiene factors prevent dissatisfaction; motivators create satisfaction.
4	(c)	McClelland's acquired-needs theory.
5	(a)	Unity of command is Fayol's principle.
6	(c)	Unity of direction applies to activities, unity of command to people.
7	(b)	Authority flows in a straight vertical line.
8	(d)	Managers are agents acting for shareholder-principals.
9	(d)	Leadership needs followers who accept influence.
10	(d)	Preventive control, e.g., inspection of inputs.
11	(b)	Graicunas studied the relationships involved.
12	(b)	Western Electric, 1924–32.
13	(a)	Board, CEO and top executives.
14	(d)	Theory Y is the opposite.
15	(a)	Monitoring helps spot deviations early.