Skillshort

Self-Study Preparation Pack

CMA FOUNDATION

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

Mock Test 1 – 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

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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 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. When the price of a good falls from ₹50 to ₹40, its quantity demanded rises from 100 to 150 units. Price elasticity of demand (proportionate method) is:

(a) 0.4
(b) 1.25
(c) 2.5
(d) 5

2. When marginal product is zero, total product is

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

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

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

4. "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) Adam Smith
(b) Lionel Robbins
(c) Paul Samuelson
(d) Alfred Marshall

5. An outward shift of the PPC shows

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

6. Total product for 1–4 workers is: 1 → 15, 2 → 29, 3 → 41, 4 → 47. The AP of the 3rd workers (average product at 3 workers) is:

(a) 12
(b) 13.67
(c) 29
(d) 41

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

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

8. The problem "how to produce" relates to

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

9. Which market form has a perfectly inelastic supply curve?

(a) Long run
(b) Secular period
(c) Short run
(d) Market period (very short run)

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

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

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

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

14. A monopolist's MR curve lies
(a) on the AR curve
(b) below the AR curve
(c) above the AR curve
(d) parallel to the x-axis

15. A monopolist sells at ₹80 and its marginal cost is ₹64. Lerner's index of monopoly power is:
(a) 1.25
(b) 0.25
(c) 0.8
(d) 0.2

16. For a linear demand curve, the MR curve has
(a) half the slope
(b) zero slope
(c) twice the slope of the AR curve
(d) the same slope

17. A firm sells 100 units at ₹20 each; average cost at that output is ₹25. Its total profit (loss) is:
(a) −₹500
(b) ₹2,500
(c) ₹2,000
(d) ₹500

18. First-degree price discrimination means
(a) charging each consumer the maximum he is willing to pay
(b) charging by blocks of quantity
(c) uniform pricing
(d) charging different prices in different markets

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

20. Commercial paper is
(a) a bank's current account
(b) a long-term government bond
(c) a share certificate
(d) an unsecured short-term promissory note issued by companies

21. A bank receives a fresh deposit of ₹1,00,000. With a reserve ratio of 20%, the maximum total deposits the banking system can create are:

(a) ₹1,20,000
(b) ₹4,00,000
(c) ₹5,00,000
(d) ₹20,000

22. SWIFT is a

(a) stock exchange index
(b) secure messaging network for international bank transfers
(c) type of mutual fund
(d) credit rating agency

23. Money that has value as a commodity in itself, such as gold coins or cattle, is called

(a) commodity money
(b) fiat money
(c) credit money
(d) near money

24. Medium of exchange and measure of value are the ___ functions of money.

(a) contingent
(b) primary
(c) secondary
(d) derived

25. Moral suasion by the central bank is a

(a) quantitative method of credit control
(b) method of taxing banks
(c) qualitative (selective) method of credit control
(d) fiscal policy tool

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

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

27. To control inflation, RBI would

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

28. An increase in the cash reserve ratio will

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

29. Government stability, tax policy and FDI policy are ___ factors.

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

30. The business environment of a firm consists of

(a) all internal and external factors that affect its working
(b) only government policies
(c) only its internal resources
(d) only its competitors

31. Changes in food habits, lifestyle and attitudes of people are part of the

(a) technological environment
(b) legal environment
(c) socio-cultural environment
(d) political environment

32. In VUCAFU, "V" stands for
(a) Variety (b) Velocity
(c) Value (d) Volatility

33. The concept of VUCA originated in the
(a) US Army War College (b) Harvard Law School
(c) World Bank (d) Reserve Bank of India

34. In PESTEL, the letter "L" stands for
(a) Labour (b) Logistics
(c) Legal (d) Liquidity

35. In VUCAFU, "F" stands for
(a) Flexibility (b) Fragmentation
(c) Fear of the unknown (d) Financial risk

Section B – Fundamentals of Management (Q36–50)

36. The process of communication is complete only when
(a) the message is encoded (b) the receiver gives feedback
(c) the channel is selected (d) the sender thinks of an idea

37. Organising has been defined as "the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships" by
(a) F.W. Taylor (b) Mary Parker Follett
(c) Louis Allen (d) Elton Mayo

38. Which of the following is a standing (repeat-use) plan?
(a) Single budget for an event (b) Project
(c) Programme (d) Policy

39. Authority should be equal to responsibility. This is the principle of
(a) parity of authority and responsibility
(b) scalar chain
(c) span of control
(d) unity of direction

40. Management by exception means that managers should attend to
(a) every small detail
(b) only significant deviations from standards
(c) only the work of peers
(d) only routine matters

41. Functional foremanship was suggested by
(a) Peter Drucker (b) Max Weber
(c) F.W. Taylor (d) Henri Fayol

42. Decisions on new, unstructured problems are
(a) operational decisions only (b) routine decisions
(c) non-programmed decisions (d) programmed decisions

43. Controlling is "the measurement and correction of performance to make sure that enterprise objectives and plans are accomplished" according to

(a) Max Weber
(b) Koontz and O'Donnell
(c) Elton Mayo
(d) F.W. Taylor

44. Management is called an art because it involves

(a) personal skill and creativity in applying knowledge
(b) only fixed formulas
(c) no practice
(d) only rules made by law

45. Audit fees paid by shareholders to watch managers are an example of

(a) monitoring costs
(b) residual loss
(c) bonding costs
(d) selling costs

46. The elements of delegation are

(a) planning, organising and staffing
(b) line, staff and committees
(c) unity of command and direction
(d) responsibility, authority and accountability

47. Systematic dispersal of authority to the lower levels of the organisation is called

(a) centralisation
(b) delegation to one person
(c) decentralisation
(d) span of control

48. The main conflict studied in agency theory is between

(a) buyers and sellers
(b) government and taxpayers
(c) workers and machines
(d) owners and managers

49. A leader who takes all decisions himself and expects obedience follows the

(a) autocratic style
(b) participative style
(c) laissez-faire style
(d) democratic style

50. The free-rein style of leadership is also called

(a) laissez-faire
(b) autocratic
(c) paternalistic
(d) bureaucratic

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 1

Q	Ans	Explanation / working
1	(c)	e_p = (ΔQ/Q) ÷ (ΔP/P) = (50/100) ÷ (10/50) = 0.5 ÷ 0.2 = 2.5.
2	(d)	TP peaks where MP = 0.
3	(a)	Both intercepts rise proportionately.
4	(b)	Robbins' scarcity definition (1932).
5	(b)	Better technology or more resources shift the PPC outward.
6	(b)	MP = TP_n – TP_{n-1}; AP = TP/n. Here AP = 13.67.
7	(a)	LAC envelopes the SACs; also called planning curve.
8	(a)	How to produce = labour-intensive or capital-intensive technique.
9	(d)	Supply cannot be changed.
10	(c)	Few sellers – each reacts to rivals.
11	(b)	Close but not perfect substitutes.
12	(c)	Second-order condition: MC rising.
13	(c)	Profit per unit = AR − AC.
14	(b)	For a downward-sloping AR, MR < AR.
15	(d)	L = (P − MC)/P = (80 − 64)/80 = 0.2.
16	(c)	MR bisects the horizontal distance.
17	(a)	Profit = (AR − AC) × Q = (20 − 25) × 100 = -500.
18	(a)	Perfect discrimination – takes all consumer surplus.
19	(b)	Bond prices and interest move inversely.
20	(d)	CP is issued at a discount for 7 days to 1 year.
21	(c)	Total deposits = D × 1/r = 1,00,000 × 5 = 5,00,000 (credit created = 4,00,000).
22	(b)	Society for Worldwide Interbank Financial Telecommunication.
23	(a)	Commodity money has intrinsic value equal to its money value.
24	(b)	They are the basic (primary) functions.
25	(c)	It is persuasion through advice and appeals.
26	(a)	1/r.
27	(b)	Contractionary (dear money) policy.
28	(c)	Banks have less to lend.
29	(d)	Political factors arise from government actions.
30	(a)	Environment = internal + external (micro and macro) forces.
31	(c)	Social factors include culture, values and lifestyles.
32	(d)	Volatility, Uncertainty, Complexity, Ambiguity, Fear of unknown, Unprecedentedness.
33	(a)	VUCA was first used in US military strategy (late 1980s) VERIFY.
34	(c)	Political, Economic, Social, Technological, Environmental, Legal.
35	(c)	ICMAI's extension adds Fear of unknown and Unprecedentedness to VUCA.
36	(b)	Feedback confirms understanding.
37	(c)	Louis A. Allen's definition.

Q	Ans	Explanation / working
38	(d)	Policies, procedures, rules and methods are standing plans.
39	(a)	Authority must match responsibility.
40	(b)	Saves managerial time.
41	(c)	Eight specialist foremen instead of one.
42	(c)	They need judgment and creativity.
43	(b)	Classic definition of control.
44	(a)	Art = practical application of knowledge with skill.
45	(a)	Monitoring is borne by the principal.
46	(d)	The three elements of delegation.
47	(c)	Decentralisation extends delegation throughout the organisation.
48	(d)	Principal–agent conflict of interest.
49	(a)	Autocratic = leader-centred authority.
50	(a)	Subordinates decide with little direction.