Skillshort

Self-Study Preparation Pack

CMA FOUNDATION

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

Mock Test 2 – 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. Micro-economics deals with
(a) aggregate employment
(b) individual units such as a consumer or a firm
(c) general price level
(d) national income

2. Producer's equilibrium (least-cost combination) is where
(a) w = r
(b) MP_L = MP_K
(c) AP is maximum
(d) MRTS_LK = w/r

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

4. If the demand for a good is perfectly inelastic, the demand curve is
(a) vertical
(b) a rectangular hyperbola
(c) downward sloping straight line
(d) horizontal

5. The marginal cost curve cuts the AVC and ATC curves at their
(a) maximum points
(b) origin
(c) mid-points
(d) minimum points

6. Explicit costs are
(a) payments made to outside factor owners
(b) imputed costs of own resources
(c) sunk costs
(d) opportunity costs only

7. When the price of a good falls from ₹25 to ₹22.5, its quantity demanded rises from 500 to 625 units. Price elasticity of demand (proportionate method) is:
(a) 0.4
(b) 2.5
(c) 1.25
(d) 5

8. For the production function Q = 10 L^0.6 K^0.4, the firm experiences:
(a) Constant returns to scale
(b) Decreasing returns to scale
(c) Increasing returns to scale
(d) Diminishing returns to a factor only

9. Selling costs are a feature of
(a) perfect competition
(b) pure monopoly only
(c) monopolistic competition
(d) none of the market forms

10. In the long run, a firm under monopolistic competition operates with

(a) zero capacity
(b) supernormal profit
(c) optimum capacity
(d) excess capacity

11. If AR = ₹20 and elasticity of demand = 2, MR is

(a) ₹40
(b) ₹10
(c) ₹5
(d) ₹20

12. A monopolist in the short run

(a) may earn supernormal profit, normal profit or losses
(b) earns only normal profit
(c) always earns supernormal profit
(d) always earns losses

13. A firm sells 500 units at ₹20 each; average cost at that output is ₹14. Its total profit (loss) is:

(a) ₹3,000
(b) ₹10,000
(c) ₹7,000
(d) −₹3,000

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

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

15. If average revenue is ₹40 and price elasticity of demand is 4, marginal revenue is:

(a) ₹160
(b) ₹50
(c) ₹10
(d) ₹30

16. OPEC is an example of

(a) monopolistic competition
(b) a natural monopoly
(c) perfect competition
(d) a cartel

17. In perfect competition the firm is a

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

18. Monopolistic competition was developed by

(a) Joan Robinson only
(b) Edward Chamberlin
(c) Paul Sweezy
(d) Cournot

19. The banking principle that the assets of a bank must always exceed its liabilities is the principle of

(a) solvency
(b) secrecy
(c) liquidity
(d) profitability

20. Selective credit controls are

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

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

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

22. Using Fisher's equation, if M = ₹5,000 crore, V = 4 and T = 500 units, the price level is:

(a) ₹40
(b) ₹2.5
(c) ₹80
(d) ₹0.03

23. The Reserve Bank of India was established in

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

24. According to the quantity theory of money, if money supply doubles,

(a) price level halves
(b) the price level doubles (V and T constant)
(c) output doubles
(d) velocity doubles

25. Open market operations refer to

(a) foreign exchange trading by firms
(b) lending by banks to public
(c) purchase and sale of government securities by the central bank
(d) issue of new currency

26. Which is NOT a function of money?

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

27. M1 in India consists of

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

28. Paper currency issued by the government and accepted because the law declares it legal tender is

(a) token coin of gold
(b) commodity money
(c) fiat money
(d) full-bodied money

29. PESTEL analysis is mainly a tool for scanning the

(a) cash flows of a firm
(b) cost structure of a product
(c) internal strengths of a firm
(d) macro environment

30. Automation, digitalisation and artificial intelligence are ___ factors.

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

31. Suppliers, customers and competitors form the firm's

(a) internal environment
(b) macro environment
(c) micro (task) environment
(d) natural environment only

32. In VUCAFU, the letter "A" stands for

(a) Adaptability
(b) Accountability
(c) Agility
(d) Ambiguity

33. Rapid and large swings in prices and demand indicate

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

34. Which of the following is NOT one of Porter's five forces?

(a) Bargaining power of buyers
(b) Threat of new entrants
(c) Political stability of the country
(d) Threat of substitutes

35. Economic liberalisation, privatisation and globalisation (1991) changed India's

(a) technological environment only
(b) natural environment
(c) economic environment
(d) internal environment of a single firm only

Section B – Fundamentals of Management (Q36–50)

36. The informal channel of communication is called the

(a) grapevine
(b) line of authority
(c) scalar chain
(d) gang plank

37. Stewardship theory assumes that managers are

(a) trustworthy and pro-organisational
(b) always self-interested
(c) opposed to the owners' goals
(d) interested only in short-term pay

38. Which of the following CANNOT be delegated?

(a) Work
(b) Accountability
(c) Tasks
(d) Authority

39. Mary Parker Follett's principle that coordination is best achieved through face-to-face contact of the people concerned is

(a) reciprocal relationship
(b) direct contact
(c) early stage
(d) continuity

40. Maslow's need hierarchy places at the top

(a) self-actualisation needs
(b) safety needs
(c) physiological needs
(d) social needs

41. Collaboration differs from coordination mainly because collaboration

(a) is only about timing of activities
(b) needs no communication
(c) happens only within one department
(d) involves jointly working towards a shared goal with shared decisions

42. The expectancy theory of motivation was given by

(a) Victor Vroom
(b) McClelland
(c) Herzberg
(d) Maslow

43. Agency costs consist of monitoring costs, bonding costs and

(a) residual loss
(b) sunk cost
(c) opportunity cost of capital only
(d) depreciation

44. The father of modern (administrative) management theory is

(a) Henri Fayol
(b) F.W. Taylor
(c) Max Weber
(d) Peter Drucker

45. A rule is a plan that

(a) lists the sequence of steps
(b) gives broad guidelines with discretion
(c) states exactly what must or must not be done, with no discretion
(d) sets long-term objectives

46. Agency theory was developed mainly by

(a) Maslow and Herzberg
(b) Jensen and Meckling
(c) Taylor and Gilbreth
(d) Donaldson and Davis

47. The father of scientific management is

(a) Abraham Maslow
(b) Elton Mayo
(c) F.W. Taylor
(d) Henri Fayol

48. "Knowing exactly what you want men to do and then seeing that they do it in the best and cheapest way" is the definition of management by

(a) Drucker
(b) F.W. Taylor
(c) Henri Fayol
(d) Koontz

49. Coordination is called the essence of management because

(a) it replaces planning
(b) it is needed in every function of management
(c) it is a separate department
(d) it is done only at the top level

50. Unity of command means

(a) all employees work together
(b) orders flow from bottom to top
(c) one head and one plan for a group of activities
(d) an employee should receive orders from one superior only

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 2

Q	Ans	Explanation / working
1	(b)	Micro = individual units; macro = aggregates.
2	(d)	Isoquant tangent to isocost.
3	(a)	It is included in the economic cost.
4	(a)	e = 0 – same quantity at all prices.
5	(d)	MC passes through the minimum of AVC and ATC.
6	(a)	Implicit costs are for self-owned factors.
7	(b)	e_p = (ΔQ/Q) ÷ (ΔP/P) = (125/500) ÷ (2.5/25) = 0.25 ÷ 0.1 = 2.5.
8	(a)	a + b = 1 → constant returns to scale.
9	(c)	Advertising to differentiate products.
10	(d)	Tangency to falling part of LAC.
11	(b)	MR = AR(1 − 1/e) = 20 × 0.5.
12	(a)	Depends on AR relative to AC.
13	(a)	Profit = (AR − AC) × Q = (20 − 14) × 500 = 3,000.
14	(d)	Free entry and exit.
15	(d)	MR = AR(1 − 1/e) = 40(1 − 1/4) = 30.
16	(d)	Formal collusion to fix output and price.
17	(d)	Many sellers, homogeneous product.
18	(b)	Chamberlin (1933) – Theory of Monopolistic Competition.
19	(a)	Solvency protects depositors; capital adequacy supports it.
20	(c)	Margin requirements, moral suasion.
21	(d)	(1.25)/(0.40).
22	(a)	P = MV/T = 5,000×4/500 = 40.
23	(c)	Nationalised on 1 January 1949.
24	(b)	Proportional relation.
25	(c)	OMO purchases inject liquidity.
26	(d)	Primary: medium of exchange, measure of value.
27	(a)	Narrow money.
28	(c)	Fiat money has value by government order, not by its material.
29	(d)	It identifies external opportunities and threats.
30	(d)	Technology changes products and processes.
31	(c)	They are directly connected with the firm.
32	(d)	Ambiguity – lack of clarity about meaning and cause–effect.
33	(d)	Volatility = speed and size of change.
34	(c)	The five forces are entrants, suppliers, buyers, substitutes and rivalry.
35	(c)	LPG reforms changed economic policy.
36	(a)	Grapevine spreads quickly through informal relations.
37	(a)	Donaldson and Davis – managers act as stewards.

Q	Ans	Explanation / working
38	(b)	The superior remains accountable.
39	(b)	Her four principles: direct contact, early stage, reciprocal relations, continuity.
40	(a)	Order: physiological, safety, social, esteem, self-actualisation.
41	(d)	Coordination harmonises; collaboration co-creates.
42	(a)	Motivation = expectancy × instrumentality × valence.
43	(a)	Jensen & Meckling's three components.
44	(a)	Fayol gave 14 principles of management.
45	(c)	Rules allow no flexibility.
46	(b)	Jensen & Meckling, 1976 – "Theory of the Firm".
47	(c)	Taylor's "Principles of Scientific Management" (1911).
48	(b)	Taylor, father of scientific management.
49	(b)	Coordination runs through all functions.
50	(d)	Fayol's principle; "one head, one plan" is unity of direction.