Skillshort

Self-Study Preparation Pack

CSEET

Paper 3: Economic and Business Environment (subjective)

Chapter-wise Practice Questions with Answer Points

12 chapters · 5-mark exam-style questions (theory and numericals) · answer points after each chapter set

42 practice questions | Numericals solved | Answer points

Contents

How to practise	2
Chapter 1: Demand, Supply, Elasticity and Markets	2
Chapter 2: National Income	2
Chapter 3: Union Budget	3
Chapter 4: Indian Financial Markets	3
Chapter 5: Indian Economy	3
Chapter 6: Entrepreneurship Scenario	4
Chapter 7: Business Environment	4
Chapter 8: Institutions	5
Chapter 9: Global Institutions	5
Chapter 10: Environmental Governance	6
Chapter 11: AI and Business	6
Chapter 12: Corporate Governance	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.

How to practise

Every question in this paper is worth **5 marks** – write about 200–250 words: a **definition** (1 mark), **4–6 points** with headings (3 marks) and an **example or current fact** (1 mark). Write two answers daily against the clock (9 minutes each), then compare with the answer points.

Chapter 1: Demand, Supply, Elasticity and Markets

QUESTION Practice set 1

1.1 Explain opportunity cost with an example.

1.2 Distinguish between a change in quantity demanded and a change in demand.

1.3 The price of a good rises from ₹50 to ₹60 and supply rises from 200 to 260 units. Find the price elasticity of supply.

1.4 Explain the features of oligopoly.

SOLUTION Answer points – Chapter 1

1.1 Value of the next best alternative forgone; arises because resources are scarce and have alternative uses; example – a farmer using land for wheat gives up the rice he could have grown; guides rational choice.

1.2 *Change in quantity demanded* – due to own price only; movement **along** the curve (extension/contraction). *Change in demand* – due to other factors (income, tastes, prices of related goods); **shift** of the curve (increase/decrease); diagram for both.

1.3 %ΔQ = 60/200 = 30%; %ΔP = 10/50 = 20%; **Es = 1.5** – relatively elastic supply.

1.4 Few large sellers; interdependence; homogeneous or differentiated products; barriers to entry; price rigidity (kinked demand curve); non-price competition and advertising; possibility of collusion/cartels (OPEC); examples – telecom, airlines, cement.

Chapter 2: National Income

QUESTION Practice set 2

2.1 Explain the income method of measuring national income.

2.2 Why is it difficult to measure national income in India?

2.3 Calculate GNP at factor cost: NDP at factor cost ₹5,000 crore; depreciation ₹400 crore; NFIA (–) ₹100 crore.

2.4 Explain real income and per capita income. Why is real income a better measure of growth?

SOLUTION Answer points – Chapter 2

2.1 Sum of factor incomes earned by residents – compensation of employees, rent, interest, profit (dividends, corporate tax, retained earnings), mixed income of self-employed – gives NDPfc; add NFIA = national income; exclude transfer payments and capital gains.

2.2 Large unorganised and non-monetised sector; illiteracy and poor records; self-consumption of farm output; double-counting risk; multiple occupations; unreliable data on informal services; changes in base year.

2.3 GDPfc = 5,000 + 400 = 5,400; **GNPfc = 5,400 – 100 = ₹5,300 crore**.

2.4 *Real income* – national income at constant base-year prices, removes the effect of price changes; *per capita income* – national income ÷ population, shows average standard of living; real income is better because nominal income may rise only due to inflation.

Chapter 3: Union Budget

QUESTION Practice set 3

3.1 Distinguish between revenue expenditure and capital expenditure.

3.2 Explain the sources of tax revenue of the Union Government.

3.3 What is primary deficit? What does it indicate?

3.4 Explain the significance of the FRBM Act, 2003.

SOLUTION Answer points – Chapter 3

3.1 *Revenue* – does not create assets or reduce liabilities (salaries, interest, subsidies, pensions); recurring. *Capital* – creates assets or reduces liabilities (roads, railways, loans to states, repayment of debt); non-recurring; drives growth.

3.2 Direct – personal income tax, corporation tax; indirect – CGST, IGST (Centre's share), customs duties, Union excise (petroleum, tobacco); cesses and surcharges; states receive a share through the Finance Commission devolution.

3.3 Fiscal deficit – interest payments; shows the borrowing needed for **current** expenditure excluding interest on past debt; zero primary deficit means borrowing only to pay interest.

3.4 Legal targets for fiscal and revenue deficits; transparency (medium-term fiscal policy statement); limits on borrowing from RBI; review by the government; promotes fiscal discipline and debt sustainability; escape clause for national calamities.

Chapter 4: Indian Financial Markets

QUESTION Practice set 4

4.1 Explain the role of IFSCA.

4.2 Distinguish between equity shares and debentures.

4.3 Explain any five sources of finance for start-ups.

4.4 Explain the components of the Indian financial system.

SOLUTION Answer points – Chapter 4

4.1 Unified regulator (2020, IFSCA Act 2019) for banking, capital markets, insurance and funds in International Financial Services Centres (GIFT City); develops IFSCs, licenses entities, aims to bring offshore financial business to India; regulates bullion exchange, aircraft leasing, fund management.

4.2 Ownership vs debt; dividend (variable, from profits) vs interest (fixed, charge); voting rights vs none; unsecured vs usually secured; repaid on winding up vs redeemed after period; higher vs lower risk.

4.3 Bootstrapping (own savings); friends and family; angel investors; venture capital; crowdfunding; incubators and accelerators; government schemes (Startup India Seed Fund, Fund of Funds through SIDBI, MUDRA, Stand-Up India); bank loans with CGSS guarantee.

4.4 Financial institutions (banks, NBFCs, insurers, mutual funds), financial markets (money, capital, forex, derivatives), financial instruments (shares, bonds, T-bills, CPs), financial services, and regulators (RBI, SEBI, IRDAI, PFRDA, IFSCA).

Chapter 5: Indian Economy

QUESTION Practice set 5

5.1 Explain the role of agriculture in the Indian economy.

5.2 What are the main sources of foreign investment in India?

5.3 Explain the causes of India's trade deficit.

5.4 Explain the role of the industrial sector in economic development.

SOLUTION Answer points – Chapter 5

5.1 Employs about 45% of the workforce VERIFY; food security; raw materials to industry (cotton, sugar); market for industrial goods; exports (rice, spices); rural demand; source of savings and capital formation.

5.2 FDI (automatic and government routes, greenfield and brownfield, M&A); FPI (shares, bonds); external commercial borrowings; NRI deposits; venture capital and private equity; sectors – services, computer software, trading, telecom; top sources – Singapore, Mauritius, USA VERIFY.

5.3 High imports of crude oil, gold, electronics and coal; weak manufacturing competitiveness; global slowdown affecting exports; rupee movements; dependence on Chinese inputs; services surplus and remittances offset part of the deficit.

5.4 Raises productivity and income; employment; exports; linkages with agriculture and services; infrastructure; technology; capital formation; Make in India and PLI schemes to raise manufacturing share.

Chapter 6: Entrepreneurship Scenario

QUESTION Practice set 6

6.1 Distinguish between an entrepreneur and a manager.

6.2 Explain the role of entrepreneurship in economic development.

6.3 Explain the Stand-Up India scheme.

SOLUTION Answer points – Chapter 6

6.1 Owner vs employee; bears risk vs no risk; innovator vs implementer; reward – profit vs salary; vision and initiative vs coordination of existing tasks; starts the venture vs runs it.

6.2 Creates employment; capital formation; innovation; balanced regional development; exports; better standard of living; utilises local resources; inclusive growth (women, SC/ST entrepreneurs).

6.3 Launched 2016; bank loans of ₹10 lakh to ₹1 crore for **greenfield** enterprises; at least one SC/ST and one woman borrower per bank branch; manufacturing, services, trading and agri-allied activities; handholding through Stand-Up Mitra portal (SIDBI); credit guarantee support.

Chapter 7: Business Environment

QUESTION Practice set 7

7.1 Explain the economic environment of business.

7.2 What are auxiliaries to trade? Explain their role.

7.3 Why did the World Bank discontinue the Doing Business report? What has replaced it?

SOLUTION Answer points – Chapter 7

7.1 Economic system (mixed), economic policies (fiscal, monetary, industrial, trade), economic conditions (growth, inflation, interest rates, income, employment), economic institutions; affects demand, costs and investment decisions.

7.2 Activities that remove hindrances to trade – banking (finance), insurance (risk), transport (place), warehousing (time), communication (information), advertising (knowledge of products), packaging; make trade smooth and efficient.

7.3 Data irregularities found in the 2018 and 2020 editions led to discontinuation in September 2021; replaced by **Business Ready (B-READY)** from 2024, which assesses regulatory framework, public services and efficiency of business operations VERIFY; India's DB rank had risen to 63rd (2020).

Chapter 8: Institutions

QUESTION Practice set 8

8.1 Explain the functions of RBI.

8.2 Explain the role of the Ministry of Corporate Affairs.

8.3 What is the e-rupee? How does it differ from cryptocurrency?

SOLUTION Answer points – Chapter 8

8.1 Monetary authority (repo rate, MPC, inflation target 4% ± 2%); issuer of currency; banker to government; bankers' bank and lender of last resort; regulator and supervisor of banks and NBFCs; manager of foreign exchange (FEMA); payment systems (UPI through NPCI); developmental role (financial inclusion).

8.2 Administers the Companies Act 2013, LLP Act 2008, Competition Act 2002, IBC 2016 (with IBBI); MCA21 portal for incorporation and filings; Registrars of Companies and Regional Directors; Serious Fraud Investigation Office; IEPF; CSR policy; NFRA oversight; promotes ease of doing business (SPICe+, decriminalisation).

8.3 CBDC – digital form of the rupee issued by the RBI, legal tender, one-to-one with cash; wholesale and retail pilots since 2022; crypto-assets are private, not legal tender, highly volatile, no issuer backing.

Chapter 9: Global Institutions

QUESTION Practice set 9

9.1 Distinguish between the IMF and the World Bank.

9.2 Explain the WTO principle of non-discrimination.

9.3 Write a note on the New Development Bank and AIIB.

SOLUTION Answer points – Chapter 9

9.1 IMF – short-term BoP support, exchange stability, surveillance, SDRs; World Bank – long-term development and project loans, poverty reduction; IMF is a monetary institution, the World Bank a development bank; both Bretton Woods (1944), HQ Washington.

9.2 Most-favoured-nation – a concession given to one member must be extended to all; **national treatment** – imported goods treated no less favourably than domestic goods once they enter the market; exceptions – FTAs, special treatment for developing countries.

9.3 NDB – set up by BRICS (2015, Shanghai) for infrastructure and sustainable development; AIIB – 2016, Beijing, infrastructure in Asia; India is a founding member of both and a major borrower; complement the World Bank and ADB.

Chapter 10: Environmental Governance

QUESTION Practice set 10

10.1 Explain the Green Credit Programme.

10.2 What are SEBI's initiatives for sustainability reporting?

10.3 Explain the UN Sustainable Development Goals and their relevance to business.

SOLUTION Answer points – Chapter 10

10.1 Notified in 2023 under the Environment (Protection) Act; market-based incentive for voluntary actions – tree plantation, water management, waste management, sustainable agriculture; green credits are tradable; administered by ICFRE VERIFY; complements CCTS.

10.2 BRSR for the top 1,000 listed companies; BRSR Core with assurance; ESG ratings providers regulated; green debt securities framework; ESG mutual-fund schemes with disclosure norms; value-chain disclosures VERIFY.

10.3 17 goals adopted in 2015 to be achieved by 2030 – no poverty, zero hunger, health, education, gender equality, clean water, clean energy, decent work, industry and innovation, reduced inequality, sustainable cities, responsible consumption, climate action, life below water and on land, peace and partnerships; businesses align CSR and BRSR with SDGs.

Chapter 11: AI and Business

QUESTION Practice set 11

11.1 What is generative AI? Give its business applications.

11.2 How can AI help a Company Secretary in compliance work?

11.3 Explain the need for responsible AI.

SOLUTION Answer points – Chapter 11

11.1 AI that creates new content (text, images, code, audio) from prompts using large language models; uses – drafting e-mails and reports, chatbots, marketing content, code generation, summarising documents, translation.

11.2 Compliance calendars and alerts; drafting notices, agenda and minutes; reviewing contracts; tracking regulatory changes (RegTech); e-voting and virtual meeting tools; analytics for board reports – always with human verification and data confidentiality.

11.3 To prevent bias, protect privacy, ensure transparency and explainability, fix accountability, ensure safety and security, comply with laws (DPDP Act, EU AI Act), maintain trust; principles – fairness, inclusiveness, reliability, human oversight.

Chapter 12: Corporate Governance

QUESTION Practice set 12

12.1 Explain the role of independent directors.

12.2 What is a corporate governance report? What does it contain?

12.3 Explain the relationship between ESG and corporate governance.

12.4 State the contribution of the Kumar Mangalam Birla and Uday Kotak committees.

SOLUTION Answer points – Chapter 12

12.1 Sec 149 and Schedule IV; at least one-third of the board of listed companies; bring objectivity; protect minority shareholders; chair or form majority of the audit and NRC committees; review performance; oversee related-party transactions and risk management; whistle-blower protection.

12.2 Part of the annual report of listed entities (Schedule V of LODR): philosophy on governance, board composition and meetings, committees, remuneration, general meetings, means of communication, shareholder information, other disclosures, compliance certificate from auditor or practising CS; quarterly compliance report to stock exchanges.

12.3 G is the foundation of E and S; boards oversee climate risk and social impact; ESG disclosure (BRSR) improves transparency; investors use ESG scores; poor governance (fraud) destroys value; integrated thinking.

12.4 Kumar Mangalam Birla (1999) – first SEBI committee, led to Clause 49 of the listing agreement (independent directors, audit committee, CG report); Uday Kotak (2017) – stronger board independence, separation of chair and MD in top companies, woman independent director, more disclosures; many adopted in LODR amendments of 2018.