Skillshort

Self-Study Preparation Pack

CSEET

Paper 3: Economic and Business Environment (subjective)

Mock Test 1 – Full Paper with Model Answers

ICSI CSEET pattern (as in June 2026): 100 marks · 3 hours (+15 min reading) · Part I Economics 50 + Part II Business Environment 50 · Original Skillshort questions

Time: 3 hours | Max marks: 100 | Model answers follow the question paper

Contents

Question Paper 2

Model Answers 4

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.

Question Paper

Instructions: The paper has two parts. In each part, the first question is **compulsory**; attempt **any two** of the remaining three questions of that part. Each sub-question carries 5 marks. Time allowed: 3 hours. Maximum marks: 100.

Part I – Economics (50 marks)

QUESTION Question 1 (compulsory) – 4 × 5 = 20 marks

(a) "Economics is a science of choice under scarcity." Explain.

(b) The price of a pen falls from ₹20 to ₹16 and its demand rises from 100 to 130 units. Calculate the price elasticity of demand and state its type.

(c) Distinguish between GDP and GNP. From the following (₹ crore) find national income: GDP at market price 2,000; net factor income from abroad (–) 50; depreciation 150; net indirect taxes 200.

(d) What is fiscal deficit? Explain its implications for the economy.

QUESTION Question 2 – 3 × 5 = 15 marks

(a) Explain the factors that determine the price elasticity of demand.

(b) State the law of supply and its exceptions.

(c) Distinguish between perfect competition and monopoly.

QUESTION Question 3 – 3 × 5 = 15 marks

(a) Calculate national income by the value-added method (₹ crore): Sector A – output 500, intermediate consumption 200; Sector B – output 800, intermediate consumption 350; Sector C – output 400, intermediate consumption 100; consumption of fixed capital 60; net indirect taxes 40; net factor income from abroad 10.

(b) Explain the role of SIDBI in financing MSMEs.

(c) What are NBFCs? How do they differ from banks?

QUESTION Question 4 – 3 × 5 = 15 marks

(a) Explain the components of the balance of payments.

(b) Distinguish between FDI and FPI.

(c) Explain the importance of the services sector in the Indian economy.

Part II – Business Environment (50 marks)

QUESTION Question 5 (compulsory) – 4 × 5 = 20 marks

(a) State the characteristics of a successful entrepreneur.

(b) Explain the functions of NITI Aayog.

(c) List the nine principles of the National Guidelines on Responsible Business Conduct.

(d) Explain the opportunities that artificial intelligence offers to business.

QUESTION Question 6 – 3 × 5 = 15 marks

(a) Explain the components of the business environment with the help of PESTEL.

(b) Describe the powers of SEBI.

(c) What is a Social Stock Exchange?

QUESTION Question 7 – 3 × 5 = 15 marks

(a) Explain the functions of the World Trade Organization.

(b) State the objectives of the International Monetary Fund.

(c) Write a note on the Asian Development Bank.

QUESTION Question 8 – 3 × 5 = 15 marks

(a) Define corporate governance and explain its importance.

(b) What is the Business Responsibility and Sustainability Report?

(c) What lessons does the Satyam case offer for corporate governance?

Model Answers

Part I – Economics

SOLUTION Q1(a) Economics as a science of choice

Human wants are **unlimited**, but the resources to satisfy them (land, labour, capital, time) are **scarce** and have **alternative uses**. Hence every individual, firm and government must **choose** which wants to satisfy and which to sacrifice. Lionel Robbins defined economics as "the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses". Every choice has an **opportunity cost** – the value of the next best alternative given up. Scarcity gives rise to the central problems of an economy: **what** to produce, **how** to produce and **for whom** to produce, and how to grow. Example: a government with a fixed budget must choose between building schools and roads. Thus economics is essentially the study of choice under scarcity.

SOLUTION Q1(b) Price elasticity of demand

Percentage change in quantity = (130 − 100) ÷ 100 × 100 = **30%**. Percentage change in price = (16 − 20) ÷ 20 × 100 = **−20%**.

Ed = % change in quantity ÷ % change in price = 30 ÷ 20 = **1.5** (ignoring the minus sign). Since Ed > 1, demand is **relatively elastic** – a fall in price raises total expenditure (from ₹2,000 to ₹2,080).

SOLUTION Q1(c) GDP vs GNP; national income

GDP is the market value of final goods and services produced **within the domestic territory** in a year, by residents and non-residents. **GNP** is the value produced by the **normal residents** of a country, at home or abroad: GNP = GDP + net factor income from abroad (NFIA). GDP measures domestic production; GNP measures the income of nationals.

National income (NNPfc) = GDPmp + NFIA − depreciation − NIT = 2,000 − 50 − 150 − 200 = **₹1,600 crore**.

SOLUTION Q1(d) Fiscal deficit

Fiscal deficit = total expenditure − total receipts excluding borrowings; it equals the government's **total borrowing requirement** in a year. **Implications:** (1) rising public debt and interest burden, leaving less for development; (2) **crowding out** of private investment as government borrowing raises interest rates; (3) **inflation** if financed by money creation; (4) pressure on the current account and the rupee; (5) may be justified if borrowing finances **capital expenditure** that raises growth. The FRBM Act, 2003 aims to keep the fiscal deficit within targets.

SOLUTION Q2(a) Determinants of price elasticity

(1) **Nature of the commodity** – necessities inelastic, luxuries elastic. (2) **Availability of substitutes** – more substitutes, more elastic (tea vs coffee). (3) **Number of uses** – goods with many uses (electricity) are elastic. (4) **Share of income** spent – small share (salt, matchbox) inelastic. (5) **Postponement** – demand for goods whose purchase can be postponed is elastic. (6) **Habits** – habitual goods (cigarettes) inelastic. (7) **Time period** – demand is more elastic in the long run. (8) **Price level** – very high- or very low-priced goods are less elastic.

SOLUTION Q2(b) Law of supply

Other things remaining the same, **the quantity supplied of a commodity rises when its price rises and falls when its price falls** – a direct relationship; the supply curve slopes upward. Reasons: higher profit, entry of new firms, rising marginal cost. **Exceptions:** (1) **backward-bending supply of labour** – at high wages workers prefer leisure; (2) perishable goods sold off at any price; (3) expectation of a future fall in price; (4) rare goods and antiques with fixed supply; (5) agricultural goods in the short run, as supply depends on weather; (6) sellers in urgent need of cash.

SOLUTION Q2(c) Perfect competition vs monopoly

Basis	Perfect competition	Monopoly
Number of sellers	Very large	Single seller
Product	Homogeneous	No close substitutes
Entry	Free entry and exit	Strong barriers
Price	Price taker (determined by industry)	Price maker
Demand curve	Perfectly elastic (horizontal)	Downward sloping
Long-run profit	Normal profit only	Can earn super-normal profit
Price discrimination	Not possible	Possible

SOLUTION Q3(a) Value-added method

GVA at market price: A = 500 − 200 = 300; B = 800 − 350 = 450; C = 400 − 100 = 300; **total GDPmp = 1,050**. NDPmp = 1,050 − 60 = 990; NDPfc = 990 − 40 = 950; **National income (NNPfc) = 950 + 10 = ₹960 crore**.

SOLUTION Q3(b) Role of SIDBI

The **Small Industries Development Bank of India** (1990, Lucknow) is the principal financial institution for the **promotion, financing and development of MSMEs**. Roles: (1) **refinance** to banks, NBFCs and small finance banks lending to MSMEs; (2) **direct lending** – term loans and working capital; (3) **Fund of Funds for Start-ups** – invests in venture funds; (4) manages credit guarantee through **CGTMSE**; (5) promotional schemes – Udyami Mitra and Stand-Up Mitra portals, cluster development, skill and entrepreneurship programmes; (6) coordinates institutions engaged in MSME finance and supports digital lending and receivables financing.

SOLUTION Q3(c) NBFCs

A **non-banking financial company** is a company registered under the Companies Act engaged in lending, investment in securities, leasing, hire purchase, insurance or chit business, whose principal business is financial; regulated by the RBI (scale-based regulation – base, middle, upper, top layers). **Differences from banks:** (1) NBFCs cannot accept **demand deposits**; (2) they are **not part of the payment and settlement system** and cannot issue cheques drawn on themselves; (3) deposit insurance (DICGC) is **not available** to depositors of NBFCs; (4) NBFCs do not maintain CRR, and SLR obligations differ; (5) banks are governed by the Banking Regulation Act, NBFCs by the RBI Act. Examples: Bajaj Finance, Muthoot Finance.

SOLUTION Q4(a) Components of balance of payments

Balance of payments is a systematic record of all economic transactions of the residents of a country with the rest of the world in a year. **(1) Current account:** trade in goods (visible exports and imports → **trade balance**), services (software, travel, transport), primary income (interest, dividends, wages) and secondary income (remittances, gifts, grants). **(2) Capital and financial account:** FDI, FPI, external commercial borrowings, external assistance, banking capital (NRI deposits) and other capital. **(3) Errors and omissions. (4) Change in foreign exchange reserves** – the balancing item. The BoP always balances in accounting terms; a deficit or surplus refers to autonomous transactions.

SOLUTION Q4(b) FDI vs FPI

FDI is investment by a non-resident with a lasting interest and **control or significant influence** (10% or more of equity of a listed company) – e.g., a foreign firm setting up a plant. **FPI** is investment in shares, bonds and other securities **without control** (below 10%). Differences: FDI is long-term and **stable**, FPI is short-term and **volatile** ("hot money"); FDI brings technology, management and jobs, FPI brings liquidity to markets; FDI comes through the automatic or government route under FEMA rules, FPIs must register with SEBI; FDI is harder to withdraw.

SOLUTION Q4(c) Importance of the services sector

(1) Largest contributor – more than half of India's GVA VERIFY; (2) fastest-growing sector and main driver of GDP growth; (3) big **employer** in trade, transport, IT, health, education and finance; (4) **exports** of IT and business services and remittances keep the current-account deficit low; (5) attracts the largest share of **FDI** (financial services, IT); (6) supports agriculture and industry through banking, logistics and communication; (7) digital services (UPI, e-commerce) improve efficiency and inclusion. Concern: much of service employment is informal and low-paid.

Part II – Business Environment

SOLUTION Q5(a) Characteristics of an entrepreneur

(1) **Vision and creativity** – sees opportunities others miss; (2) **innovation** – new products, processes, markets (Schumpeter); (3) **risk-taking** – calculated, moderate risks; (4) **need for achievement** (McClelland); (5) **self-confidence and initiative**; (6) **leadership and team-building**; (7) **decision-making** under uncertainty; (8) **flexibility and resilience** – learns from failure; (9) **hard work and persistence**; (10) **networking** and communication. Example: founders of Indian unicorns combined technology with market insight and persistence.

SOLUTION Q5(b) Functions of NITI Aayog

NITI Aayog (1 January 2015) is the Government's **policy think tank**, replacing the Planning Commission. Functions: (1) fosters **cooperative federalism** through the Governing Council of Chief Ministers; (2) **competitive federalism** – state indices (SDG India Index, Export Preparedness Index, Health Index); (3) designs **strategic and long-term policies** and programmes; (4) **monitors and evaluates** implementation (Development Monitoring and Evaluation Office); (5) runs the **Aspirational Districts Programme** and **Atal Innovation Mission**; (6) acts as a **knowledge and innovation hub** and partners with think tanks and academia; (7) resolves inter-sectoral and inter-departmental issues.

SOLUTION Q5(c) NGRBC principles

Businesses should: (1) conduct themselves with integrity in an ethical, transparent and accountable manner; (2) provide goods and services that are sustainable and safe; (3) respect and promote the well-being of all employees, including in value chains; (4) respect the interests of and be responsive to all stakeholders; (5) respect and promote human rights; (6) protect and restore the environment; (7) engage with public and regulatory policy responsibly and transparently; (8) promote inclusive growth and equitable development; (9) engage with and provide value to consumers responsibly. (Issued by the MCA in 2019; BRSR is based on these principles.)

SOLUTION Q5(d) Opportunities from AI

(1) **Productivity** – automation of routine tasks (data entry, reconciliations, document review); (2) **better decisions** through analytics and forecasting; (3) **customer experience** – chatbots, personalisation, vernacular voice assistants; (4) **new products and business models** – AI-based fintech, health-tech, ed-tech; (5) **risk management** – fraud detection, credit scoring; (6) **supply-chain** optimisation and predictive maintenance; (7) **compliance** – regulatory tracking and contract analysis; (8) inclusion of small businesses through low-cost AI tools. India's IndiaAI Mission supports computing, datasets and start-ups.

SOLUTION Q6(a) Business environment – PESTEL

The business environment is the sum of all **external forces** that affect a business. **Internal** (controllable): objectives, resources, structure, culture. **External – micro**: suppliers, customers, competitors, intermediaries, public. **External – macro** (PESTEL): **Political** – government stability, policies, trade relations; **Economic** – growth, inflation, interest rates, fiscal and monetary policy; **Social** – population, culture, education, lifestyle; **Technological** – automation, AI, digital payments; **Environmental** – climate, pollution norms, ESG; **Legal** – company law, labour codes, consumer protection, competition law. A business must scan the environment to spot opportunities and threats.

SOLUTION Q6(b) Powers of SEBI

SEBI (SEBI Act, 1992) has: (1) **Regulatory powers** – framing regulations on issue of capital, listing, insider trading, takeovers, mutual funds; registration of intermediaries; (2) **Developmental powers** – investor education, market innovations, training; (3) **Investigative powers** – calling for information, inspection, search and seizure, attachment of bank accounts and property; (4) **Quasi-judicial powers** – passing orders, imposing **penalties** (Sec 15A–15HB), disgorgement of unlawful gains, debarring persons from the market; (5) power to issue directions and settle cases through **consent orders**. Appeals against SEBI orders lie to the **Securities Appellate Tribunal**.

SOLUTION Q6(c) Social Stock Exchange

A **Social Stock Exchange** (SSE) is a separate segment of a recognised stock exchange (SEBI framework, 2022) that allows **social enterprises** – not-for-profit organisations (NPOs) and for-profit social enterprises – to raise funds from the public. NPOs must register on the SSE and can raise money through **Zero Coupon Zero Principal (ZCZP)** instruments, donations or mutual-fund routes; for-profit social enterprises can issue equity or debt. Eligible activities include education, health, poverty, environment and livelihood. Entities must publish an **annual impact report** assessed by social auditors, ensuring transparency. The NSE and BSE have set up SSE segments.

SOLUTION Q7(a) Functions of the WTO

The **World Trade Organization** (1 January 1995, Geneva) replaced GATT. Functions: (1) **administers trade agreements** – GATT (goods), GATS (services), TRIPS (intellectual property), TRIMs; (2) **forum for trade negotiations** (ministerial conferences); (3) **settles trade disputes** through the Dispute Settlement Body; (4) **monitors national trade policies** (Trade Policy Review Mechanism); (5) **technical assistance** and training for developing countries; (6) **cooperation** with the IMF and World Bank for coherent global economic policy. Principles: non-discrimination (MFN and national treatment), reduction of trade barriers, transparency.

SOLUTION Q7(b) Objectives of the IMF

The **International Monetary Fund** (1944 Bretton Woods; HQ Washington DC) aims to: (1) promote **international monetary cooperation**; (2) facilitate **balanced growth of world trade**; (3) promote **exchange-rate stability** and orderly exchange arrangements; (4) help establish a **multilateral system of payments** and remove exchange restrictions; (5) provide **temporary financial assistance** to members facing **balance-of-payments** problems; (6) shorten and reduce BoP disequilibria. It also conducts surveillance (Article IV consultations), issues **Special Drawing Rights (SDRs)** and gives technical assistance.

SOLUTION Q7(c) Asian Development Bank

The **ADB** was set up in **1966** with headquarters in **Manila**, Philippines, to foster economic growth and cooperation in Asia and the Pacific. India is a **founding member** and one of the largest shareholders and borrowers. Functions: (1) loans to governments and the private sector for infrastructure, energy, urban development, water and education; (2) grants and **technical assistance**; (3) equity investments and guarantees; (4) promotion of **regional cooperation** and integration; (5) policy dialogue and knowledge products. Strategy 2030 focuses on poverty reduction, climate change, gender equality and liveable cities.

SOLUTION Q8(a) Corporate governance

Corporate governance is the system of rules, practices and processes by which a company is **directed and controlled** (Cadbury Committee, 1992). It balances the interests of shareholders, management, customers, employees, lenders, government and the community. **Importance:** (1) protects **shareholders' and stakeholders' interests**; (2) builds **investor confidence** and lowers the cost of capital; (3) ensures **accountability** of the board and management; (4) **transparency** and fair disclosure; (5) prevents frauds and mismanagement; (6) improves long-term performance and reputation; (7) ensures **compliance** with laws. Pillars: accountability, fairness, transparency, independence and responsibility.

SOLUTION Q8(b) BRSR

The **Business Responsibility and Sustainability Report** is a disclosure framework of SEBI, mandatory for the **top 1,000 listed companies** by market capitalisation (from FY 2022-23) as part of the annual report (Reg 34(2)(f) of LODR). It requires disclosures on **environmental, social and governance (ESG)** performance – energy, emissions, water, waste, employee well-being, human rights, community, consumer responsibility – structured on the **nine NGRBC principles**, in three sections: general disclosures, management and process disclosures, and principle-wise performance. **BRSR Core** contains key indicators requiring reasonable **assurance** for the largest companies VERIFY. It helps investors compare companies on sustainability.

SOLUTION Q8(c) Lessons from Satyam

In January 2009 the chairman of **Satyam Computer Services** admitted that profits and cash balances had been inflated by about ₹7,000 crore over several years. **Lessons:** (1) **independent directors** must be truly independent and question management; (2) **auditors** must verify bank balances and be rotated; (3) a strong **audit committee** and **whistle-blower mechanism** are essential; (4) concentration of power in one person is risky – separate chairman and CEO roles; (5) related-party transactions need scrutiny; (6) regulators must act quickly. The case led to stricter provisions in the **Companies Act, 2013** (independent directors, auditor rotation, SFIO powers, class actions).