Skillshort

Self-Study Preparation Pack

CSEET

Paper 3: Economic and Business Environment (subjective)

Mock Test 2 – 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

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This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

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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: 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) State the law of demand. Why does a demand curve slope downwards? Give two exceptions.

(b) A household's income rises from ₹20,000 to ₹25,000 a month and its demand for fruit rises from 40 kg to 48 kg. Calculate the income elasticity of demand and interpret it.

(c) Distinguish between private income and personal income. Calculate personal disposable income: private income ₹900 crore; corporate tax ₹60 crore; undistributed profits ₹40 crore; direct taxes paid by households ₹70 crore; fees and fines ₹10 crore.

(d) Explain the objectives of the Union Budget.

QUESTION Question 2 – 3 × 5 = 15 marks

(a) Explain the features of monopolistic competition.

(b) Distinguish between revenue receipts and capital receipts of the government, with examples.

(c) From the following (₹ lakh crore) calculate revenue deficit, fiscal deficit and primary deficit: revenue receipts 25; revenue expenditure 32; non-debt capital receipts 2; capital expenditure 10; interest payments 9.

QUESTION Question 3 – 3 × 5 = 15 marks

(a) Explain the functions of financial markets.

(b) Write notes on Regional Rural Banks and co-operative banks.

(c) How are MSMEs defined in India? State any four government initiatives for MSMEs.

QUESTION Question 4 – 3 × 5 = 15 marks

(a) Explain the main features of India's agricultural policy and reforms.

(b) What were the main features of the New Industrial Policy, 1991?

(c) Distinguish between balance of trade and balance of payments.

Part II – Business Environment (50 marks)

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

(a) Write a note on the Skill India Mission.

(b) How does DPIIT rank states on ease of doing business?

(c) Explain the Carbon Credit Trading Scheme, 2023.

(d) What challenges does artificial intelligence pose for business?

QUESTION Question 6 – 3 × 5 = 15 marks

(a) Explain the Startup India initiative.

(b) State the roles of IBBI and CCI.

(c) Explain the jurisdiction of NCLT and NCLAT.

QUESTION Question 7 – 3 × 5 = 15 marks

(a) Describe the institutions of the World Bank Group.

(b) Write short notes on OECD and OPEC.

(c) Explain the Paris Agreement and India's climate commitments.

QUESTION Question 8 – 3 × 5 = 15 marks

(a) How do ancient Indian scriptures reflect the principles of corporate governance?

(b) Explain the Anglo-American and German models of corporate governance.

(c) What is stewardship? State the principles of SEBI's Stewardship Code.

Model Answers

Part I – Economics

SOLUTION Q1(a) Law of demand

Other things remaining the same, **the quantity demanded of a commodity falls when its price rises and rises when its price falls** – an inverse relationship. **Reasons for the downward slope:** (1) **law of diminishing marginal utility** – consumers buy more only at lower prices; (2) **income effect** – a fall in price raises real income; (3) **substitution effect** – the good becomes cheaper relative to substitutes; (4) **new buyers** enter at lower prices; (5) multiple uses of goods such as electricity. **Exceptions: Giffen goods** (inferior staples), **Veblen goods** (articles of distinction), expectation of further price rise, emergencies, and ignorance of quality.

SOLUTION Q1(b) Income elasticity

% change in demand = (48 − 40) ÷ 40 × 100 = **20%**; % change in income = (25,000 − 20,000) ÷ 20,000 × 100 = **25%**.

Ey = 20 ÷ 25 = **0.8**. It is **positive but less than 1** – fruit is a **normal good** and, for this household, a **necessity** (demand rises less than proportionately with income).

SOLUTION Q1(c) Private vs personal income

Private income is the total factor and transfer income from all sources received by the **private sector** (households and private companies). **Personal income** is the part that actually reaches **households**: personal income = private income − corporate tax − undistributed profits. Personal disposable income = personal income − direct taxes − fees and fines.

Personal income = 900 − 60 − 40 = **₹800 crore**; personal disposable income = 800 − 70 − 10 = **₹720 crore**.

SOLUTION Q1(d) Objectives of the Union Budget

The Union Budget (Annual Financial Statement, Art. 112) aims at: (1) **economic growth** – capital expenditure on infrastructure, incentives for investment; (2) **reduction of inequalities** – progressive taxation, subsidies and welfare schemes; (3) **economic stability** – controlling inflation and deficits (FRBM); (4) **allocation of resources** to priority areas such as health, education and agriculture; (5) **employment generation**; (6) **balanced regional development**; (7) **managing public enterprises** and disinvestment. Budget 2025-26 targeted a fiscal deficit of 4.4% of GDP VERIFY.

SOLUTION Q2(a) Monopolistic competition

Coined by **Chamberlin** (1933), it is a market with many sellers of **differentiated products**. Features: (1) **large number of sellers**, each with a small share; (2) **product differentiation** – brand, design, packaging (toothpastes, soaps); (3) **selling costs** – heavy advertising; (4) **free entry and exit**; (5) some **control over price** – downward-sloping, fairly elastic demand curve; (6) **non-price competition**; (7) normal profit in the long run; (8) excess capacity. Examples: restaurants, garments, FMCG brands.

SOLUTION Q2(b) Revenue vs capital receipts

Revenue receipts neither create a liability nor reduce an asset: **tax revenue** (income tax, corporation tax, GST, customs) and **non-tax revenue** (interest, dividends and profits from PSUs, RBI surplus, fees, fines, grants). **Capital receipts** either **create a liability** or **reduce an asset**: borrowings (market loans, small savings, external loans), **recovery of loans**, and **disinvestment** proceeds. Revenue receipts are recurring and finance revenue expenditure; capital receipts are mostly non-recurring.

SOLUTION Q2(c) Budget deficits

Revenue deficit = 32 − 25 = **7**. Total expenditure = 32 + 10 = 42; receipts excluding borrowings = 25 + 2 = 27; **fiscal deficit = 42 − 27 = 15**. **Primary deficit** = 15 − 9 = **6** (₹ lakh crore). Interpretation: almost half of the borrowing (7 of 15) finances revenue expenditure, which is undesirable.

SOLUTION Q3(a) Functions of financial markets

(1) **Mobilisation of savings** and channelling them into productive investment; (2) **price discovery** of financial assets through demand and supply; (3) **liquidity** – investors can sell securities easily; (4) **reduction of transaction and information costs**; (5) **risk sharing and diversification** – derivatives, insurance; (6) **efficient allocation of capital** to the most productive uses; (7) supports **monetary policy** transmission (money market); (8) facilitates government borrowing. Components: money market (short-term) and capital market (long-term – primary and secondary).

SOLUTION Q3(b) RRBs and co-operative banks

Regional Rural Banks were set up from 1975 (RRB Act, 1976) to provide credit and banking services to **small and marginal farmers, agricultural labourers, artisans and small entrepreneurs** in rural areas. They are sponsored by a commercial bank and owned by the Central Government (50%), sponsor bank (35%) and State Government (15%); regulated by RBI and supervised by NABARD. **Co-operative banks** are owned by members and work on "**one member, one vote**" and mutual help. Rural structure: State Co-operative Banks → District Central Co-operative Banks → Primary Agricultural Credit Societies; urban co-operative banks serve towns. They are under dual control of the RBI (banking) and Registrar of Co-operative Societies (management), with RBI's powers strengthened by the Banking Regulation (Amendment) Act, 2020.

SOLUTION Q3(c) MSMEs

Under the MSMED Act (revised criteria from 1 April 2025 VERIFY), enterprises are classified on **investment in plant and machinery and turnover**: **micro** – investment up to ₹2.5 crore and turnover up to ₹10 crore; **small** – up to ₹25 crore and ₹100 crore; **medium** – up to ₹125 crore and ₹500 crore. **Initiatives:** (1) **Udyam registration** (online, free); (2) **CGTMSE** collateral-free credit guarantees; (3) **PM MUDRA Yojana** loans; (4) **TReDS** for invoice discounting; (5) **MSME Samadhaan** and payment within 45 days; (6) **PM Vishwakarma** for artisans; (7) public procurement preference (25% from MSEs).

SOLUTION Q4(a) Agricultural policy

Features: (1) **minimum support prices (MSP)** and procurement for food security; (2) **input subsidies** – fertiliser, power, irrigation; (3) **institutional credit** – Kisan Credit Card, NABARD, interest subvention; (4) **PM-KISAN** income support (₹6,000 a year); (5) **crop insurance** – PM Fasal Bima Yojana; (6) irrigation – PM Krishi Sinchayee Yojana ("Per Drop More Crop"); (7) **market reforms** – e-NAM national agricultural market, FPOs (farmer producer organisations); (8) soil health cards, technology and research; (9) promotion of allied activities – dairy, fisheries, horticulture.

SOLUTION Q4(b) New Industrial Policy, 1991

(1) **Abolition of industrial licensing** except for a few industries; (2) reduction of industries **reserved for the public sector**; (3) **disinvestment** of PSUs; (4) liberal **FDI** policy – automatic approval; (5) **MRTP** restrictions removed (later replaced by the Competition Act, 2002); (6) **foreign technology agreements** liberalised; (7) dereservation and support for small industries; (8) freedom of location (except near large cities). Together with trade and financial reforms, it began the era of **Liberalisation, Privatisation and Globalisation (LPG)**.

SOLUTION Q4(c) Balance of trade vs balance of payments

Basis	Balance of trade	Balance of payments
Meaning	Exports – imports of **goods** only	Record of **all** economic transactions with the world
Scope	Narrow – visible items	Wide – goods, services, income, transfers, capital flows
Part of	Current account of BoP	Includes current and capital accounts
Balance	Can be in surplus or deficit	Always balances in accounting sense
India	Usually a trade **deficit**	Current-account deficit partly met by capital inflows

Part II – Business Environment

SOLUTION Q5(a) Skill India Mission

Launched on **15 July 2015** (World Youth Skills Day) by the Ministry of Skill Development and Entrepreneurship to train youth in market-relevant skills. Components: (1) **PM Kaushal Vikas Yojana (PMKVY)** – short-term training and recognition of prior learning; (2) **National Skill Development Corporation (NSDC)** – public-private partnership funding training providers; (3) National Policy for Skill Development and Entrepreneurship, 2015; (4) **apprenticeship** promotion (NAPS); (5) Jan Shikshan Sansthans and ITIs; (6) **Skill India Digital Hub** (2023) VERIFY. Importance: harnesses the **demographic dividend**, improves employability and productivity and promotes entrepreneurship.

SOLUTION Q5(b) DPIIT state rankings

Since 2015 the **Department for Promotion of Industry and Internal Trade** ranks states and UTs under the **Business Reforms Action Plan (BRAP)**. States implement reforms on areas such as single-window clearance, land administration, construction permits, labour, environment, inspections, access to information, utility connections and paying taxes. Ranking is based on evidence of implementation and **user feedback** from businesses. Recent editions place states in categories – **Top Achievers, Achievers, Aspirers and Emerging Business Ecosystems** VERIFY. The exercise encourages **competitive federalism** and improves India's overall business climate.

SOLUTION Q5(c) Carbon Credit Trading Scheme, 2023

Notified by the Government in 2023 under the **Energy Conservation Act, 2001 (amended 2022)** to set up the **Indian Carbon Market**. (1) **Compliance mechanism** – energy-intensive "obligated entities" (e.g., aluminium, cement, steel, refineries) get **greenhouse-gas emission-intensity targets**; those beating targets earn **carbon credit certificates**, and those falling short must buy them; (2) **offset mechanism** – voluntary projects can earn credits; (3) the **Bureau of Energy Efficiency** is the administrator, the **Grid Controller of India** the registry and **CERC** regulates trading on power exchanges VERIFY; (4) helps India meet its NDC and net-zero 2070 goals at the lowest cost.

SOLUTION Q5(d) Challenges of AI

(1) **Job displacement** in routine work and the need for reskilling; (2) **bias** in algorithms trained on skewed data; (3) **data privacy and security** – compliance with the DPDP Act, 2023; (4) **high cost** and lack of skilled staff, especially for MSMEs; (5) **errors and "hallucinations"** – wrong outputs presented confidently; (6) **deepfakes**, misinformation and fraud; (7) **accountability** – who is liable for AI decisions; (8) intellectual property issues; (9) evolving and uncertain regulation. Businesses need responsible-AI policies, human oversight and audits.

SOLUTION Q6(a) Startup India

Launched on **16 January 2016** to build a strong start-up ecosystem. Key features: (1) **recognition by DPIIT** – entity up to 10 years old, turnover up to ₹100 crore, working on innovation or scalable models; (2) **tax benefits** – income-tax holiday for 3 of 10 years (Sec 80-IAC) for eligible start-ups; (3) **self-certification** under labour and environment laws; (4) **Fund of Funds for Start-ups** (₹10,000 crore, managed by SIDBI) and **Credit Guarantee Scheme for Start-ups**; (5) fast-track **patent** examination with fee rebates; (6) easier **public procurement**; (7) faster exit under IBC; (8) Startup India Seed Fund Scheme and incubators. India is now among the world's largest start-up ecosystems.

SOLUTION Q6(b) IBBI and CCI

IBBI (1 October 2016, IBC 2016): regulates **insolvency professionals, insolvency professional agencies, insolvency professional entities and information utilities**; frames regulations for corporate insolvency resolution, liquidation and voluntary liquidation; conducts the **Limited Insolvency Examination**; monitors performance and promotes awareness. **CCI** (Competition Act, 2002): (1) prohibits **anti-competitive agreements** (cartels, bid rigging – Sec 3); (2) prevents **abuse of dominant position** (Sec 4); (3) regulates **combinations** – mergers and acquisitions above thresholds, including deal-value thresholds (Sec 5–6); (4) competition advocacy; (5) imposes penalties.

SOLUTION Q6(c) NCLT and NCLAT

NCLT (Sec 408, Companies Act 2013; from 1 June 2016) hears matters such as oppression and mismanagement, class actions, compromises, arrangements and **mergers**, reduction of capital, conversion of public into private company, rectification of register, revival, winding up, and acts as the **adjudicating authority** for corporate insolvency and liquidation under the **IBC**. **NCLAT** (Sec 410) hears **appeals against orders of NCLT**, of the **CCI**, and of IBBI under certain provisions, and appeals on NFRA orders. Appeals against NCLAT orders lie to the **Supreme Court** on questions of law (within 60 days).

SOLUTION Q7(a) World Bank Group

(1) **IBRD** (1944) – loans to middle-income and creditworthy low-income countries; (2) **IDA** (1960) – interest-free or low-interest credits and grants to the **poorest** countries; (3) **IFC** (1956) – finances the **private sector** in developing countries; (4) **MIGA** (1988) – political-risk insurance and guarantees for foreign investors; (5) **ICSID** (1966) – settles **investment disputes** between governments and foreign investors. The IBRD and IDA together form the "World Bank". Headquarters: Washington DC. India is a founding member and a large borrower.

SOLUTION Q7(b) OECD and OPEC

OECD (Organisation for Economic Co-operation and Development, 1961, Paris) – a forum of 38 mostly high-income democracies that coordinates economic and social policies, collects data and sets standards (OECD Principles of Corporate Governance, BEPS tax project, AI principles). India is a **key partner**, not a member. **OPEC** (Organization of the Petroleum Exporting Countries, founded 1960 in Baghdad; HQ Vienna) – coordinates petroleum policies of member countries (Saudi Arabia, Iraq, Iran, UAE, Kuwait and others) to stabilise oil markets; **OPEC+** includes Russia and other producers. Its production decisions strongly affect India's import bill and inflation.

SOLUTION Q7(c) Paris Agreement

Adopted at **COP21 in 2015** under the UNFCCC, the Paris Agreement aims to keep global warming **well below 2°C** above pre-industrial levels and pursue **1.5°C**. Each country sets **Nationally Determined Contributions (NDCs)**, updated every five years, with a global stocktake, transparency framework and climate finance from developed countries. **India's commitments:** reduce **emissions intensity of GDP by 45%** from the 2005 level by 2030; about **50% of power capacity from non-fossil sources** by 2030; additional carbon sink of 2.5–3 billion tonnes; **net zero by 2070** (Panchamrit, COP26) VERIFY; Mission LiFE.

SOLUTION Q8(a) Ancient scriptures and governance

(1) **Kautilya's Arthashastra** – the king (leader) is a **trustee**: "in the happiness of his subjects lies the king's happiness"; it prescribes **accountability**, audit of accounts, punishment for embezzlement and independent officials – similar to modern controls. (2) **Bhagavad Gita** – duty (*karma*) performed without selfish attachment; leaders should act for the welfare of all (*lokasangraha*). (3) **Vedas and Upanishads** – truth (*satya*), righteousness (*dharma*), and "*sarve bhavantu sukhinah*" – welfare of all stakeholders. (4) **Ramayana** – rule of law and fairness (Ram Rajya). (5) **Thirukkural** – ethical earning and use of wealth. These ideas match modern pillars: **transparency, accountability, fairness and trusteeship** (also Gandhiji's trusteeship).

SOLUTION Q8(b) Models of corporate governance

Anglo-American (outsider) model – USA and UK: dispersed shareholding; **single-tier (unitary) board** with independent directors; strong stock markets and minority-shareholder protection; focus on **shareholder value**; market for corporate control (takeovers). **German (insider) model** – **two-tier board**: a **supervisory board** (with shareholder and employee representatives – co-determination) appoints and monitors the **management board**; banks hold large stakes; focus on **stakeholders** and long-term relationships. India follows mainly the Anglo-American model, with concentrated promoter holdings.

SOLUTION Q8(c) Stewardship

Stewardship is the responsibility of institutional investors (mutual funds, insurers, pension funds, AIFs) to **protect and enhance the long-term value** of their clients' investments by actively monitoring and engaging with investee companies. **SEBI's Stewardship Code** (applicable from 2020) has six principles: (1) formulate and disclose a **stewardship policy**; (2) policy on managing **conflicts of interest**; (3) **monitor** investee companies; (4) policy on **intervention** and collaboration with other investors; (5) clear **voting policy** and disclosure of voting; (6) **periodic reporting** of stewardship activities. ICSI has issued guiding principles on stewardship for company secretaries VERIFY.