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TEST - 1

CA FOUNDATION

QUESTION BOOKLET CODE: MKG

QUESTION PAPER BOOKLET NO. 1102021

(10-10-2021 3:00 P.M to 5:00 P.M)

Business Economics

CHAPTERS

Full Syllabus

Time allowed: 2 hours

Maximum Marks: 100

Instructions:

1. Answer to be given in OMR sheet
 2. Negative marking applies
-
1. Demand for commodity refers to:
 - (a) Desire backed by ability to pay for the commodity
 - (b) Need for the commodity and willingness to pay for it
 - (c) The quantity demanded of that commodity at a certain price
 - (d) The quantity of the commodity demanded at a certain price during any particular period of time
 2. On which of the following the Effective Demand for a thing depends?
 - (a) Desire
 - (b) Means to purchase (Ability to Buy)
 - (c) Willingness to use those means
 - (d) All of these
 3. Demand for Final Consumption arises in
 - (a) Household Sector only
 - (b) Either Household or Government Sector
 - (c) Neither Household nor Government Sector

- (d) Both Household and Government Sector
4. Demand for Intermediate Consumption arises in –
- (a) Household Consumers
 - (b) All Producing Sectors of the economy
 - (c) Government Enterprises only
 - (d) Corporate Enterprises only
5. The demand for factors of production is demand
- (a) Fundamental
 - (b) Market
 - (c) Joint
 - (d) Derived
6. Individual Demand is also called –
- (a) Household Demand
 - (b) Industrial Demand
 - (c) Market Demand
 - (d) All of the above
7. If $A = \text{Household Demand}$ and $B = \text{Market Demand}$, then –
- (a) $A < B$
 - (b) $A > B$
 - (c) $A = B = 0$
 - (d) None of the above
8. A relative price is _____
- (a) Price expressed in terms of money
 - (b) What you get paid for baby-sitting
 - (c) Equal to a money price
 - (d) The ratio of one money price to another
9. Industry Demand is also called –
- (a) Household Demand
 - (b) Market Demand

- (c) Individual Demand
- (d) All of the above

10. Which of the following influence most the price level in the very short-run period?

- (a) Supply
- (b) Cost
- (c) Production
- (d) Demand

11. When a consumer wants a product by seeing another person use that product, it is called –

- (a) Demonstration Effect
- (b) Disturbance Effect
- (c) Comparison Effect
- (d) Marshallian Effect

12. Contraction of demand is the result of:

- (a) Decrease in the number of consumers.
- (b) Increase in the price of the good concerned.
- (c) Increase in the price of other goods.
- (d) Decrease in the income of purchasers.

13. Complementary good are goods which are consumed –

- (a) Only when the goods are distributed as free compliment to the consumer
- (b) In place of one another
- (c) Together or simultaneously
- (d) Only at high income levels of consumer

14. Which of these is not a complementary good for Pen?

- (a) Wheat
- (b) Refills
- (c) Paper
- (d) Notebooks

15. If X and Y are Complementary Goods, if there is an increase in Price of X, then demand for good Y –

- (a) Directly related

- (b) Proportionally related
- (c) Inversely related
- (d) Any of the above

16. Substitute Goods are goods which can be used –

- (a) In place of one another
- (b) Only when the goods are used for a variety of purposes
- (c) Together or simultaneously
- (d) Only at high income levels of Consumer

17. Which of the following is an example of Substitutes?

- (a) Coffee and milk
- (b) Mustard Oil and Coconut Oil
- (c) Diamond and Cow
- (d) Pen and ink

18. If the price of Pepsi decreases relative to the Price of Coke and 7-Up, the demand for –

- (a) Coke will decrease
- (b) 7-up will decrease
- (c) Coke and 7-Up will decrease
- (d) Coke and 7- Up will increase

19. If x and y are Substitute Goods, if there is an increase in Price of X, then –

- (a) Demand of X will increase and Demand of Y will decrease
- (b) Demand of X and Y will increase
- (c) Demand of X will decrease and Demand of Y will increase
- (d) Demand of X and Y will decrease.

20. If income Levels increase, and the demand for goods increase by less than proportionate extent, such goods will be –

- (a) Inferior Goods
- (b) Luxury Goods
- (c) Nothing can be said
- (d) Necessary Goods

21. If Income Levels increase, and the demand for goods increase by more than proportionate extent, such goods will be
- (a) Luxury Goods
 - (b) Inferior Goods
 - (c) Necessary Good
 - (d) Nothing can be said
22. Demand Schedule shows the relation between –
- (a) Price and Quantity demanded
 - (b) Price and Quantity supplied
 - (c) Income and Quantity supplied
 - (d) Income and Quantity demanded
23. Demand Curve in most cases slopes –
- (a) Upward towards left
 - (b) Vertical and parallel to Y – axis
 - (c) Horizontal and parallel to X-axis
 - (d) Downward Towards right
24. Fall in quantity demanded of a product as a result of rise in Price is known as –
- (a) Change in Demand
 - (b) Expansion of Demand
 - (c) Alteration of Demand
 - (d) Contraction of Demand
25. In case of Expansion and Contraction of Demand, the Demand Curve
- (a) Remains the same
 - (b) Shifts to the right
 - (c) Shifts to the left
 - (d) None of the above
26. Increase in Demand leads to –
- (a) Inward shift of the Demand Curve
 - (b) Upward movement on the same Curve

- (c) Downward movement on the same Curve
- (d) Outward shift of the Demand Curve

27. Shift in demand does not take place due to –

- (a) Change in the price of the product
- (b) Change in the tastes and preferences
- (c) Change in consumer habits
- (d) Change in population

28. Suppose consumer tastes shift toward the consumption of apples. Which of the following statements is an accurate description of the impact of this event on the market for apples?

- (a) There is an increase in quantity demanded of apples and in supply of apples.
- (b) There is an increase in the demand for apples and an increase in the quantity supplied
- (c) There is an increase in the demand and supply of apples.
- (d) There is an increase in the demand for apples and a decrease in supply of apples.

29. The Law of Demand is –

- (a) A qualitative statement
- (b) A quantitative statement
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

30. The Law of Demand is a –

- (a) Normative Statement
- (b) Positive Statement
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

31. The Law of Demand is a principle relating to –

- (a) Micro-Economics
- (b) Macro-Economics
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

- 32.** The term “Ceteris Paribus” in the Law of Demand denotes –
- (a) All factors remaining constant
 - (b) All factors being variable
 - (c) All factors except one remaining constant
 - (d) All of the above
- 33.** What type of relationship exists between Price and Quantity Demanded?
- (a) Inverse
 - (b) Positive
 - (c) Direct
 - (d) Positional
- 34.** The total effect of a price change of a commodity is
- (a) Substitution Effect + Price Effect
 - (b) Substitution Effect + Demonstration Effect
 - (c) Substitution Effect minus Income Effect
 - (d) Substitution Effect + Income Effect
- 35.** If there is a decrease in the prices of a product, the Consumer’s Real Income –
- (a) Increases
 - (b) Decreases
 - (c) Remains Constant
 - (d) Nothing can be said
- 36.** The Law of Demand is explained by –
- (a) Law of Diminishing Marginal Utility
 - (b) Law of Indifference Curves
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b)
- 37.** In case of Giffen Goods, Demand Curve will slope –
- (a) Downward
 - (b) Upward
 - (c) Horizontal

(d) Vertical

38. Conspicuous Goods are also called –

- (a) Necessary Goods
- (b) Giffen Goods
- (c) Basic Goods
- (d) Prestige Goods

39. Conspicuous Goods –

- (a) Follow the Law of Demand
- (b) Are an exception the Law of Demand
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

40. Which of the following is not an exception to the Law of Demand?

- (a) Conspicuous Goods
- (b) Conspicuous Necessities
- (c) Giffen Goods
- (d) Normal Goods

41. Which one is not an assumption of the theory of demand based on analysis of indifference curve?

- (a) Given scale of preference as between different combinations of two goods.
- (b) Diminishing marginal rate of substitution
- (c) Constant marginal utility of money
- (d) Consumers would always prefer more of a particular good to less of it, other things remaining the same.

42. The aim of the consumer in allocating his income is to _____.

- (a) Maximum his total utility
- (b) Maximize his marginal utility.
- (c) To buy the goods he wants most whatever the price.
- (d) To buy the goods which he expects to be short in supply

43. All but one is the assumptions of the Cardinal Utility Theory. Which one is not the assumption?

- (a) Perfectly Competitive Market

- (b) Independent Utilities
- (c) Rational Consumer
- (d) Constant Marginal Utility of money

44. Total utility is maximum when:

- (a) Marginal utility is zero.
- (b) Marginal utility is at its highest point.
- (c) Marginal utility is negative
- (d) None of the above

45. Marginal utility can be started by –

- (a) $TU_n - TU_{n-1}$
- (b) Additional utility derived from additional unit of a commodity.
- (c) $\frac{\Delta TU}{\Delta Q}$
- (d) All the above

46. Total Utility can be calculated as –

- (a) $TU = \sum MU$
- (b) $TU = MU_1 + MU_2 + MU_3 + \dots + MU_n$
- (c) Both 'a' and 'b'
- (d) None of the above

47. TU starts diminishing when –

- (a) MU is negative
- (b) MU is constant
- (c) MU is positive
- (d) MU is increasing

48. What is called the point of satiety?

- (a) The point where $MU = 0$
- (b) None of these
- (c) The point where $MU > 0$
- (d) The point where $MU < 0$

49. The second glass of lemonade gives lessor satisfaction to a thirsty boy. This is a clear case of
- (a) Law of demand.
 - (b) Law of diminishing returns.
 - (c) Law of diminishing marginal utility.
 - (d) Law of supply.
50. MU curve of a consumer is also his _____
- (a) Supply curve
 - (b) Demand curve
 - (c) Indifference curve
 - (d) Total utility curve
51. The doctrine of consumer's surplus is based on _____
- (a) Law of Substitution
 - (b) Law of Diminishing Marginal Utility
 - (c) Elasticity of Demand
 - (d) Indifference Curve Analysis
52. Buyer's Surplus is highest in the case of _____
- (a) Necessaries
 - (b) Luxuries
 - (c) Comforts
 - (d) All the above
53. Consumer's surplus means –
- (a) Low price is prevailing
 - (b) Happiness of the consumer
 - (c) Difference between market price and individual price
 - (d) Difference between actual and potential price
54. Consumer's surplus is measured with the help of _____
- (a) Marginal utility curve
 - (b) None of these
 - (c) Market demand curve

- (d) Marginal productivity curve
55. An indifference curve slopes down towards right since more of one commodity and less of another result in:
- (a) Same level of satisfaction.
 - (b) Greater satisfaction.
 - (c) Maximum satisfaction.
 - (d) Any of the above
56. _____ depicts complete scale of consumer's tastes and preferences.
- (a) Indifference Map.
 - (b) Cardinal Approach.
 - (c) Ordinal Approach.
 - (d) Any of the above
57. On an indifference curve, the MRS falls when –
- (a) At the middle
 - (b) Moving upwards
 - (c) Moving downwards
 - (d) None of these
58. When an IC is L-shaped, then two goods will be –
- (a) Perfect Complementary Goods
 - (b) Complementary Goods
 - (c) Substitute Goods
 - (d) Perfect Substitute Goods
59. Which of the following is a property of an indifference curve?
- (a) It is convex of the origin.
 - (b) The marginal rate of substitution is constant as you move along an indifference curve.
 - (c) Marginal utility is constant as you move along an indifference curve.
 - (d) Total utility is greatest where the 45-degree line cuts the indifference curve.
60. If two goods were perfect substitutes of each other, the IC will be –
- (a) Right angled

- (b) Convex to origin
 - (c) Curvilinear
 - (d) linear
61. An indifference curve is _____
- (a) Upward sloping and convex to origin
 - (b) Vertical and parallel to Y– axis
 - (c) Downward sloping and convex to origin
 - (d) Downward sloping and concave to origin
62. IC theory assumes that –
- (a) The price of the goods is equal
 - (b) Buyers can measure satisfaction
 - (c) Buyers can identify preferred combinations of goods
 - (d) Buyers are unable to make preference between two goods
63. Slope of budget line is indicated by –
- (a) $P_x = P_y$
 - (b) $\frac{P_x}{P_y}$
 - (c) $\frac{P_y}{P_x}$
 - (d) All the above
64. _____ is a graphical representation of all possible combination of two goods which can be purchased given income and prices.
- (a) Consumption Possibility Line
 - (b) Budget Line
 - (c) Price Opportunity Line
 - (d) Indifference Curve
65. All combinations that lie on the budget line are _____
- (a) Attainable by consumer
 - (b) Unaffordable by consumer
 - (c) Affordable by consumer

(d) Both 'a' and 'b'

66. The budget line equation is –

(a) $P_x \times Q_x + P_y \times Q_y = M$

(b) $OQ_y = \frac{M}{P_y}$

(c) $OQ_x = \frac{M}{P_x}$

(d) None of these

67. In ONE COMMODITY case, the consumer is at equilibrium when –

(a) Marginal Utility of the good = Utility of the price paid

(b) $MU_x = P_x \times MU_m$

(c) $\frac{MU_x}{P_x} = MU_m$

(d) All the above

68. At the point of equilibrium on Indifference Curve –

(a) Slope of budget line < slope of IC

(b) Slope of budget line = slope of IC

(c) Slope of budget line > slope of IC

(d) None of the above

69. Maximization of total utility is an assumption of a consumer in an analysis that is

(a) Utility analysis

(b) Indifference curve approach

(c) Demand analysis

(d) All the above

70. Marginal utility of a commodity depends on its quantity and this MU is –

(a) Inversely proportional to its quantity

(b) Not proportional to its quantity

(c) Independent of its quantity

(d) None of the above

71. Economists regard decision making as important because:
- (a) The resources required to satisfy our unlimited wants and needs are finite, or scarce.
 - (b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.
 - (c) Resources have alternative uses.
 - (d) All the above
72. The meaning of the word 'Economics' is most closely connected with the word-
- (a) Unlimited
 - (b) Restricted
 - (c) Extravagant
 - (d) Scarce
73. Which of the following is the best general definition of the study of Economics?
- (a) Inflation and Unemployment in a growing economy
 - (b) Individual and Social Choice in the face of scarcity
 - (c) Business decision making under foreign competition
 - (d) The best way to invest in the stock market
74. What is the "Fundamental Premise" of Economics?
- (a) Individuals choose the alternatives for which they believe the net gains to be the greatest
 - (b) Natural Resources will always be scarce.
 - (c) Individuals are capable of establishing goals and acting in manner consistent with achievement of those goals
 - (d) No matter what the circumstances, individual choice always involves a trade – off
75. Resources are scarce in relation to –
- (a) Human Wants
 - (b) Firms Profit Motive
 - (c) Country's Social Goals
 - (d) All of the above
76. The branch of economic theory that deals with the problem of allocation of resources is
- (a) Micro-Economic theory

- (b) Macro-Economic theory
- (c) Econometrics
- (d) None of the above

77. Which of the following does not suggest a macro approach for India?

- (a) Determining the GNP of India.
- (b) Finding the causes of failure of ABC Ltd.
- (c) Identify the causes of inflation in India.
- (d) Analyze the causes of failure of industry in providing large scale employment

78. Macroeconomics is also called which kind of economics?

- (a) Applied
- (b) Aggregate
- (c) Experimental
- (d) None of the above

79. Business Economics is

- (a) Abstract and applies the tools of Microeconomics.
- (b) Involves practical application of economics theory in business decision making.
- (c) Incorporates tool from multiple disciplines.
- (d) (b) and (c) above

80. The process of selecting the appropriate alternative, that will provide the most efficient means of attaining specified objective, from two or more alternative course of actions available is called

- (a) Problem solving
- (b) Economics analysis
- (c) Managerial Expertise
- (d) Decision Making

81. Business economics is a science because –

- (a) It establishes cause and effect relationship
- (b) Integrates the tools of decision sciences
- (c) Follows scientific methods and empirically tests the validity of the results
- (d) All of the above

- 82.** Business Economics has a Pragmatic Approach which means it is not -
- (a) Abstract
 - (b) Practical
 - (c) Realistic
 - (d) All of the above
- 83.** Economics Theories are –
- (a) Accurate
 - (b) Factual
 - (c) Hypothetical
 - (d) Real
- 84.** Which of the following statement is incorrect?
- (a) Business economics is normative in nature.
 - (b) Business Economics has a close connection with statistics.
 - (c) Business Economists need not worry about macro variables.
 - (d) Business Economics is also called Managerial Economics.
- 85.** Business Decision making involves-
- (a) Whether the firm has to make the component or buy the components?
 - (b) Whether the firm has to shut down or continue in the business?
 - (c) What mix of debt and equity should the Firm use?
 - (d) All of the above
- 86.** Which of the following is not a tool/component of Business Economics?
- (a) Capital Budgeting
 - (b) Demand Analysis
 - (c) Break Even Point
 - (d) None of the above
- 87.** Which of the following is not the subject matter of Business Economics?
- (a) Should our firm be in this business?
 - (b) How much should be produced and at price should be kept?
 - (c) How will the product be placed in the market?

(d) How should we decrease unemployment in the economy?

88. Which of the following is not within the scope of Business Economics?

(a) Capital Budgeting

(b) Risk Analysis

(c) Business Cycles

(d) Accounting Standards

89. Integration of Economics theory with business practice is called –

(a) Managerial Economics

(b) Business Economics

(c) Applied Economics

(d) Pragmatic Economics

90. Which of the following statements is true?

(a) The economy has unlimited resources and there is a need for choosing the most efficient alternative.

(b) Decision making arises only if there is choice available

(c) Decisions are always taken under conditions of imperfect knowledge and uncertainty

(d) All of the above

91. Positive Science explains –

(a) “What was”

(b) “What ought to be”

(c) “What is”

(d) “What will”

92. The technique of predicting future demand for goods and services on the basis of the past behavior of factors is –

(a) Demand Forecasting

(b) Demand Analysis

(c) Demand optimization

(d) None of the above

93. Business Economics is also known as

(a) Applied Economics

- (b) Managerial Economics
- (c) Micro Economics
- (d) All of the above

94. Which is not included in business Economics?

- (a) Family Structure
- (b) Managerial Economics
- (c) Micro Economics
- (d) Macro Economics

95. Concept of Business Economics was given by:

- (a) Joel Dean
- (b) Alfred Marshall
- (c) Adam Smith
- (d) Lionel Robbins

96. Normative Economics is based on:

- (a) Ethical Considerations
- (b) Facts and Generalization
- (c) What is?
- (d) All of the above

97. Micro economics is also known as _____.

- (a) Public economics
- (b) Price theory.
- (c) Income theory
- (d) Demand theory.

98. Which of the following falls under micro economics?

- (a) National income
- (b) General price level
- (c) Factor pricing
- (d) National saving and investment

99. The central problem in economics is that of

- (a) Comparing the success of demand versus market economics.
- (b) Guaranteeing that production occurs in the most efficient manner.
- (c) Guaranteeing a minimum level of income for every citizen.
- (d) Allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.

100. The central problems arise in case of –

- (a) Developed Economies
- (b) Socialist Economies
- (c) Undeveloped Economies
- (d) All of the above