

M.K.G CA EDUCATION

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TEST-1

QUESTION BOOKLET CODE: MKG
QUESTION PAPER BOOKLET NO. 1072023

SET-A

ROLL NO.

CA FOUNDATION

(30-07-2023 3:00 P.M. TO 5:00 P.M.)

Business Economics and Business and Commercial Knowledge

Topics covered:

Demand, Market, Production and Cost

Time allowed: 2 hours

Maximum Marks: 100

Instructions:

1. Answer to be given in OMR sheet
2. Negative Marking Applies

1. Demand for a commodity refers to _____.

- (a) desire for the commodity
- (b) need for the commodity
- (c) quantity demanded of that commodity
- (d) quantity of the commodity demanded at a certain price during any particular period of time

2. 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 prices of other goods
 - (d) decrease in the income of purchasers
3. All but one of the following are assumed to remain the same while drawing an individual's Demand curve for a commodity. Which one is it?
 - (a) The preference of the individual
 - (b) His monetary income
 - (c) Price
 - (d) Price of related goods
4. Which of the following pairs of goods is an example of substitutes?
 - (a) Tea and sugar
 - (b) Tea and coffee
 - (c) Pen and ink
 - (d) Shirt and trousers
5. In the case of a straight-line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be.
 - (a) 0
 - (b) 1
 - (c) 1.5
 - (d) 2
6. The Law of Demand, assuming other things to remain constant, establishes the relationship between
 - (a) income of the consumer and the quantity of a good demanded by him
 - (b) price of a good and the quantity demanded
 - (c) price of a good and the demand for its substitute
 - (d) quantity demanded of a good and the relative prices of its complementary goods
7. Identify the factor, which generally keeps the price-elasticity of demand for a good low _____.
 - (a) variety of uses for that good
 - (b) its low price
 - (c) close substitutes for that good
 - (d) high proportion of the consumer's in-come spent on it
8. Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price _____.
 - (a) equal to one
 - (b) greater than one
 - (c) smaller than one
 - (d) zero

9. In the case of an inferior good, the income elasticity of demand is _____.
- (a) positive
 - (b) zero
 - (c) negative
 - (d) infinite
10. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the goods to _____.
- (a) remain the same
 - (b) increase
 - (c) decrease
 - (d) any of these
11. If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be _____.
- (a) horizontal
 - (b) vertical
 - (c) positively sloped
 - (d) negatively sloped
12. Suppose the price of Pepsi increase, we will expect the demand curve of Coca Cola to _____
- (a) shift towards left
 - (b) shift towards right
 - (c) initially shift towards left and then to right
 - (d) remain at the same level
13. All of the following are determinants of demand except _____.
- (a) tastes and preferences
 - (b) quantity supplied
 - (c) income
 - (d) price of related goods
14. A movement along the demand curve for soft drinks is best described as _____.
- (a) an increase in demand
 - (b) a decrease in demand
 - (c) a change in quantity demanded
 - (d) a change in demand
15. 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 increase
 - (d) Coke and 7-Up will decrease

16. If a good is a luxury, its income elasticity of demand is _____.
- (a) positive and less than 1
 - (b) negative but greater than -1
 - (c) positive and greater than 1
 - (d) zero
17. The price of hot dogs increases by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that demand for hot dogs is _____.
- (a) elastic
 - (b) inelastic
 - (c) unitarily elastic
 - (d) perfectly elastic
18. If the quantity demanded of beef increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is _____.
- (a) -0.25
 - (b) 0.25
 - (c) -4
 - (d) 4
19. Given the following four possibilities, which one results in an increase in total consumer expenditures?
- (a) Demand is unitary elastic and price falls.
 - (b) Demand is elastic and price rises.
 - (c) Demand is inelastic and price falls.
 - (d) Demand is inelastic and prices rises.
20. The price elasticity of demand for hamburger is _____.
- (a) the change in the quantity demanded of hamburger when hamburger increases by 30 paise per rupee
 - (b) the percentage increase in the quantity demanded of hamburger when the price of hamburger falls by 1 percent per rupee
 - (c) the increase in the demand for hamburger when the price of hamburger falls by 10 percent per rupee
 - (d) the decrease in the quantity demanded of hamburger when the price of hamburger falls by 1 percent per rupee
21. The price elasticity of demand is defined as the responsiveness _____.
- (a) price to a change in quantity demanded
 - (b) quantity demanded to a change in price
 - (c) price to a change in income
 - (d) price demanded to a change in income

22. Suppose the price of movies seen at a theatre rises from 120 per person to 200 per person. The theatre manager observes that the rise in price because attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies?
- (a) 0.5
 - (b) 0.8
 - (c) 1.0
 - (d) 1.2
23. Suppose a department store has a sale on at silverware, if the price of a plate-setting is reduced from ₹300 to ₹200 and the quantity demanded increase from 3,000 plate-sittings to 5,000 plate-sittings, what is the price elasticity of demand for silverware?
- (a) 0.8
 - (b) 1.0
 - (c) 1.25
 - (d) 1.50
24. A discount store has a special offer on CDs. It reduces their price from ₹150 to ₹100. Suppose the store manager observes that the quantity demanded increases from 700 CDs to 1,300 CDs. What is the price elasticity of demand for CDs?
- (a) 8
 - (b) 1.0
 - (c) 1.2
 - (d) 1.50
25. If the local pizzeria raises the price of a medium pizza from ₹ 60 to ₹100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is _____.
- (a) 0.67
 - (b) 1.5
 - (c) 2.0
 - (d) 3.0
26. Which of the following is considered production in Economics?
- (a) Tilling of soil
 - (b) Singing a song before friends
 - (c) Preventing a child from falling into a manhole on the road
 - (d) Painting a picture for pleasure
27. Identify the correct statement.
- (a) The average product is at its maximum when marginal product is equal to average product
 - (b) The law of increasing returns to scale relates to the effect of changes in factor proportions
 - (c) Economies of scale arise only because of invisibilities of factor proportions
 - (d) Internal economies of scale can accrue only to the exporting sector

28. Which of the following is not a characteristic of land?
- (a) Its supply for the economy is limited
 - (b) It is immobile
 - (c) Its usefulness depends on human efforts
 - (d) It is produced by our forefathers
29. Which of the following statement is true?
- (a) Accumulation of capital depends solely on income
 - (b) Savings can also be affected by the State
 - (c) External economies go with size and internal economies with location
 - (d) The supply curve of labour is an upward sloping curve
30. In the production of wheat, all of the following are variable factors that are used by the farmer except _____.
- (a) the seed and fertilizer used when the crop is planted
 - (b) the field that has been cleared of trees and in which the crop is planted
 - (c) the tractor used by the farmer in planting and cultivating not only wheat but also Com and barley
 - (d) the number of hours that the farmer spends in cultivating the wheat fields internal economies with location
31. The marginal product of a variable input is best described as _____.
- (a) total product divided by the number of units of variable input
 - (b) the additional output resulting from a one-unit increase in the variable input
 - (c) the additional output resulting from a one-unit increase in both the variable and fixed inputs
 - (d) the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used
32. Diminishing marginal returns implies _____.
- (a) decreasing average variable costs
 - (b) decreasing marginal costs
 - (c) increasing marginal costs
 - (d) decreasing average fixed costs
33. The short run, as economists use the phrase, is characterized by _____.
- (a) at least one fixed factor of production and firms neither leaving nor entering the industry
 - (b) a period where the law of diminishing returns does not hold
 - (c) no variable inputs - that is all of the factors of production are fixed
 - (d) all inputs being variable

34. The marginal, average and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except _____.
- (a) when total product is rising, average and marginal product may be either rising or falling
 - (b) when marginal product is negative, total product and average product are falling
 - (c) when average product is at a maximum, marginal product equals average product and total product is rising
 - (d) when marginal product is at a maximum, average product equals marginal product and total product is rising
35. To economists, the main difference between the short run and the long run is that _____.
- (a) in the short run, all inputs are fixed, while in the long run all inputs are variable
 - (b) in the short run, the firm varies all of its inputs to find the least cost combination of inputs
 - (c) in the short run, at least one of the firm's input levels is fixed
 - (d) in the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently
36. Which of the following is the best definition of the "production function"?
- (a) The relationship between market price and quantity supplied
 - (b) The relationship between the firm's total revenue and the cost of production
 - (c) The relationship between the quantities of inputs needed to produce a given level of output
 - (d) The relationship between the quantity of inputs and the firm's marginal cost of production
37. The "law of diminishing returns" applies to _____
- (a) the short run, but not the long run
 - (b) the long run, but not the short run
 - (c) both the short run and the long run
 - (d) neither the short run nor the long run
38. Diminishing returns occur _____.
- (a) when units of a variable input are added to a fixed input and total product falls
 - (b) when units of a variable input are added to a fixed input and marginal product falls
 - (c) when the size of the plant is increased in the long run
 - (d) when the quantity of the fixed input is increased and returns to the variable input falls

Use the following information to answer questions 39-41.

Hours Labour	Total of Output	Marginal Product
0	-	-
1	100	100
2	-	80
3	240	-

39. What is the total output when 2 hours of labour are employed?
- (a) 80
 - (b) 100
 - (c) 180
 - (d) 200
40. What is the marginal product of the third hour of labour?
- (a) 60
 - (b) 80
 - (c) 100
 - (d) 240
41. What is the average product of the first three hours of labour?
- (a) 60
 - (b) 80
 - (c) 100
 - (d) 240
42. Which cost increases continuously with the increase in production?
- (a) Average cost
 - (b) Marginal cost
 - (c) Fixed cost
 - (d) Variable cost
43. Which of the following cost curves is never 'U' shaped?
- (a) Average cost curve
 - (b) Marginal cost curve
 - (c) Average variable cost curve
 - (d) Average fixed cost curve
44. Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?
- (a) Cost of raw materials
 - (b) Cost of equipment
 - (c) Interest payment on past borrowings
 - (d) Payment of rent on building
45. In the short run, when the output of a firm increases, its average fixed cost _____.
- (a) increases
 - (b) decreases
 - (c) remains constant
 - (d) first declines and then rises

46. Which one of the following is also known as planning curve?
- Long run average cost curve
 - Short-run average cost curve
 - Average variable cost curve
 - Average total cost curve
47. The cost of one thing in terms of the alternative given up is known as _____.
- production cost
 - physical cost
 - real cost
 - opportunity cost
48. With which of the following is the concept of marginal cost closely related?
- Variable cost
 - Fixed cost
 - Opportunity cost
 - Economic cost
49. Which of the following statements is correct?
- When the average cost is rising, the marginal cost must also be rising
 - When the average cost is rising, the marginal cost must be falling
 - When the average cost is rising, the marginal cost is above the average cost
 - When the average cost is falling, the marginal cost must be rising
50. Which of the following is an example of an “explicit cost”?
- The wages a proprietor could have made by working as an employee of a large firm
 - The income that could have been earned in alternative uses by the resources owned by the firm
 - The payment of wages by the firm
 - The normal profit earned by a firm
51. Which of the following is an example of an “implicit cost”?
- Interest that could have been earned on retained earnings used by the firm to finance expansion
 - The payment of rent by the firm for the building in which it is housed
 - The interest payment made by the firm for funds borrowed from a bank
 - The payment of wages by the firm

Use the following data to answer questions 52-54.

Output	Total Cost
0	240
1	330
2	410

3	480
4	540
5	610
6	690

52. The average fixed cost of 2 units of output is _____.
- (a) ₹80
(b) ₹85
(c) ₹120
(d) ₹205
53. The marginal cost of the sixth unit of output is _____.
- (a) ₹133
(b) ₹75
(c) ₹80
(d) ₹450
54. Diminishing marginal returns starts to occur between units _____.
- (a) 2 and 3
(b) 3 and 4
(c) 4 and 5
(d) 5 and 6
55. Marginal cost is defined as _____.
- (a) the change in total cost due to a one unit change in output
(b) total cost divided by output
(c) the change in output due to a one unit change in an input
(d) total product divided by the quantity of input
56. Which of the following is true of the relationship between the marginal cost function and the average cost functions?
- (a) If MC is greater than ATC, then ATC is falling
(b) The ATC curve intersects the MC curve at minimum MC
(c) The MC curve intersects the ATC curve at minimum ATC
(d) If MC is less than ATC, then ATC is increasing
57. Which of the following statements is true of the relationship among the average cost functions?
- (a) $ATC = AFC - AVC$
(b) $AVC = AFC + ATC$
(c) $AFC = ATC + AVC$
(d) $AFC = ATC - AVC$

58. Which of the following is not a determinant of the firm's cost functions?
- (a) The production function
 - (b) The price of labour
 - (c) Taxes
 - (d) The price of the firm's output
59. Which of the following statements is correct concerning the relationships among the firm's cost function?
- (a) $TC = TFC - TVC$
 - (b) $TVC = TFC - TC$
 - (c) $TFC = TC - TVC$
 - (d) $TC = TVC - TFC$
60. Suppose output increases in the short run. Total cost will _____.
- (a) increase due to an increase in fixed costs only
 - (b) increase due to an increase in variable costs only
 - (c) increase due to an increase in both fixed and variable costs
 - (d) decrease if the firm is in the region of diminishing returns
61. Which of the following statements concerning the long-run average cost curve is false?
- (a) It represents the least cost input combination for producing each level of output
 - (b) It is derived "from a series of short-run average cost curves
 - (c) The short-run cost curve at the minimum point of the long-run average cost curve represents the least cost plant size for all levels of output
 - (d) As output increases, the amount of capital employed by the firm increases along the curve
62. The negatively sloped (i.e., falling) part of the long-run average total cost curve is due to which of the following?
- (a) Diseconomies of scale
 - (b) Diminishing returns
 - (c) The difficulties encountered in coordinating the many activities of a large firm
 - (d) The increase in productivity that results from specialization
63. The positively sloped (i.e., rising) part of the long run average total cost curve is due to which of the following?
- (a) Diseconomies of scale
 - (b) Diminishing returns
 - (c) The firm being able to take advantage of large-scale production techniques as it expands its output
 - (d) The increase in productivity that results from specialization

64. A firm's average total cost is ₹300 at 5 units of output and ₹320 at 6 units of output. The marginal cost of producing the 6th unit is _____.
- (a) 20
 - (b) 120
 - (c) 320
 - (d) 420
65. A firm producing 7 units of output has an average total cost of ₹150 and has to pay ₹350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?
- (a) ₹200
 - (b) ₹50
 - (c) ₹300
 - (d) ₹100
66. A firm has a variable cost of ₹1000 at 5 units of output. If fixed costs are ₹400, what will be the average total cost at 5 units of output?
- (a) ₹280
 - (b) ₹60
 - (c) ₹120
 - (d) ₹ 1400
67. A firm's average fixed cost is ₹20 at 6 units of output. What will it be at 4 units of output?
- (a) ₹60
 - (b) ₹30
 - (c) ₹40
 - (d) ₹20
68. Which of the following statements is true?
- (a) The services of a doctor are considered production
 - (b) Man can create matter
 - (c) The services of a housewife are considered production
 - (d) When a man creates a table, he creates matter
69. Which of the following is a function of an entrepreneur?
- (a) Initiating a business enterprise
 - (b) Risk bearing
 - (c) Innovating
 - (d) All of the above
70. In describing a given production technology, the short run is best described as lasting _____.
- (a) up to six months from now
 - (b) up to five years from now
 - (c) as long as all inputs are fixed
 - (d) as long as at least one input is fixed

71. If decreasing returns to scale are present, then if all inputs are increased by 10% then _____.
- output will also decrease by 10%
 - output will increase by 10%
 - output will increase by less than 10%
 - output will increase by more than 10%
72. The production function is a relationship between a given combination of inputs and _____.
- another combination that yields the same output
 - the highest resulting output
 - the increase in output generated by one unit increase in one output
 - all levels of output that can be generated by those inputs
73. If the marginal product of labour is below the average product of labour, it must be true that _____.
- the marginal product of labour is negative
 - the marginal product of labour is zero
 - the average product of labour is falling
 - the average product of labour is negative
74. The average product of labour is maximized when marginal product of labour _____.
- equals the average product of labour
 - equals zero
 - is maximized
 - none of the above
75. The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that
- the technology is changing
 - there must be some inputs whose quantity is kept fixed
 - we consider only physical inputs and not economic profitability in monetary terms
 - the technology is given and stable
76. In the below table, what will be equilibrium market price _____.

Price (₹)	Demand (tones per annum)	Supply (tones per annum)
1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900

7	400	1000
8	300	1100

- (a) ₹2
 (b) ₹3
 (c) ₹4
 (d) ₹5
77. Assume that when price is ₹20, quantity demanded is 9 units, and when price is ₹19, quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units?
 (a) ₹20
 (b) ₹19
 (c) ₹10
 (d) ₹1
78. Assume that when price is ₹20, quantity demanded is 15 units, and when price is ₹18, quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
 (a) ₹18
 (b) ₹16
 (c) ₹12
 (d) ₹28
79. Suppose, a firm is producing a level of output such that $MR > MC$. What should be firm do to maximize its profits?
 (a) The firm should do nothing
 (b) The firm should hire less labour
 (c) The firm should increase price
 (d) The firm should increase output
80. Marginal Revenue is equal to _____.
 (a) the change in price divided by the change in output
 (b) the change in quantity divided by the change in price
 (c) the change in $P \times Q$ due to a one unit change in output
 (d) price, but only if the firm is a price searcher
81. Suppose that a sole proprietorship is earning total revenues of ₹1,00,000 and is incurring explicit costs of ₹75,000. If the owner could work for another company for ₹30,000 a year, we would conclude that _____
 (a) the firm is incurring an economic loss
 (b) implicit costs are ₹25,000
 (c) the total economic costs are ₹1,00,000
 (d) the individual is earning an economic profit of ₹25,000

82. Which of the following is not an essential condition of pure competition?
- (a) Large number of buyers and sellers
 - (b) Homogeneous product
 - (c) Freedom of entry
 - (d) Absence of transport cost
83. What is the shape of the demand curve faced by a firm under perfect competition?
- (a) Horizontal
 - (b) Vertical
 - (c) Positively sloped
 - (d) negatively sloped
84. Which is the first order condition for the firm profit is to be maximum _____.
- (a) $AC = MR$
 - (b) $MC = MR$
 - (c) $MR = AR$
 - (d) $AC = AR$
85. Which of the following is not a characteristic of a “price taker”?
- (a) $TR = P \times Q$
 - (b) $AR = \text{Price}$
 - (c) Negatively-sloped demand curve
 - (d) Marginal Revenue-Price
86. Which of the following statements is false?
- (a) Economic costs include the opportunity costs of the resources owned by the firm
 - (b) Accounting costs include only explicit costs
 - (c) Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs
 - (d) Accounting profit is equal to total revenue less implicit costs
87. With a given supply curve, a decrease in demand causes _____.
- (a) an overall decrease in price but an increase in equilibrium quantity
 - (b) an overall increase in price but a decrease in equilibrium quantity
 - (c) an overall decrease in price and a decrease in equilibrium quantity
 - (d) no change in overall price but a reduction in equilibrium quantity
88. It is assumed in economic theory that _____.
- (a) decision making within the firm is usually undertaken by managers, but never by the owners
 - (b) the ultimate goal of the firm is to maximize profits, regardless of firm size or type of business organization
 - (c) as the firms size increases, so do its goals
 - (d) the basic decision making unit of any firm is its owners

89. Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude with certainty that equilibrium _____.
- (a) price will increase
 - (b) price will decrease
 - (c) quantity will increase
 - (d) quantity will decrease
90. Suppose that the supply of cameras increases due to an increase in foreign imports. Which of the following will most likely occur?
- (a) The equilibrium price of cameras will increase
 - (b) The equilibrium quantity of cameras exchanged will decrease
 - (c) The equilibrium price of camera film will decrease
 - (d) The equilibrium quantity of camera film exchanged will increase
91. Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be _____.
- (a) an increase in equilibrium price and quantity
 - (b) a decrease in equilibrium price and quantity
 - (c) an increase in equilibrium quantity and uncertain effect on equilibrium price
 - (d) a decrease in equilibrium price and increase in equilibrium quantity
92. Suppose the technology for producing personal computers improves, and at the same time, individuals discover new uses for personal computers, so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?
- (a) Price will increase; quantity cannot be determined.
 - (b) Price will decrease; quantity cannot be determined.
 - (c) Quantity will increase; price cannot be determined.
 - (d) Quantity will decrease; price cannot be determined.
93. Which of the following is not a condition of perfect competition?
- (a) A large number of firms.
 - (b) Perfect mobility of factors.
 - (c) Informative advertising to ensure that consumers have good information.
 - (d) Freedom of entry and exit into and out of the market.
94. Which of the following is not a characteristic of a perfectly competitive market?
- (a) Large number of firms in the industry
 - (b) Outputs of the firms are perfect substitutes for one another
 - (c) Firms face downward-sloping demand curves
 - (d) Resources are very mobile

95. Which of the following is not a characteristic of monopolistic competition?
- (a) Ease of entry into the industry
 - (b) Product differentiation
 - (c) A relatively large number of sellers
 - (d) A homogeneous product
96. All of the following are characteristics of a monopoly except _____.
- (a) there is a single firm
 - (b) the firm is a price taker
 - (c) the firm produces a unique product
 - (d) the existence of some advertising
97. Oligopolistic industries are characterized by _____.
- (a) a few dominant firms and substantial barriers to entry
 - (b) a few large firms and no entry barriers
 - (c) a large number of small firms and no entry barriers
 - (d) one dominant firm and low entry barriers
98. Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be “small” relative to the market. Which of the following best describes this smallness?
- (a) The individual firm must have fewer than 10 employees
 - (b) The individual firm faces a downward-sloping demand curve
 - (c) The individual firm has assets of less than ₹20 lakh
 - (d) The individual firm is unable to affect market price through its output decisions
99. For the price-taking firm _____.
- (a) marginal revenue is less than price
 - (b) marginal revenue is equal to price
 - (c) marginal revenue is greater than price
 - (d) the relationship between marginal revenue and price is indeterminate
100. Monopolistic competition differs from perfect competition primarily because _____.
- (a) in monopolistic competition, firms can differentiate their products
 - (b) in perfect competition, firms can differentiate their products
 - (c) in monopolistic competition, entry into the industry is blocked
 - (d) in monopolistic competition, there are relatively few barriers to entry

SPACE FOR ROUGH WORK