

# **M.K.G CA EDUCATION**

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## **TEST-3**

**QUESTION BOOKLET CODE: MKG  
QUESTION PAPER BOOKLET NO. 3102023**

## **SET-A**

**ROLL NO. ....**

## **CA FOUNDATION**

**(08-10-2023 3:00 P.M. TO 5:00 P.M.)**

**Business Economics and Business and Commercial Knowledge**

**Topics covered:**

**Complete Business Economics**

**Time allowed: 2 hours**

**Maximum Marks: 100**

### **Instructions:**

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

1. Change in Scale means that all Factors of Production are increased or decreased –
  - (a) In different proportions
  - (b) In the same proportion
  - (c) To infinity
  - (d) None of the above
  
2. If Mangoes from Andhra Pradesh are available for Sale in Delhi, it refers to creation of –
  - (a) Form Utility
  - (b) Place Utility
  - (c) Time Utility
  - (d) Personal Utility
  
3. In describing a given 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
  
4. Cobb Douglas function is given by  $Q = KL^{\alpha}C^{\beta}$ 
  - (a) If  $\alpha + \beta > 1$ , increasing returns
  - (b) If  $\alpha + \beta > 1$ , increasing returns to scale
  - (c) If  $\alpha + \beta < 1$ , diminishing returns
  - (d) If  $\alpha + \beta = 1$ , decreasing returns to scale.
  
5. The Marginal Product of 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
  - (c) The additional output resulting from a one unit increase in the both the variable and fixed input.
  - (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
  
6. In agriculture, the land area is taken as constant, while number of workers can be increased. If we apply the law of Variable Proportions in this situation, it means that the Variable Factor of Production is –
  - (a) Number of workers
  - (b) Land
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
  
7. Generally perishable goods like butter, eggs, milk and vegetables etc., will have
  - (a) Regional market
  - (b) Local market
  - (c) National market
  - (d) None of the above

8. Under monopoly price discrimination depends upon:

- (a) Elasticity of demand for commodity
- (b) Elasticity of supply for commodity
- (c) Size of market
- (d) All of above

9. Marginal revenue can be defined as the change in total revenue resulting from the:

- (a) Purchase of an additional unit of a commodity
- (b) Sales of an additional unit of a commodity
- (c) Sale of subsequent units of a product
- (d) None of the above

10. Total Revenue=

- (a) Money which a Firm realizes by selling certain units of a commodity
- (b) Revenue earned per unit of output
- (c) Change in Total Revenue (TR) resulting from the sale of an additional unit of the commodity
- (d) None of the above

11. If Total Revenue= Rs.2,00,000 when 40,000 units are sold, then Average Revenue=

- (a) Rs. 1,00,000
- (b) Rs. 20,000
- (c) Rs. 5
- (d) Rs. 1,20,000

12. Based on nature of transactions, a market may be classified into:

- (a) Spot market and future market
- (b) Regulated market and unregulated market
- (c) Wholesale market and retail market
- (d) Local market and national market

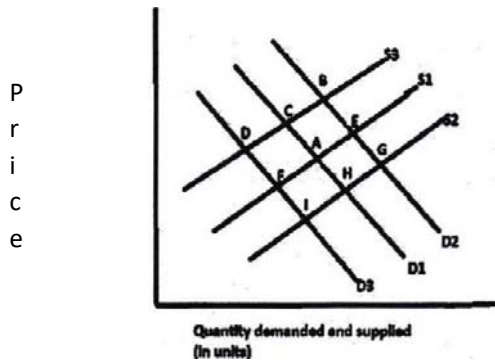
13. If Marginal Revenue = MR, Average Revenue = AR, and Price Elasticity of Demand= 'e' which of the following is correct?

- (a)  $MR=AR \times \frac{e-1}{e}$
- (b)  $AR=MR \times \frac{e-1}{e}$
- (c)  $MR = AR \times \frac{e}{e-1}$
- (d)  $AR=MR \times \frac{e}{e-1}$

14. Suppose consumer taste shifts in favour of mangoes. As a result, equilibrium quantity will \_\_\_\_\_ and equilibrium price will \_\_\_\_\_

- (a) Increase, decrease
- (b) Decrease, increase
- (c) Increase, increase
- (d) Decrease, decrease

**D1 and S1 are the original demand and supply curves. D2, D3, S2 and S3 are possible new demand and supply curves. Starting from initial equilibrium point (A), what point on the graph is most likely to result from each change given in Questions 15 to 18**



15. Assume Z is a normal good. Holding everything else constant, assume that income rises and the price of a factor of production also increases. What point in the figure above is most likely to be the new equilibrium price and quantity?
- The new demand and supply of Z will meet at a point C
  - The new demand and supply of Z will meet at a point B
  - The new demand and supply of Z will meet at a point I
  - The new demand and supply of Z will meet at a point D
16. Assume We are analysing the market for good X. The price of a complement good, good Y, declines. At the same time, there is technological advancement in the production of good X. What point the figure above is most likely to be the new equilibrium price and quantity?
- The new demand and supply of X will meet at a point A
  - The new demand and supply of X will meet at a point F
  - The new demand and supply of X will meet at a point G
  - The new demand and supply of X will meet at a point H
17. Heavy rains in West Bengal during cyclone, Amphan caused havoc with the rice crop. What point in the figure above is most likely to be the new equilibrium price and quantity.
- Supply of rice falls; demand for rice falls; new equilibrium point will be D
  - Supply of rice falls; no change in demand; new equilibrium point will be C
  - Supply of rice increases; demand for rice falls; new equilibrium point will be H
  - Supply of rice falls; demand for rice increases; new equilibrium point will be B
18. Assume that consumers expect the prices of electrical appliances to significantly increase next year. What point in the figure above is most likely to be the new equilibrium price and quantity?
- Demand shifts to right; supply remains constant; new equilibrium point will be E
  - Demand shifts to left; supply remains constant; new equilibrium point will be C
  - Demand shifts to left; supply shifts to right; new equilibrium point will be I
  - Demand shifts to right; supply shifts to right; new equilibrium point will be G

**Suppose the demand and supply curves of commodity X are given as below:  
Answer question 19 and 20 using the given information.  $Q_d = 1000 - P$**

$$Q_s = 700 + 2P$$

19. What is the equilibrium price and quantity?
- Equilibrium Price = Rs. 50 and Equilibrium Quantity = 500 units
  - Equilibrium Price = Rs.100 and Equilibrium Quantity = 900 units
  - Equilibrium Price = Rs.150 and Equilibrium Quantity = 600 units
  - Equilibrium Price = Rs.200 and Equilibrium Quantity = 800 units
20. What will be the new equilibrium price and equilibrium quantity, if the new supply curve is given as:  $Q_s = 400 + 2P$ ?
- Equilibrium Price = Rs. 250 and Equilibrium Quantity = 900 units
  - Equilibrium Price = Rs. 100 and Equilibrium Quantity = 600 units
  - Equilibrium Price = Rs. 200 and Equilibrium Quantity = 800 units
  - Equilibrium Price = Rs. 350 and Equilibrium Quantity = 700 units
21. In the context of Oligopoly, the kinked demand hypothesis is designed to explain:
- Price and output determination
  - Price rigidity
  - Price leadership
  - Collusion among rivals
22. If oligopolist engages in collusion and successfully form a cartel, the market outcome is:
- The same as if it were served by a monopoly
  - The same as if it were served by a monopolistic firm
  - The same as if it were served by a perfectly competitive firm
  - Efficient because cooperation improves efficiency
23. Price discrimination is profitable only when:
- Different markets are kept separate
  - Distance between the consumer and the market is more
  - Elasticity of demand in different markets is different
  - The consumers are segregated on the basis of their purpose of use of the commodity.
24. When \_\_\_\_\_ there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.
- $MC=MR$
  - $MC=AC$
  - $MC=AR$
  - $AR=MR$

25. Last stage of recession is called:

- (a) Depression
- (b) Recovery
- (c) Slowdown
- (d) All of these

26. Business cycle is contagious and .....in character?

- (a) Local
- (b) Regional
- (c) National
- (d) International

27. ....is the measurable economic factor that changes before economy starts to follow a particular pattern or trend.

- (a) Leading indicator
- (b) Lagging indicator
- (c) Concurrent indicator
- (d) Coincident indicators

28. At the time of Great Depression of 1930 , GDP fell around

- (a) 14%
- (b) 15%
- (c) 20%
- (d) 25%

29. Choose the correct order of the phases of the business cycles:

- (a) Peak, recession, trough and depression
- (b) Peak, recession, trough and boom
- (c) Peak, depression, trough and boom
- (d) Peak, depression, burst and boom

30. Which Internal factor affect the Business cycle?

- (a) Fluctuations in investment
- (b) Natural factors
- (c) Technology shocks
- (d) Population growth

31. Ram: My corn harvest this year is poor.

Krishan: Don't worry. Price increase will compensate for the fall in quantity supplied.

Vinod: Climate affects crop yields. Some years are bad, other are good.

Madhu: The Governments ought to guarantee that our income will not fall.

In this conversation, the normative statement is made by

- a) Ram
- b) Krishan
- c) Vinod
- d) Madhu

32. The difference between positive and normative Economics is:

- a) Positive Economics explains the performance of the economy while normative Economics finds out the reason for poor performance.
- b) Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.
- c) Normative Economics describes the fact of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people
- d) Positive Economics prescribes while normative Economics describes.

33. Administered prices refer to:

- a) Prices determined by forces of demand and supply
- b) Prices determined by sellers in the market
- c) Price determined by an external authority which is usually the government
- d) None of the above

34. Consider the following and decide which economy, if any is without scarcity –

- (a) The pre-independent Indian economy, where most people were farmers
- (b) A mythical economy where everybody is a rich person
- (c) Any economy where income is distributed equally among its people
- (d) None of the above

35. Which of the following is a normative statement?

- (a) Planned economics allocate resources via government departments.
- (b) Most transitional economics have experienced problems of falling output and rising prices over the past decade.
- (c) There is a greater degree of consumer sovereignty in market economies than planned economies.
- (d) Reducing inequality should be a major priority for mixed economics.

36. Distribution and Sharing of National Product relates to the problem of –

- (a) What to Produce?
- (b) How to Produce?
- (c) For whom to produce?
- (d) How to provide for growth?

37. When the numerical value of cross elasticity between two goods is very high, it means

- a) The goods are perfect complements and therefore have to be used together.
- b) The goods are perfect substitutes and can be used with ease in place of one another.
- c) There is a high degree of substitutability between the two goods.
- d) The goods are neutral and therefore cannot be considered as substitutes.

38. The consumer is in equilibrium at a point where the budget line:

- a) Is above an indifference curve
- b) Is below an indifference curve
- c) Is tangent to an indifference curve
- d) Cuts an indifference curve

39. Which of the following statements is incorrect?

- a) An indifference curve must be downward-sloping to the right.
- b) Convexity of a curve implies that the slope of the curve diminishes as one moves from the left to right.
- c) The income elasticity for inferior goods to a consumer is positive.
- d) The total effect of a change in the price of a good on its quantity demanded is called the price effect.

40. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:

- a) Zero
- b) Infinity
- c) Equal to one
- d) Greater than zero but less than infinity

41. When income increases the money spent on necessities of life may not increase in the same proportion, This means:

- a) Income elasticity of demand is zero.
- b) Income elasticity of demand is one.
- c) Income elasticity of demand is greater than one
- d) Income elasticity of demand is less than one.

42. A good which cannot be consumed more than once is known as

- a) Durable good
- b) Non-durable good
- c) Producer good
- d) None of the above

43. Demand is the

- a) The desire for a commodity given its price and those of related commodities
- b) The entire relationship between the quantity demanded and the price of a good other things remaining the same.
- c) Willingness to pay for a good if income is larger enough
- d) Ability to pay for a good.

44. Supply is the

- a) Limited resources that are available with the seller.
- b) Cost of producing a good.
- c) Entire relationship between the quantity supplied and the price of good.
- d) Willingness to produce a good if the technology to produce it becomes available.



45. The elasticity of supply is defined as the

- a) Responsiveness of the quantity supplied of a good to a change in its price.
- b) Responsiveness of the quantity supplied of a good without change in its price.
- c) Responsiveness of the quantity demanded of a good to a change in its price.
- d) Responsiveness of the quantity demanded of a good without change in its price

46. The supply function is given as  $Q = -100 + 10p$ . Find the elasticity using point method, when price is Rs 15.

- a) 4
- b) -3
- c) -5
- d) 3

47. The aim of the consumer in allocating his income is to\_\_\_\_\_.

- a) Maximize 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.

48. Suppose the income elasticity of education in private school in India is 1.6. What does this indicate:

- a) Private school education is a luxury.
- b) Private school education is necessity.
- c) Private school education is an inferior commodity.
- d) We should have more private schools.

49. Normal Goods have \_\_\_\_\_

- (a) Zero income elasticity
- (b) Negative income elasticity
- (c) Positive income elasticity
- (d) Infinite income elasticity

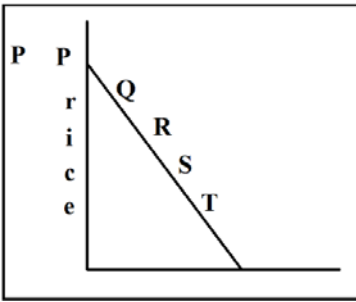
50. Cross elasticity of demand in Monopoly market is:

- (a) Elastic
- (b) Zero
- (c) Infinite
- (d) One

51. “High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods” is:

- (a) Veblen effect
- (b) Bandwagon effect
- (c) Price effect
- (d) Demonstration effect

52. From the given diagram, choose the correct sequence of elasticity at the points mentioned on the straight-line linear curve.



- (a) Elasticity at point P is infinity  $Q > 1$ ,  $R = 1$ ,  $S < 1$  and  $T = 0$   
 (b) Elasticity at point P is 0,  $Q < 1$ ,  $R = 1$ ,  $S > 1$  and  $T = 0$   
 (c) Elasticity at point P = 0,  $Q > 1$ ,  $R = 1$ ,  $S < 1$  and  $T = 0$   
 (d) None of these
53. Play-station and X-box are substitutes. If the price of play-station increases, the demanded for X-box will
- (a) Increase or decrease but the demand curve for play-station will not change.  
 (b) Increase and the demand curve for X-box will shift rightwards.  
 (c) Not change but there will be a movement along the demand curve for X-box.  
 (d) Decrease and the demand curve for X-box will shift leftwards.
54. Identify the correct equation used for calculating equilibrium in case of two commodity.
- (a)  $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$   
 (b)  $\frac{MU_x}{MU_y} > \frac{P_x}{P_y}$   
 (c)  $\frac{MU_x}{MU_y} < \frac{P_x}{P_y}$   
 (d)  $\frac{MU_x}{MU_y} \neq \frac{P_x}{P_y}$
55. The marginal product curve is above the average product curve when the average product is:
- (a) Increasing  
 (b) Decreasing  
 (c) Constant  
 (d) None
56. An isoquant is \_\_\_\_\_ to an ISO cost line at equilibrium point:
- (a) Convex  
 (b) Concave  
 (c) Tangent  
 (d) Perpendicular
57. Increase in all inputs leading to less than proportional increase in output is called
- (a) Increasing returns to scale  
 (b) Decreasing returns to scale  
 (c) Constant return to scale  
 (d) Both increasing and decreasing return to scale

58. At the point of inflexion, the marginal product is:
- (a) Increasing
  - (b) Decreasing
  - (c) Maximum
  - (d) Negative
59. \_\_\_\_\_ Utility is created by making goods and services available at times when they are not normally available.
- (a) Form Utility
  - (b) Place Utility
  - (c) Time Utility
  - (d) Personal Utility
60. Entrepreneur is also called as –
- (a) Organizer
  - (b) Manager
  - (c) Risk-Taker
  - (d) All of the above
61. Which of the following is not a characteristic of capitalist economy:
- (a) Right to Private Property
  - (b) Freedom of Enterprise
  - (c) Consumer Sovereignty
  - (d) Combined Sector
62. Which are the areas that come under Macroeconomics, except
- (a) External Value of currency
  - (b) The general price level and interest rate
  - (c) Location of the particular industry
  - (d) National Income and National Output
63. Business Economics is a
- (a) Normative Science
  - (b) Interdisciplinary
  - (c) Pragmatic
  - (d) All of these
64. Scarcity of resources has to be dealt in:
- (a) Capitalist Economy
  - (b) Socialist Economy
  - (c) Mixed Economy
  - (d) All of these
65. Large number of \_\_\_ goods would lead to higher production in future:
- (a) Capital Goods
  - (b) Public Goods
  - (c) Consumer Goods
  - (d) None of these

66. In case of Interior goods:
- (a) Income effect and substitution effect work in same direction.
  - (b) Income effect are substitution effect work in opposite direction
  - (c) Either (a) or (b)
  - (d) None of these
67. Rationale of the law of demand is:
- (a) Price effect of a fall in price
  - (b) Different uses
  - (c) Arrival of new consumers
  - (d) All of these
68. The cross elasticity between two substitute goods will be:
- (a) Positive
  - (b) Negative
  - (c) Either (a) or (b)
  - (d) None of these
69. Demand for complementary goods are:
- (a) Derived Demand
  - (b) Autonomous demand
  - (c) Aggregate Demand
  - (d) None of these
70. Methods of demand forecasting are:
- (a) Survey of Buyer's intension
  - (b) Collective opinion Method
  - (c) Both (a) and (b)
  - (d) None of these
71. A Vertical demand curve parallel to Y axis implies that the elasticity of demand is:
- (a) Infinity
  - (b) Equal to One
  - (c) Zero
  - (d) Greater than one but less than Infinity
72. When total demand for a commodity whose price has fallen increases, it is due to:
- (a) Price effect
  - (b) Income effect
  - (c) Substitution effect
  - (d) Complementary effect
73. If the quantity supplied is exactly equal to the relative change in price then the elasticity of supply is:
- (a) Greater than one
  - (b) Less than one
  - (c) One
  - (d) None of these

74. Production is the organized activity of transforming resource into finished products in the form of goods and services and the objective of production is to satisfy the demand of such transformed resources:
- (a) James Bates and J.R Peterson
  - (b) Malthus
  - (c) Walras
  - (d) Lipsey
75. What are the assumptions of Production Function:
- (a) Relationship between inputs and output exists for a specific period of time.
  - (b) There is a given 'state of the art' in the production technology.
  - (c) Both (a) and (b)
  - (d) None of these
76. Envelope curve is also called:
- (a) Long Run Average Cost curve
  - (b) Short Run Average Cost curve
  - (c) Average Fixed Cost
  - (d) None of these
77. Diminishing marginal returns implies:
- (a) Increasing Marginal Costs
  - (b) Decreasing Marginal Costs
  - (c) Decreasing Average Variable Costs
  - (d) None of these
78. Entrepreneur has its most important function as \_\_ \_
- (a) Bear the sense of responsibility
  - (b) Earn profit
  - (c) Innovate
  - (d) None of these
79. Elasticity of substitution in Cobb-Douglas Function is:
- (a) Less than 1
  - (b) Equal to 1
  - (c) More than 1
  - (d) Infinity
80. Perfect Competition is closely represented by:
- (a) Stock Market
  - (b) Wheat Market
  - (c) Soft Drinks Market
  - (d) None of these
81. The budget line is also known as:
- (a) Production Possibility Curve
  - (b) Consumption Possibility Curve
  - (c) ISO Utility Curve
  - (d) Price line

82. When will a firm decide to exit the industry:
- (a) Total cost starts rising
  - (b) Marginal cost starts rising
  - (c) Average cost starts rising
  - (d) Price is less than LRAC
83. The Average Product of labour is maximized when marginal product of labour:
- (a) Equals Zero
  - (b) Is maximized
  - (c) Equal the average product of labour
  - (d) None of those
84. If  $e < 1$  the marginal revenue will be:
- (a) Positive
  - (b) Negative
  - (c) Zero
  - (d) None of these
85. If  $ATC > AR$  the monopolist will be incurring \_\_\_
- (a) Losses
  - (b) Profit
  - (c) Neutral
  - (d) None of these
86. Electricity Companies sell electricity at a cheaper rate in rural areas than for industrial use due to :
- (a) Price Discrimination
  - (b) Perfect Competition
  - (c) Monopolistic Competition
  - (d) None of these
87. Pears, Liril & Dove are examples of
- (a) Perfect Competition
  - (b) Monopoly
  - (c) Monopolistic Competition
  - (d) Oligopoly
88. Which of the following is not the characteristic of Oligopoly market:
- (a) Strategic Independence
  - (b) Importance of advertising and selling cost
  - (c) Group behaviour
  - (d) Regional Market
89. The elements of market are, except:
- (a) Buyers and Sellers
  - (b) A Product or Service
  - (c) Geographical Area
  - (d) Bargaining for a price

90. U-Shaped Cost Curve is never represented as:
- (a) Average Fixed Cost Curve
  - (b) Marginal Cost Curve
  - (c) Average Cost Curve
  - (d) Average Variable Cost Curve
91. For a Price taking firm:
- (a) Marginal revenue is less than Price
  - (b) Marginal revenue is equal to Price
  - (c) The relationship between behavior marginal revenue and Price is indeterminate
  - (d) Marginal revenue is greater than price
92. Monopolist charges different price for his commodity in discriminating monopoly implies:
- (a) At different places
  - (b) For different uses
  - (c) From different group of consumers
  - (d) Any of the above
93. Full capacity is utilized only when there is:
- (a) Perfect Competition
  - (b) Monopoly
  - (c) Monopolistic Competition
  - (d) Price discrimination
94. Coincident indicator is not indicated as:
- (a) Inflation
  - (b) Industrial Production
  - (c) Retail Sales
  - (d) New order for Plant and equipment
95. Which of the following is not an external cause of Business Cycle:
- (a) Technology Shock
  - (b) Fluctuations in effective Aggregate Demand
  - (c) Natural Factors
  - (d) Population Growth
96. According to whom fluctuations in economic activities are due to fluctuations in aggregate effective demand:
- (a) Schumpeter
  - (b) Pigou
  - (c) Keynes
  - (d) Hawtrey
97. Collectively peaks and troughs together is known as:
- (a) Turning Points
  - (b) Contraction
  - (c) Expansion
  - (d) A trough

98. Variables that change simultaneous the real output changes are called:

- (a) Lagging indicator
- (b) Leading Indicator
- (c) Concurrent Indicator
- (d) None of these

99. 'Competition among the few' is also referred as:

- (a) Oligopoly
- (b) Monopoly
- (c) Monopolistic Competition
- (d) None of these

100. The slope of budget line is:

- (a)  $P_x/P_y$
- (b)  $P_y/P_x$
- (c)  $P_x \cdot P_y$
- (d) None of these



**SPACE FOR ROUGH WORK**