

M.K.G CA EDUCATION

9811429230 / 9212011367

WEBSITE: WWW.MKGEDUCATION.COM

EMAIL: MKGCAEDUCATION@GMAIL.COM

Youtube channel: https://www.youtube.com/channel/UCUFLIGc27drK59pH_273UVw?view_as=subscriber

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TEST - 2

CA FOUNDATION

QUESTION BOOKLET CODE: MKG

QUESTION PAPER BOOKLET NO. 2112021

(14-11-2021 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. Giffen Paradox is an exception of

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

2. The demand for factors of production is

- (a) Fundamental demand
- (b) Derived demand
- (c) Market demand
- (d) Joint demand

3. Which amongst the following is the right formula for calculating price elasticity of demand using ratio method?

- (a) $\Delta(Q/P) \times (P/Q)$
- (b) $(P/Q) \times (Q/P)$

(c) $(Q/P) \times (Q/P)$

(d) $(P/AQ) \times (1/P)$

4. Perishable commodities will have

(a) Perfectly elastic curve

(b) Perfectly inelastic curve

(c) Elastic

(d) Inelastic

5. Method of demand forecasting does not include?

(a) Mathematical Method

(b) Barometric method

(c) Expert opinion method

(d) Statistical method

6. Assume that real estate developers are building thousands of new student friendly apartments close by your college campus. if you want to pay the lowest rent possible, should you hope that demand for such apartments is elastic or inelastic?

(a) Elastic

(b) Inelastic

(c) Both (a) & (b)

(d) Neither (a) nor (b)

7. Goods like Air conditioners and Refrigerators lies between:

(a) Inferior goods and necessities

(b) Luxuries and inferior goods

(c) Necessaries and luxuries

(d) None of the above

8. Henry Ford famously mass-produced cars at the beginning of the twentieth century, starting Ford Motor Company. He made millions because mass production made cars cheap to make, and he passed some of the savings to the consumer in the form of a low price. Cars became a common sight in the United States thereafter. Keeping total revenue and its relationship with price in mind, do you expect the demand for cars to be elastic or inelastic given the story of Henry Ford?

- (a) Elastic
- (b) Inelastic
- (c) Both (a) and (b)
- (d) Neither (a) nor (b)

9. Marginal utility can be stated by –

- (a) $T_{un} - T_{un-1}$
- (b) Additional Utility derived from additional unit of commodity
- (c) $\text{Change in Total Utility} \div \text{Change in Quantity}$
- (d) All of the above

10. At the equilibrium point on Indifference Curve which of the following equation is satisfied?

- (a) $MRS_{xy} = MU_x \div MU_y < P_x \div P_y$
- (b) $MRS_{xy} = MU_x \div MU_y = P_x \div P_y$
- (c) $MRS_{xy} = MU_x \div MU_y = P_x \div P_y$
- (d) None of the above

11. Consumer Surplus is the area –

- (a) Below the Demand Curve and above the price
- (b) Above the Supply Curve and below the price
- (c) Above the Demand Curve and below the price
- (d) Below the Supply Curve and above the price

12. “The excess of price which he would be willing to pay rather than go without the thing over that which he actually does pay in the economic measure of his surplus satisfaction” is given by

- (a) Alfred Marshall
- (b) Lionel Robbins
- (c) J.R. Hicks
- (d) Edge Worth

13. A Monopolist will try to use Consumer’s Surplus to his advantage by adopting

- (a) Price Rigidity

- (b) Price Exploitation
- (c) Price Discrimination
- (d) Price Equilibrium

14. Convexity of IC is due to –

- (a) Increasing trend of MRS
- (b) Decreasing trend of MRS
- (c) Constant trend of MRS
- (d) No trend of MRS at all

15. Which of the following Utility measurement approaches is based on the Marshallian school of thought?

- (a) Cardinal Utility Approach
- (b) Ordinal Utility Approach
- (c) Independent variable Approach
- (d) Both (a) and (b)

16. Which of the following laws states that the more a consumer consumes a product, the lesser the Utility derives from additional consumption?

- (a) Law of Equal – Marginal Utility
- (b) Law of Ordinal Utility
- (c) Law of Cardinal Utility
- (d) Law of Diminishing Marginal Utility

17. MU_X of X is 40 and of Y is 30. If the price of Y is ₹ 9 what will be the price of X at equilibrium?

- (a) ₹ 9
- (b) ₹ 30
- (c) ₹ 15
- (d) ₹ 12

18. Supply of a commodity is a

- (a) Stock concept
- (b) Flow concept

- (c) Both stock and flow concept
- (d) Whole sale concept

19. Elasticity of supply is greater than one when:

- (a) Proportionate change in price is more than the proportionate change in quantity supplied
- (b) Proportionate change in quantity supplied is more than the proportionate change in price
- (c) Change in price and quantity supplied are equal
- (d) All of the above

20. Supply refers to which of the following?

- (a) Total stock of the goods
- (b) Stock of the goods available for sale
- (c) Quantity of a good offered for sale at a particular price
- (d) Quantity of a good actually sold.

21. Cross elasticity of perfect substitutes is

- (a) Zero
- (b) Negative
- (c) One
- (d) Infinity

22. The supply curve for perishable commodities is _____.

- (a) Elastic
- (b) Inelastic
- (c) Perfectly elastic
- (d) Perfectly inelastic

23. The Supply function is given as $q = 200 + 20p$. find the elasticity of supply using point method, when price is ₹ 30.

- (a) 1.25
- (b) 1.5
- (c) 0.75

(d) 2.5

24. A supply curve that starts at the origin has?

- (a) A price elasticity of supply greater than one
- (b) A price elasticity of supply equal to one
- (c) A price elasticity of supply less than one
- (d) A positive price elasticity of supply

25. If a 4% increase in price leads to an increase in the quantity supplied of 8%?

- (a) Supply is price elastic
- (b) Supply is income elastic
- (c) Price elasticity of demand is -2
- (d) Price elasticity of supply is -2

26. Consider the following combination inputs and outputs:

This production technology satisfies

Labour	Capital	Output
5	10	1
6	12	2
7	14	3
8	16	4
9	18	5
10	20	6

- (a) Increasing return to scale
- (b) Decreasing returns to scale
- (c) Constant returns to scale
- (d) Both increasing and decreasing return to scale

27. Who has given the concept of Innovative Entrepreneurship?

- (a) Robbins
- (b) Adam Smith
- (c) Schumpeter
- (d) Sweezy

28. If a firm's output is zero, then:

- (a) AFC will be positive
- (b) AVC will be zero
- (c) Both of (a) and (b)
- (d) None of (a) and (b)

29. Increasing returns to scale occurs due to

- (a) Economies of scale
- (b) Specialization
- (c) Indivisibility of factors
- (d) All of these

30. The conclusion drawn from Cobb-Douglas production function is that labour contributed about about ____ and capital about ____ of the increase in the manufacturing production

- (a) $\frac{3\text{th}}{4}, \frac{1\text{th}}{4}$
- (b) $\frac{1}{2}, \frac{1}{2}$
- (c) $\frac{1\text{th}}{4}, \frac{3\text{th}}{4}$
- (d) None of the above

31. At the point of inflexion, the marginal product is:

- (a) Increasing
- (b) Decreasing
- (c) Maximum
- (d) Negative

32. Entrepreneur is also called as –

- (a) Organizer

- (b) Manager
- (c) Risk – Taker
- (d) All of the above

33. As a Factor of Production, “Capital” is a _____ concept.

- (a) Stock
- (b) Flow
- (c) Both (a) and (b)
- (d) Neither (a) and (b)

34. The process of increase in the stock of real capital in a country is called –

- (a) Stock Increase
- (b) Capital Formation
- (c) Increase in GDP
- (d) Resource Allocation

35. Larger production of goods would lead to higher production in future.

- (a) Consumer goods
- (b) Capital goods
- (c) Agricultural Goods
- (d) Public Goods

36. Organic Objective of Enterprises –

- (a) Survival
- (b) Growth and Expansion
- (c) Both (a) and (b)
- (d) Either (a) or (b)

37. The law of _____ deals with input – output relation when the output is increased by varying the quantity of one input.

- (a) Variable Proportions
- (b) Supply

- (c) Demand
- (d) Returns to Scale

38. _____ is the addition made to Total Product, by an additional unit of input of the Variable Factor.

- (a) Total Product
- (b) Average Product
- (c) Marginal Product
- (d) All of the above

39. _____ shows the various alternative combinations of two Factor Inputs, which a Firm can buy with given amount of money.

- (a) Isocost Lines
- (b) Isoproduct Lines
- (c) Isoprice Lines
- (d) Isoquant Lines

40. Marginal product, mathematically, is the slope of the –

- (a) Total product curve
- (b) Average product curve
- (c) Marginal product curve
- (d) Implicit product curve

41. 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

42. All Wealth is Capital, but all Capital is not Wealth. This statement is –

- (a) True
- (b) False
- (c) Partially True

(d) None of the above

43. To economists, the main difference between the short run and long run is that –

(a) In the short run all inputs are fixed, in the long run all input are variable

(b) In the short run the Firm varies all of its inputs to find the least-cost combination of inputs

(c) If 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

44. With a view to increase his production, Sairam, a manufacturer of watches, increases all the factors of Production in his unit by 150% But at the end of the year, he finds that instead of an increase of 150%, his production has increased by only 100%. Which law of returns to scale is operating in this case?

(a) Increasing returns to scale

(b) Decreasing return to scale

(c) Constant returns to scale

(d) None of the above

45. Linear homogeneous production function is based on:

(a) Increasing returns to scale

(b) Decreasing returns to scale

(c) Constant returns to scale

(d) None of the above

46. 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 corn and barley

(d) The number of hours that the farmer spends in cultivating the wheat fields

47. Marginal Cost Curve of a Firm will be –

(a) L Shaped

(b) J Shaped

(c) U Shaped

(d) Inverted U Shaped

48. Costs which are already incurred once and for all, and cannot be recovered.

(a) Historical Cost

(b) Sunk Cost

(c) Private Cost

(d) None of the above

49. U-Shaped average cost curve is based on:

(a) Law of increasing cost

(b) Law of constant cost

(c) Law of constant returns to scale

(d) Law of variable proportions

50. The positively sloped (rising) part of the long run average cost curve indicated working of the ____

(a) Diseconomies of scale

(b) Increasing returns to scale

(c) Constant returns to scale

(d) Economics of scale

51. Average Variable Cost (AVC) equals –

(a) $ATC - AFC$

(b) TVC divided by Output Quantity

(c) Both (a) and (b)

(d) Neither (a) nor (b)

52. Which one of the following is also known as Planning Curve?

(a) Long – Run Average Cost Curve

(b) Short – Run Average Cost Curve

(c) Average Variable Cost Curve

(d) Average Total Cost Curve

53. Long Run Average Cost Curves are broadly –

- (a) U – Shaped
- (b) Inverted U – Shaped
- (c) V – Shaped
- (d) L – Shaped

54. If Land is owned by the Entrepreneur, Rent is an –

- (a) Implicit Cost
- (b) Explicit Cost
- (c) Hidden Cost
- (d) Undisclosed Cost

55. If capital is borrowed and used in the business, Interest on Capital is –

- (a) Implicit Cost
- (b) Explicit Cost
- (c) Hidden Cost
- (d) Undisclosed Cost

56. Which of the following Cost Curve is never 'U' shaped?

- (a) Average Cost Curve
- (b) Marginal Cost Curve
- (c) Average Variable Cost Curve
- (d) Average Fixed Cost Curve

57. Diseconomies of Scale refer to –

- (a) Forces which reduce the Average Cost of producing a product as the Firm Expands the Size of its plant.
- (b) Forces which reduce the Marginal Cost of producing as the Firm Expands the Size of its plant.
- (c) Forces which increase the Average Cost of producing a product as the Firm Expands the Size of its plant.
- (d) Forces which increase the Marginal Cost of producing a product as the Firm Expands the Size of its plant

58. If the LAC curve falls as output expands, this is due to-

- (a) Law of Diminishing returns

- (b) Economies of Scale
- (c) Law of Variable Proportions
- (d) Diseconomies of Scale

59. Warehouse rent is a part of which cost?

- (a) Production cost
- (b) Distribution cost
- (c) Prime cost
- (d) Factory cost

60. Difficulties of management, co-ordination and control due to bigger Plant Size is an example of-

- (a) Internal Economies of Scale
- (b) Internal Diseconomies of Scale
- (c) External Economies of Scale
- (d) External Diseconomies of Scale

61. 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

62. The market for ultimate consumer is known as:

- (a) Wholesale market
- (b) Regulated market
- (c) Unregulated market
- (d) Retail market

63. A firm will close down in the short period, if its AR is less than:

- (a) AC
- (b) AVC
- (c) MC
- (d) None of the above

- 64.** Secular period is also known as:
- (a) Very short period
 - (b) Very long period
 - (c) Long period
 - (d) Short period
- 65.** In Oligopoly, when the industry is dominated by one large firm which is considered as leader of the group. Then it is called:
- (a) Full oligopoly
 - (b) Collusive oligopoly
 - (c) Partial oligopoly
 - (d) Syndicated oligopoly
- 66.** Demand for a product is unitary elastic then
- (a) $MR=0$
 - (b) $MR>0$
 - (c) $MR<0$
 - (d) None of the above
- 67.** If Marginal Cost = MC, and Marginal Revenue = MR, then, for achieving equilibrium output –
- (a) MC Curve should cut MR Curve from above.
 - (b) MC Curve should cut MR Curve from below.
 - (c) MC Curve should not cut MR Curve at all.
 - (d) MC Curve should be tangent to MR Curve.
- 68.** 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
- 69.** When price is Rs.40, quantity demanded is 20 units; when price is decreased by 5% the quantity demanded increases by 15%, what will be the Marginal revenue?

- (a) Rs. 120
- (b) Rs. 60
- (c) Rs. 74
- (d) Rs. 26.66

70. Product differentiation is the feature of which market?

- (a) Perfect competition
- (b) Monopoly
- (c) Monopolistic competition
- (d) Oligopoly

71. Price discrimination is the feature of which market

- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic competition
- (d) Oligopoly

72. $P = DD = AR = MR$ is the feature of which market?

- (a) Perfect competition
- (b) Monopoly
- (c) Monopolistic competition
- (d) Oligopoly

73. Indeterminate demand curve is the feature of which market?

- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic competition
- (d) Oligopoly

74. When $AR = \text{Rs. } 20$ and $AC = \text{Rs. } 16$ the firm makes _____

- (a) normal profit
- (b) net profit

- (c) gross profit
- (d) supernormal profit

75. Oligopoly having identical products is:

- (a) Pure oligopoly
- (b) Imperfect oligopoly
- (c) Price leadership
- (d) Collusion

76. When the industry is dominated by one large firm which is considered as the leader of the group, the market is described as:

- (a) Open oligopoly
- (b) Perfect oligopoly
- (c) Partial oligopoly
- (d) Organized oligopoly

77. Market form in which there is only one buyer and one seller is:

- (a) Oligopoly
- (b) Duopoly
- (c) Bilateral Monopoly
- (d) Monopsony

78. When elasticity of demand is Equal to one in monopoly, marginal Revenue will be _____

- (a) Equal to one
- (b) Greater than one
- (c) Less than one
- (d) Zero

79. If firms in the automobile industry have the following market shares, which market structure would best describe the industry?

Market Share	% of market
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Maruti Suzuki	50.20
Hyundai	18.49
Mahindra	7.52
Toyota	4.86
Tata Motors	4.75
Honda	4.60
Ford	2.69
Renault	2.67
Volkswagen	1.10

- (a) Perfect competition
- (b) Monopolistic competition
- (c) Oligopoly
- (d) Monopoly

80. Under _____ the monopolist will fix a price which will take away the entire consumers' surplus.

- (a) Second degree of price discrimination
- (b) First degree of price discrimination
- (c) Third degree of price discrimination
- (d) None of the above

81. When the products are sold through a centralized body, oligopoly is known as

- (a) Organized oligopoly
- (b) Partial oligopoly
- (c) Competitive oligopoly
- (d) Syndicated oligopoly

- 82.** The world economy suffered the largest, deepest and most widespread depression of the 20th century during?
- (a) 1934
 - (b) 1928
 - (c) 1930
 - (d) 1932
- 83.** Business cycle is contagious andin character?
- (a) Local
 - (b) Regional
 - (c) National
 - (d) International
- 84.** Which of the following is not the phase of business cycles?
- (a) Prosperity
 - (b) Upswing
 - (c) Reconstruction
 - (d) Depression
- 85.**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 indication
 - (d) Coincident indicators
- 86.** The Rhythmic fluctuations in aggregate economic activity over a period of time are called:
- (a) Business cycles
 - (b) Trade cycles
 - (c) Both (a) and (b)
 - (d) None of these
- 87.** Severe form of recession is called:

- (a) Boom
- (b) Depression
- (c) Trough
- (d) Recovery

88. 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

89. Industries that are extremely sensitive to the business cycle are the

- (a) Durable goods and service sectors
- (b) Non-durable goods and service sectors
- (c) Capital goods and non-durable goods sectors
- (d) Capital goods and durable goods sectors

90. Which of the following is not an example of coincident indicator?

- (a) Industrial production
- (b) Inflation
- (c) Retail sales
- (d) New orders for plant and equipment

91. According to which economist trade cycle is a purely monetary for phenomenon

- (a) Schumpeter
- (b) Pigou
- (c) Hawtrey
- (d) Marshall

92. Rampant unemployment is found in:

- (a) Boom
- (b) Recovery

(c) Contraction

(d) Depression

93. Business cycles generally originate in:

(a) Free market economies

(b) Imperfect economies

(c) Developed nations

(d) Low growth economies

94. At the time of Great Depression of 1930. GDP fell around

(a) 14%

(b) 15%

(c) 20%

(d) 25%

95. The trough of a business cycle occurs when _____ hits its lowest point.

(a) Inflation

(b) The money supply

(c) Aggregate economic activity

(d) The unemployment rate

96. In the long run, a reduction in labour supply would cause output to..... and the aggregate price level to

(a) Fall; rise

(b) Fall, fall

(c) Rise, fall

(d) Rise, rise

97. When once peak is reached, increase in demand is halted, then phase begin

(a) Trough

(b) Contraction

(c) Expansion

(d) Trend

98. The most probable outcome of an increase in the money supply is

- (a) Interest rates to rise, investment spending to rise, and aggregate demand to rise
- (b) Interest rates to rise, investment spending to fall, and aggregate demand to fall
- (c) Interest rates to fall, investment spending to rise, and aggregate demand to rise
- (d) Interest rates to fall, investment spending to fall, and aggregate demand to fall

99. The different phase of a business cycle

- (a) Do not have the same length and severity
- (b) Expansion phase always last more than ten years
- (c) Last many years and are difficult to get over in short periods
- (d) None of the above

100. During recession, the unemployment rate _____ and output _____

- (a) Rises; falls
- (b) Rises; rises
- (c) Falls; rises
- (d) Falls; falls