Test Series: March, 2018

FOUNDATION COURSE

MOCK TEST PAPER

PAPER – 4: PART I : BUSINESS ECONOMICS

Max. Marks : 60

QUESTIONS

1. 'Economics is a Science which deals with wealth' was referred by
   (a) Alfred Marshal
   (b) J.B. Say
   (c) Adam Smith
   (d) A.C. Pigou.
2. Exploitation and inequality are minimal under:
   (a) Socialism
   (b) Capitalism
   (c) Mixed economy
   (d) None of the above
3. Which of the following is a cause of an economic problem?
   (a) Scarcity of Resources
   (b) Unlimited wants
   (c) Alternative uses
   (d) All of the above.
4. The law of Scarcity
   (a) Does not apply to rich, developed countries
   (b) Does not apply to poor, under developed countries
   (c) Implies only to socialist economies
   (d) Implies that all consumer wants will never be completely satisfied.
5. Which of the following in not within the Scope of Business Economics?
   (a) Capital Budgeting
   (b) Accounting Standards
   (c) Business Cycles
   (d) Risk Analysis

6. In a perfectly competitive firm, MC curve above AVC is the _____ Curve of the firm
   (a) Average cost
   (b) Marginal revenue
   (c) Demand
   (d) Supply
7. In the long run, normal profits are included in the _____ curve.
   (a) LAC
   (b) LMC
   (c) AFC
   (d) SAC
8. Which is not the assumption of Indifference curve Analysis?
   (a) The consumer is rational and possesses full information about all the aspects of economic environment
   (b) The consumer is not capable of ranking all combinations
   (c) If consumer prefers combination A to B and B to C, then he must prefer combination A to C
   (d) If combination A has more commodities than combination B, then A must be preferred to B.
9. Indicate which of the following is a variable cost?
   (a) Payment of rent on building
   (b) Cost of Machinery
   (c) Interest payment on Loan taken from bank
   (d) Cost of raw material
10. In case of necessaries the marginal utilities of the earlier units are large. In such cases the consumer surplus will be:
   (a) Infinite
   (b) zero
   (c) Marginally positive
   (d) Marginally Negative
11. Price discrimination is not possible
   (a) Under Monopoly
   (b) Under Monopolistic competition
   (c) Under perfect competition
   (d) Under any market firm

12. Calculate Income-elasticity for a household when the income of this household rises by 5% and the demand for buttons does not change at all.
    (a) Infinity
    (b) 1
    (c) 5
    (d) Zero
13. If the goods are perfect substitutes for each other then cross elasticity is
    (a) Infinite
    (b) One
    (c) Zero
    (d) None of the above
14. A firm encounters its shut down point when:
    (a) Average total cost equals price at the profit maximizing level of output
    (b) Average variable cost equals price at the profit maximizing level of output
    (c) Average fixed cost equals price at the profit maximizing level of output
    (d) Marginal cost equals price at the profit maximizing level of output
15. In which form of the market structure is the degree of control over the price of its product by a firm is very large?
    (a) Imperfect competition
    (b) Monopoly
    (c) Oligopoly
    (d) Perfect competition
16. Which of the following means an Economic activity?
    (a) Production of Goods
    (b) Production of services
    (c) Consumption of Goods and Services
    (d) All of the above
17. The income of a household rises by 20 per cent, the demand for computer rises by 50%, this means computer is a/an:
    (a) Inferior good
    (b) Luxury good
    (c) Necessity
    (d) None of the above

18. 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) None of the above
19. When we study why saving rates are high or low, we are studying :
    (a) Macro Economics
    (b) Micro Economics
    (c) Econometrics
    (d) Both (a) and (b)
20. Which of the following statements is false with respect to Business Cycles:
    (a) They occur periodically.
    (b) They generally originate in free market economies.
    (c) They are international in character.
    (d) They do not affect capitalist economies.
21. If the price of Banana rises from ₹ 30 per dozen to ₹ 40 per dozen and the supply increases from 240 dozen to 300 dozens elasticity of supply is: (use arc elasticity Method)
    (a) .7
    (b) -.67
    (c) .65
    (d) .77
22. If as a result of 90 per cent increase in all inputs, the output increase by 75 per cent this is a case of
    (a) Increasing return of a factor
    (b) Decreasing return of a factor
    (c) Diminishing returns to scale
    (d) None of the above
23. If distribution of income is more equal, then the propensity to consumer of the country is
    (a) Relatively High
    (b) Relatively Low
    (c) Unaffected
    (d) None of the above

24. During 1920s, UK saw rapid growth in GDP, production levels and living standards. The economic growth also caused an unprecedented rise in stock market values. This is an example of:

(a) Boom

(b) Recession

(c) Contraction

(d) Trough

25. If demand for a good is elastic, an increase in its price will cause total expenditure of the consumer of the good to:

(a) Increase

(b) Decrease

(c) Remain the same

(d) None of the above

26. If a good is priced at ₹ 180 p.u. and its price is increased to ₹ 240 p.u. Now suppose quantity demanded previously was 100 units and as a result of price increase, the quantity demanded fell to 80 units. What is the price elasticity? (use Mid Point method)

(a) .777

(b) 1.4

(c) 1

(d) .8

Use the following table to answers questions 27-28

Hour of labour	Total output	Marginal Product
0	0	0
1	300	300
2	-	240
3	720	-

27. What is the total output when 2 hours of labour are employed?

(a) 160

(b) 200

(c) 360

(d) 540

28. What is the marginal product of the third hour of labour?

(a) 120

(b) 160

(c) 200

(d) 180

29. Which of the following statements if false?

(a) An indifference cure is concave to the origin

(b) An indifference cure is convex to the origin

(c) A higher indifference curve is better than a lower indifferent curve

(d) An indifference curve is a curve which represents all those combinations of two goods which give same satisfaction to the consumer.

30. Identify the factor which generally keeps the price-elasticity of a demand for a good high.

(a) Its very high price

(b) Its very low price

(c) Large number of substitutes

(d) None of the above

31. Assume that when price is ₹ 40 quantity demanded is 9 units, and when price is ₹ 38, quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output form 9 units to 10 units

(a) ₹ 20

(b) ₹ 40

(c) ₹ 38

(d) ₹ 1

32. Suppose that an owner is earning total revenue of ₹ 1,00,000 and is increasing explicit cost of ₹ 60,000. If the owner could work for another company for ₹ 30,000 a year, we would conclude that:

(a) The firm is earning economic profit or ₹ 10,000

(b) The firm is earning accounting profit or ₹ 40,000

(c) The firm is earning economic profit of ₹ 40,000

(d) Both (a) and (b)

33. A monopolist is able to maximize his profit when:

(a) His output is maximum

(b) He charges a higher price

(c) His average cost is minimum

(d) His marginal cost is equal to marginal revenue

34. Law of diminishing marginal utility may not apply to:

(a) Money

(b) Butter

(c) Pepsi, Coke etc.

(d) Ice cream

35. If the local-cream shop raises the price of a ice cream cup from ₹ 10 per cup to ₹ 15 per cup, and quantity demanded falls from 500 cups per day to 300 cups per day, the price elasticity of demand for ice-cream cup is: (use arc elasticity Method)

(a) 1

(b) 2.5

(c) 2

(d) 1.25

36. Suppose the short run cost function can be written as TC = 250 + 10Q. Average Fixed cost equals:

(a) 250/Q

(b) 250

(c) 10

(d) 250/Q+10

37. Gopal inherited 1 acre of land from his father in 1960. Today the value of that land is ₹ 90 lakh per acre. What is the opportunity cost of Gopal for keeping that land? His father paid ₹ 50,000 for this land.

(a) Nothing, since the land was inherited

(b) ₹ 50,000 which his father paid

(c) ₹ 90 lakh, since the amount Gopal is getting now if he sells it

(d) Both (b) and (c)

38. Suraj is a high school senior thinking about becoming an economic research assistant, Shyam just graduated from college with an economic degree and is looking for a job as an economic research assistant. For whom is the college tuition an opportunity cost?

(a) Suraj

(b) Shyam

(c) Both Suraj and Shyam

(d) Neither Suraj nor Shyam

39. Kinked demand curve in oligopoly market explains:

(a) Price and output determination

(b) Existence of very few firms in the market

(c) Price rigidity

(d) Price leadership

40. Shares traded in the stock market depict characteristics close to _____.

(a) Perfect competition

(b) Oligopoly

(c) Monopolistic Competition

(d) Monopoly

41. Consider the following and decide which, if any, economy is without scarcity:

(a) The pre-independence Indian economy, where most people were farmers.

(b) A mythical economy where everybody is a billionaire.

(c) Any economy where income is distributed equally among its people.

(d) None of the above.

42. When the price of a substitute of X commodity falls, the demand for X _____.

(a) Rises

(b) Falls

(c) Remains unchanged

(d) Any of the above.

43. At the point of inflexion, the marginal product is

(a) Increasing

(b) Decreasing

(c) Maximum

(d) Negative

44. Who expressed the view that fluctuations in investments are the prime cause of business cycles?

(a) Hawtrey

(b) Pigou

(c) Schumpeter

(d) Keynes

45. When _____, we know that the firms must be producing at the minimum point of the average cost curve and so there will be productive efficiency

(a) AC = AR

(b) MC = AC

(c) MC = MR

(d) AR = MR

46. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:

(a) Large fall in quantity demanded

(b) large fall in demand

(c) small fall in quantity demanded

(d) small fall in demand

47. According to Schumpeter

(a) Trade cycle is purely monetary phenomenon.

(b) Trade cycles occur as a result of innovations which take place in system.

(c) Trade cycles result due to faulty business decisions of USA.

(d) None of the above.

48. When the perfectly competitive firm and industry are in long run equilibrium then:

(a) P = MR = SAC = LAC

(b) D = MR = SMC = LMC

(c) P = MR = Lowest point on the LAC curve

(d) All of the above

49. Giffen goods are those goods

(a) For which demand increases as price increases

(b) That have a high income elasticity of demand

(c) That are in short supply

(d) None of these

50. In the long run any firm will eventually leave the industry if:

(a) Price does not at least over average total cost.

(b) Price does not equal marginal cost.

(c) Economies of scale are being reaped.

(d) Price is greater than long run average cost.

51. You are given the following data:

Table

Output	Total Costs
0	0
1	15
2	30
3	45
4	60
5	75

The above data is an example of:

(a) Constant returns to scale.

(b) Decreasing returns to scale

(c) Increasing returns to scale

(d) Globalization

The following Table provides cost and price information for a firm called Comfy Cushions (CC). The firm produces and sells cushions using a fixed amount of capital equipment but can change the level of inputs such a labour and materials. Read the Table and answer questions 52-58

Production (Q)	Price per unit (P)	Total Cost (TC)	Average Total Cost (ATC)	Marginal Cost (MC)	Total Revenue (TR)	Marginal Revenue (per unit) (MR)
0	250	500				
1	240	730				
2	230	870				
3	220	950				
4	210	1010				
5	200	1090				
6	190	1230				
7	180	1470				
8	170	1850				
9	160	2410				

52. What is the value of fixed cost incurred by CC?
    (a) ₹ 252
    (b) ₹ 730
    (c) ₹ 500
    (d) cannot be determined
53. What is the average total cost when 5 units are produced?
    (a) ₹ 218
    (b) ₹ 1090
    (c) ₹ 730
    (d) ₹ 210
54. What is the marginal revenue (per unit) when production increase from 7 units to 8 units?
    (a) 160
    (b) 140
    (c) 120
    (d) 100
55. What is the marginal cost when production increase from 3 to 4 units?
    (a) 140
    (b) 80
    (c) 60
    (d) 240

56. To maximize its profit or minimize its loss, what level of production should CC choose?
    (a) 7 units
    (b) 6 units
    (c) 4 units
    (d) 8 units
57. At the profit maximizing level, what price should be charged?
    (a) ₹ 190
    (b) ₹ 200
    (c) ₹ 210
    (d) ₹ 220
58. Calculate CC's maximum profit or minimum loss.
    (a) Loss of ₹ 100
    (b) Loss of ₹ 60
    (c) Profit of ₹ 90
    (d) Loss of ₹ 90
59. A significant decline in general economic activity extending over a period of time is _____
    (a) Business cycle
    (b) Contraction phase
    (c) Recession
    (d) Recovery
60. Economic recession shares all of these features except :
    (a) Fall in the level of investment, employment
    (b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
    (c) Investor confidence is adversely affected and new investments may not be forth coming
    (d) Increase in the price of inputs due to increase in demand for inputs.