



PAPER – 4: BUSINESS ECONOMICS



QUESTIONS

1. Business Economics bridges the gap between:
 - (A) Economics and Sociology
 - (B) Theory and Practice
 - (C) Micro and Macro Economics
 - (D) Business and Law
2. The concern regarding changing health consciousness of consumers highlights which limitation of economic theory in real-world decision making?
 - (A) Static nature of demand analysis
 - (B) Excessive reliance on normative assumptions
 - (C) Unrealistic ceteris paribus assumption
 - (D) Absence of marginal analysis
3. The concept of 'Consumer Sovereignty' means that:
 - (A) Government controls what consumers can buy
 - (B) Consumers ultimately determine which goods will be produced through their purchases
 - (C) Producers decide what consumers should buy
 - (D) Only wealthy consumers have purchasing power

4. Arc elasticity of demand is used when:
- (A) Price change is infinitesimal
 - (B) Price change is large
 - (C) Demand curve is vertical
 - (D) Demand is perfectly elastic
5. Which of the following is an example of circulating capital?
- (A) Machinery
 - (B) Factory building
 - (C) Raw material
 - (D) Tools
6. Match the Pairs

Column A	Column B
a. Implicit Cost	1. Cost already incurred
b. Sunk Cost	2. Foregone alternative
c. Opportunity Cost	3. Cost of self-owned factors
d. Explicit Cost	4. Cash payment

- (A) a-3, b-1, c-2, d-4
 - (B) a-2, b-1, c-3, d-4
 - (C) a-1, b-2, c-3, d-4
 - (D) a-4, b-1, c-2, d-3
7. Exchange value of a commodity refers to:
- (A) Its usefulness
 - (B) Its sentimental worth
 - (C) Its command over other goods
 - (D) Cost of production

8. Which market structure is characterized by extreme product differentiation?
- (A) Perfect competition
 - (B) Monopolistic competition
 - (C) Oligopoly
 - (D) Monopoly
9. Which of the following situations would definitely result in a stable equilibrium being achieved through market mechanism alone?
- (A) Price ceiling below equilibrium price
 - (B) Price floor above equilibrium price
 - (C) Initial price above equilibrium with no external intervention
 - (D) Government-fixed procurement price
10. A phase where unemployment is mainly frictional and structural is known as:
- (A) Trough
 - (B) Peak
 - (C) Expansion
 - (D) Contraction
11. The concept of 'deflationary gap' in Keynesian economics specifically refers to:
- (A) The excess of actual output over potential GDP at full employment
 - (B) The shortfall in aggregate demand required to achieve full employment equilibrium
 - (C) The reduction in price levels due to contractionary monetary policy
 - (D) The difference between actual inflation and target inflation rates
12. The Net Divisible Pool (NDP) consists of:
- (A) Gross tax revenue including cesses

- (B) Only direct taxes
 - (C) All union taxes excluding cesses and surcharges
 - (D) Only GST revenues
13. Which situation best illustrates adverse selection?
- (A) Insured driver drives rashly
 - (B) Seller hides product defects before sale
 - (C) Consumer overuses subsidized healthcare
 - (D) Government fixes minimum prices
14. Which of the following expenditures is not subject to voting by Parliament?
- (A) Defense expenditure
 - (B) Interest on public debt
 - (C) Education expenditure
 - (D) Health expenditure
15. Credit multiplier differs from money multiplier mainly because credit multiplier assumes:
- (A) No time deposits
 - (B) No excess reserves and no currency leakages
 - (C) Perfect capital mobility
 - (D) Fixed interest rates
16. The Heckscher–Ohlin theory fails to explain extensive intra-industry trade primarily because it:
- (A) Ignores opportunity costs
 - (B) Assumes constant returns to scale
 - (C) Relies on factor price equalization
 - (D) Treats products as homogeneous

17. A tariff-rate quota (TRQ) combines:
- (A) Export subsidy with import licensing
 - (B) Import quota with ad valorem tariff
 - (C) Preferential tariff with MFN tariff
 - (D) Quantity restriction with differential tariff rates
18. Under a managed floating exchange rate regime, central bank intervention is most effective when it primarily influences:
- (A) Trade volumes directly
 - (B) Inflation expectations alone
 - (C) Market expectations about future exchange rate movements
 - (D) Long-term capital formation
19. What was the primary reason for the "Crisis of Confidence" in 1991 that triggered the New Economic Policy?
- (A) Failure of the monsoon for three consecutive years.
 - (B) Foreign exchange reserves falling to \$1.2 billion, sufficient for only two weeks of imports.
 - (C) A total collapse of the banking sector due to high NPAs.
 - (D) The sudden withdrawal of all US food aid under PL 480.
20. Which specific NITI Aayog initiative is aimed at reducing India's oil import bill and converting coal reserves into cleaner fuel?
- (A) Shoonya
 - (B) E-Amrit
 - (C) Methanol Economy
 - (D) Life
21. The "Hindu growth rate," referring to the modest 3.5% average annual GDP growth, occurred during which period?
- (A) 1947–1964
 - (B) 1950–1980

- (C) 1965–1981
 - (D) 1981–1991
22. Under the Monetary Policy Framework Agreement, RBI is deemed to have failed if inflation:
- (A) Deviates from target even once
 - (B) Breaches tolerance limits for two consecutive quarters
 - (C) Exceeds upper or lower tolerance limits for three consecutive quarters
 - (D) Deviates from WPI targets
23. Which of the following limits the effectiveness of fiscal policy?
- (A) Flexible prices
 - (B) Time lags in implementation
 - (C) High tax compliance
 - (D) Balanced budget
24. Consumer surplus can be graphically represented as:
- (A) The area above the demand curve and below the price line
 - (B) The triangular area below the demand curve and above the price line
 - (C) The total area under the demand curve
 - (D) The rectangular area formed by price and quantity
25. The 'bandwagon effect' on consumer behavior leads to:
- (A) Decrease in demand when others start consuming the product
 - (B) No change in demand pattern
 - (C) Increase in demand because others are also consuming the same commodity
 - (D) Perfectly inelastic demand

**SUGGESTED ANSWERS/HINTS**

1.	(B)	2.	(C)	3.	(B)	4.	(B)	5.	(C)
6.	(A)	7.	(C)	8.	(D)	9.	(C)	10.	(C)
11.	(B)	12.	(C)	13.	(B)	14.	(B)	15.	(B)
16.	(B)	17.	(D)	18.	(C)	19.	(B)	20.	(C)
21.	(B)	22.	(C)	23.	(B)	24.	(B)	25.	(C)