



Paper 3: Economics & Business Fundamentals_Syllabus 2008

Practice Paper 2

SECTION I - ECONOMICS (60%)		30 QUESTIONS
Basic concepts of economics	10%	5
Forms of market	5%	3
National income	5%	2
Theories of employment	5%	3
Money	10%	5
Banking	10%	5
International trade	5%	2
Public finance	10%	5
SECTION II – BUSINESS FUNDAMENTALS (40%)		20 QUESTIONS
Types of business unit	10%	5
Company organisation and management	10%	5
Business objectives	5%	2
Stock exchange and its workings	10%	5
Business communication and report writing	5%	3



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SECTION I - ECONOMICS

1.The law of demand implies that

- a.as price falls quantity demanded increases
- b.as price rise demand increases
- c.as price falls demand increases
- d.as price rise quantity demanded increases

2.which of the following is consistent with the law of supply?

- a.As the price of calculators rise, the quantity supplied of calculators increases, ceteris paribus.
- b.As the price of calculators falls, the supply of calculators increases, ceteris paribus.
- c.As the price of calculators rise, the quantity supplied of calculators decreases, ceteris paribus.
- d.As the price of calculators rise, the supply of calculators increases, ceteris paribus.

3.Market equilibrium exists when _____ at the prevailing price.

- a.quantity demanded equals quantity supplied
- b.quantity demanded is greater than quantity supplied
- c.quantity supplied is greater than quantity demanded
- d.quantity demanded is less than quantity supplied

4.If the cross-price elasticity of demand between two goods is negative, then the two goods are:

- a.unrelated goods.
- b.normal goods.
- c.substitutes.
- d.complements.

5. If the TC of producing 10 units is Rs8 and TC for 11 units is Rs.12 then,

- a. AC of 11 units is Rs12
- b.MC of 11th unit is Rs4
- c.AC of 10 uniits is Rs.4
- d.MC of 10th untis is Rs.4



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6. Which of the following is NOT a characteristic of Perfect competition ?

- a. large number of buyers and sellers
- b. non homogenous products
- c. free entry and free exit
- d. perfect knowledge

7. At which point does a producer maximise profit in a short run ?

- a. $MC = MR$
- b. $Price = MR$
- c. $MC = ATC$
- d. $MC = AVC$

8. The total revenue for producing 10 units is Rs6 and the Total revenue for producing 11 units is Rs.8. given this information, the

- a. AR for producing 11 units is Rs2.
- b. the AR for producing 11 units is Rs8
- c. MR for producing 11th unit is Rs.2
- d. MR for producing 11th unit is Rs.8

9. NNP is equal to =

- a. $GNP + \text{exports}$
- b. $GNP - \text{exports}$
- c. $GNP + \text{depreciation}$
- d. $GNP - \text{depreciation}$

10. which of the following is NOT a method of measurement of National Income?

- a. Product method
- b. Income method



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- c.Substraction method
- d. Expenditure method.

11. According to classical models, the level of employment is determined primarily by:

- a) the quantity of money.
- b) interest rates.
- c) prices and wages.
- d) the level of aggregate demand for goods and services.

12. Which of the following is NOT a theory of population ?

- a. Malthusian theory
- b.Optimum thoery
- c.theory of demographic transition
- d.keynesian theory

13.Full employment is a situation when?

- a. Cyclical unemployment is zero
- b.Frictional unemployment is zero
- c.Seasonal unemployment is zero
- d.Disguised unemployment is zero

14.Which of the following is not a function of money?

- (a) a medium of exchange
- (b) a unit of account
- (c) a shelter against inflation
- (d) a store of value

15.._____ states that bad money drives good money out of circulation.

- a.Gresham's law
- b.Graham's law
- c.Keynes law



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d.Fisher's law

16.Quantity theory of money explains relationship

- a. between pricelevel and money supply
- b.between GDP and GNP
- c.between money demand and supply
- d.between velocity of circulation and price level

17.What is the equation for the velocity of money?

- A: (nominal GDP) / (money supply)
- B: (price level *real GDP) / (money supply) (ans)
- C: (money supply) / (real GDP)
- D: (money supply) / (nominal GDP)
- E: (real GDP) / (nominal GDP)

18. The opportunity cost of holding money is determined by

- (a) the inflation rate.
- (b) the level of aggregate output.
- (c) the interest forgone .
- (d) the premium rate.

19.Which of the following is a primary function of of a bank

- a. deposit function
- b.security
- c. trustee function
- d. custodion function



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20. Which of the following is NOT a type of deposit

- a. current
- b. savings
- c. fixed
- d. flexible

21. The central bank in india is

- a. RBI
- b. UBI
- c. SBI
- d. ICICI

22. Which of the following is NOT a control weapon Central bank

- a. bank rate policy
- b. open market policy
- c. variation of reserve ratio
- d. credit creation.

23. Which of the following is the full form of ICICI

- a. industrial credit and investment corporation of india(ans)
- b. industrial control and investment corporation of india
- c. investment credit and investment corporation of india
- d. industrial credit and investment cooperative of india

24. Comparative cost trade theory is given by

- a. adam smith
- b. david ricardo



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c. gottfried haberler

d. ohlin

25. _____ is a systematic record of all economic transactions undertaken on international trade account of an economy during a given period of time .

a.BOP

b.BPT

c. Income expenditure account

d. balance sheet

26.With a regressive tax as income increases

a.increases, the tax rate remains the same

b.decreases, the tax rate decreases

c.increases the tax rate increases

d.increases the tax rate decreases

27.Tax incidence refers to –

a.whether a tax is progressive proportional or regressive

b. how often a tax is collected

c.the person or group who ends up paying taxes

d.how a tax is collected

28. _____ revenue is a vital source of public finance

a.tax

b.fees

c. non tax

d.personal savings



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29. Which tax is most difficult to shift to others

- a. personal income tax
- b. corporate income tax
- c. sales tax
- d. excise duty

30. Which of the following is NOT an example of Indirect tax ?

- a. sales tax
- b. amusement tax
- c. income tax
- d. excise duty

SECTION II – BUSINESS FUNDAMENTALS

31. A sole proprietorship is a form of business that is owned managed and controlled by –

- a. an organisation
- b. an individual
- c. 2 or more persons
- d. a single group of companies

32. The _____ of a Joint Hindu Undivided family manages the business affairs

- a. youngest member
- b. Karta
- c. senior members
- d. directors

33. When a partnership is formed to conduct the business for an undefined period it is called –

- a. partnership at will
- b. particular partnership



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c. legal partnership

d. general partnership

34. A cooperative society is a _____ association of persons who join together to safeguard their own interests.

a. involuntary

b. compulsory

c. voluntary

d. temporary

35. The shareholders of a joint stock company are the –

a. owners of the company

b. promoters of the company

c. lenders of the company

d. managers of the company

36. On basis of incorporation which of the following is NOT a company –

a. Chartered company

b. Statutory company

c. Limited company

d. Registered company

37. Which of the following NOT is required for getting certificate of incorporation –

a. Memorandum of association

b. Articles of association

c. Prospectus

d. A statement of authorised capital

38. A public company cannot allot shares to the public unless the amount mentioned as minimum subscription is received within –

a. 120 days

b. 90 days



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c. 72 days

d. 48 days

39. A Sweat equity share means a

a. equity share issued at a discount or for consideration other than cash

b. a type of preference share

c. shares issued at a premium

d. a type of government security

40. The quorum for a board meeting by the BOD shall be –

a. 1/3 of the total strength or 2 directors whichever is higher

b. minimum 2 directors

c. ½ of the total strength

d. minimum 3 directors

41. In SWOT analysis the strengths and weakness part refers to

a. What the organisation does internally in relation to competitors

b. The potential level of profits in the industry

c. The quality of products and services in relation to competitors

d. The potential level of sales in the market

42. The competitive environment refers to –

a. The structure of the industry in which the firm competes

b. The macro environment in which the firm exists

c. The micro environment in which the firm exists

d. Strategies of competing firms

43. Stock exchange

a. Helps in fixation of stock price

b. Ensure safe and fair dealing



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- c. Induces good performance by the company
- d. All of the above

44.Which of the following is NOT a stock exchange ?

- a. Bombay Stock Exchnage
- b. Kerela stock exchange
- c. Indore stock exchange
- d. Hyderabad stock exchange

45.The two types of members in Loondon stock exchnage are –

- a. Jobbers and brokers
- b. Commission agents and brokers
- c. Brokers and subbrokers
- d. Auhtorised clerks and agents

46.Authorised clerks are –

- a. Member assistants who transact dealings on behalf of members
- b. dealer in securities
- c. Engaged directly by the public to deal with securities
- d. Specialits in purchase and sale of specific securities

47.Chose from the following which is required in listing of securities by a company –

- a. Copies of memorandum of articles, prospectus, directors report
- b. Statement showing the distribution of shares
- c. A brief history of company's activities since inception
- d. All of the above

48.Communication is a process of transmitting and receiving_____ message.

- a. Verbal and non verbal
- b. Verbal and oral
- c. Written and oral
- d Written and non verbal

49.The purpose of a _____ is to convey essential information in an organized and useful format.

- a. business report
- b. progress report
- c. informal report.



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d.formal report

50.Indicate which is NOT an element in the process of communication –

- a. Sender
- b. medium
- c. messenger
- d. receiver

ANSWERS –

- 1- a
- 2- a
- 3- a
- 4- d
- 5- b
- 6- b
- 7- a
- 8- c
- 9- d
- 10- c
- 11- c
- 12- d
- 13- a
- 14- c
- 15- a
- 16- a
- 17- b
- 18- c
- 19- a
- 20- d
- 21- a
- 22- d
- 23- a
- 24- b
- 25- a
- 26- d
- 27- c



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- 28- a
- 29- a
- 30- c
- 31- b
- 32- b
- 33- a
- 34- c
- 35- a
- 36- c
- 37- c
- 38- a
- 39- a
- 40- a
- 41- a
- 42- a
- 43- d
- 44- b
- 45- a
- 46- a
- 47- d
- 48- a
- 49- a
- 50- c