## CMA FOUNDATION DEC-2025 EXAMINATION

## PAPER-04 Fundamental of Economics & Management [ SET-1]

**TIME: 1 HOURS** **MARKS:100**

1. **Which is not a characteristic of human wants?**
   a) Satiable
   b) Recurring
   **c) Limited**
   **d)** Competitive

**Explanation**
A primary principle of economics is that human wants are unlimited or endless in aggregate; as soon as one want is satisfied, another emerges. Therefore, the characteristic that wants are limited is incorrect.

2. PPF is negative sloped due to
   **a) Scarcity of production resources**
   b) Unlimited wants
   c) Improvement in technology
   d) Increasing in technology cost

**Explanation**
- The Production Possibility Frontier (PPF) is a graph that illustrates the combinations of two goods an economy can produce given its available resources and technology.
- The **scarcity of resources** means an economy cannot produce unlimited amounts of both goods. To produce more of one good, resources must be diverted from the production of the other, which means less of the second good is produced. This inverse relationship causes the PPF to slope downwards (negatively sloped).
- The negative slope of the PPF also represents the concept of **opportunity cost**—what is given up to get something else.

3. The law of diminishing marginal utility states that:
   a) It will take larger & larger amounts of resources beyond some point to produce successive units of a product
   b) Total utility is maximized when consumers obtain the same amount of utility per unit of each product consumed
   c) Price must be lowered in order to induce firms to supply more of a product.
   d) **Eventually additional units of a given product will yield less and less extra satisfaction to a consumer**.

**Explanation**
The law of diminishing marginal utility is a fundamental principle in economics that states that as a consumer consumes more and more units of a specific commodity, the satisfaction or utility derived from each successive additional unit decreases. This happens because the intensity of the consumer's want for that specific good decreases as it is progressively satisfied.

4. Economic costs comprise of:
    a. Explicit costs
    b. Implicit costs
    c. Normal profit
    **d. All of the above**

**Explanation**

Economic costs are a comprehensive measure of the total expenses incurred by a firm, encompassing all the sacrifices made to produce a good or service. This includes both the explicit monetary payments and the implicit opportunity costs of using self-owned resources.

5. Goods which are perfect substitute of each other will have elasticity of substitution D-15
    a) Unity
    b) Less than 1
    c) More than 1
    d) **Infinite**

6. Marginal revenue is calculated as:
    **a. △TR/△Q**
    b. △TC/VQ
    c. ▷TC /▷AC
    d. ▷TC/▷S

**Explanation**

Marginal revenue (MR) is the additional revenue generated from selling one more unit of a good or service. It is calculated as the change in total revenue (**△TR** )divided by the change in the quantity of output sold (**△Q**) . The symbol "p" (or △) is often used in economics to denote a change



7. Labour is a:
    a. Vital factor
    b. Non-essential factor
    c. Permanent factor
    **d. Perishable factor**

**Explanation**

Labour is considered a perishable factor because it cannot be stored or saved for future use. If a worker does not work on a particular day, that day's labour is lost forever and cannot be recovered later. Once time is lost, it is lost permanently.

8. Average variable cost is:
    a. L shaped
    **b. U shaped**
    c. Dish shaped
    d. Horizontal factor

**Explanation**

The average variable cost (AVC) curve is U-shaped in the short run due to the **Law of Variable Proportions** (or the law of diminishing marginal returns).

- **Initially**, as production increases, efficiency improves (increasing returns to the variable factor), and the average variable cost falls.
- **Eventually**, as more variable input is added to a fixed input (e.g., more workers in a fixed-size factory), production bottlenecks and inefficiencies occur (diminishing returns), causing the average variable cost to rise, giving the curve its characteristic "U" shape.

**9.** Marginal Revenue Product ( MRP) Equals:

a) The Product's price times marginal product
b) The Product's price times marginal cost
c) Marginal Revenue times the product's price
d) **Marginal Revenue times the marginal product**

**Explanation**

Marginal Revenue Product (MRP) is defined as the additional revenue generated by employing one more unit of a variable input (such as labor). It is calculated by multiplying the marginal physical product (MPP or Marginal Product) of the resource by the marginal revenue (MR) generated from selling the additional output produced by that resource.

**10.** A decrease in demand that results in economic losses in a perfectly competitive industry will:

a) Encourage entry into the industry
**b) Encourage exit from the industry**
c) Induce new, more efficient, firms to enter the industry
d) Cause existing firms in the industry to expand the scale of their operation



**Explanation**

- In a perfectly competitive industry, firms are motivated by profits and losses.
- Economic losses indicate that the market price is below the average total cost of production for at least some firms.
- When firms experience continuous economic losses, they will exit the market in the long run to minimize their losses and avoid fixed costs.
- This exit of firms reduces the industry supply, which eventually causes the market price to rise back to the zero-profit level (where price equals minimum average total cost).

**11.** The ideal level of operation for a pure monopoly firm is the level where:

**a) TR and STC curve are parallel to each other**
b) TR = TC
c) TR Total variable cost
d) TR is less than STC

**Explanation**

The ideal (optimum) level of operation for a pure monopoly firm is the level of output where it maximizes its total profit. Profit is maximized when the vertical distance between the Total Revenue (TR) curve and the Short Total Cost (STC) curve is the greatest. This maximum difference occurs at the output level where the two curves are **parallel** to each other, meaning they have the same slope. The slope of the total revenue curve is marginal revenue (MR), and the slope of the total cost curve is marginal cost (MC); thus, this condition is equivalent to the profit-maximization rule of MR = MC. For a positive profit, TR must also be greater than STC at this point.

**12.** Homogeneous product is the characteristic of:

- **a. Perfect competition**
- b. Monopoly market
- c. Monopolistic competition
- d. Oligopoly

**Explanation**

- A **homogeneous product** (meaning identical or nearly indistinguishable products) is a key defining characteristic of a perfectly competitive market structure.
- In perfect competition, the products sold by all firms are considered by buyers to be perfect substitutes, so no single firm can charge a higher price than the market price without losing all its customers.
- While some specific models of **oligopoly** might feature homogeneous products (e.g., steel, oil), the general and essential characteristic across all instances of perfect competition is product homogeneity, making it the most accurate answer among the given options.



**13. Under no profit, no loss situation in perfect competition, the firm earns**



- a. No, profit, No loss
- **b. Normal profit**
- c. Negative profit
- d. None of the above



**Explanation:**

In perfect competition, the situation where the firm makes "no profit, no loss" is known as the normal profit (or zero economic profit) condition.

**14. in a kinked demand curve in oligopoly**

- a. The sellers cannot increase in price above the kink because the demand is elastic
- b. The seller cannot reduce the price below the kink because demand is inelastic
- c. The sellers Sticks to the kinked price
- **d. All of the above**

**Explanation**

The kinked demand curve model in an oligopoly market explains price rigidity due to the assumed asymmetric behavior of competitors to price changes.

**15. in the long run monopolist earn:**

- a. Nominal profit
- **b. Abnormal profit**

c. Loss
d. Heavy loss

**Explanation**

- A monopolist can earn **abnormal profits** in the long run because of significant **barriers to entry** that prevent other firms from entering the market.
- These barriers can include control over essential resources, patents, copyrights, government regulations, or substantial economies of scale, all of which eliminate competition.
- Without competition, the monopolist can maintain a price above their average total cost, allowing them to sustain economic profits indefinitely, unlike firms in perfect competition or monopolistic competition, which only earn normal profits in the long run due to free entry and exit.

**16. In a competitive market ___ is the price maker.**

a) Firm
**b) Industry**
c) Consumer
d) Trade association

**Explanation**

- In a perfectly competitive market, the **industry** (the market as a whole) determines the price through the interaction of total market demand and total market supply.
- Individual firms in this market have a negligible share of the total market and must accept the market-determined price; therefore, they are considered "price takers," not "price makers".

**17. Which of these is not an essential feature of a market?**

a) Buyers
b) Sellers
c) Commodity
**d) Building with loading facilities**

**Explanation:**

A **building with loading facilities** refers to a specific physical location or infrastructure, which is not an essential feature of a market in the economic sense. Transactions can occur in a wide geographical area or virtually without a physical building.

**18. In an imperfect competition, which of the following curves generally lies below the demand curve?**

a) Marginal cost curve
**b) Marginal revenue curve**
c) Average cost curve
d) Average revenue curve

**Explanation**

In an imperfect competition market (monopoly, oligopoly, or monopolistic competition), a firm faces a downward-sloping demand curve. This demand curve is also the **Average Revenue (AR) curve**. To sell an additional unit of a product, the firm must lower the price not just for that extra unit, but for all units sold. This means the additional revenue gained from selling one more unit (the marginal revenue) is always less than the price (average revenue) at which that unit is sold. Therefore, the **marginal revenue (MR) curve** generally lies below the demand (AR) curve and is typically steeper.

**19. Price discrimination under monopoly is dependent on:**

a) **Price elasticity of Demand**
b) Size of the market
c) Both (a) and (b)
d) None of the above

**Explanation:**

Price discrimination under monopoly is primarily dependent on the ability to segment the market into different groups that have different price elasticities of demand. The monopolist can charge a higher price to the group with relatively inelastic demand (less sensitive to price changes) and a lower price to the group with relatively elastic demand (more sensitive to price changes) to maximize overall profits.

**20. An item which is not a factor of Production (Economic resource) is**:

a) **Money**
b) Land
c) Trees
d) Busch stadium



**Explanation:**

**Money** is not considered a factor of production because it does not directly contribute to the production of goods and services itself. Instead, it serves as a **medium of exchange**, facilitating the purchase of the actual factors of production like land, labor, and capital goods (machinery, tools, buildings).



**21. Which of the following is generally referred for the 'broader' measure of money supply?**

a) $M_1$
b) $M_2$
c) **$M_3$**
d) $M_4$

**Explanation:**

M3 is generally referred to as the 'broader' measure of money supply, or "broad money". It includes all the components of M1 (currency with the public, demand deposits) plus time deposits with the banking system, such as fixed deposits and recurring deposits. This inclusion of less liquid assets makes it a more comprehensive measure of the total monetary resources available in an economy for spending and investment purposes. Central banks, such as the Reserve Bank of India (RBI), widely use M3 for formulating monetary policy and analyzing economic trends.

**22. IFCI was established on ____ .**

a) 1946
b) 1947
**c) 1948**
d) 1949

**23. Commercial banks create money on the basis of ____ .**

**a) Cash deposits**
b) Number of customers
c) Statutory reserves
d) Debts

**Explanation:**

- Commercial banks create money (credit) primarily based on the **cash deposits** they receive from the public.
- The process operates on the principle of fractional reserve banking, where banks keep a fraction of the deposits as reserves and lend out the remaining portion.
- When a bank provides a loan, it credits the borrower's account, creating a new demand deposit, which effectively adds new money to the economy. This process, repeated throughout the banking system, multiplies the initial deposit, expanding the overall money supply.



**24. The rate of which the commercial banks borrow from the RBI is called as**

**a) REPO**
b) PLR
c) BPLR
d) Bank Rate

**Explanation:**

**Repo Rate:** The term "Repo" stands for Repurchase Option or Repurchase Agreement. It is the key interest rate at which the central bank lends money to commercial banks, typically for short-term needs, to manage liquidity and control inflation.

**25. Cash money is created by the ___ .**

**a) Central bank of country**
b) Commercial banks
c) State bank of India
d) Co-operative banks

**Explanation:**

**The central bank of a country (such as the Reserve Bank of India, or RBI) is the sole authority for issuing currency notes and coins, which is the physical "cash money". This is known as the "bank of issue" function, and the currency it issues is legal tender.**

**26. Which of the following is not a tool of quantitative credit control?**

a. Bank rate policy
**b. Moral suasion**
c. Open market Operations
d. Variable reserve ratio

**Explanation:**

- **Moral suasion is a qualitative tool of credit control, not quantitative. It involves the central bank using persuasion, influence, and informal suggestions to encourage commercial banks to act in a certain way, rather than directly controlling the volume of money or credit.**
- **Quantitative tools, also known as general tools, aim to control the overall volume of money and credit in the economy.**

**27. Which of the following is not an objective of the monetary policy?**

a. Acceleration of economic growth
b. Generation of employment
**c. Supervision of commercial banks**
d. price stability

**Explanation:**

**The supervision of commercial banks, while conducted by the central bank (e.g., the Federal Reserve in the US, or the RBI in India), is part of its regulatory and supervisory function to ensure the stability and resilience of the financial system, rather than a direct objective of monetary policy itself, which focuses on broader economic goals using monetary instruments.**



**28. Statutory liquidity ratio means:**

a. Liquidity with a commercial bank
b. Ratio of liquidity to assets
c. Ratio of liquidity to deposits
**d. Percentage of time and demand liabilities a commercial bank has to maintain with itself in liquid form**

**Explanation:**

- **Statutory Liquidity Ratio (SLR)** is a mandatory requirement set by the central bank (e.g., the Reserve Bank of India in India).
- It refers to the specific percentage of a commercial bank's **Net Demand and Time Liabilities (NDTL)** that it must maintain in the form of certain liquid assets.
- These liquid assets include **cash, gold, or government-approved securities**, which must be held by the bank itself, not with the central bank.
- The primary objective is to ensure banks have sufficient liquidity to meet customer withdrawal demands and to control the flow of credit in the economy.

**29. Commercial banks were nationalized to check**

a. Urban-orientation
b. Neglect of agricultural and small business
c. Misuse of funds by directors

d. **All of the above**

**Explanation:**

Commercial banks were nationalized in India primarily to achieve broader social and economic goals, moving them away from a concentrated, private-interest focus. The key reasons included:

- **a. Urban-orientation**: Private banks had a significant bias toward urban centers, neglecting rural and semi-urban areas where the majority of the population lived.
- **b. Neglect of agricultural and small business**: Credit flow from private banks was largely directed to large industries, while critical sectors like agriculture and small-scale industries were starved of necessary funds.
- **c. Misuse of funds by directors**: There were concerns about the concentration of economic power and funds being used to benefit a few private individuals or large businesses controlled by the bank directors, rather than serving the public interest.

**30. Inflation which is unexpected will most likely benefit:**

a) Holders of cash
b) Creditors who lends funds to others
c) Those who have fixed incomes
d) **People owing debts**

**Explanation:**

**Unexpected inflation benefits debtors because they repay their loans with money that has less purchasing power than when it was originally borrowed. The real value (purchasing power) of the debt diminishes over time, effectively making the repayment cheaper in real terms. The interest rates for these existing debts were set based on lower, expected inflation, so the actual real interest rate ends up being lower than anticipated.**



**31. Macro environment is also known as:**

a) Task environment
**b) Remote environment**
c) Global environment
d) Operating environment

**Explanation:**

The **macro environment** refers to the broader, external forces and conditions that affect all firms in an industry, but over which an individual firm has little to no direct control (e.g., political, economic, social, technological, legal, and environmental factors - PESTLE). It is therefore known as the **remote environment** because its influences are distant and general.

**32. Financial Factors, Human Re source, Marketing Resource and Miscellaneous factors are _____ factors.**

a) Micro
b) Macro

**c) Internal**
d) External

**Explanation:**

- **Financial Factors, Human Resource, Marketing Resource, and Miscellaneous factors are elements found within a business and are generally controllable by management.**
- **Factors originating from within the organization are known as internal factors or the internal environment.**

**33. The matters relating to creating close linkages and letter communication with customers, suppliers and alliance partners given in a mission/ vision Statement are:**

a) Internal to organization
**b) External to organization**
c) Both (a) and (b)
d) Neither (a) nor (b)

**Explanation:**
**Matters relating to creating close linkages and communication with customers, suppliers, and alliance partners are considered part of the organization's external environment. These stakeholders are outside the direct internal structure and control of the organization, and communication with them serves a public relations purpose and helps provide external support.**

**34. Impact of business environment differs from country to country and often differs between any two regions within the same country for example demand for sarees differs between India and France. This feature of business environment is known as**

a) Dynamic nature Dynamic nature
b) Complexity
**c) Relativity**
d) Uncertainly

**Explanation:**
**The business environment is relative because it is a subjective concept; its impact depends on where and in what context it is being considered. The demand for specific goods like sarees highlights how cultural, social, and physical factors make the environment unique to each location.**

**35. Which of the following statements explains the characteristic of relativity of the business environment?**

a) Elements of business environment are connected with each other and they influence each other
b) It is difficult to make predictions about the future
c) It keeps changing fast due to shifts in consumer preferences, entry of new competition and other reasons

d) **If differs between any two countries and often differs between any two regions within the country**

**Explanation:**

- **Relativity in the business environment means that the impact and nature of the business environment is a relative concept, differing from place to place, region to region, and country to country due to varying local conditions, cultures, and situations.**
- **For example, a specific political condition or a cultural value that is prevalent in one country might be completely different in another.**

**36. Business environment consists of numerous interrelated and dynamic factors and forces, arising from different sources. This makes business environment easy to understand in parts separately but difficult to understand totally. Thus, it is hard to assess the extent of relative impact of social, economic, political, legal and technological dimensions on the change of market demand for a product. This characteristic of business environment is known as.**

a) Dynamic Nature
b) Uncertainly
c) Relativity
d) **Complexity**

**Explanation:**
**Complexity arises because the business environment is a system of numerous, interrelated, and dynamic factors arising from different sources. While individual components like economic or legal factors might be understandable in isolation, assessing their combined, total impact on something specific like market demand for a product is difficult.**

**37. Due to many reasons such as technological changes, shifts in consumer preferences, entry of new competitors, and so on, the business environment keeps continuously changing with time, this property of the business environment is known as?**

a) Uncertainty
b) Interrelated nature
**c) Dynamic nature**
d) Complexity

**Explanation:**
**The property of the business environment that refers to its continuous change due to factors such as technological changes, shifts in consumer preferences, and entry of new competitors is known as its dynamic nature. It is not static but constantly evolving, requiring businesses to be adaptable.**

**38. Scientific management focuses on an approach to motivation.**

a) Social economic

b) Human
**c) Rational economic**
d) None of the above

**Explanation:**
**Scientific management, developed by Frederick W. Taylor, is based on the assumption that employees are primarily motivated by economic incentives. This view, often referred to as the rational economic approach, posits that workers will rationally consider opportunities that provide the greatest financial gain and will maximize their output for the highest possible wages.**

**39. Henry Fayol divided all activities of industrial undertakings into group:**
a) Technical, final
b) Security, psychological
**c) Financial, security**
d) Accounting, managerial

**40. ____ considers that profit maximization is the main objective of a business organization.**
a) Stewardship theory
**b) Shareholder theory**
c) Stakeholder theory
d) Agency theory



**Explanation:**
- **Shareholder theory, famously championed by economist Milton Friedman, posits that the primary responsibility of a business is to maximize profits for its shareholders.**
- **According to this view, managers are the agents of the shareholders and should operate the business in a manner that increases shareholder wealth.**



**41. Organizing aims to serve:**
**a) Common purpose**
b) Corruption
c) Authority structure
d) Arranging things

**Explanation:**
Organizing is a management function that involves arranging resources, tasks, and people in a systematic manner to enable them to work together most effectively and efficiently in accomplishing predetermined objectives or a common purpose. The need for organizing only arises when more than one person is working towards a shared goal.

**42. Selection devices must be :**

a) Be explained
**b) Match the job in question**
c) To be cost effective
d) None of the above

**Explanation:**

Selection devices, such as tests or interviews, must be valid and reliable to be effective. Validity, in this context, specifically means that the device must measure what it is intended to measure and be relevant to the job requirements. Therefore, they must match the job in question to ensure the most suitable candidate is chosen for the role. Using job analysis is the first step in ensuring this match.

**43. HRD refers to:**

a) Remuneration
**b) Development**
c) Controlling
d) None of the above.

**Explanation:**

**Human Resource Development (HRD): Focuses on the growth and development of employees through training, education, and career plans.**



**44. Planning to learn from experience is in keeping with which of Mumford's four approaches to learning?**

**a) Prospective approach**
b) Intuitive approach
c) Incidental approach
d) Retrospective approach



**Explanation:**

**The prospective approach to learning from experience, as identified by Alan Mumford, involves viewing future experiences as opportunities to learn and actively planning what one will learn before the experience takes place. Learners using this approach enter a situation having already planned to learn, and they typically review the experience afterwards to draw conclusions for future planning. This emphasis on pre-planning aligns directly with the idea of "planning to learn from experience" mentioned in the question.**

**45. To understand communication in a meeting, we need to investigate the roles, personalities and values of every participant, as well as review the minutes taken and actions resulting from previous meetings." Which of Trenholm's perspectives is described here?**

**a) Socio-psychological**
b) Cybernetic
c) Psychosocial

d) Pragmatic

**Explanation:**

**The described approach aligns with the socio-psychological perspective (also referred to as the psychological perspective by Trenholm), which focuses on individual behavior and the psychological processes that influence communication. This perspective suggests that communication is a process whereby individuals transmit and receive messages based on their personal mental sets, including their beliefs, values, attitudes, and feelings. The need to investigate "roles, personalities and values of every participant" directly speaks to the core tenets of this perspective, as these are all individual psychological factors that affect how people communicate and interpret messages. Reviewing past meeting outcomes is part of understanding the effects of previous interactions and using those observations to predict or understand future behaviour, a key characteristic of this tradition's scientific approach.**

**46. ____ is a financial plan for a definite period of time.**

a) Planning
b) Coordinating
**c) Budget**
d) All of the above

**Explanation:**

A **budget** is a detailed financial plan that quantifies management's plans for a specific period of time, typically a fiscal year or month. It outlines expected revenues, expenses, and capital expenditures, serving as a critical tool for resource allocation, control, and performance evaluation.



**47. Deviation is a term used in :**

**a) Controlling**
b) Motivation
c) Directing
d) Planning

**Explanation:**

- **Deviation is a core term used in the controlling function of management.**
- **Controlling involves several steps:**
  1. **Setting performance standards.**
  2. **Measuring actual performance.**
  3. **Comparing actual performance with the standards and finding out the deviation (difference) if any.**
  4. **Taking corrective action to ensure the actual performance matches the planned performance.**

**48. What is the term used to define the number of subordinates directly controlled by a manager?**

a) Division department
b) Departmentation
c) Investment plan
d) **Span of management**

**Explanation:**

**Span of management, also known as the span of control, is the term used to define the number of subordinates a manager can effectively and efficiently oversee, direct, and control.**

**49. A threatened strike action by a labour union to force the management to accept their demands in an example of which of the following power?**

a) Referent power
b) Legitimate power
c) Reward power
d) **Coercive power**

**Explanation:**

**Coercive power is the ability to influence behavior through the use of threats, punishment, or the ability to take something away for non-compliance. A threatened strike action by a labor union is a use of force (the cessation of work) to compel management to act in a manner it ordinarily would not choose to do, such as accepting the union's demands.**



**50. Jerry & Sons operates as 150 smaller companies instead of one large multi-billion dollar corporation. All these smaller companies focus on a specific medical or product franchise with each affiliate generating multiple optional for growth which concept management does this firm follow?**



a. Centralization
b. Delegation
c. **Decentralization**
d. Organizing

**Explanation:**

The firm is following the concept of **decentralization**. This is because the company's structure involves breaking a single large entity into 150 smaller, independent affiliates, with decision-making power delegated to these specific units. Decentralization allows each smaller company to focus keenly on its niche market, fostering agility and independent growth options.