

## UGC NET Commerce Memory Based Question Paper Jan 03, 2026 Shift 1

**Q1.** When all the factors of production are changed in the same proportion, it is called as:

- A. Long run production function
- B. Law of equal proportion
- C. Law of return to scale
- D. Law of return to a factor
- E. Law of Variable proportion

Choose the correct answer from the options given below:

- A. A, and C Only
- B. B, C, D Only
- C. C, D, E Only
- D. A, C, E Only

Answer:

A

Sol:

Long Run Production Function (Option A) – Correct

In the long run, all factors of production can be changed, making the long-run production function applicable.

Law of Equal Proportion (Option B) – Incorrect

There is no recognized economic law called the "Law of Equal Proportion."

This term is not commonly used in economics literature, so it cannot be a valid choice.

Law of Returns to Scale (Option C) – Correct

The Law of Returns to Scale describes how output responds when all factors of production are increased in the same proportion (which matches the question exactly).

If inputs double, output may increase proportionally (constant returns to scale), more than double (increasing returns to scale), or less than double (decreasing returns to scale).

Law of Returns to a Factor (Option D) – Incorrect

This law applies when only one factor of production is varied, while others remain fixed.

It is a short-run concept, whereas the question refers to the long run (where all factors change).

Law of Variable Proportion (Option E) – Incorrect

This law applies only in the short run, where one factor of production is varied while others remain fixed.

The question specifies that all factors are changing in the same proportion, which makes this law inapplicable.

**Q2.** The parametric test that can be used for hypothesis testing of paired samples is:

- A. t test
- B. z test
- C. Chi-Square test
- D. Mann-Whitney test

Answer:

A

Sol:

The correct answer is t test. Specifically, it's the paired t-test (also known as the dependent samples t-test or repeated measures t-test).

Paired Samples: When you have paired samples, it means that the observations in your two groups are related. This often occurs when:

The same subjects are measured twice (e.g., before and after a treatment or intervention).

Subjects are matched based on specific characteristics (e.g., twins, or patients matched by age and severity of disease).

**Parametric Test:** A parametric test makes assumptions about the distribution of the population from which the samples are drawn. For the paired t-test, the key assumptions are that the differences between the paired observations are approximately normally distributed and that the data are continuous.

**Paired t-test:** The paired t-test is specifically designed for these situations. Instead of treating the two groups as independent, it calculates the difference between each pair of observations and then performs a one-sample t-test on these differences to see if their mean is significantly different from zero.

**Additional Knowledge :-**

**z test:** A z-test is a parametric test typically used when the sample size is large (generally  $> 30$ ) and the population standard deviation is known. While it can compare means, it's not the primary choice for paired samples, especially if the sample size is small or the population standard deviation is unknown.

**Chi-Square test:** This is a non-parametric test used for analyzing categorical data to determine if there's an association between two or more categories. It's not suitable for comparing the means of continuous data from paired samples.

**Mann-Whitney test:** This is a non-parametric test used to compare the medians of two *independent* samples. It's not appropriate for paired data because it assumes the samples are unrelated. The non-parametric equivalent for paired samples is the Wilcoxon signed-rank test.

**Q3.** What does capital rationing refer to in the context of capital budgeting?

- A. The process of selecting the highest return projects without considering the available funds.
- B. A situation where the firm has more acceptable investment proposals requiring greater amounts of finance than are available.
- C. The process of automatically rejecting all projects with low returns.
- D. A method where funds are allocated equally to all investment proposals.

**Answer:**

B

**Sol:**

Capital rationing occurs when a company faces a situation where the number of investment proposals exceeds the available funds, and thus, the firm needs to prioritize projects in a way that maximizes long-term returns.

**Information Booster:**

**Capital Rationing:** This process is necessary when there is a fixed budget and several projects competing for funding. Firms must select the best projects based on their expected return, even if the number of suitable projects exceeds the budget available.

**Ranking Proposals:** The proposals are typically ranked based on their rate of return, and the firm selects the best possible combination that aligns with its financial constraints.

**Additional Knowledge:**

**Fund Allocation:** Capital rationing helps ensure that limited resources (funds) are allocated in the most effective manner to achieve the maximum possible return for the firm.

**Decision-Making:** This method emphasizes choosing projects that provide the best return relative to the capital outlay, ensuring optimal investment in the company's growth.

Top of Form

Bottom of Form

**Q4.** Arrange the following in chronological order of their establishment (Old to New)

- A. NAFTA
- B. European Union
- C. SAARC
- D. ASEAN

Choose the correct answer from the options given below:

- A. A, B, C, D
- B. B, A, D, C
- C. D, C, B, A
- D. C, D, A, B

Answer:

C

Sol:

The correct chronological order is D, C, B, A.

ASEAN (D):

Established in 1967, ASEAN (Association of Southeast Asian Nations) is the oldest regional economic bloc among the given options.

SAARC (C):

Founded in 1985, SAARC (South Asian Association for Regional Cooperation) came after ASEAN.

European Union (B):

While the process of European integration began in the 1950s, the European Union as we know it today was formally established in 1993 with the Treaty of Maastricht.

NAFTA (A):

NAFTA (North American Free Trade Agreement) was established in 1994 between Canada, Mexico, and the United States.

**Q5.** Based on the value of the correlation coefficient  $r$ , which of the following statements is incorrect?

- (A) If  $r=0.85$ , it indicates a high degree of positive correlation.
- (B) If  $r=-0.40$ , it indicates a low degree of negative correlation.
- (C) If  $r=0.10$ , it indicates a low degree of positive correlation.
- (D) If  $r=-0.95$ , it indicates a moderate degree of negative correlation.

Choose the correct answer from the options below:

- A. (A) and (B)
- B. (B) and (D)
- C. (D) only
- D. (C) and (D)

Answer:

C

Sol:

The correlation coefficient  $r$  measures the strength and direction of the linear relationship between two variables, ranging from -1 to +1.

Let's evaluate each statement:

- (a) If  $r=0.85$ , it indicates a high degree of positive correlation. This statement is correct. A value of 0.85 is close to +1, signifying a strong positive linear relationship.
- (b) If  $r=-0.40$ , it indicates a low degree of negative correlation. This statement is correct. A value of -0.40 indicates a negative relationship, and its absolute magnitude (0.40) suggests a relatively weak or low degree of correlation.

(c) If  $r=0.10$ , it indicates a low degree of positive correlation. This statement is correct. A value of 0.10 is close to 0, indicating a very weak positive linear relationship.

(d) If  $r=-0.95$ , it indicates a moderate degree of negative correlation. This statement is incorrect. A value of -0.95 is very close to -1, indicating a high or very strong degree of negative correlation, not a moderate one.

Therefore, the only incorrect statement is (d).

**Q6.** Calculate the Break-Even Point (BEP) in rupees from the following data:

P/V Ratio = 30%

Fixed Cost = ₹90,000

Actual Sales = ₹4,00,000

Margin of Safety = ₹1,00,000

A. ₹2,00,000

B. ₹3,00,000

C. ₹2,50,000

D. ₹3,50,000

Answer:

B

Sol:

Break-Even Point (BEP) is the sales level at which total revenue equals total cost, resulting in zero profit or loss. It can be calculated using the P/V ratio and fixed costs as follows:

Formula:

$$\text{BEP (in ₹)} = \frac{\text{Fixed Costs}}{\text{P/V Ratio}}$$

Where:

P/V Ratio (Profit-Volume Ratio) = Contribution Margin / Sales

Contribution Margin = Sales - Variable Costs

Given data:

Fixed Cost = ₹90,000

P/V Ratio = 30% = 0.30

Calculate BEP:

$$\text{BEP} = \frac{₹90,000}{0.30} = ₹3,00,000$$

Alternatively, the **Margin of Safety (MOS)** is the difference between actual sales and break-even sales:

$$\text{MOS} = \text{Actual Sales} - \text{BEP}$$

Given Margin of Safety = ₹1,00,000 and Actual Sales = ₹4,00,000,

$$₹1,00,000 = ₹4,00,000 - \text{BEP} \Rightarrow \text{BEP} = ₹4,00,000 - ₹1,00,000 = ₹3,00,000$$

Both methods confirm that the BEP is ₹3,00,000.

**Information Booster:** The BEP analysis is crucial for business decision-making. It helps determine the minimum sales required to avoid losses, guides pricing, cost control, and profit planning. The P/V ratio measures how much contribution is generated per rupee of sales, showing profitability sensitivity to sales changes. Margin of Safety

indicates the cushion available before incurring losses, highlighting business risk. For example, a firm with a higher margin of safety is in a safer position compared to one with a low margin.

**Q7. Match List I with List II**

List I – International Trade Theories	List II – Theory Propoundness
A. Factor Endowment theory	I. Adam Smith
B. Product life cycle theory	II. Michael Porter
C. Absolute cost advantages theory	III. Heckscher and Ohlin
D. Competitive advantage theory	IV. Raymond Vernon

Codes:

Match the column

- A. A-I, B-III, C-II, D-IV
- B. A-III, B-IV, C-I, D-II
- C. A-II, B-III, C-I, D-III
- D. A-IV, B-I, C-III, D-II

Answer:

B

Sol:

A. Factor Endowment theory - "III. Heckscher and Ohlin"

The Heckscher-Ohlin theory, also known as the Factor Endowment theory, was developed by Eli Heckscher and Bertil Ohlin.

B. Product life cycle theory - "IV. Raymond Vernon"

The Product Life Cycle theory was developed by Raymond Vernon.

C. Absolute cost advantages theory - "I. Adam Smith"

The Absolute Cost Advantages theory was proposed by Adam Smith.

D. Competitive advantage theory - "II. Michael Porter"

The Competitive Advantage theory is often associated with Michael Porter.

**Q8. Arrange the following theories of international trade in chronological order (old to new):**

- A. Mercantilism Theory
- B. Comparative Advantage Theory
- C. Product Life Cycle Theory
- D. Heckscher-Ohlin Theory

Choose the correct answer from the options given below:

- A. A, B, C, D
- B. A, B, D, C
- C. C, B, A, D
- D. B, A, C, D

Answer:

B

Sol:

1. A. Mercantilism Theory: This theory dominated economic thought from the 16th to 18th centuries. It focused on accumulating wealth (gold and silver) through trade surpluses, prioritizing exports and restricting imports.

2. B. Comparative Advantage Theory: Developed by David Ricardo in 1817, this theory argues that countries should specialize in producing goods they can produce at a lower opportunity cost, leading to mutual benefits through trade.

3. D. Heckscher-Ohlin Theory: Introduced by Eli Heckscher (1919) and Bertil Ohlin (1933), this theory explains trade patterns based on differences in countries' factor endowments (relative abundance of resources like labor and capital).

4. C. Product Life Cycle Theory: This theory, developed by Raymond Vernon in 1966, explains how a product's trade pattern evolves as it moves through its life cycle from introduction to decline, with production potentially shifting from innovating countries to developing countries for cost advantages.

Therefore, the correct chronological order is A, B, D, C.

**Q9.** If an estimated Cobb-Douglas production function is  $Q = 10K^{0.6}L^{0.8}$ , what type of returns to scale does this production function indicate?

- A. Increasing returns
- B. Decreasing returns
- C. Constant returns
- D. Negative returns

Answer:

A

Sol:

In a Cobb-Douglas production function of the form  $Q = AK^\alpha L^\beta$ , the returns to scale are determined by the sum of the exponents ( $\alpha + \beta$ ):

Increasing returns to scale: If  $\alpha + \beta > 1$

Decreasing returns to scale: If  $\alpha + \beta < 1$

Constant returns to scale: If  $\alpha + \beta = 1$

In your example,  $Q = 10K^{0.6}L^{0.8}$ ,  $\alpha = 0.6$  and  $\beta = 0.8$ . Therefore,  $\alpha + \beta = 0.6 + 0.8 = 1.4$ , which is greater than 1. This indicates increasing returns to scale

Information Booster:

Increasing returns to scale: Occur when a proportional increase in inputs leads to a more than proportional increase in output.

Decreasing returns to scale: Occur when a proportional increase in inputs leads to a less than proportional increase in output.

Constant returns to scale: Occur when a proportional increase in inputs leads to an equal proportional increase in output.

Negative returns: Would suggest that increasing inputs reduces output, which is not applicable here.

Additional Information:

The Cobb-Douglas function is commonly used in economics to model production and estimate returns to scale.

Increasing returns are common in industries where firms benefit from economies of scale.

Returns to scale are a key concept in understanding how scaling up production affects costs and output.

**Q10.** Which two of the following are correct about TDS certificates?

- (A) TDS on salary payment - Form 16
- (B) TDS on non-salary payment - Form 16A
- (C) TDS on rent - Form 16B
- (D) TDS on sale of property - Form 16C

Choose the correct option:

- A. (A) and (B)

- B. (A) and (C)
- C. (A) and (D)
- D. (B) and (C)

Answer:

A

Sol:

Form 16 – TDS on salary

Form 16A – TDS on non-salary payments

Form 16B – TDS on property sale

Form 16C – TDS on rent

Thus, A and B are correct.

**Q11.** Which of the following statements are correct with regard to tax evasion?

- A. Tax evasion involves illegal means to reduce tax liability.
- B. Tax evasion is considered a legal minimization of tax burden.
- C. Tax evasion often involves concealment of income or falsification of accounts.
- D. Tax evasion occurs before the tax liability arises, through legitimate planning.
- E. Tax evasion and tax avoidance are essentially the same in the eyes of the law.

Choose the correct answer from the options given below:

- A. A and C Only
- B. A, B and C Only
- C. B, D and E Only
- D. A, C and E Only

Answer:

A

Sol:

The correct answer is A and C Only. Tax evasion is the illegal attempt to minimize tax liability by fraudulent means. Statement A is correct because tax evasion involves the deliberate breaking of laws to pay less tax. Statement C is correct because this typically includes the concealment of income, inflation of expenses, or the falsification of accounting records.

Statement B is incorrect because tax evasion is an illegal act, not a legal minimization. Statement D describes "Tax Planning," which is legitimate; evasion usually happens after the income is earned by misrepresenting it. Statement E is incorrect because the law draws a sharp distinction: Tax Avoidance is the legal manipulation of the tax regime to one's advantage (using "loopholes"), whereas Tax Evasion is a criminal offense involving deceit.

Information Booster

**Nature of Act:** Tax evasion is a criminal offense that attracts heavy financial penalties and potential imprisonment under the Income Tax Act.

**Methodology:** It involves "colorable devices" such as maintaining double sets of books, claiming fake personal expenses as business expenses, or not reporting capital gains.

**Intent (Mens Rea):** There is a clear "guilty mind" or intent to defraud the government of its rightful revenue.

**Impact on Economy:** High levels of tax evasion lead to the generation of Black Money, which creates a parallel economy and hinders national development.

**Burden of Proof:** In cases of evasion, the burden of proof often lies heavily on the revenue authorities to establish that concealment or fraud has occurred.



**Q12.** The scheme of partial integration of tax or non-agricultural income with income derived from agriculture is applicable if an individual has:

- A. Non-Agricultural income of more than the exemption limit or agricultural income exceeding ₹5000
- B. Non-Agricultural income of more than the exemption limit or agricultural income exceeding ₹2500
- C. Non-Agricultural income of more than the exemption limit and agricultural income exceeding ₹2500
- D. Non-Agricultural income of more than the exemption limit and agricultural income exceeding ₹5000

Answer:

D

Sol:

The scheme of partial integration of tax or non-agricultural income with income derived from agriculture is applicable if an individual has:

Non-agricultural income of more than the exemption limit AND

Agricultural income exceeding ₹5,000

Explanation of partial integration of agricultural and non-agricultural income

Although agricultural income is generally exempt from income tax in India under Section 10(1) of the Income Tax Act, 1961, a mechanism known as partial integration exists to calculate the tax rate on non-agricultural income when an individual has both agricultural and non-agricultural income. This process aims to ensure that individuals with substantial agricultural income are taxed at a higher rate on their non-agricultural income.

Conditions for applicability

The partial integration method is applicable only if both of the following conditions are met:

Net Agricultural Income: The individual's net agricultural income for the financial year exceeds ₹5,000.

Non-Agricultural Income: The individual's non-agricultural income exceeds the basic exemption limit.

The basic exemption limit varies depending on the age of the individual and the tax regime (Old or New) they opt for.

**Q13.** What does organizational culture include, as per the definition provided?

- A. The economic policies of the organization and its global strategies.
- B. The shared values, beliefs, and customs that hold an organization together and guide its operations.
- C. The technical processes and systems used within the organization.
- D. The physical layout of the workplace and its impact on productivity.

Answer:

B

Sol:

Organizational culture consists of the shared attitudes, beliefs, customs, and the written and unwritten rules that help bind the organization together. It shapes the internal environment and guides interactions both within the organization and with the outside world.

Information Booster:

Organizational Culture: Also referred to as corporate culture, it includes the values and philosophies that guide behavior, decision-making, and relationships in an organization.

Elements: It encompasses shared experiences, expectations, and future goals that collectively define the organization's identity.

Additional Knowledge:

Impact of Culture: Organizational culture directly influences employee behavior, satisfaction, and performance. It helps create a cohesive working environment and fosters a sense of belonging and purpose.



**Q14.** Which of the following statements is/are incorrect regarding the different types of demand in marketing? Indicate the correct code.

- I. In Unwholesome Demand, consumers seek to avoid products that have undesirable social consequences.
  - II. In Negative Demand, consumers dislike the product and may even pay to avoid it.
  - III. In Full Demand, consumers are buying products just at the level the company desires.
  - IV. In Latent Demand, consumers have a need that cannot be satisfied by any existing product.
- A. I and II
  - B. I and III
  - C. II and III
  - D. II and IV

Answer:

A

Sol:

Statements I and II are incorrect.

Statement I is incorrect because Unwholesome Demand refers to demand for products that are considered undesirable by society (e.g., cigarettes, alcohol). Consumers are often attracted to these products despite their negative effects.

Statement II is correct for Negative Demand, where consumers have a strong dislike for the product and may pay to avoid it (e.g., vaccinations or dental procedures).

Statement III is correct as Full Demand refers to a situation where the demand for a product is exactly as per the company's expectations—neither too high nor too low.

Statement IV is correct because Latent Demand describes a scenario where consumers have a need or desire that is not satisfied by any existing product, indicating a gap in the market.

Information Booster

Types of Demand in Marketing:

1. Unwholesome Demand: Consumers desire goods that have potentially harmful effects.
2. Negative Demand: Consumers have an aversion to the product.
3. Full Demand: The market demand is exactly what the company intends.
4. Latent Demand: There is a recognized need, but no product currently exists to fulfill it.

**Q15.** Which of the following formulas correctly shows the relationship between Average Revenue (AR), Marginal Revenue (MR), and Price Elasticity of Demand (e)?

- A.  $MR = AR + e - 1$
- B.  $AR = MR \times (e - 1)/e$
- C.  $MR = AR \times (e - 1)/e$
- D.  $MR = AR + (e - 1)/(e + 1)$

Answer:

C

Sol:

The correct formula that shows the relationship between Average Revenue (AR), Marginal Revenue (MR), and Price Elasticity of Demand (e) is:

$$MR = AR \times (e - 1)/e$$

Explanation:

- Average Revenue (AR): AR, also the price (P), is the revenue per unit sold when a firm sells all units at the same price.
- Marginal Revenue (MR): MR is the additional revenue from selling one more unit.

- Price Elasticity of Demand (e): Demand elasticity measures how the quantity demanded changes with price. The relationship between MR and demand elasticity is important for understanding how changes in price affect total revenue.

**Q16.** International standards on auditing (ISAs) are generally issued and promoted by which of the following global organizations?

- A. International Federation of Accountants (IFAC)
- B. International Accounting Standards Board (IASB)
- C. International Auditing and Assurance Standards Board (IAASB)
- D. International Organization of Securities Commissions (IOSCO)

Choose the correct answer from the options given below:

- A. A & C only
- B. A & B only
- C. B & D only
- D. C & D only

Answer:

A

Sol:

The correct answer is A & C only. The International Federation of Accountants (IFAC) and the International Auditing and Assurance Standards Board (IAASB) are responsible for issuing and promoting the International Standards on Auditing (ISAs).

A (IFAC): The International Federation of Accountants (IFAC) is the global organization that represents the accounting profession and plays a crucial role in issuing guidelines and frameworks for auditing standards through its various boards.

C (IAASB): The IAASB, a part of IFAC, is specifically responsible for setting the International Standards on Auditing (ISAs). The IAASB's standards aim to improve the quality and consistency of auditing practices globally.

Information Booster: The IAASB issues the ISAs, and the IFAC supports the adoption of these standards across various countries. The ISAs are internationally recognized standards that provide guidelines for the conduct of audits, ensuring that auditors follow best practices and maintain a high level of consistency and quality in their work.

**Q17.** If a new contract is substituted in place of an existing contract, it is called:

- A. Waiver
- B. Remission
- C. Novation
- D. Alteration

Answer:

C

Sol:

Novation occurs when a new contract replaces an existing contract with the agreement of all parties involved. This means that obligations under the old contract are completely discharged, and a fresh contract with new terms takes effect.

Incorrect options:

Waiver (a): This refers to the voluntary relinquishment of a legal right.

Remission (b): This involves accepting a lesser amount than what is due.

Alteration (d): This means modifying the terms of an existing contract without replacing it entirely.

**Q18.** Which of the following are considered characteristics of a 'Greenfield Investment' as a mode of Foreign Direct Investment?

- A. Establishing a new operational facility from the ground up
- B. Purchasing a controlling stake in an existing foreign company
- C. Creating a completely new business entity in the host country
- D. Merging with an overseas competitor
- E. Forming a new corporate entity with a local partner

Choose the correct answer from the options given below:

- A. A, C and E only
- B. A, B and C only
- C. B, C and D only
- D. A, C and D only

Answer:

A

Sol:

A Greenfield Investment refers to establishing new operations in a foreign country from the ground up, rather than acquiring or merging with an existing firm. Therefore, the correct characteristics are:

- A. Establishing a new operational facility from the ground up
- C. Creating a completely new business entity in the host country
- E. Forming a new corporate entity with a local partner

Information Booster:

Greenfield Investments are a form of Foreign Direct Investment (FDI) where a company builds its operations in a foreign country, typically involving the construction of new facilities such as factories, stores, or offices. This type of investment allows a company to have full control over its operations and avoid issues like integrating an existing company's culture or practices.

**Q19.** The Environment of business consists of all those external things to which it is exposed and by which it may be influenced, directly or indirectly" said by:

- A. Copen
- B. Wleer and Torch
- C. Reinecke and Shoell
- D. None of the above

Answer:

C

Sol:

The correct answer is (c) Reinecke and Shoell.

Reinecke and Shoell are credited with defining the business environment as "The Environment of business consists of all those external things to which it is exposed and by which it may be influenced, directly or indirectly." This definition emphasizes the broad and dynamic factors that affect business operations, including social, economic, technological, and political influences from the external environment.

Information Booster:

The concept of business environment refers to the factors that influence a business's decision-making and overall operations. These factors can be categorized into two broad types:

1. Internal environment: Factors within the organization, such as management, employees, and internal policies.

2. External environment: The external forces such as economic conditions, competition, technological advancements, government regulations, social factors, and cultural influences.

Understanding the business environment is essential for companies to make informed decisions and develop strategies that adapt to changing conditions.

**Q20.** "That personal leverage can replace corporate leverage" is assumed by

- A. Traditional Approach
- B. M M Model
- C. Net Income Approach
- D. Net Operating Income Approach

Answer:

B

Sol:

The statement "That personal leverage can replace corporate leverage" is assumed by the Modigliani-Miller (M-M) Model. According to the Modigliani-Miller Proposition I, in a perfect capital market, individuals can use personal leverage (borrowing on their own) to replicate the effects of corporate leverage (a firm's use of debt). This means that investors can adjust their personal portfolios to achieve the same risk and return as the corporate structure, making the capital structure decision of the firm irrelevant.

Information Booster: The M-M Model assumes perfect markets without taxes, bankruptcy costs, or transaction costs, meaning that capital structure does not affect the firm's value. The firm's debt-equity ratio can be mimicked by investors using personal leverage, thus having no impact on the firm's overall value.

Additional Knowledge:

(A) Traditional Approach: The Traditional Approach believes in an optimal capital structure where the cost of capital decreases up to a certain level of debt and then increases as more debt is added. This approach does not assume that personal leverage can replace corporate leverage.

(C) Net Income Approach: This approach argues that the more debt a company takes on, the lower the cost of capital, but it does not include the concept of personal leverage replacing corporate leverage.

(D) Net Operating Income Approach: The NOI approach assumes that the cost of capital remains constant regardless of leverage, but it does not address personal leverage in the same way as the M-M model.

**Q21.** The EBIT level at which the Earnings Per Share (EPS) is identical for two alternative financial plans is known as the:

- A. Financial Break-even Point
- B. Indifference Point
- C. Leverage Crossover
- D. Optimal Capital Structure

Answer:

B

Sol:

The Indifference Point is the EBIT level at which the Earnings Per Share (EPS) is the same for two alternative financial plans. At this point, the choice between the financial plans (e.g., using debt or equity financing) does not affect the company's EPS. This is a key concept in capital structure decisions, helping the firm to determine the level of EBIT where the impact of different financing choices (debt vs. equity) results in the same return to shareholders.

Information Booster: The Indifference Point is crucial for a company in deciding whether to finance through debt or equity. The firm calculates the indifference point where the cost of debt financing (with interest payments) balances

the benefits of equity financing (such as no obligation for interest payments). If the EBIT is lower than the indifference point, equity financing might be better, as debt financing could lead to higher interest costs. If EBIT is higher than the indifference point, debt financing might be more advantageous due to the tax advantages and the leverage effect.

Additional Knowledge:

(A) Financial Break-even Point: This refers to the level of EBIT where the firm covers its fixed costs, including interest payments, but does not make a profit. It's different from the indifference point.

(C) Leverage Crossover: This term refers to the EBIT level at which the effects of operating leverage and financial leverage intersect. It is often used in the context of understanding how changes in EBIT affect the financial returns from different capital structures but is not the same as the indifference point.

(D) Optimal Capital Structure: The optimal capital structure refers to the best mix of debt and equity financing that minimizes the company's cost of capital and maximizes its value. While related to financing decisions, it is not the same as the indifference point, which focuses on where EPS is identical across financing options.

**Q22.** Which dividend policy is characterized by paying a fixed percentage of earnings as dividends?

- I) Residual dividend policy
- II) Stable dividend policy
- III) Constant dividend policy
- IV) Zero dividend policy

Options:

- A. I and II
- B. I, II and III
- C. II and IV
- D. III and IV
- E. All of the above

Answer:

A

Sol:

Residual Dividend Policy:

In a residual dividend policy, a company first funds its capital budget and investment opportunities using earnings. After meeting all investment needs and operating requirements, the remaining or "residual" earnings are distributed as dividends.

This policy is primarily focused on financing profitable investment projects and then distributing the remaining profits to shareholders.

Stable Dividend Policy:

A stable dividend policy is characterized by maintaining a relatively consistent dividend payout to shareholders, often regardless of fluctuations in earnings.

The objective of this policy is to provide shareholders with a predictable and stable stream of dividend income.

**Q23.** In statistics, the standard deviation of a sampling distribution is specifically known as the:

- A. Sampling Error
- B. Standard Deviation
- C. Standard Error
- D. Margin of Error

Answer:

C

Sol:

The standard deviation of a sampling distribution represents how much the sample statistic (such as the sample mean) is expected to vary from sample to sample. This measure is specifically called the *Standard Error*. It helps quantify the precision of an estimate—lower standard error indicates a more reliable estimate of the population parameter.

The standard error (SE) is calculated as:

$$SE = \frac{\sigma}{\sqrt{n}}$$

where:

= population standard deviation

= sample size

As the sample size increases, the standard error decreases, meaning the sampling distribution becomes tighter around the true population mean. This makes (c) Standard Error the correct answer.

**Q24.** Arrange the following provisions in their section-wise order (Sections 80C to 80U) as per the Income Tax Act, 1961:

- A. Deduction for medical treatment of dependent with disability (Section 80DD)
  - B. Deduction for interest on education loan (Section 80E)
  - C. Deduction for life insurance premium (Section 80C)
  - D. Deduction for donation to political parties (Section 80GGC)
  - E. Deduction for rent paid (Section 80GG)
- A. C, A, B, E, D
  - B. C, E, A, B, D
  - C. A, C, B, D, E
  - D. C, B, A, D, E

Answer:

A

Sol:

According to their section numbers, beginning with Section 80C and moving upward.

- Section 80C → C: Deduction for life insurance premium
- Section 80DD → A: Deduction for medical treatment of dependent with disability
- Section 80E → B: Deduction for interest on education loan
- Section 80GG → E: Deduction for rent paid
- Section 80GGC → D: Donations to political parties

Hence, the correct chronological order is:

C (80C), A (80DD), B (80E), E (80GG), D (80GGC)

Therefore, the correct answer is (a).

Therefore, option (a) C, A, B, E, D is the correct sequence.

Information Booster: Sections 80C to 80U offer various deductions under Chapter VI-A of the Income Tax Act to incentivize savings, investments, education, health care, and political participation. Section 80C is the most commonly used, allowing deductions on life insurance premiums and other investments. Section 80DD supports families with disabled dependents, while Section 80GG benefits those paying rent without HRA. Section 80E encourages education through loan interest deductions, and Section 80GGC promotes political funding transparency.

Additional Knowledge:

Knowing the section-wise order helps taxpayers and professionals quickly locate applicable deductions.

Each section has specific conditions, limits, and eligible investments or expenses. Proper utilization of these deductions can significantly reduce taxable income. Hence, option (a) is the correct ascending section-wise order of these provisions.

**Q25.** A charitable trust (registered under section 12 AB of the Income Tax Act) is registered under GST in New Delhi. It Provided yoga training to middle-aged people, coaching for Basket-ball to teenagers and skill development services to persons over the age of 65 years residing in New Delhi in the month of July. This trust is liable to pay GST on:

- A. Yoga training
- B. Skill-development services
- C. Coaching for basket-ball
- D. Coaching for basket-ball and Yoga training

Answer:

B

Sol:

A charitable trust, registered under section 128 of the Indian Tax Act and also registered under GST in New Delhi, offers yoga training for senior citizens, basketball coaching for teenagers, and skill development services for residents above 65 years old in July. This trust must pay GST on the skill development services. This is because, except for specifically exempted services, all services provided by a charitable trust are subject to GST. There are no exemptions for the supply of goods by charitable trusts.

**Q26.** In capital budgeting, a project is considered acceptable if its Net Present Value (NPV) is:

- A. Negative
- B. Positive or zero
- C. Equal to the payback period
- D. Less than the internal rate of return (IRR)

Answer:

B

Sol:

In capital budgeting, a project is considered acceptable if its Net Present Value (NPV) is positive or zero. The NPV method evaluates the profitability of a project by calculating the present value of all expected future cash flows, discounted at a rate that reflects the cost of capital or required rate of return.

If the NPV is positive, the project is expected to generate more value than the cost of capital, meaning it should increase the wealth of the shareholders and is thus considered acceptable.

If the NPV is zero, the project is expected to generate just enough returns to cover the cost of capital, and while it does not add value, it is still acceptable because it meets the minimum return requirements.

If the NPV is negative, the project is expected to destroy value and should be rejected.

Thus, the project is acceptable if the NPV is positive or zero.

**Q27.** Which of the following statements correctly distinguish between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)?

- (A) FDI involves long-term interest and management control, whereas FPI is limited to passive holdings in financial assets.
- (B) FDI is more volatile in nature compared to FPI as it can be withdrawn quickly in response to market conditions.
- (C) FPI contributes more directly to the productive capacity of an economy than FDI.



(D) FDI typically comes with technology transfer, managerial expertise, and employment generation, unlike FPI.

Choose the correct answer from the options given below:

- A. B, C only
- B. A, C only
- C. B, D only
- D. A, D only

Answer:

D

Sol:

Statement (A) is correct. Foreign Direct Investment (FDI) refers to investment in physical assets or a significant stake (generally 10% or more) in a foreign enterprise, often resulting in management influence or control. FPI, on the other hand, involves investment in financial assets like stocks and bonds without any managerial control—hence it is more passive.

Statement (D) is also correct. FDI often brings several benefits like technology transfer, managerial skills, better business practices, and job creation in the host country. These are typically not associated with FPI, which mainly contributes to financial markets rather than productive assets.

Information Booster:

- FDI brings in capital, technology, and organizational skills, often creating backward and forward linkages in the economy.
- FDI can be in the form of Greenfield investments (new facilities) or Brownfield investments (acquisition of existing assets).
- FPI includes equity investments, bonds, mutual funds, etc., and is highly liquid and speculative.
- FDI is regulated under India's FDI policy and FPI under SEBI and RBI guidelines.
- The Department for Promotion of Industry and Internal Trade (DPIIT) oversees FDI in India.
- India allows automatic route (no prior government approval) and government route for FDI, depending on the sector.

Additional Knowledge:

Statement (B): The statement incorrectly labels FDI as more volatile. In reality, FDI is considered stable and long-term, as disinvesting in physical or strategic assets involves more barriers than withdrawing financial capital.

Statement (C): This is incorrect as FPI is not directly linked to productive activities like setting up industries or job creation. FDI plays that role effectively by investing in infrastructure, machinery, and human resources.

**Q28.** What is the origin of the World Trade Organization (WTO)?

- A. It was established as part of the Bretton Woods Conference in 1944.
- B. It replaced the General Agreement on Tariffs and Trade (GATT) in 1986.
- C. The WTO was created to implement the final agreement of the Uruguay Round of GATT in 1995.
- D. It was formed after the establishment of the United Nations Conference on Trade and Development (UNCTAD) in 1963.

Answer:

C

Sol:

The World Trade Organization (WTO) was established on January 1, 1995, to implement the final act of the Uruguay Round of GATT. The Uruguay Round, initiated in September 1986, concluded with the creation of the WTO, marking a shift from GATT to a more comprehensive international trade organization. The WTO's headquarters were approved by the WTO General Council in Geneva, Switzerland, in May 1995.

Information Booster: The WTO's creation was crucial in transforming global trade governance, succeeding the General Agreement on Tariffs and Trade (GATT). Unlike GATT, which was a series of agreements rather than a formal institution, the WTO was established with a permanent structure, comprehensive rules, and the authority to enforce trade agreements. The 1995 establishment followed the conclusion of the Uruguay Round, which marked significant trade negotiations to liberalize international trade and involved both developed and developing countries.

**Q29.** Presentation of Financial Statements is related to which Indian accounting standard?

- A. Ind- AS:1
- B. Ind- AS: 8
- C. Ind-AS: 28
- D. Ind-AS: 34

Answer:

A

Sol:

Ind-AS 1 is the Indian Accounting Standard that sets out the guidelines for the presentation of financial statements. The standard outlines the minimum requirements for the content, structure, and format of financial statements, including the balance sheet, income statement, cash flow statement, and statement of changes in equity.

**Q30.** Assertion (A): The Reserve Bank of India (RBI) primarily focuses on inflation targeting as a key objective in its monetary policy.

Reasoning (R): RBI's monetary policy management involves a delicate balance between controlling inflation and promoting economic growth.

Options:

- A. Both Assertion (A) and Reasoning (R) are true, and Reasoning (R) is the correct explanation for Assertion (A).
- B. Both Assertion (A) and Reasoning (R) are true, but Reasoning (R) is not the correct explanation for Assertion (A).
- C. Assertion (A) is true, but Reasoning (R) is false.
- D. Assertion (A) is false, but Reasoning (R) is true.
- E. Both assertion and Reasoning are false

Answer:

B

Sol:

The RBI, like many central banks around the world, has the primary objective of maintaining price stability, which it does through inflation targeting. This means that the RBI sets a specific target for the inflation rate and uses various monetary policy tools to keep inflation within that target range. The rationale behind this is that stable prices create a favorable environment for economic growth, as they reduce uncertainty and allow businesses and consumers to make long-term plans.

However, controlling inflation is not the RBI's only objective. The RBI also aims to promote economic growth and financial stability. This means that the RBI must sometimes balance its efforts to control inflation with the need to support economic growth, especially in times of economic downturns. For instance, during a recession, the RBI might lower interest rates to stimulate borrowing and investment, even if this risks higher inflation in the short term.

Both the assertion and the reasoning are true. The RBI does indeed focus on inflation targeting as a key objective. However, the reasoning provided explains another aspect of the RBI's role, which is to balance inflation control with promoting economic growth. Therefore, while the reasoning is true, it does not directly explain why inflation targeting is a primary focus for the RBI. This makes option (b) the correct choice.

**Q31.** Which of the following correctly differentiates between collusive and non-collusive oligopoly?

- A. Collusive oligopoly allows new firms to freely enter, while non-collusive restricts entry.
- B. Collusive oligopoly involves product differentiation, while non-collusive involves homogeneous products.
- C. Collusive oligopoly involves mutual understanding among firms to fix prices or output, while non-collusive involves independent decision-making and competition.
- D. Collusive oligopoly occurs in organized markets, while non-collusive exists only in international markets.

Answer:

C

Sol:

In a collusive oligopoly, firms cooperate, either explicitly or tacitly, to set prices or output. This coordination reduces competition.

In a non-collusive (competitive) oligopoly, firms act independently and compete against each other in terms of price, output, and strategy.

Information Booster:

From the image:

Pure oligopoly involves homogeneous products (e.g., aluminum, steel), while imperfect oligopoly involves differentiated products (e.g., talcum powder).

Open oligopoly allows new firms to enter, while closed oligopoly restricts entry.

Partial oligopoly has a dominant firm (price leader), while full oligopoly lacks a clear leader.

Syndicated and organized oligopolies involve centralized coordination in pricing, output, and quotas.

**Q32.** Which of the following is not the function of NABARD?

- A. To promote research in rural development
- B. To grant long-term loan to Central Government for agricultural development
- C. To serve as a refinancing agency for providing finance to agricultural development
- D. To take responsibility of inspecting State Co-operative Banks

Answer:

B

Sol:

NABARD (National Bank for Agriculture and Rural Development) does not grant long-term loans to the Central Government. Instead, it provides refinance facilities to rural credit institutions and promotes rural development. NABARD also promotes research and inspects cooperative banks but does not directly lend to the government.

Information Booster: NABARD was established to promote sustainable and equitable agriculture and rural development through financial and developmental support. It refines credit to banks and cooperatives and plays a supervisory role.

**Q33.** SIDBI was set up as a subsidiary of IDBI to:

- A. Take over the functions of small business financing of IDBI
- B. Take over the venture capital operation of IDBI
- C. Reconstruct and rehabilitate the sick and closed industrial units financed by IDBI
- D. Facilitate, finance, and promote India's foreign trade

Answer:

A

Sol:

The Small Industries Development Bank of India (SIDBI) was established in 1990 as a subsidiary of IDBI to take over IDBI's small business financing operations. SIDBI's primary objective is to promote, finance, and develop micro, small, and medium enterprises (MSMEs).

Information Booster:

SIDBI provides refinancing, direct lending, and support services to MSMEs.

It also helps in skill development and cluster development programs for small businesses.

Additional Knowledge:

(b): SIDBI does not handle venture capital operations exclusively.

(c): Rehabilitation of sick units is managed by separate mechanisms.

(d): Facilitating foreign trade is the role of institutions like EXIM Bank.

**Q34.** Arrange the steps of the selection process in the correct logical sequence.

- A. Job Offer
- B. Preliminary Interview
- C. Background Check
- D. Employment Tests
- E. Final Interview

Choose the correct answer from the options given below:

- A. B, D, E, C, A
- B. D, B, E, C, A
- C. B, E, D, C, A
- D. D, E, B, C, A

Answer:

A

Sol:

The correct sequence for the selection process is B → D → E → C → A:

1. B: Preliminary Interview – The first step involves a screening interview to shortlist candidates based on basic qualifications and suitability for the job. This helps reduce the candidate pool to only those most suitable for further evaluation.
2. D: Employment Tests – After the preliminary interview, candidates undergo various tests to assess their aptitude, skills, knowledge, and sometimes personality traits. These tests ensure that the candidate possesses the technical and cognitive skills required for the job.
3. E: Final Interview – This stage involves a detailed interview by senior management or the selection committee. It evaluates the candidate's fit with the organization's culture, communication skills, and decision-making capabilities.
4. C: Background Check – Once the final candidate is selected, a background verification is conducted to confirm educational qualifications, employment history, criminal record (if applicable), and other relevant details.
5. A: Job Offer – The final step is offering employment to the selected candidate, including details about compensation, job role, and terms of employment.

**Q35.** Match the measures of skewness in LIST-I with their correct formulas in LIST-II:

LIST-I	LIST-II
A. Karl Pearson's Coefficient of Skewness	I. $\frac{Q_3 + Q_1 - 2M}{Q_3 - Q_1}$
B. Bowley's Coefficient of Skewness	II. $\frac{P_{90} + P_{10} - 2\text{Median}}{P_{90} - P_{10}}$
C. Kelly's Coefficient of Skewness	III. $\frac{(\mu_3)^2}{(\mu_2)^3}$
D. Moment Coefficient of Skewness	IV. $\frac{\text{Mean} - \text{Mode}}{\text{Standard Deviation}}$

Choose the correct answer from the options given below:

- A. A-IV, B-I, C-II, D-III
- B. A-II, B-III, C-IV, D-I
- C. A-III, B-I, C-IV, D-II
- D. A-I, B-IV, C-II, D-III

Answer:

A

Sol:

The correct matching is as follows:

A. Karl Pearson's Coefficient of Skewness (Skp): This is the first and most widely used coefficient of skewness. It is based on the relationship between the mean, mode, and standard deviation. The formula is:

$$Sk = \frac{\text{Mean} - \text{Mode}}{\text{Standard Deviation}}$$

B. Bowley's Coefficient of Skewness (or Quartile Coefficient of Skewness): This measure is based on quartiles, which are positional averages. It is particularly useful for open-end distributions or when the mean and standard deviation cannot be calculated. (Note: Q2 or Median (M) is equivalent to P50). The formula is:

$$Sk = \frac{Q_3 + Q_1 - 2M}{Q_3 - Q_1}$$

C. Kelly's Coefficient of Skewness: This measure is also a positional measure like Bowley's but uses a broader range of the distribution, specifically the 10th and 90th percentiles (P10 and P90), leaving out only 20% of the observations (10% in each tail). The formula is:

$$Sk = \frac{P_{90} + P_{10} - 2\text{Median}}{P_{90} - P_{10}}$$

D. Moment Coefficient of Skewness ( $\beta_1$  or  $\gamma_1$ ): This measure uses the moments about the mean. The formula given in List-II is for  $\beta_1$  (Beta-one), which is related to the square of the coefficient of skewness based on the third central moment. The formula is:

$$Sk = \frac{(\mu_3)^2}{(\mu_2)^3}$$

**Q36.** Which of the following statements is incorrect regarding the cash flow statement?

- A. Depreciation is added back to net profit in the cash flow from operating activities.
- B. Cash received from the issue of shares is shown under cash flow from financing activities.
- C. Cash paid for purchasing fixed assets is included in cash flow from investing activities.
- D. Interest paid on loans is shown under cash flow from investing activities.

Answer:

D

Sol:

Interest paid on loans is not shown under cash flow from investing activities; rather, it is included in cash flow from financing activities in the cash flow statement. Financing activities include transactions related to raising capital and repaying it, including the payment of dividends and interest on loans.

Information Booster

Cash Flow Statement Overview: A cash flow statement is one of the primary financial statements that shows how changes in balance sheet accounts and income affect cash and cash equivalents. It breaks down the analysis into three sections:

1. Operating Activities: Includes cash flows related to the primary business activities, like cash receipts from sales and cash payments to suppliers.
2. Investing Activities: Relates to the acquisition and disposal of long-term assets and investments, such as the purchase of equipment.
3. Financing Activities: Includes cash flows from transactions involving equity and debt, such as issuing shares, borrowing, or repaying loans.

Additional Knowledge

Incorrect Options:

- (a) Depreciation is added back to net profit in the cash flow from operating activities: Correct, because depreciation is a non-cash expense that reduces net profit but does not impact cash.
- (b) Cash received from the issue of shares is shown under cash flow from financing activities: Correct, as it involves raising capital.
- (c) Cash paid for purchasing fixed assets is included in cash flow from investing activities: Correct, as investing activities relate to the purchase and sale of long-term assets.